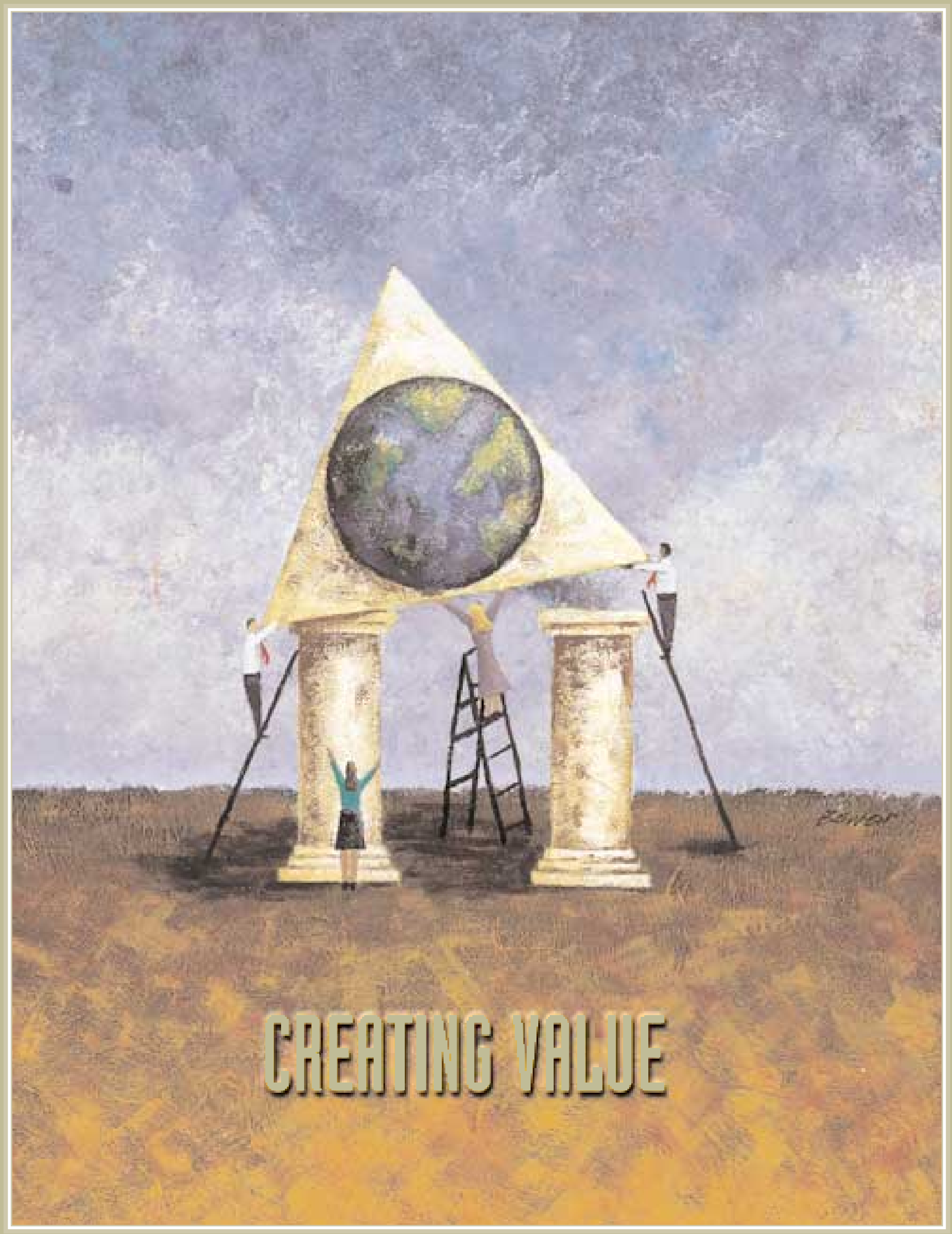


Compuware Corporation 1999 Annual Report

COMPUWARE®

Company Profile

In business for 26 years, we are one of the largest independent software vendors in the world, earning over $1.6 billion in revenue in fiscal year 1999.

We employ more than 11,000 employees. Our professional services staff of over 7,000 develops 28 staff-years of commercial application software every day.

We develop, market and support seven families of software products including more than 110 offerings.

Our productivity solutions help 14,000 of the world's largest corporations more efficiently maintain and enhance their most critical business applications.

The historical renewal rate for our software products is 97% each year.

We have more than 100 offices located in 45 countries.

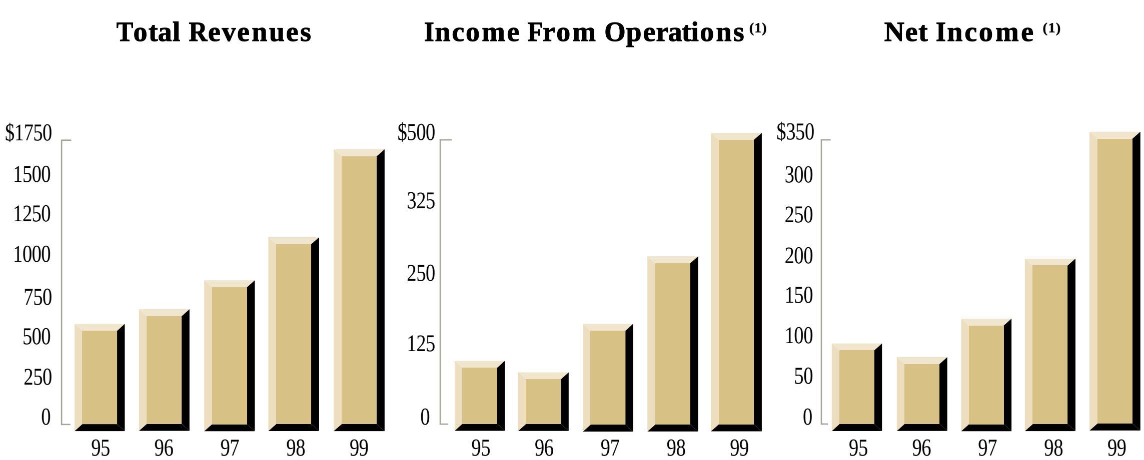
Contents

Letter to Shareholders 4-5
Making Technology Work 6-7
Supplying Practical Products and Services Solutions 7-14
Providing World-class, Worldwide Support 14-15
Acquiring Proven Technology Assets from Established Vendors 15-16
Building Mutually Beneficial Business Alliances 16-17
Earning Award-Winning Recognition 17
Creating Immediate and Measurable Return on IT Investments 17
Management's Discussion 18-23
Independent Auditors' Report 24
Financial Statements 25-43
Shareholder Information 44
Executive Committee 45
Board of Directors 46

COMPUWARE CORPORATION AND SUBSIDIARIES
1999 SELECTED CONSOLIDATED FINANCIAL DATA

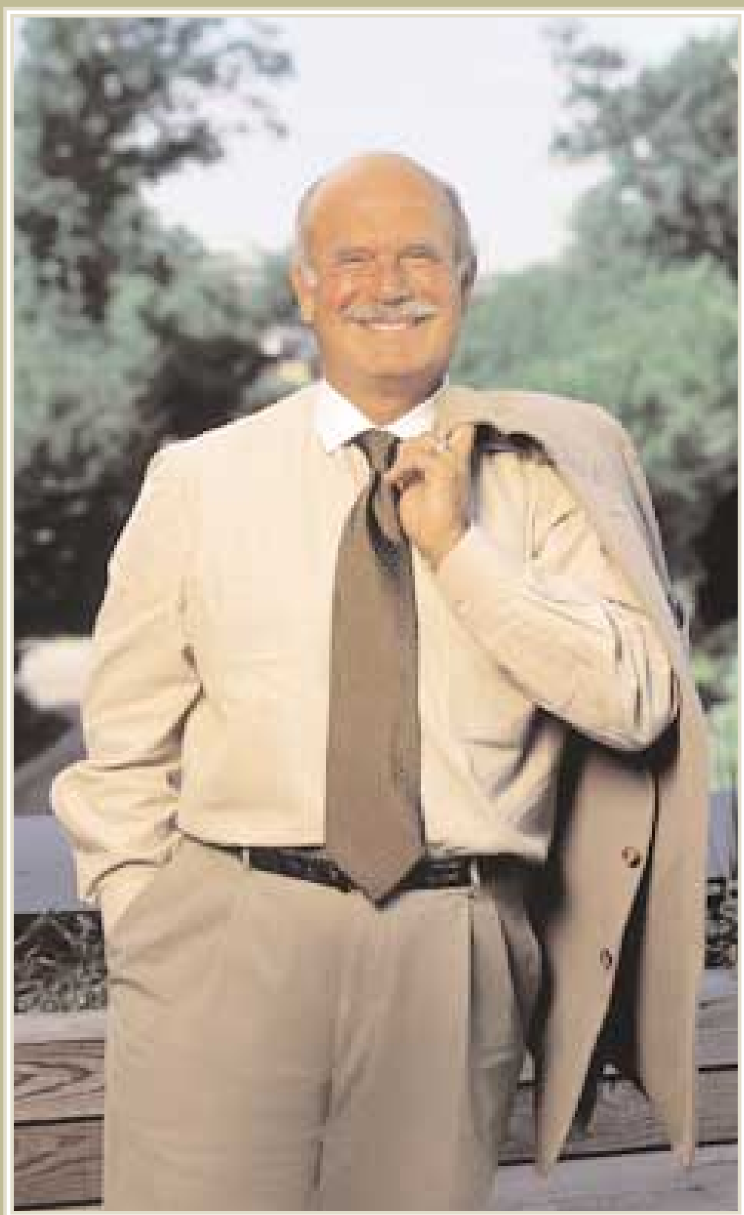
In thousands, except per share data

	Year Ended March 31,				
	1999	1998	1997	1996	1995
Statement of Operations Data:					
Total Revenues	**$1,638,445**	$ 1,139,318	$ 812,896	$ 614,359	$ 533,877
Income from Operations (1) .	**504,988**	280,119	165,466	107,399	120,444
Net Income (1).	**352,691**	198,457	113,675	76,314	84,828
-Basic EPS (1)	**0.96**	0.56	0.33	0.22	0.24
-Diluted EPS (1)	**0.88**	0.51	0.32	0.21	0.22
Net Income	**349,863**	193,944	97,436	44,242	62,097
-Basic EPS	**0.95**	.55	0.29	0.13	0.17
-Diluted EPS	**0.87**	.50	0.27	0.12	0.16
Balance Sheet Data:					
Working Capital	**550,586**	362,324	179,508	141,842	195,941
Total Assets	**1,676,683**	1,072,640	755,407	555,726	524,095
Long-Term Debt, Less Current Maturities . . .	**-**	6,956	6,068	-	-
Total Shareholders' Equity . .	**1,079,522**	708,296	445,636	318,985	336,201



(1) Before special charges

($ Millions)



LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

Fiscal 1999 was another year of outstanding growth in revenue and profitability for Compuware Corporation. During the year, we reached more than $1.6 billion in revenue and earned wide recognition from many of the world's largest 20,000 corporations for the value we bring to their businesses. Our strategy of providing practical solutions that deliver immediate and measurable return on our clients' Information Technology (IT) investments continued to be a successful one, validated by double-digit growth in all business lines. As we continue to execute this strategy during the current fiscal year, I remain confident of our opportunities for continued growth and see no significant impediments to achieving our aggressive goals.

Compuware's strong fiscal year results reflect the value our clients continue to find in the products and professional services we offer. During fiscal 1999, we enhanced this value by introducing new versions of our products, extending product support and integration, acquiring new technology, entering into key productivity partnerships and expanding our professional services staff. These activities enabled us to achieve excellent growth in our mainframe and client/server product lines and to further integrate Compuware people, products and professional services into valuable solutions for our clients.

Supporting e-commerce and web-based systems was a critical part of our strategy during fiscal 1999. Today, e-commerce, or web-based systems development and deployment, represents more that 12 percent of our license and services revenue. We expect this new technology to continue to add to our strength, contribute to our revenue and provide us with yet another engine for growth.

Another important development this fiscal year was the tremendous number of companies that re-legitimized their mainframe environments by spending millions of dollars to make them Year 2000 (Y2K) compliant, thereby committing themselves to that resource for the foreseeable future. Our experience shows us that if a company wants efficient, secure, rapid-response, high-transaction Internet applications, they have almost exclusively picked a mainframe as their server. Given Compuware's role as the preeminent supplier of mainframe productivity tools, we fully expect these companies to look to Compuware for their productivity solutions.

Fiscal 1999

Revenues for the fiscal year ending March 31, 1999 were $1.638 billion, up 43.8 percent from the prior year. Before special charges, net income for the fiscal year was $352.7 million and earnings per share were 96 cents (basic EPS) and 88 cents (diluted EPS).

