

A large, semi-transparent, stylized letter 'C' logo is centered in the background. The 'C' is composed of several thick, parallel lines that create a sense of depth and movement. The background is a gradient of dark blue, with a lighter blue circular area behind the 'C'.

COMPUWARE®

2004 ANNUAL REPORT

Compuware – delivering IT value

Changepoint aligns with our long-term vision for IT governance at MasterCard, enabling the alignment of the IT portfolio along with comprehensive operations and employee performance management.

JIM WHALEN
SENIOR VICE PRESIDENT
MASTERCARD

The Model Driven Architecture approach afforded by Compuware OptimalJ enables companies to develop complex applications with a very small amount of manual effort. An upgrade that would have taken several months to do manually took less than 30 minutes with the model-driven approach.

STEVEN WITKOP
J2EE ARCHITECT AND PROGRAMMER
EDS

CARS has played a key role in enforcing quality practices and methodology within our user acceptance testing process. Intuitive and responsive testing with general test plans will change into proactive and repetitive test assets specific to our needs. These changes are objectives CARS enables and promotes.

CHRIS SCHULTZ
2ND VICE PRESIDENT
CONSECO SERVICES, LLC

The key benefit of using Compuware Vantage is that we have an accurate representation of system performance in business terms. We understand what the business units are experiencing, which applications are critical to them, and how our work is supporting them.

TOM LINDELL
CIO
WEST BEND MUTUAL INSURANCE COMPANY

Dear Fellow Shareholder,

For fiscal year 2004, Compuware delivered its shareholders a 118.5 percent total return. In particular, this fiscal year featured a solid third quarter and an outstanding fourth quarter that included a 30 percent year-over-year increase in software sales and a 50 percent year-over-year increase in earnings. Compuware's results continue to be built on the bedrock of strong fundamentals, including a cash balance at the end of the fiscal year of more than \$767 million, cash flow from operations of more than \$258 million and more than \$450 million in accounts receivable.

I'm pleased with our company's successes—particularly for the last half of the fiscal year—and I know we have even greater goals to reach. Today, I believe Compuware is better positioned than we've been in a decade to achieve healthy, sustainable growth. Think about the remarkable assets at our disposal.

Our OptimalJ offering for increasing the productivity of Java developers has the potential to become a substantial business over time. In particular, legacy modernization projects represent a huge, growing market for OptimalJ. CIOs know that 80 percent of their application dollars are spent on ongoing maintenance of existing applications that are critical to their businesses. OptimalJ can dramatically reduce these costs. In fact, our customers have reported up to 90 percent savings in maintenance because of OptimalJ's ability to build in best practices and reduce application complexity. This is a powerful value proposition that we're going to push very hard this fiscal year.

The Compuware Application Reliability Solution (CARS) is also beginning to deliver on its promise. The increasing complexity of applications and the increasing costliness of their failure make the need for reliable applications more pressing than ever. CIOs can't afford to fail when they are delivering critical applications to their businesses. CARS helps IT organizations by bringing together best practices, outstanding products and experienced people to make more efficient use of testing dollars. Every indication is that CARS will be a landmark offering in Compuware's history, and we will continue to fight hard to get it a bigger foothold in the marketplace this fiscal year.

Our Vantage products, which showed incredible growth over the fiscal year, will bring us substantial revenue from both the products and services related to them. In addition to the great success Vantage had in FY '04, it's important to understand that Compuware's performance solution extends far beyond the distributed solutions offered by some of our competitors. Our STROBE and Abend-AID products for managing performance in the mainframe environment again had an outstanding year. The combination of Vantage, STROBE and Abend-AID gives Compuware a comprehensive performance solution that delivers outstanding results in all of the environments used by businesses today.

Our services operations continue to evolve to a more profitable, sustainable business. We have implemented broad-based training and certification programs that will help stabilize revenue while increasing profits. Our focus for this fiscal year in services will be the further development and implementation of services offerings that feature our products. The considerable gains in productivity created by Compuware products will make our experienced technicians even more valuable to the clients they serve.