Software license fee revenue increased 46.2 percent during fiscal 1999, growing from $467.3 million to $683.4 million. Maintenance revenue grew 36.9 percent from $244.3 million to $334.4 million and professional services fees increased 45.1 percent from $427.8 million to $620.7 million.

Why Compuware Will Continue to Create Value

Here are a few reasons why Compuware will continue to create value for our clients:

- Compuware products offer our clients tremendous value in short time frames.
- Our products have long, useful lives. They are constantly updated to reflect new and changing technology.
- Compuware products improve the productivity of our clients' employees, not their infrastructure. Consequently, we are not susceptible to the cyclical nature of MIP shipments.
- Our products provide the same compelling productivity and value proposition when used in new development, maintenance or package installs. They are particularly useful for e-commerce and web-based applications.

Having just completed a year in which we smashed every expectation by a wide margin, we now have an exciting opportunity to duplicate this difficult feat during the current fiscal year.

I firmly believe that our strategies, practices and people will continue to create value for clients and show you why Compuware is one of the *best* high-tech companies in the world.

Sincerely,

Peter Karmanos, Jr.
Chairman and Chief Executive Officer

MAKING TECHNOLOGY WORK

Compuware continued to grow rapidly during fiscal 1999 by providing clients with products and services solutions that improve quality, lower costs and increase the speed at which systems can be developed, implemented and supported. During the year we saw significant growth in all business lines, confirming the value of our productivity solutions at client sites around the world. Revenue grew to a record $1.6 billion during fiscal year 1999, a 44 percent increase over the $1.1 billion reported in fiscal year 1998.

In making technology work for our clients, we continued to concentrate on our strengths: developing practical products and services solutions that are used every day and providing world-class, worldwide support. We also sought to expand our business in other ways. In fiscal 1999 we established several large-scale agreements with major clients to maintain and enhance their critical business applications. To capitalize on the emerging e-commerce and web-based systems development and deployment markets, we aggressively promoted our development and testing solution sets for the mainframe, Windows and UNIX platforms. Always up-to-date, Compuware solutions are highly effective for developing, deploying and testing business-to-business and business-to-consumer e-commerce applications. Equally involved were technicians from our Professional Services Division, who developed new systems for clients to harness e-commerce and web technology for their businesses. These technicians were also engaged in making major modifications to our clients' existing systems, to enable them to access and migrate critical legacy data.

To enhance our market-leading position in the productivity software market, we acquired the technology assets of several established vendors, enabling us to update our products to reflect new and changing technology. In addition,

"Compuware is one of Bank One's key strategic partners. Throughout the integration process associated with our merger with the former First Chicago NBD, Compuware's Professional Services Division has helped us move with speed and confidence. Together, Bank One and Compuware crafted a unique outsourcing arrangement that not only enabled us to offer great career opportunities for our technology professionals, it secured Compuware's expertise to support several of Bank One's key legacy applications. We have come to depend on our partnership with Compuware to provide us with creative, total solutions to meet our strategic needs."

MARV ADAMS,
CHIEF INFORMATION AND TECHNOLOGY OFFICER

– BANK ONE CORPORATION

"Compuware has taken a verbal commitment to Kelly Services and turned it into a true partnership—a partnership based on trust, business ethics and a willingness to do what is necessary to make both our organizations successful. And that's what's important to me, because I like to deal with people I trust. For years, Compuware has shown me the qualities that create value in any business relationship: honesty, professionalism, commitment, motivation and responsiveness. I expect hard work and solutions implemented on time and within budget. Compuware continues to meet those expectations."

TOMMI WHITE,
EXECUTIVE VICE PRESIDENT
CHIEF ADMINISTRATION AND TECHNOLOGY OFFICER

– KELLY SERVICES INCORPORATED

we continued building mutually beneficial business alliances with other leading IT providers during the year. These alliances will help us to expand the depth, breadth and reach of our products and services solutions. Postponed new development projects and large maintenance backlogs continued to displace Y2K projects during fiscal 1999 and fuel a strong demand for all Compuware products and professional services during the current fiscal year.

For 26 years Compuware has offered clients an unparalleled suite of products and professional services to help assure the availability and integrity of their mission-critical applications across the enterprise. We make technology work for our clients because we continue to adhere to the principles that made us one of the largest independent software vendors in the world—we focus on what works and on what our clients tell us they need most.

Supplying Practical Products and Services Solutions

Compuware's products and services solutions are practical, productivity focused and designed for all platforms. Easy to use and integrate, these solutions are designed to evolve with the times and technology. The world's largest technology users have come to rely on Compuware's solutions to automate their mission-critical business applications and to help them keep pace with evolving technology and business requirements.

Making Software More Valuable, Predictable and Reliable

Compuware's testing and implementation products lab continued providing clients with solutions that transform business applications into enterprise assets. More than 8,000 clients use these integrated solutions, which include File-AID, XPEDITER, *QA*Center and Abend-AID. Making mission-critical applications more valuable, predictable and reliable, Compuware's testing and implementation products boast a maintenance renewal rate of more than 95 percent.

> *"Compuware has been very supportive, working with us as a trusted member of our organization while helping prepare our systems and applications for the year 2000. We value Compuware's ability to handle very large and complex tasks. We have a true partnership with Compuware and this is demonstrated time and again. We also appreciate the company's continued dedication to quality service."*

JOHN R. BERAN,
CHIEF INFORMATION OFFICER

– COMERICA INCORPORATED

And because these best-of-breed solutions work with development efforts tied to key business issues, they continue to provide value to our clients long after the initial sale.

Among the new testing and implementation solutions we introduced this fiscal year was XPEDITER/Code Coverage, a system-wide test analysis product that helps organizations deploy mainframe-based applications. XPEDITER/Code Coverage helps improve application quality through a unique risk management capability that identifies potential application failure points prior to production. Programmers can use XPEDITER/Code Coverage to detect untested code automatically in any COBOL, Assembler and PL/1 application and correspondingly prioritize their testing efforts.

Also among our new introductions was *QA*Batch, a product for performing unit, integration and regression testing of MVS batch applications. *QA*Batch enables programmers and quality assurance analysts to test complex, multi-step batch applications consistently and repeatedly, simplifying the logistical challenges of testing these data-intensive programs. *QA*Batch helps dramatically decrease the effort and time involved in meeting critical project deadlines.

To help our clients with euro currency conversions, we unveiled enhanced versions of our File-AID/Data Solutions and *QA*Hiperstation products during the fiscal year. New features in these products simplify conversion to and from the euro by performing functions automatically.

We also continued marketing a critical solution that combines Compuware products and professional services to address complex testing requirements and euro currency conversion projects. Time-Optimized Testing (TOT), first launched in 1998, helps clients improve the efficiency and value of the testing they perform, particularly for those application projects that need to be delivered quickly, or for those running behind schedule. Clients facing time-sensitive application testing or euro conversion issues continue to fuel the broad demand for Compuware's TOT solution set.

Also launched this fiscal year was Rapid Response, a survival kit designed to find and fix mission-critical application failures in order to hold downtime to a minimum. Rapid Response, an essential part of any contingency plan, is a solution set comprised of proven Compuware fault management and testing tools that helps identify and resolve data, logic or system errors that occur in the production environment. Used in combination with Compuware's professional services, Rapid Response helps organizations more quickly implement contingency planning for their unique business requirements, while realizing significant savings in time and money.

Developing Applications that Adapt to Evolving Technologies and Business Requirements

For clients seeking to protect their IT investments, we continued to extend and enhance UNIFACE, Compuware's application assembly environment for complex, component-based applications. More than 3,800 Compuware clients currently use UNIFACE to serve their Enterprise Application Integration (EAI) needs, build and renew their strategic applications and insulate their organizations from ongoing changes in technology and business requirements.

"Microsoft's relationship with Compuware is an important element of our overall strategy to heighten our focus on the enterprise customer. They have proven to be an innovative and skilled player in the enterprise space. Compuware's complete line of services and management tools built on Microsoft technologies, and its trained and certified Microsoft-focused technical staff, create a high level of comfort for companies looking to migrate or integrate our technologies into their operations. Compuware is a trusted partner. They are professional, reliable and savvy and their line of enterprise solution tools such as EcoSYSTEMS and NuMega have helped to position them as a flagship in the industry. We are excited about Compuware's increased focus on building applications based upon Microsoft technologies."

FRANK M. CLEGG,
VICE PRESIDENT CENTRAL UNITED STATES AND CANADA REGION

– MICROSOFT CORPORATION

"The business relationship IBM has with Compuware spans more than 20 years. In addition to being long-standing customers of one another, we support each other's efforts to bring to market IT offerings that benefit our joint customer base—a set of customers who depend on IBM's S/390 enterprise servers and Compuware's fault management products to ensure the availability and reliability of their most important business applications."

GREGG DEMAR,
VICE PRESIDENT OF MARKETING FOR LARGE ENTERPRISE

– IBM PERSONAL SYSTEMS GROUP

Applications and components produced using UNIFACE increase productivity, reduce cost and enhance end-user satisfaction.

New UNIFACE enhancements this fiscal year included UNIFACE WebApplication Server, a highly scalable, open enterprise application server for deploying strategic e-business applications. UNIFACE WebApplication Server enables organizations to deploy new and existing business-critical components and legacy applications on the web—reaching out to clients and suppliers—while protecting organizational investment in current technology and developer skills.

To further integrate UNIFACE in our clients' IT environments, we added Java, CORBA and additional workflow functionality support this fiscal year. This new support provides clients with increased capabilities for developing, deploying and delivering enterprise-scale applications.

This year we also introduced a range of techniques and consulting services to our clients to ensure successful component-based development within IT organizations. A component-based development methodology, standards and guidelines, and a web-based catalog of components were combined with professional services' development expertise to allow UNIFACE clients to confidently embrace components for their most strategic application development projects.

Helping Windows Developers Deliver Higher Quality Applications More Quickly

Compuware's NuMega lab develops products that help Windows and Java developers deliver higher quality applications more quickly by automating key phases of the development process. These error detection, performance and coverage solutions help developers quickly detect, diagnose and repair software errors, performance bottlenecks and testing problems. They also help reduce the time and cost of software development and accelerate team development of multi-language components and applications.

NuMega lab products introduced to support the Microsoft Visual C++ market include NuMega DevPartner for Visual C++, NuMega TrueTime Visual C++ Edition and NuMega TrueCoverage Visual C++ Edition. For the expanding Java market, we introduced NuMega JCheck, NuMega TrueTime Java Edition, NuMega TrueCoverage Java Edition and NuMega DevPartner for Java. These developer productivity tools improve the reliability and performance of Visual C++ and Java applications and components, respectively.

Supporting the Visual C++, Visual Basic and Java markets, we introduced NuMega TrueCoverage, a code coverage analysis tool. TrueCoverage enables developers and testers to save testing time and improve code reliability by measuring and tracking code execution and code base stability during development.

Other NuMega lab products shipped this year include new versions of DevPartner for Visual Basic and DevPartner Studio. These products remove the complexity and guesswork normally required in software debugging, performance tuning and code testing. NuMega product suites introduced support for the latest versions of Microsoft Visual Basic, Visual C++, Visual J++ and Java, and include support for Windows 95, Windows 98, Windows NT and Windows CE (Emulation Mode) for all Win32 platforms.

Managing Key Application Service Levels: Availability, Performance and Recovery

Compuware's EcoSYSTEMS lab develops products to help businesses successfully manage application service levels by improving application availability, performance and recovery. In fiscal 1999, we introduced a number of new releases within the EcoSYSTEMS product suite, which consists of EcoTOOLS, for improved application availability, EcoSCOPE, for optimal application performance and EcoSNAP, for rapid recovery from application failures.

"We derive great business value from our relationship with Compuware. At the center of that value for VHA is Compuware's UNIFACE product. UNIFACE provides us with a stable development and deployment environment across a myriad of technology resulting in efficient, productive business applications for our enterprise. Compuware delivers stable, reliable technology that performs as-sold, and with consistently better quality than many products that are generally available. The only thing that matches or exceeds the quality of Compuware's products is the quality of their people."

KATHY MAST,
BUSINESS APPLICATIONS DEVELOPMENT MANAGER

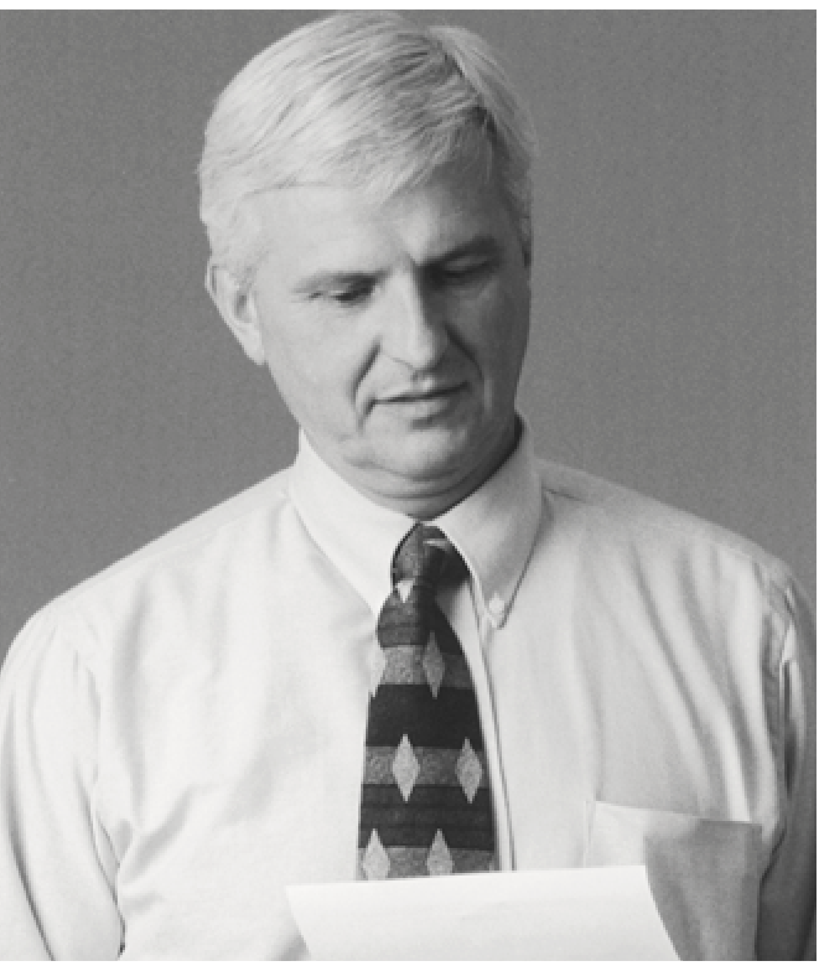
– VHA

The newest version of EcoTOOLS provides advanced monitoring, managing and reporting capabilities to help maintain expected application service levels for applications including Microsoft Exchange and IIS, Lotus Notes, SAP, PeopleSoft and Novell NetWare. The latest release of EcoSCOPE uses sophisticated software probe technology to monitor the network non-intrusively, discover applications automatically and track application flows through the LAN and costly WAN infrastructure to collect detailed performance metrics. EcoSCOPE correlates this information into a user interface that automatically identifies poorly performing applications, the servers and users impacted and the magnitude of the performance problem.

EcoSNAP, the most recent addition to the EcoSYSTEMS suite, is a new technology we developed to detect application failures in real time on the desktop and in server environments. EcoSNAP takes an electronic "snapshot" of the system at the point of failure, storing this "picture" in a database for reporting and analysis. Clients find the information collected by EcoSNAP to be critical to understanding and isolating the root cause of application failures.

Continuing to extend its support to leading hardware, software and application manufacturers during the fiscal year, EcoSYSTEMS products are now certified by Tivoli Enterprise Software, PeopleSoft, Microsoft Back Office, Oracle 8, CA Unicenter TNG, Hewlett Packard, Lotus, Cisco, Dell and Baan.

EcoSYSTEMS products are flexible and integrate with other Compuware products and professional services. They are often combined with *QA*Center's *QA*Load solution to fully test applications under load conditions,



"I believe in Compuware. The tools are absolutely essential to testing. Compuware's tools and practices have been present and part of our Year 2000 project every step of the way. We couldn't have done this (Year 2000) project without Compuware."

DAN CHRISTEN,
CHIEF INFORMATION OFFICER

– GRACO INCORPORATED

"Buying all the Compuware tools was one of the biggest steps this company has ever taken. But we were absolutely sold on Compuware's product automation, standardization and integration. Any testing we do, we use Compuware products."

CARL KUPSKY,
MANAGER APPLICATION SUPPORT

– GRACO INCORPORATED

helping ensure successful application deployment in the production environment.

Delivering Superior Results Through Professional Services Partnerships

Compuware Professional Services Division revenue grew more than 45 percent this fiscal year, with the addition of 1,800 staff to our team of skilled professionals. Now numbering more than 7,000, these technicians possess a broad range of technical and professional skills that aid clients in developing real-world solutions to technically challenging problems.

Clients rely on Compuware professionals to deliver superior results regardless of the technology involved. Compuware professional services support business enterprise planning, electronic commerce, application development, process improvement, implementation and testing support, and end-user support services. Providing value beyond that offered by our competitors, Compuware's professional services technicians build and maintain long-term IT partnerships with clients to ensure that applications meet or exceed business requirements and perform as intended.

Several productivity partnership agreements were reached during fiscal 1999, including key contracts with Ford Motor Company, Oakwood Healthcare Inc. and Bank One Corporation. At Ford, Compuware will provide maintenance and continuous improvement support for 1,400 applications in the Ford worldwide Application Management Center. CareTech Solutions Inc., a partnership between Oakwood Healthcare Inc. and Compuware, will provide Oakwood with high quality, cost-effective computer operation, telecommunication and application development services. With Bank One Corporation, Compuware formed a professional services partnership to transition and consolidate core banking systems.

By consistently delivering technical expertise and value, Compuware's Professional Services Division encourages its clients to continue ongoing business relationships with us. Our clients report that when they use our professional services solutions that blend people, tools and processes, they can get work done twice as fast and at 30 percent less cost than when they do it themselves. Presented with this value proposition, our clients find Compuware professional services a compelling alternative to using in-house resources.

PROVIDING WORLD-CLASS, WORLDWIDE SUPPORT

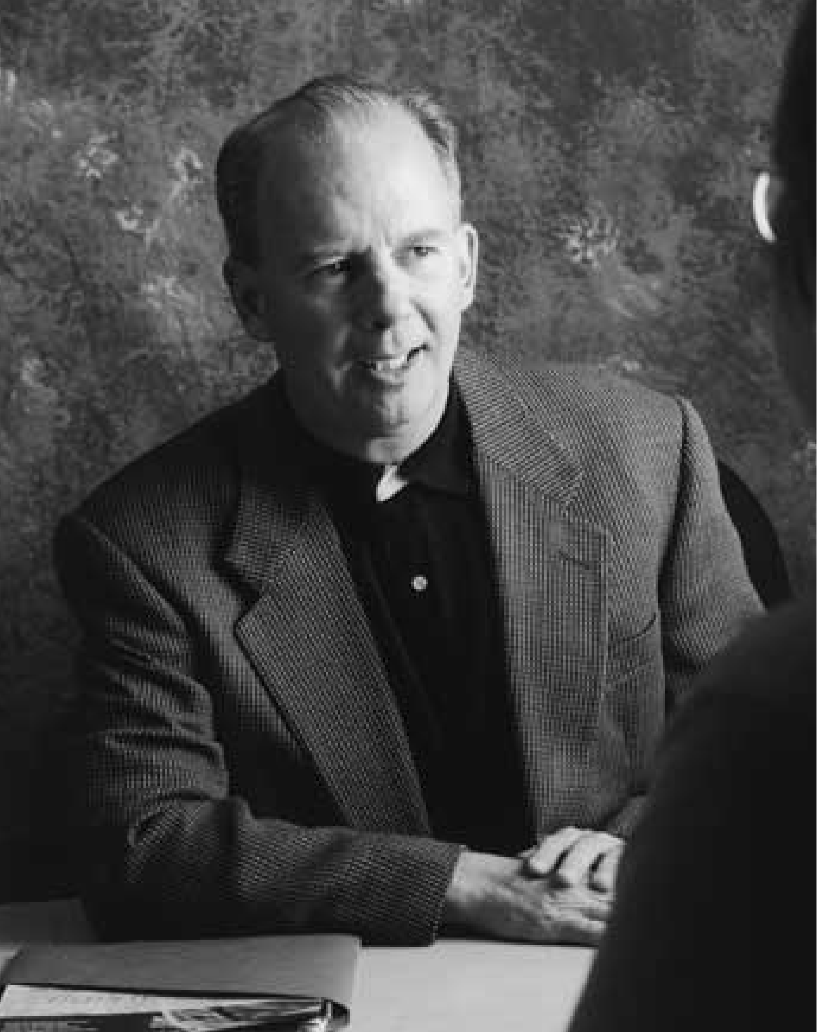
Compuware's sales support teams help ensure that our products are properly and effectively implemented, that our clients' questions and concerns are addressed quickly and that each client receives world-class customer service and support.

To accomplish these objectives, sales support personnel draw upon their experience as application/systems programmers, software developers, project managers, MIS managers, technical support representatives, database administrators, technical writers and consultants to help deliver the greatest value possible from our product and services offerings.

"In preparing American Family's computer environment for the year 2000, Compuware assisted us in a number of ways—from mainframe conversions and client/server testing to team leadership and staff supplementation. The help they provided us during this effort is indicative of the variety of projects that Compuware has worked on at American Family. We've used Compuware to help us convert all of our employee and agent PC operating systems to Windows NT and Windows 95, develop a contractor database, complete several Intranet projects and conduct technology education sessions for our IS employees. Compuware also provided us with professional services that supported development, help desk and networking support, database administration, project coordination, team leadership and technical knowledge transfer."

KATIE DIVINE,
YEAR 2000 PROJECT LEADER

– AMERICAN FAMILY INSURANCE



"Truly successful partnerships add value not only to the industry, but also to each partner's internal business operations. Compaq's partnership with Compuware is successful because we jointly engineer solutions to assure the highest level of product interoperability and performance—we also use each other's products to run our businesses. For Compaq, this means using Compuware's QACenter and EcoTOOLS products at various locations within our company. For Compuware, this means selecting Compaq as its platform of choice to deploy Microsoft Exchange throughout its organization. This partnership represents a clear, competitive advantage for both Compaq and Compuware by allowing us to design superior solutions for the industry and by leveraging these solutions to increase the profitability of our respective businesses."

BILL WEAVER,
VICE PRESIDENT

– COMPAQ COMPUTER CORPORATION

Sales support personnel conduct product demonstrations, implementations and rollouts as well as provide implementation planning services and extensive client training. They also conduct regular conference calls and on-site meetings to help clients develop innovative business processes that improve profitability.

In fiscal 1999, Compuware sales support teams expanded their head count to support increased sales staffing. They also continued to investigate ways to improve and extend the service options we currently provide over the Internet and to make it easier for our clients to contact us with any questions they may have, or for the help they may need.

ACQUIRING PROVEN TECHNOLOGY ASSETS FROM ESTABLISHED VENDORS

Compuware completed several acquisitions during the fiscal year to integrate professional services talent and proven technology into Compuware's professional services and product offerings.

In February 1999, we completed the acquisition of M.I.S. International Inc., a privately held provider of IT professional services. Our acquisition of M.I.S.I. enabled us to transition almost 400 experienced technicians to Compuware's Professional Services Division.

"Compuware delivers value to Apollo through its commitment to changing the way we manage our IT services. From the start, Compuware has listened to our comments and concerns about what we needed. Then they made the changes necessary to achieve the end result. The support we received—sales, systems engineers and technical support—was great."

SCOTT KITCHENS,
SENIOR NETWORK ADMINISTRATOR
– APOLLO GROUP

Compuware also acquired the technology assets of Cardume Software Ltd., Centerline Software, Inc. and Vireo Software, Inc. during the fiscal year. These acquisitions will integrate new enterprise testing, application quality and Windows device driver software tools into Compuware's testing and implementation solution sets.

BUILDING MUTUALLY BENEFICIAL BUSINESS ALLIANCES

Compuware Corporate Alliances identifies, develops, maintains and leverages mutually beneficial business alliance relationships with industry leaders that provide competitive advantages and revenue opportunities for Compuware on a worldwide basis. In fiscal 1999, we focused our alliance efforts on the e-commerce and enterprise application markets, where Compuware is committed to providing integrated products and services that deliver solutions clients need to support enterprise business. During the year, alliances were established or strengthened with the following IT partners:

- Oracle—Compuware joined the new Oracle Partner Program, which provides us with leading-edge technology, education and technical support.
- SAP—Compuware joined SAP's Complementary Solutions Program this fiscal year. *QA*Center, Compuware's automated software testing solution, became one of the first Compuware products officially certified through this program.
- PeopleSoft—Compuware joined PeopleSoft's Global Alliance Program, bringing a comprehensive set of solutions that support the testing, delivery and management of PeopleSoft applications.

- Compaq—Compuware joined Compaq's new Complementary Solutions Alliance program to bring Compuware's message to a larger Compaq market.
- Microsoft—Compuware continued to expand its long-standing relationship with Microsoft during the year through our introduction of e-commerce testing, debugging and management solutions.
- IBM—Compuware and IBM continued to nurture their relationship of more than 20 years through marketing and technology efforts for e-commerce and S/390 enterprise servers.

EARNING AWARD-WINNING RECOGNITION

Compuware continued to earn award-winning recognition in fiscal 1999:

- *Business Week* named Compuware to its "Information Technology 100" list (#7), a compilation of the world's best performing information technology companies. Compuware was also included on the "Business Week 50" list (#6), a report card of the top companies in the S&P 500.
- *CFO* magazine listed Compuware as one of the top five cost containers in the software industry.
- *Forbes* magazine named Compuware #1 in its sector on the *Forbes Global & Business Finance's* "The A List," an annual report on the industry's computer software and services firms.
- *Fortune* magazine named Compuware one of the "100 Best Companies to Work for in America."

CREATING IMMEDIATE AND MEASURABLE RETURN ON IT INVESTMENTS

Compuware products and services solutions are designed to increase productivity, allowing organizations to make IT a competitive advantage. Avoiding trendy offerings, we continued to focus on practical implementations that create immediate and measurable return on our clients' IT investments. As we strive to become the best worldwide provider of quality software products and services designed to increase productivity, we will continue to create value by designing practical products and services that meet our clients' needs and surpass their expectations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are identified by the use of the words "believes," "expects," "anticipates," "will," "contemplates," "would" and similar expressions that contemplate future events. Numerous important factors, risks and uncertainties affect the Company's operating results, including without limitation those contained in this report, and could cause the Company's actual results to differ materially from the results implied by these or any other forward looking statements made by, or on behalf of, the Company. There can be no assurance that future results will meet expectations.

Results of Operations

The following table sets forth, for the periods indicated, certain operational data from the Company's consolidated statements of income as a percentage of total revenues and the percentage change in such items compared to the prior period:

	Percentage of Total Revenues			Period-to-Period Change	
	Fiscal Year Ended March 31,			1998 to	1997 to
	1999	1998	1997	1999	1998
Revenues:					
Software license fees	**41.7%**	41.0%	39.2%	46.2%	46.5%
Maintenance fees	**20.4**	21.4	25.8	36.9	16.6
Professional services fees	**37.9**	37.6	35.0	45.1	50.4
Total revenues	**100.0**	100.0	100.0	43.8	40.2
Operating expenses:					
Cost of software license fees	**1.7**	2.0	2.6	22.8	9.5
Cost of maintenance	**2.3**	2.7	3.4	19.5	14.4
Cost of professional services	**30.9**	32.1	30.8	38.5	46.1
Software product development	**3.9**	4.8	5.4	19.4	22.3
Sales and marketing	**25.5**	28.6	31.5	28.3	27.2
Administrative and general	**4.8**	5.2	5.9	32.8	22.3
Merger-related costs		0.3		(100.0)	
Purchased research and development	**0.3**	0.3	2.7	37.7	(85.5)
Total operating expenses	**69.4**	76.0	82.3	31.4	29.4
Income from operations	**30.6**	24.0	17.7	83.1	90.3
Interest and investment income, net	**1.8**	1.5	0.7	68.8	205.0
Income before income taxes	**32.4**	25.5	18.4	82.3	94.6
Income tax provision	**11.0**	8.5	6.4	86.1	86.4
Net income	**21.4%**	17.0%	12.0%	80.4%	99.0%

The Company operates in two business segments in the software industry: products and professional services.

Products Revenue

The Company's products are designed to support three key activities within the application development process: building, testing and managing the application to optimize performance in production. Products revenue consists of software license fees and maintenance fees. Products revenue comprised 62.1%, 62.4% and 65.0% of total Company revenue during fiscal years 1999, 1998 and 1997, respectively. Mainframe product revenue increased $253.2 million or 43.9% during fiscal 1999 and $143.9 million or 33.2% during fiscal 1998. Client/server revenue increased $53.0 million or 39.4% during fiscal 1999 and $39.2 million or 41.2% during fiscal 1998. These increases spanned all geographic regions and were primarily a result of increased CPU or MIPS operating capacity of the world's 15,000 largest enterprises.

Professional Services Revenue

The Company offers a broad range of data processing professional services, including business systems analysis, design and programming, software conversion and system planning and consulting. Revenue from professional services increased $192.9 million or 45.1% during fiscal 1999 and $143.3 million or 50.4% during fiscal 1998. More than 85% of the Company's total professional services revenue is generated in North America; however, these increases spanned all geographic regions. The Company plans to continue this growth naturally and through acquisitions both in North America and internationally.

Operating Profit

The Company evaluates the performance of its segments based primarily on operating profit before corporate expenses, purchased research and development expense, net interest income and income taxes.

Financial information for the Company's products segment is as follows (in thousands):

	1999	1998	1997
Revenue	**$1,017,725**	$ 711,524	$ 528,428
Operating expenses	**548,359**	434,286	348,792
Products operating profit	**$ 469,366**	$ 277,238	$ 179,636

Products revenue by geographic location is presented in the table below (in thousands):

	1999	1998	1997
United States	**$ 654,011**	$ 441,643	$ 296,733
European subsidiaries	**252,964**	179,950	159,483
Other international operations	**110,750**	89,931	72,212
Total products revenue	**$1,017,725**	$ 711,524	$ 528,428

The products segment generated operating margins of 46.1%, 39.0% and 34.0% during fiscal years 1999, 1998 and 1997, respectively. Products expenses include cost of software license fees, cost of maintenance, software product development costs and sales and marketing expenses. The increase in the operating margins year over year is primarily a result of economies associated with larger transactions, more sales representatives in the field with increased sales productivity, additional product offerings including the NuMega and *QA* products acquired during fiscal 1998, and increased market penetration of our client/server products.

Cost of software license fees includes amortization of capitalized software, the cost of preparing and disseminating products to customers and the cost of author royalties. The increase in these costs is due primarily to an increase in amortization of internally developed software products, increased author royalties and, to a lesser extent, increased packaging and distribution costs. As a percentage of software license fees, these costs were 4.1%, 4.9% and 6.5% in fiscal 1999, 1998 and 1997, respectively.

Cost of maintenance consists of the cost of maintenance programmers and product support personnel and the computing, facilities and benefits costs allocated to such personnel. The increase in cost of maintenance was due primarily to the increase in maintenance and support staff in order to support the worldwide growth of the installed base. As a percentage of maintenance fees, these costs were 11.2%, 12.8% and 13.0% for fiscal years 1999, 1998 and 1997, respectively. The Company will continue to look for ways to reduce this percentage while maintaining superior service levels and high renewal rates.

Software product development costs consist of the cost of programming personnel, the facilities, computing and benefits costs allocated to such personnel and the costs of preparing user and installation guides for the Company's software products, less the amount of software development costs capitalized during the fiscal year. The increase in these costs was due primarily to an increase in software development staff needed to meet the demand for new and enhanced products. While continuing to support and enhance its traditional mainframe products, the Company has significantly increased the resources allocated to developing and enhancing its client/server product lines. Before the capitalization of internally developed software products, total research and development expenditures for fiscal 1999 increased $11.8 million, or 18.2%, to $76.8 million from $65.0 million in fiscal year 1998. In fiscal 1998, total research and development costs increased $10.7 million, or 19.8%, from $54.3 million in fiscal 1997. Those major development projects that achieved technological feasibility for fiscal 1999 included two new interactive analysis and debugging products, one new fault management product, three new file and data management products, three automated testing products, seven systems management products, four new application development products, and eleven new Windows development tools.

Sales and marketing costs consist of the sales and marketing expenses associated with the Company's products business, which include costs of direct sales, sales support and marketing staff, the facilities and benefits costs allocated to such personnel and the costs of marketing and sales incentive programs. The increase in sales and marketing costs was largely attributable to the expansion of the worldwide sales force, higher sales commissions associated with increased product sales, and increased advertising expenditures. The direct sales and sales support staff increased by 245 to 2,061 people at the end of fiscal 1999, as compared to 1,816 at the end of fiscal 1998 and 1,130 at the end of fiscal 1997.

Financial information for the Company's professional services segment is as follows (in thousands):

	1999	1998	1997
Revenue	**$ 620,720**	$ 427,794	$ 284,468
Operating expenses	**506,765**	365,948	250,405
Professional services operating profit	**$ 113,955**	$ 61,846	$ 34,063

Professional services revenue by geographic location is presented in the table below (in thousands):

	1999	1998	1997
United States	**$ 548,255**	$ 384,346	$ 262,325
European subsidiaries	**63,429**	37,528	20,612
Other international operations	**9,036**	5,920	1,531
Total professional services revenue	**$ 620,720**	$ 427,794	$ 284,468

The professional services segment generated operating margins of 18.4%, 14.5% and 12.0% during fiscal years 1999, 1998 and 1997, respectively. The increase in the professional services margin is primarily attributable to increased billable staff and a movement toward higher margin lines of business. Cost of professional services includes all costs of the Company's professional services business, including the personnel costs of the professional, management and administrative staff of the Company's services business and the facilities and benefits costs allocated to such personnel. The increase in these expenses was due primarily to an increase of 1,723 professional billable staff to 6,278 in fiscal 1999 from 4,555 people at the end of fiscal 1998. This compares to an increase of 1,033 billable people in fiscal 1998 from 3,522 people at the end of fiscal 1997.

Administrative and general expenses increased 32.8% during fiscal 1999 and 22.3% during fiscal 1998. However, as a percentage of total revenue, these expenses have been steadily decreasing at 4.8%, 5.2% and 5.9% of total revenue during fiscal years 1999, 1998 and 1997, respectively. These decreases are primarily a result of increased revenues with significantly smaller increases in corporate expenditures.

During fiscal year 1999, the Company recognized $4.4 million of expense for purchased research and development costs associated with the acquisition of products from Centerline Software, Inc., Vireo Software, Inc. and Cardume Software Limited. During fiscal 1998, the Company incurred special charges of $3.2 million related to purchased research and development incurred in connection with the acquisition of UnderWare, Inc. The Company also incurred $3.6 million of merger-related costs incurred in connection with the merger and integration of NuMega Technologies, Inc. During fiscal 1997, the Company incurred special charges of $21.8 million related to purchased research and development acquired in connection with the purchases of Direct Technology Limited and DRD Promark, Inc. Since the research and development in process had not reached technological feasibility, these amounts were expensed in accordance with Statement of Financial Accounting Standards No. 2.

Net interest and investment income for fiscal 1999 was $29.4 million as compared to $17.4 million in fiscal 1998 and $5.7 million in fiscal 1997. This increase in income was due primarily to higher average cash and investment balances resulting from cash generated from higher operating earnings.

The Company's provision for income taxes was $180.2 million in fiscal 1999, which represents an effective tax rate of 34.0%. This compares to a tax provision of $96.8 million in fiscal 1998, which represents an effective tax rate of 33.3%, and an income tax provision of $52.0 million in fiscal 1997, which represents an effective tax rate of 34.8%. The fiscal 1999 increase in the effective tax rate was due to the growth in pre-tax earnings, which dilutes the effect of the tax credits on the effective tax rates. The difference between the effective tax rate for fiscal 1998 and 1997 was due primarily to the non-deductibility of the purchased research and development costs incurred during fiscal 1997 in connection with the DRD Promark, Inc. acquisition. The effective tax rate for fiscal 1997 would have been 33.6% without this cost.

Liquidity and Capital Resources

As of March 31, 1999, the Company had approximately $678.6 million in cash and investments which resulted primarily from cash generated from operations. During fiscal 1999, 1998 and 1997, Compuware generated $474.9 million, $207.4 million and $112.5 million, respectively, in operating cash flow. During these periods, the Company had capital expenditures which included property and equipment, capitalized research and software development and purchased software of $38.5 million, $41.8 million and $38.0 million, respectively.

In March 1999, the Company announced that its Board of Directors had approved a stock repurchase program, pursuant to which the Company was authorized to purchase up to $500 million of outstanding Company stock. The Company purchased approximately 21.5 million shares representing the entire $500 million authorized by the Board for this program. These shares were purchased ratably from March through May 1999.

Compuware believes its available cash resources, together with cash flows from operations, will be sufficient to meet its cash needs for the foreseeable future. As of March 31, 1999 the Company has no long term debt. The Company continues to evaluate business acquisition opportunities that fit the Company's strategic plans. It is possible that the Company will seek debt financing if such business acquisitions warrant the issuance of debt.

In June 1999, the Company extended a cash tender offer to purchase all outstanding shares of common stock of Data Processing Resources Corporation ("DPRC"), a professional services company, for approximately $353 million in cash. DPRC reported audited revenues of $211 million for the year ended July 31, 1998, and has reported revenues of $355 million for the 12 months ended April 30, 1999. The acquisition will be accounted for under the purchase method of accounting. As a result of the transaction, Compuware expects to transition approximately 3,400 professional services personnel.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 1998, the American Institute of Certified Public Accountants ("AICPA") released SOP 98-9, which modified SOP 97-2 with respect to certain transactions. SOP 98-9 provides guidance on recognizing revenue on software transactions which involve multiple elements (such as license fees and maintenance) and is effective for the Company beginning with the quarter ending June 30, 1999. The Company is continuing to evaluate the effect of SOP 98-9 on the Company's existing revenue recognition policies; however, the Company does not currently believe there will be a material impact on its operating results from implementation of the SOP.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company is required to adopt this statement for the year ending March 31, 2001. SFAS 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company has not determined the effect, if any, that adoption will have on its financial position or results of operations.

YEAR 2000

The Year 2000 problem is the result of the widespread practice of using only two digits instead of four to represent the year in computing equipment and computer software. Failure to address this problem could cause erroneous results in the proper interpretation of years after 1999. The Company has instituted various projects to address this issue which include three major areas: the software products which the Company develops and markets, its internal information technology (IT) assets, and aspects not directly related to the Company's IT assets or software products ("non-IT assets"). This last area includes such items as embedded systems in infrastructure components (such as building security and HVAC systems), as well as the business relationships the Company has with its customers and suppliers, especially those third parties with whom the Company has a systems interaction.

The Company undertook a project to inventory and assess the impact of the Year 2000 on its software products in the middle of 1994. As a part of this project the Company identified the software products that would be supported beyond December 31, 1999. Plans were put in place to complete the necessary changes to make the identified software products Year 2000 compliant. The Company believes that all of the Company's current product offerings as well as those products the Company will continue to support are Year 2000 compliant.

The Company has established a web page to update customers on the Year 2000 status of its software products. This site assists customers in understanding the company's Year 2000 strategy. Part of the site gives customers access to frequently asked Year 2000 questions. The Company is committed to supporting its customers into the year 2000 and beyond. The strategy provides leadership and tools needed to meet the challenge of the millennium change.

The Company has undertaken a project to inventory, assess and remediate its significant internal software applications and other IT assets. Many of these applications are essential for day-to-day operations. The Company believes it has completed remediation, testing and implementation for all critical software. The remediation and testing activities have been performed exclusively by internal resources.

The Company is also in the process of assessing and remediating its other IT and non-IT assets. These include areas such as PCs, networks, voice mail, e-mail, building security, etc. This portion of the project is planned for completion by October 1, 1999, and appears to be on schedule.

The Company has also undertaken a project to identify and assess its significant third-party suppliers, and is developing a plan to address vendor or supplier Year 2000 issues (through remediation, repair, replacement or upgrade) so as to avoid any business disruption. In most cases, the Company is forced to rely on third party representations, without any ability to do independent testing or evaluation. Contingency plans are being developed for certain key third parties which are deemed to be critical for the Company's operation. Based upon the information received to date, the Company does not expect any material financial impacts from third party vendors. Embedded systems and other non-IT systems are being evaluated for Year 2000 compliance, and being repaired or replaced as necessary.

The costs for Year 2000-related activities are being budgeted as necessary. Costs of the Company's Year 2000 compliance activities have not been and are not expected to have a material impact on the Company's results of operations or financial position. This expectation assumes that the Company will not be obligated to incur significant Year 2000 related costs on behalf of its customers or suppliers, and that the Company's critical vendors will be able to meet their commitments to the Company.

The Company will be adequately prepared to meet the challenges of the coming of Year 2000 without significant impact to the Company's ability to carry on its normal business operations. Management estimates that it is approximately 90% complete with all remediation efforts, which includes 100% completion of all critical business systems and supported software products. The balance of the efforts yet to be expended are in the areas of non-IT assets, monitoring supplier compliance and contingency planning.

Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates is limited to its cash investments. Derivative financial instruments are not a part of the Company's investment strategy. The Company places its investments with high quality issuers and preserves its invested funds by limiting default and market risk. In addition, the Company has classified all its marketable debt securities and long term debt investments as "held to maturity" which does not expose the consolidated statement of income or balance sheet to fluctuations in interest rates. Information about the Company's investment portfolio is set forth in note 3 of Notes to Consolidated Financial Statements.

Foreign Currency Risk

The Company has entered into forward foreign exchange contracts primarily to hedge amounts due from select subsidiaries denominated in foreign currencies (mainly in Europe and Asia-Pacific) against fluctuations in exchange rates. The Company has not entered into forward foreign exchange contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the Company's designation of the contracts as hedging transactions. The criteria the Company uses for designating a contract as a hedge include the contract's effectiveness in risk reduction and one-to-one matching of derivative instruments to underlying transactions. Gains and losses on forward foreign exchange contracts are recognized in income in the same period as gains and losses on the underlying transactions. If the underlying hedged transaction is terminated earlier than initially anticipated, the offsetting gain or loss on the related forward foreign exchange contract would be recognized in income in the same period. In addition, since the Company enters into forward contracts only as a hedge, any change in currency rates would not result in any material net gain or loss, as any gain or loss on the underlying foreign currency denominated balance would be offset by the gain or loss on the forward contract. The Company operates in certain countries in Latin America and Asia-Pacific where there are limited forward currency exchange markets and thus the Company has unhedged transaction exposures in these currencies. At March 31, 1999, the Company had contracts maturing through May 1999 to sell $27,993,000 in foreign currencies, with a fair value of $28,088,000. Information about the Company's foreign currency forward exchange contracts is set forth in note 1 of Notes to Consolidated Financial Statements.

Independent Auditors' Report

To the Shareholders and Board of Directors of Compuware Corporation:

We have audited the accompanying consolidated balance sheets of Compuware Corporation and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of Compuware Corporation and its subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Detroit, Michigan
April 29, 1999

Compuware Corporation and Subsidiaries
Consolidated Statements of Income

Years Ended March 31, 1999, 1998 and 1997
(In Thousands, Except Per Share Data)

	Notes	**1999**	1998	1997
REVENUES:				
Software license fees		**$ 683,354**	$ 467,251	$ 318,907
Maintenance fees		**334,371**	244,273	209,521
Professional services fees		**620,720**	427,794	284,468
Total revenues		**1,638,445**	1,139,318	812,896
OPERATING EXPENSES:				
Cost of software license fees		**28,097**	22,874	20,881
Cost of maintenance		**37,286**	31,203	27,278
Cost of professional services		**506,765**	365,948	250,405
Software product development		**64,957**	54,416	44,494
Sales and marketing		**418,019**	325,793	256,139
Administrative and general		**78,333**	58,965	48,233
Merger-related costs	2		3,606	
Purchased research and development	2	**4,350**	3,160	21,790
Total operating expenses		**1,137,807**	865,965	669,220
INCOME FROM OPERATIONS		**500,638**	273,353	143,676
OTHER INCOME		**29,403**	17,417	5,710
INCOME BEFORE INCOME TAXES		**530,041**	290,770	149,386
INCOME TAX PROVISION	8	**180,178**	96,826	51,950
NET INCOME		**$ 349,863**	$ 193,944	$ 97,436
Basic earnings per share	7	**$ 0.95**	$ 0.55	$ 0.29
Diluted earnings per share	7	**$ 0.87**	$ 0.50	$ 0.27

See notes to consolidated financial statements.

Compuware Corporation and Subsidiaries
Consolidated Balance Sheets

As of March 31, 1999 and 1998
(In Thousands, Except Share Data)

ASSETS	Notes	1999	1998
CURRENT ASSETS:			
Cash and cash equivalents		**$ 193,128**	$ 206,278
Investments	3	**309,787**	54,349
Accounts receivable, less allowance for doubtful accounts of $12,152 and $8,812		**526,469**	388,573
Deferred tax asset, net	8	**16,727**	14,133
Income taxes refundable			2,594
Prepaid expenses and other current assets		**25,979**	10,348
Total current assets		**1,072,090**	676,275
INVESTMENTS	3	**175,689**	107,721
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	4	**94,786**	84,494
CAPITALIZED SOFTWARE, LESS ACCUMULATED AMORTIZATION OF $88,793 AND $70,243		**48,095**	50,455
OTHER:			
Accounts receivable		**145,793**	64,282
Deferred tax asset, net	8	**11,347**	12,926
Excess of cost of investment over fair value of net assets acquired, less accumulated amortization of $14,692 and $9,835	2	**87,713**	57,607
Other assets		**41,170**	18,880
Total other assets		**286,023**	153,695
TOTAL ASSETS		**$ 1,676,683**	$ 1,072,640

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	1999	1998
CURRENT LIABILITIES:			
Accounts payable		**$ 71,129**	$ 19,985
Accrued expenses		**101,705**	71,104
Income taxes payable		**27,153**	
Accrued bonuses and commissions		**66,549**	42,688
Deferred revenue		**254,968**	180,174
Total current liabilities		**521,504**	313,951
LONG TERM DEBT	5		6,956
DEFERRED REVENUE		**75,657**	43,437
Total liabilities		**597,161**	364,344
SHAREHOLDERS' EQUITY:			
Preferred stock, no par value - authorized 5,000,000 shares			
Common stock, $.01 par value - authorized 1,600,000,000 shares; issued and outstanding 367,926,388 and 360,341,946 shares in 1999 and 1998, respectively	6	**3,679**	3,603
Additional paid-in capital	6	**304,825**	280,867
Retained earnings		**777,318**	427,455
Accumulated other comprehensive income		**(6,300)**	(3,629)
Total shareholders' equity		**1,079,522**	708,296
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 1,676,683**	$ 1,072,640

Compuware Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

Years Ended March 31, 1999, 1998 and 1997
(In Thousands, Except Share Data)

	Common Stock		Additional Paid-In Capital
	Shares	Amount	
BALANCE AT APRIL 1, 1996, as restated (Note 6)	338,384,184	$ 3,384	$ 182,388
Net income			
Foreign currency translation, net of tax (Note 1)			
Realized gain on sale of marketable securities			
Comprehensive income			
Issuance of common stock	320,000	4	2,326
Acquisition tax benefits			6,603
Exercise of employee stock options and related tax benefit (Note 11)	5,022,896	50	19,096
BALANCE AT MARCH 31, 1997	343,727,080	3,438	210,413
Net income			
Foreign currency translation, net of tax (Note 1)			
Comprehensive income			
NuMega acquisition (Note 2)	6,683,206	66	3,734
Issuance of common stock	1,450,616	14	12,731
Acquisition tax benefits			6,485
Exercise of employee stock options and related tax benefit (Note 11)	8,481,044	85	47,504
BALANCE AT MARCH 31, 1998	360,341,946	3,603	280,867
Net income			
Foreign currency translation, net of tax (Note 1)			
Comprehensive income			
M.I.S.I. acquisition (Note 2)	1,021,864	10	31,089
Issuance of common stock	1,367,818	14	24,457
Purchase and retirement of common stock	(6,200,000)	(62)	(151,555)
Acquisition tax benefits			6,707
Exercise of employee stock options and related tax benefit (Note 11)	11,394,760	114	113,260
BALANCE AT MARCH 31, 1999	367,926,388	$3,679	$304,825

See notes to consolidated financial statements.

Retained Earnings	Foreign Currency Translation Adjustment	Unrealized Loss On Marketable Securities	Total Shareholders' Equity	Comprehensive Income
$ 135,194	$ (1,016)	$ (965)	$ 318,985	
97,436			97,436	$ 97,436
	171		171	171
		965	965	(965)
				$ 96,642
			2,330	
			6,603	
			19,146	
232,630	(845)	-	445,636	
193,944			193,944	$ 193,944
	(2,784)		(2,784)	(2,784)
				$ 191,160
881			4,681	
			12,745	
			6,485	
			47,589	
427,455	(3,629)	-	708,296	
349,863			349,863	$ 349,863
	(2,671)		(2,671)	(2,671)
				$ 347,192
			31,099	
			24,471	
			(151,617)	
			6,707	
			113,374	
$ 777,318	$ (6,300)	$ -	$ 1,079,522	

Compuware Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended March 31, 1999, 1998 and 1997
(In Thousands)

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 349,863**	$193,944	$ 97,436
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	**41,537**	36,504	31,401
Tax benefit from exercise of stock options	**91,083**	30,402	5,306
Issuance of common stock to Employee Stock Ownership Trust	**4,558**	3,500	2,330
Acquisition tax benefits	**6,707**	6,485	6,603
Deferred income taxes	**(1,015)**	(6,108)	(4,256)
Other	**160**	240	(290)
Net change in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	**(214,293)**	(104,702)	(88,574)
Prepaid expenses and other current assets	**(18,215)**	(2,118)	1,361
Other assets	**(21,759)**	(6,255)	88
Accounts payable and accrued expenses	**99,522**	22,582	25,960
Deferred revenue	**107,014**	26,206	37,797
Income taxes	**29,744**	6,765	(2,618)
Net cash provided by operating activities	**474,906**	207,445	112,544
CASH USED IN INVESTING ACTIVITIES:			
Purchase of:			
Businesses	**(8,279)**	(2,038)	(47,293)
Property and equipment	**(26,370)**	(28,006)	(23,442)
Capitalized software	**(12,173)**	(13,823)	(14,544)
Investments:			
Proceeds from maturity	**446,221**	85,682	63,202
Purchases	**(774,350)**	(172,865)	(74,491)
Other			(246)
Net cash used in investing activities	**(374,951)**	(131,050)	(96,814)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term debt	**(3,692)**	(3,890)	
Net proceeds from sale of common stock	**19,913**	9,245	
Repurchase of common stock	**(151,617)**		
Net proceeds from exercise of stock options	**22,291**	17,187	13,840
Net cash (used in) provided by financing activities	**(113,105)**	22,542	13,840
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(13,150)**	98,937	29,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**206,278**	107,341	77,771
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 193,128**	$206,278	$107,341

See notes to consolidated financial statements.

YEARS ENDED MARCH 31, 1999, 1998 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Compuware Corporation develops, markets and supports an integrated set of systems software products designed to improve the productivity of data processing professionals in application development, implementation and maintenance. In addition, the Company's professional services division offers business systems analysis, design, programming and implementation as well as software conversion and systems planning and consulting. The Company's products and services are offered worldwide across a broad spectrum of technologies, including mainframe and client/server platforms.

Basis of Presentation - The consolidated financial statements include the accounts of Compuware Corporation and its wholly owned subsidiaries after elimination of all significant intercompany balances and transactions. The financial statements have been prepared in conformity with generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at March 31, 1999 and 1998 and the results of operations for the years ended March 31, 1999, 1998 and 1997. While management has based their assumptions and estimates on the facts and circumstances known at March 31, 1999, final amounts may differ from estimates.

Revenue Recognition - Revenue from licensing of software products is recognized upon shipment of the products, provided that no significant obligations remain and collection of the related receivable is deemed probable. A portion of new license fees, generally 15%, is deferred and recognized ratably over the initial maintenance period, generally one year. Product maintenance fees are recognized as revenue ratably over the contract period. Professional services fees are recognized in the period the services are performed. In October 1997, the American Institute of Certified Public Accountants (AICPA) released Statement of Position (SOP) 97-2, "Software Revenue Recognition," which supersedes SOP 91-1, "Software Revenue Recognition." SOP 97-2 establishes standards for recognizing revenues related to software products and related services. The Company adopted this pronouncement prospectively with its fiscal year ending March 31, 1999. The adoption of SOP 97-2 did not have a material impact on the Company's financial statements.

Cash and Cash Equivalents - For the purpose of the statement of cash flows, the Company considers all investments with an original maturity of three months or less to be cash equivalents.

Investments consist of municipal obligations, U.S. Government agencies and tax free and advantage auction rate securities. All are classified as held-to-maturity and carried at amortized cost. Those investments that mature within one year from the balance sheet date are classified as short-term. The amortization of bond premiums and discounts is included in interest income.

Property and Equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

Capitalized Software includes the costs of purchased and internally developed software products and is stated at the lower of unamortized cost or net realizable value. Net purchased software included in capitalized software at March 31, 1999 and 1998 is $12,396,000 and $14,249,000, respectively. In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," capitalization of internally developed software products begins when technological feasibility of the product is established. Software product development includes all expenditures for research and development, net of amounts capitalized. Total software development costs incurred internally by the Company were $76,831,000, $65,015,000 and $54,292,000 in fiscal 1999, 1998 and 1997, respectively, of which $11,874,000, $10,599,000 and $9,798,000, respectively, were capitalized.

The amortization for both internally developed and purchased software products is computed on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product, including the period being reported on. Amortization begins when the product is available for general release to customers. The amortization period for capitalized software generally approximates five years. Capitalized software amortization is included in "Cost of software license fees" in the Statement of Income.

Excess of Cost Over Fair Value of Net Assets Acquired ("goodwill") is being amortized over periods ranging from 15 to 20 years using the straight-line method.

Fair Value of Financial Instruments - The carrying value of cash equivalents, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

Income Taxes - The Company accounts for income taxes using the asset and liability approach. Deferred income taxes are provided for the differences between the tax bases of assets or liabilities and their reported amounts in the financial statements.

Foreign Currency Translation - The Company's foreign subsidiaries use the local currency as the functional currency. Accordingly, assets and liabilities in the consolidated balance sheets have been translated at the rate of exchange at the respective balance sheet dates, and revenues and expenses have been translated at average exchange rates prevailing during the year the transactions occurred. Translation adjustments have been excluded from the results of operations and are reported as accumulated other comprehensive income.

Foreign Currency Transactions and Derivatives - Gains and losses from foreign currency transactions are included in the determination of net income. To offset the risk of future currency fluctuations on receivables due from foreign subsidiaries, the Company enters into foreign exchange contracts to sell or buy currencies at specified rates on specific dates. Market value gains and losses on these contracts are recognized, offsetting foreign exchange gains or losses on foreign receivables. The Company does not use foreign exchange contracts to hedge anticipated transactions. The net foreign currency transaction loss was $2,944,000, $627,000 and $1,446,000 for the fiscal years ended March 31, 1999, 1998 and 1997, respectively. These amounts are included in "Sales and marketing" in the Statement of Income.

At March 31, 1999, the Company had contracts maturing through May 1999 to sell $27,993,000 in foreign currencies. At March 31, 1998, the Company had contracts maturing through May 1998 to sell $45,478,000 in foreign currencies.

Earnings Per Share - The Company calculates its earnings per share under the provisions of SFAS No. 128, “Earnings per Share.” Basic EPS is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS assumes the issuance of common stock for all potentially dilutive equivalent shares outstanding.

Business Segments - Effective March 31, 1999, the Company adopted SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” SFAS 131 superseded SFAS 14, “Financial Reporting for Segments of a Business Enterprise.” SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of SFAS 131 did not affect the results of operations or financial position, but did affect the disclosure of segment information. Segment information for all periods has been presented to conform to SFAS 131 requirements. See note 9.

Comprehensive Income - During fiscal 1999, the Company adopted SFAS No. 130, “Reporting Comprehensive Income.” SFAS 130 establishes standards for reporting and presenting comprehensive income and its components in consolidated financial statements. Comprehensive income is defined as net income plus the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources.

Recently Issued Accounting Pronouncements - In December 1998, the American Institute of Certified Public Accountants ("AICPA") released SOP 98-9, which modified SOP 97-2 with respect to certain transactions. SOP 98-9 provides guidance on recognizing revenue on software transactions which involve multiple elements (such as license fees and maintenance) and is effective for the Company beginning with the quarter ending June 30, 1999. The Company is continuing to evaluate the effect of SOP 98-9 on the Company’s existing revenue recognition policies; however, the Company does not currently believe there will be a material impact on its operating results from implementation of the SOP.

In June 1998, the FASB issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The Company is required to adopt this statement for the year ending March 31, 2001. SFAS 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company has not determined the effect, if any, that adoption will have on its financial position or results of operations.

2. ACQUISITIONS

M.I.S. International, Inc. - In March 1999, the Company acquired M.I.S. International, Inc. ("M.I.S.I.") a professional services firm, for approximately $31,100,000 in Compuware stock. The acquisition has been accounted for as a purchase and, accordingly, assets and liabilities acquired have been recorded at fair value as of the date of acquisition. The amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately $30,569,000 and is being amortized over a fifteen-year period on a straight-line basis.

Other Fiscal 1999 Acquisitions - During fiscal 1999, the Company completed the acquisition of certain software products for an aggregate cost of approximately $9,250,000 in cash and notes payable that are due within one year. The companies from which the software was purchased were Centerline Software ($2,900,000), Vireo Software ($4,100,000) and Cardume Software ($2,250,000). The aggregate amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately $1,319,000 and is being amortized over a fifteen-year period on a straight-line basis. Of the total purchase price, $4,350,000 was allocated to in-process research and development and in accordance with SFAS No. 2, "Accounting for Research and Development Costs," this amount was expensed as of the purchase date.

UnderWare, Inc. - In March 1998, the Company acquired UnderWare, Inc., a privately held software product company, for approximately $3,500,000 cash. The acquisition has been accounted for as a purchase and, accordingly, assets and liabilities acquired have been recorded at fair value as of the date of acquisition. The amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately $141,000 and is being amortized over a fifteen-year period on a straight-line basis. Of the total purchase price, $3,160,000 was allocated to in-process research and development based upon independent valuations of the expected future cash flows, less costs to complete the development. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," this amount was expensed as of the purchase date. The company that provided the independent valuation for the UnderWare acquisition was Valuation Counselors.

NuMega Technologies, Inc. - In December 1997, the Company issued approximately 6,683,000 shares of its common stock in exchange for all of the outstanding common stock of NuMega Technologies, Inc. (NuMega). In addition, options to acquire approximately 1,776,000 shares of the Company's common stock were exchanged for all outstanding NuMega options. The merger has been accounted for by the pooling of interests method, and accordingly, the assets and liabilities of NuMega were combined with those of the Company at their book value. The financial results of NuMega have been included in the accompanying financial statements since October 1, 1997. Due to the immaterial size of NuMega when compared with the Company, prior periods were not restated to include the financial results of NuMega. The Company also incurred approximately $3,606,000 of special charges related to the merger and integration of NuMega. Such costs consisted primarily of financial advisory fees and professional fees.

Vine Systems Company Ltd. - In April 1997, the Company acquired Vine Systems Company Ltd., a professional services firm, for approximately 3,100,000 pounds sterling (approximately $5,022,000). Of the total purchase price approximately $566,000 was paid in cash. The Company issued notes for the remaining $4,456,000, of which approximately $3,656,000 was repaid during fiscal 1998. The acquisition has been accounted for as a purchase and, accordingly, assets and liabilities acquired have been recorded at fair value as of the date of acquisition. The amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately $4,841,000 and is being amortized over a fifteen-year period on a straight-line basis.

Other Fiscal 1997 Acquisitions - During fiscal 1997, the Company completed the acquisition of certain professional service companies for a combined total of $48,045,000 net cash expended. The companies purchased were Technalysis ($25,061,000), Adams & Reynolds ($12,410,000), MC Squared Incorporated ($9,212,000) and Virtual Innovations, Inc. ($362,000). All of the acquisitions were accounted for as purchases and, accordingly, assets and liabilities acquired have been recorded at fair value as of their respective acquisition dates. The aggregate amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately $44,177,000 and is being amortized over a fifteen-year period on a straight-line basis.

The Company also acquired all of the outstanding stock of certain privately-held software product companies for an aggregate cost of $29,637,000 during fiscal 1997. The companies purchased were Direct Technology Limited ($23,800,000) and DRD Promark, Inc. ($5,837,000). Of the total purchase price, $23,837,000 was paid in cash and $5,800,000 in notes that are due in April 1999. The aggregate amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately $3,165,000 and is being amortized over a fifteen-year period on a straight-line basis. Of the total purchase price, $21,790,000 was allocated to in-process research and development based upon independent valuations of the expected future cash flows, less costs to complete the development, and in accordance with SFAS No. 2 this amount was expensed as of the purchase date. The company that provided the independent valuation for these acquisitions was Valuation Counselors.

3. INVESTMENTS

A summary of securities classified as held to maturity at March 31, 1999 and 1998 is set forth below (in thousands):

March 31, 1999:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Obligations	$ 305,451	$ 857	$ 324	$ 305,984
Tax Advantage Auction Rate Securities	102,000			102,000
Tax Free Auction Rate Securities	52,554		4	52,550
U.S. Government Agencies	25,471	26		25,497
Securities Classified as Held to Maturity	$ 485,476	$ 883	$ 328	$ 486,031
March 31, 1998:				
Municipal Obligations	$ 162,070	$ 258	$ 137	$ 162,191

Scheduled maturities of securities classified as held to maturity at March 31, 1999 were as follows (in thousands):

	Amortized Cost	Fair Value
Due in:		
2000	$ 309,787	$ 309,870
2001	113,137	113,599
2002	59,922	59,932
2003	2,630	2,630
Total	$ 485,476	$ 486,031

4. PROPERTY AND EQUIPMENT

Property and equipment, summarized by major classification (in thousands):

	March 31, 1999	1998
Land	**$ 1,776**	$ 1,776
Buildings	**28,788**	28,777
Leasehold improvements	**17,492**	14,227
Furniture and fixtures	**38,519**	29,678
Computer equipment and software	**69,368**	59,279
	155,943	133,737
Less accumulated depreciation and amortization	**61,157**	49,243
Total	**$ 94,786**	$ 84,494

5. CREDIT FACILITIES AND LONG-TERM DEBT

Cash paid for interest totaled approximately $687,000, $810,000 and $450,000 for the years ended March 31, 1999, 1998 and 1997, respectively.

Revolving Bank Credit Facility - The Company has a revolving bank credit facility which provides for borrowings of up to $30,000,000 through September 1, 2000. The Company is obligated for a commitment fee of .125% per annum for any unused portion of the credit facility. The Company may choose between various interest rate options. The revolving credit arrangement contains affirmative and negative covenants including limitations on dividend payments, loans and advances. The Company had no borrowings outstanding during fiscal 1999 or 1998.

Long Term Debt - As of March 31, 1999, the Company has no long-term debt. As of March 31, 1998, the Company's long term debt included $6,100,000 of pound-denominated notes issued as part of the Direct Technology Limited acquisition (see note 2 of Notes to Consolidated Financial Statements). The Company also had approximately $800,000 of pound-denominated notes outstanding at March 31, 1998 that were issued as part of the Vine Systems acquisition (see note 2 of Notes to Consolidated Financial Statements).

6. COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

On April 3, 1997 the Company's shareholders approved an increase in the Company's authorized shares of common stock from 80,000,000 to 200,000,000 shares to permit a two-for-one stock split which was previously approved by the Board of Directors. The stock split was effected by means of a 100% stock dividend as of April 14, 1997 to holders of record April 4, 1997. In August 1997, the Company's shareholders approved an increase in the Company's authorized shares of common stock from 200,000,000 to 400,000,000 shares. In October 1997, the Company's Board of Directors approved a two-for-one stock split, payable as a 100% stock dividend to shareholders of record on October 22, 1997.

On February 25, 1999 the Company's shareholders approved an increase in the Company's authorized shares of common stock from 400,000,000 to 1,600,000,000 shares to permit a two-for-one stock split which was previously approved by the Board of Directors. The stock split was effected by means of a 100% stock dividend as of March 1, 1999 to holders of record January 26, 1999.

The effect of the stock splits has been retroactively reflected as of April 1, 1996. All references throughout the consolidated financial statements to number of shares, per share amounts and stock option data have been restated to reflect the stock splits.

7. EARNINGS PER COMMON SHARE AND CAPITAL STRUCTURE INFORMATION

Earnings per common share ("EPS") data were computed as follows (in thousands, except for per share data):

	Year Ended March 31,		
	1999	1998	1997
BASIC EPS:			
Numerator: Net Income	**$ 349,863**	$ 193,944	$ 97,436
Denominator:			
Weighted-average common shares outstanding	**366,734**	352,274	340,770
Basic EPS	**$ 0.95**	$ 0.55	$ 0.29
DILUTED EPS:			
Numerator: Net Income	**$ 349,863**	$ 193,944	$ 97,436
Denominator:			
Weighted-average common shares outstanding	**366,734**	352,274	340,770
Dilutive effect of stock options	**35,302**	35,152	18,970
Total Shares	**402,036**	387,426	359,740
Diluted EPS	**$ 0.87**	$ 0.50	$ 0.27

8. INCOME TAXES

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities are as follows (in thousands):

	March 31,	
	1999	1998
Deferred tax assets:		
Accrued vacation	**$ 3,314**	$ 2,582
Purchased software	**10,593**	9,410
Net operating loss carryforwards	**31,130**	35,139
Other	**19,914**	12,055
	64,951	59,186
Less valuation allowance	**4,612**	8,891
Net deferred tax assets	**60,339**	50,295
Current portion	**19,204**	14,512
Long-term portion	**$ 41,135**	$ 35,783
Deferred tax liabilities:		
Capitalized research and development costs	**$ 9,536**	$ 9,605
Purchased software	**1,758**	2,565
Other	**20,971**	11,066
Total deferred tax liabilities	**32,265**	23,236
Current portion	**2,477**	379
Long-term portion	**$ 29,788**	$ 22,857

The income tax provision (benefit) includes the following (in thousands):

	Year Ended March 31,		
	1999	1998	1997
Current:			
Federal	**$ 160,192**	$ 96,629	$ 46,073
Foreign	**6,210**	4,316	6,506
State	**14,790**	5,800	4,500
Total current tax provision	**181,192**	106,745	57,079
Deferred:			
Federal	**(4,131)**	1,309	6,050
Foreign	**3,117**	(11,228)	(11,179)
Total deferred tax benefit	**(1,014)**	(9,919)	(5,129)
Total income tax provision	**$ 180,178**	$ 96,826	$ 51,950

The Company's income tax expense differed from the amount computed on pre-tax income at the U.S. federal income tax rate of 35% for the following reasons (in thousands):

	Year Ended March 31,		
	1999	1998	1997
Federal income tax at statutory rates	**$ 185,514**	$ 101,769	$ 52,285
Increase (decrease) in taxes:			
Items related to acquisitions			1,792
Foreign Sales Corporation subsidiary	**(8,643)**	(6,462)	(4,638)
State income taxes, net	**9,613**	2,925	2,210
Other, net	**(6,306)**	(1,406)	301
Provision for income taxes	**$ 180,178**	$ 96,826	$ 51,950

At March 31, 1999 the Company has net operating loss carryforwards for income tax purposes of approximately $96,989,000 which expire as follows (in thousands):

Year ending March 31:	
2000	$ 3,413
2001	2,238
2002	5,564
2003	9,542
2004	7,480
2005	1,474
2006	1,990
2008	1,325
2009	1,147
2010	1,523
2011	274
Unlimited carryforward	61,019

Of this amount, approximately $3,472,000 is available to offset U.S. federal income taxes and approximately $93,517,000 relates to various foreign jurisdictions. In addition, approximately $957,000 of tax credits expiring through the year 2009 are available to offset future U.S. federal income tax liabilities.

Cash paid for income taxes totaled approximately $28,332,000, $55,481,000 and $46,760,000 for the years ended March 31, 1999, 1998 and 1997, respectively.

9. SEGMENT INFORMATION

Compuware operates in two business segments in the software industry: products and services. The Company provides software products and professional services to the world's largest IT organizations that help IT professionals efficiently develop, implement and support the applications that run their businesses.

The Company's products are designed to support three key activities within the application development process: building, testing and managing the application to optimize performance in production.

The Company also offers a broad range of data processing professional services including business systems analysis, design and programming, software conversion and system planning and consulting.

The Company evaluates the performance of its segments based primarily on operating profit before administrative and general expense, purchased research and development expense and net other income. The allocation of income taxes is not evaluated at the segment level.

No single customer provides more than 10% of the Company's revenue.

Financial information for the Company's business segments is as follows (in thousands):

	1999	1998	1997
Revenue:			
Products:			
Mainframe	**$ 830,256**	$ 577,048	$ 433,185
Client/Server	**187,469**	134,476	95,243
Services	**620,720**	427,794	284,468
Total revenues	**$ 1,638,445**	$ 1,139,318	$ 812,896
Operating Expenses:			
Products	**$ 548,359**	$ 434,286	$ 348,792
Services	**506,765**	365,948	250,405
Administrative and general	**78,333**	58,965	48,233
Total operating expenses	**$ 1,133,457**	$ 859,199	$ 647,430
Income from operations, before other income, purchased research and development charges and merger-related costs:			
Products	**$ 469,366**	$ 277,238	$ 179,636
Services	**113,955**	61,846	34,063
Administrative and general	**(78,333)**	(58,965)	(48,233)
Income from operations, before other income, purchased research and development charges and merger-related costs	**504,988**	280,119	165,466
Merger-related costs		(3,606)	
Purchased research and development charges	**(4,350)**	(3,160)	(21,790)
Other income	**29,403**	17,417	5,710
Income before income taxes	**$ 530,041**	$ 290,770	$ 149,386

Financial information regarding geographic operations are presented in the table below (in thousands):

	1999	1998	1997
Revenue:			
United States	**$ 1,202,266**	$ 825,989	$ 559,058
European subsidiaries	**316,393**	217,478	180,095
Other international operations	**119,786**	95,851	73,743
Total revenue	**$ 1,638,445**	$ 1,139,318	$ 812,896

The Company does not evaluate assets and capital expenditures on a segment basis, and accordingly such information is not provided. Less than 10% of the Company's long-lived assets, other than financial instruments, are located outside of the United States.

10. COMMITMENTS AND CONTINGENCIES

Leases - The Company leases building and office space and computer equipment under various operating lease agreements extending through fiscal 2005. Certain of these leases contain provisions for renewal options and escalation clauses. The following is a schedule of future minimum rental payments for the next five years (in thousands):

Year ending March 31:	
2000	$ 28,648
2001	23,452
2002	18,118
2003	13,894
2004	11,128
Thereafter	6,519
Total	$ 101,759

Lease expense for the years ended March 31, 1999, 1998 and 1997 under all operating leases amounted to approximately $27,720,000, $19,193,000 and $16,815,000, respectively.

Employment Contracts - The Company has entered into employment agreements with certain key employees that include noncompete provisions in exchange for specified terms of employment.

11. BENEFIT PLANS

Employee Stock Ownership Plan - In July 1986, the Company established an Employee Stock Ownership Plan (ESOP) and Trust. Under the terms of the ESOP, the Company makes annual contributions to the Plan for the benefit of substantially all employees of the Company. The contribution may be in the form of cash or common shares of the Company. The Board of Directors may authorize contributions between a maximum of 25% of eligible compensation and a minimum sufficient to cover current obligations of the Plan. The Company made contributions of $4,558,000, $3,500,000 and $2,330,000 in fiscal 1999, 1998 and 1997, respectively. This is a non-leveraged ESOP plan.

Employee Stock Purchase Plan - During fiscal 1997, the Company adopted the Global Employee Stock Purchase Plan (GESPP) under which the Company is authorized to issue up to eight million shares of common stock to eligible employees. Each offering period is limited to six months and a maximum number of 1,000,000 common shares. The Company's first offering period began January 1, 1997. Under the terms of the plan, employees elect to have up to 10% of their annual earnings withheld to purchase Company stock, with a value not to exceed $25,000, at the close of the offering period. The purchase price is 85% of the first or last day's closing market price for each offering period, whichever is lower. During fiscal 1999 and 1998, the Company sold approximately 1,177,000 and 1,250,000 shares, respectively, to eligible employees under the plan.

NuMega Technologies, Inc. 1996 Stock Option Plan - In connection with the NuMega acquisition (see Note 2 of Notes to Consolidated Financial Statements), options to acquire approximately 1,776,000 shares of the Company's common stock were exchanged for all outstanding NuMega incentive and nonqualified stock options, of which approximately 372,000 were outstanding at March 31, 1999. The option prices range from $1.32 to $11.83 and expire in 9 years.

Employee Stock Option Plans - The Company adopted five Employee Stock Option Plans dating back to 1991. These plans provide for grants of options to purchase up to 91,000,000 shares of the Company's common stock to employees of the Company, of which approximately 46,614,000 were outstanding at March 31, 1999. Under the terms of the plans, the Company may grant nonqualified options at the fair market value of the stock on the date of grant. During fiscal 1999, the Company granted approximately 11,840,000 options under the five different Employee Stock Option Plans.

Non-Employee Director Stock Option Plan - In July 1992, the Company adopted the Stock Option Plan for Non-Employee Directors. Under this plan, 2,400,000 shares of common stock are reserved for issuance to non-employee directors of the Company who have not been employees of the Company, any subsidiary of the Company or any entity which controls more than 10% of the total combined voting power of the Company's capital stock for at least one year prior to becoming director. Non-employee directors receive a one-time grant of options to purchase 20,000 shares of common stock and an annual grant of 40,000 option shares. Further, effective April 1, 1999, each non-employee director will receive options to purchase 2,000 option shares for each Board of Directors meeting attended in person, 1,000 option shares for each Board of Directors Committee meeting attended in person, 500 option shares for each Board of Directors meeting attended by telephone, and 250 option shares for each Board of Directors Committee meeting attended by telephone. All option shares become exercisable over a four-year period. During fiscal 1999, approximately 343,000 options were granted under the Non-Employee Director Stock Option Plan. Approximately 1,603,000 options were outstanding at March 31, 1999.

Options generally vest in cumulative annual installments over a three-to-five year period. All options were granted at fair market value and expire ten years from the date of grant.

At March 31, 1999, a total of 213,284 options were outstanding under plans that were terminated by the Company, all of which are fully vested. All outstanding options under the terminated plans remain in effect in accordance with the terms under which they were granted.

During fiscal 1999, the Company implemented a Replacement Stock Option Award program. The program allows selected participants to pay the option exercise price with shares of currently owned Company stock. The Company grants a new stock option award to replace the shares exchanged in the transaction. Approximately 2,538,000 shares were exercised under the Replacement Stock Option Award program for which approximately 1,069,000 replacement options were granted.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its plans. Stock options are granted at current market prices at the date of grant, therefore, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan.

If compensation cost for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates for fiscal 1999, 1998 and 1997 consistent with the method prescribed by SFAS No. 123, Compuware's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated in the following table.

	Year Ended March 31,		
	1999	1998	1997
Net Earnings			
As reported	**$ 349,863**	$ 193,944	$ 97,436
Pro forma	**297,490**	172,394	85,319
Earnings per Share			
As reported:			
Basic earnings per share	**0.95**	0.55	0.29
Diluted earnings per share	**0.87**	0.50	0.27
Pro forma:			
Basic earnings per share	**0.81**	0.49	0.25
Diluted earnings per share	**0.74**	0.44	0.24

The pro forma amounts for compensation cost may not be indicative of the effects on net earnings and earnings per share for future years.

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1999, 1998 and 1997, respectively: expected volatility of 66.88, 51.50 and 55.22 percent; risk-free interest rates of 5.3, 5.7 and 6.6 percent; and expected lives at date of grant of 4.9, 4.9 and 4.3 years. Dividend yields were not a factor as the Company has never issued cash dividends and has no plans to do so in the future.

Under SFAS No. 123, the fair value of the employees' stock purchase rights were estimated using the Black-Scholes model with assumptions that, except for an expected life of six months and a risk-free interest rate of 4.93% for fiscal 1999, and expected volatilities of 54.25 and 66.21 for the first and second offering periods, respectively, were consistent with those used for the Company's stock option plans described above. The weighted-average fair value of those purchase rights granted in fiscal 1999 were $6.48.

A summary of the status of fixed stock option grants under Compuware's stock-based compensation plans as of March 31, 1999, 1998 and 1997, and changes during the years ending on those dates is as follows (shares in thousands):

	1999		**1998**		1997	
	Shares Under Option	**Weighted-Avg. Exercise Price**	Shares Under Option	Weighted-Avg. Exercise Price	Shares Under Option	Weighted-Avg. Exercise Price
Outstanding at beginning of year	**52,102**	**$ 6.13**	50,636	$ 3.83	40,416	$ 2.31
NuMega acquisition			1,776	1.66		
Granted	**12,183**	**25.33**	10,540	14.90	17,696	6.90
Exercised	**(11,395)**	**2.41**	(8,481)	2.07	(5,023)	2.75
Exchanged	**(1,069)**	**28.07**				
Forfeited	**(3,020)**	**11.47**	(2,369)	7.43	(2,453)	2.74
Outstanding at end of year	**48,801**	**$ 11.21**	52,102	$ 6.13	50,636	$ 3.83
Options exercisable at year end	**12,655**	**$ 5.71**	17,090	$ 2.71	21,290	$ 2.02
Weighted-average fair value of options granted during the year	**$ 15.40**		$ 7.58		$ 3.68	

The following table summarizes information about fixed stock options outstanding at March 31, 1999 (shares in thousands):

	Options Outstanding			Options Exercisable	
	Shares Under Option	Weighted-Avg. Remaining Life	Weighted-Avg. Exercise Price	Shares Under Option	Weighted-Avg. Exercise Price
Range of Exercise Prices					
$ 0.01 to $10.00	29,848	6.47	$ 4.92	11,110	$ 3.02
10.01 to 20.00	7,950	8.50	15.09	484	17.39
20.01 to 30.00	9,842	8.45	24.70	905	27.59
30.01 to 42.00	1,161	9.37	31.96	156	34.24
	48,801	7.27	11.21	12,655	5.71

The maximum number of shares for which additional options may be granted was 13,306,421 at March 31, 1999, 13,401,204 at March 31,1998 and 5,440,736 at March 31, 1997. At March 31, 1999, a total of 62,107,843 shares of the Company's common stock are reserved for issuance under all option plans. Income tax benefits associated with the exercise of stock options are reflected as adjustments to additional paid-in capital.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for the years ended March 31, 1999 and 1998 is as follows (in thousands, except for per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 1999:					
Revenues.	$ 338,623	$ 366,569	$ 433,118	$ 500,135	$1,638,445
Operating income	82,789	99,428	139,720	178,701	500,638
Pre-tax income.	88,625	106,222	147,364	187,830	530,041
Net income	58,847	69,788	97,260	123,968	349,863
Basic earnings per share. . .	0.16	0.19	0.26	0.33	0.95
Diluted earnings per share . .	0.15	0.17	0.24	0.31	0.87
Fiscal 1998:					
Revenues.	$ 224,478	$ 247,381	$ 309,635	$ 357,824	$1,139,318
Operating income	39,998	49,804	77,915	105,636	273,353
Pre-tax income.	42,387	51,949	81,665	114,769	290,770
Net income	28,272	34,650	54,471	76,551	193,944
Basic earnings per share . .	0.08	0.10	0.15	0.21	0.55
Diluted earnings per share . .	0.08	0.09	0.14	0.19	0.50

13. SUBSEQUENT EVENTS (UNAUDITED)

Business Combinations - In June 1999, the Company extended a cash tender offer to purchase all outstanding shares of common stock of Data Processing Resources Corporation ("DPRC"), a professional services company, for approximately $353 million in cash. DPRC reported audited revenues of $211 million for the year ended July 31, 1998, and has reported revenues of $355 million for the 12 months ended April 30, 1999. The acquisition will be accounted for under the purchase method of accounting. As a result of the transaction, Compuware expects to transition approximately 3,400 professional services personnel.

Shareholder Information

General Offices:
31440 Northwestern Highway
Farmington Hills, Michigan 48334-2564
(248) 737-7300

Transfer Agents:
State Street Bank & Trust Company
c/o EquiServe Limited Partnership
P.O. Box 8200
Boston, Massachusetts 02266-8200
(800) 426-5523

Auditors:
Deloitte & Touche
600 Renaissance Center, Ste. 900
Detroit, Michigan 48243-1704
(313) 396-3000

Annual Meeting:
The Annual Meeting of Shareholders will be held at 3 p.m. on August 24, 1999 in Farmington Hills, Michigan. Notice of place of meeting with proxy form accompanies the Annual Report to Shareholders.

Form 10-K:
A copy of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission for fiscal 1999, is available without charge by writing to:

Christopher M. F. Norris
Director, Corporate Communications/Investor Relations
Compuware Corporation
31440 Northwestern Highway
Farmington Hills, Michigan 48334-2564

Common Stock Listing:
The Company's Common Stock is traded on The Nasdaq Stock Market, Inc. The Company's symbol is CPWR.

The following table sets forth the range of high and low trading prices, on a post-split basis, for the Company's Common Stock for the periods indicated, all as reported by NASDAQ:

Fiscal Year ended

March 31, 1999	High	Low	March 31, 1998	High	Low
First Quarter	$ 26.69	$ 20.56	First Quarter	$ 12.69	$ 7.75
Second Quarter	31.50	21.50	Second Quarter	16.34	11.31
Third Quarter	39.91	17.94	Third Quarter	19.75	13.81
Fourth Quarter	39.13	20.88	Fourth Quarter	25.63	15.56

Lab Locations:
Compuware products originate in four labs: Amsterdam, The Netherlands; Campbell, California; Farmington Hills, Michigan; and Nashua, New Hampshire.

Office Locations:
The Products Division has sales offices that directly serve the following locales:

North America		International			
Atlanta	Minneapolis	Amsterdam	Hamburg	Mexico City	Sydney
Boston	Montreal	Basel	Helsinki	Milan	Tokyo
Charlotte	New York	Beijing	Hong Kong	Munich	Vienna
Chicago	Philadelphia	Brasilia	Johannesburg	Osaka	Zurich
Cincinnati	Phoenix	Brisbane	Kista	Oslo	
Cleveland	San Francisco	Brussels	Lausanne	Panama	
Dallas	Seattle	Canberra	Linz	Paris	
Denver	St. Louis	Cape Town	Lisbon	Rome	
Farmington Hills	Toronto	Copenhagen	London	Sao Paulo	
Houston	Washington D.C.	Dreieich	Madrid	Seoul	
Long Beach		Düsseldorf	Melbourne	Singapore	

In addition, the Company's distributors and resellers have offices that directly serve the following international locales:

Argentina	China	India	Kuwait	Peru	Taiwan
Australia	Colombia	Indonesia	Malaysia	Philippines	Turkey
Bahrain	Egypt	Israel	Mauritius	Saudi Arabia	U. A. E.
Brazil	Greece	Japan	Mexico	Singapore	Venezuela
Chile	Hong Kong	Korea	New Zealand	South Africa	

The Professional Services Division markets its professional services primarily through account managers located in:

North America			International		
Appleton	Denver	Montreal	Amsterdam	Dreieich	Milan
Baltimore	Farmington Hills	New York	Basel	Helsinki	Osaka
Chicago	Grand Rapids	Phoenix	Beijing	Hong Kong	Oslo
Cincinnati	Indianapolis	Toronto	Brisbane	Johannesburg	Paris
Cleveland	Janesville	Washington D.C.	Brussels	Kista	Sao Paulo
Colorado Springs	Lansing	Wausau	Canberra	London	Sydney
Columbia	Madison		Cape Town	Madrid	Tokyo
Columbus	Milwaukee		Copenhagen	Melbourne	
Dallas	Minneapolis		Dortmund	Mexico City	

Executive Committee

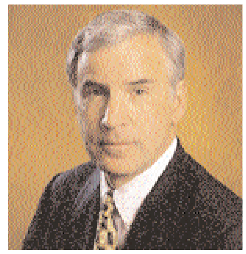
Douglas W. Barre
Senior Vice President, Enterprise Products

Christian J. Bockhausen
Senior Vice President and Chief Information Officer

Thomas Costello, Jr.
Vice President, General Counsel and Secretary

Donna Debrodt
Vice President, Corporate Marketing

Laura L. Fournier
Senior Vice President, Chief Financial Officer and Treasurer



Henry A. Jallos
Executive Vice President, Products Division

Peter Karmanos, Jr.
Chairman of the Board and Chief Executive Officer

Denise Knobblock
Executive Vice President, Human Resources and Administration

Leslie L. Murphy
Vice President and Chief Technology Officer

Joseph A. Nathan
President and Chief Operating Officer

Wesley J. Peterson
Vice President, Recruiting

Phyllis Recca
Senior Vice President, Professional Services

John N. Shevillo
Senior Vice President, Strategic Accounts

Ronald D. Sleiter
Senior Vice President, Worldwide Sales

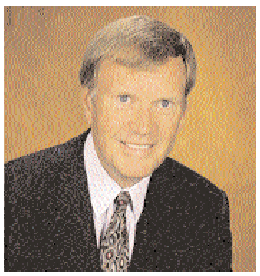
Eliot R. Stark
Executive Vice President, Finance

Board of Directors

Elizabeth Chappell
Chief Executive Officer,
The Chappell Group

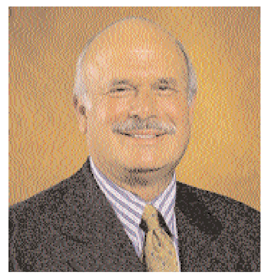
Dr. Elaine K. Didier
Interim Director,
Academic Outreach,
The University of Michigan

Bernard M. Goldsmith (1)
Managing Director,
Updata Capital, Inc.



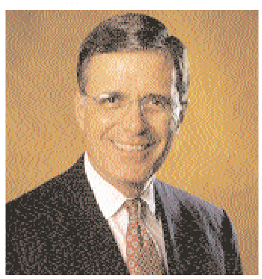
Willam O. Grabe (2)
General Partner,
General Atlantic Partners

William R. Halling (1) (2)
Member of the Board

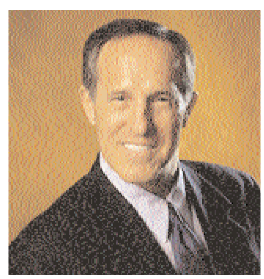


Peter Karmanos, Jr.
Chairman of the Board
and Chief Executive Officer,
Compuware Corporation

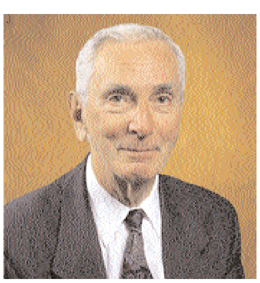
Joseph A. Nathan
President and
Chief Operating Officer,
Compuware Corporation



W. James Prowse
Member of the Board



G. Scott Romney
Partner,
Honigman, Miller,
Schwartz and Cohn



Thomas Thewes
Vice Chairman of the Board

Lowell P. Weicker, Jr. (1) (2)
Member of the Board

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

North America

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