In further support of our strategy to deliver technology value Compuware has recently made two strategic acquisitions. We've acquired Covisint, which gives us an incredibly strong presence in the automotive vertical market. The Covisint team helps some of the world's largest companies share business processes with suppliers and customers. Covisint technology enables new levels of cooperation and communication that improve productivity and reduce costs.

Additionally, Compuware has acquired IT governance market-leader Changepoint. Changepoint provides CIOs with the critical insight they need to more effectively manage, control and communicate about the investments businesses make in technology. Changepoint will help integrate Compuware's solutions and will also provide the critical hook we need to get into the CIO's office to better understand their needs.

What amazing potential! At the high end, I estimate that there could be more than a billion dollars in growth opportunity for Compuware in these markets. Our task is to capitalize on Compuware's unique assets to help solve the most pressing business and technical issues in the industry.

Compuware separates itself from the niche vendors because our products and services cover the entire application life cycle, not some limited slice of it. Our customers tell us they need solutions that span IT governance, development, quality and performance, and that's just what we deliver.

They also tell us that they need products and services that extend into their mainframe environments. I've been listening to the predictions of the mainframe's death for more than 30 years. This is nonsense. More than 95 percent of the Fortune 500 still have their legacy systems running on the mainframe. The vast sums of money invested in these applications and their importance to the business mean that they are not going away anytime soon. To address business problems across the enterprise, you must be able to work with big iron, and few companies in the industry can match Compuware's experience and skill in doing so.

Everything is in place to achieve our goals. We have great people and great products in the right markets. We have hungry sales and executive teams. We've made strategic investments in technology, sales and marketing. Our balance sheet, cost structure and cash flow are more than adequate to support our continuing investments in the business. As is often the case, it's now simply a matter of hard work and execution. I can personally assure you that we will be working relentlessly in our pursuit of growth.

Sincerely,

A handwritten signature in cursive script that reads "Peter Karmanos, Jr." with a period at the end.

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2004

OR

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

For the transition period from _____ to _____

Commission File Number: 000-20900

 COMPUWARE CORPORATION

(Exact name of registrant as specified in its charter)

 Michigan

(State or other jurisdiction of
incorporation or organization)

 38-2007430

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

 One Campus Martius, Detroit, MI 48226-5099

(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: **(313) 227-7300**

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$.01 per share
Preferred Stock Purchase Rights**

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2003, the last business day of the registrant's most recently completed second fiscal quarter, was \$1,619,244,996, based upon the closing sales price of the common stock on that date of \$5.36 as reported on the NASDAQ Stock Market. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the registrant.

There were 386,179,270 shares of \$.01 par value common stock outstanding as of June 1, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's 2004 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated by reference in Part III.

COMPUWARE CORPORATION AND SUBSIDIARIES
FORM 10-K
Table of Contents

<u>Item Number</u>	<u>Page</u>
PART I	
1. Business	3
Executive Officers of the Registrant	12
2. Properties	13
3. Legal Proceedings	14
4. Submission of Matters to a Vote of Security Holders	15
PART II	
5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
6. Selected Consolidated Financial Data	17
7. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
7A. Quantitative and Qualitative Disclosure about Market Risk	31
8. Consolidated Financial Statements and Supplementary Data	33
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	57
9A. Controls and Procedures	57
PART III	
10. Directors and Executive Officers of the Registrant	58
11. Executive Compensation	58
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	58
13. Certain Relationships and Related Transactions	58
14. Principal Accountant Fees and Services	58
PART IV	
15. Exhibits, Financial Statement Schedule and Reports on Form 8-K	59

PART I

ITEM 1. BUSINESS

We provide software products and professional services designed to increase the productivity of the information technology, or IT, departments of businesses worldwide. In the early years of our company, we focused on offering professional services and mainframe products in the testing and implementation environment where we gained extensive experience and established long-term customer relationships. Over the past several years, we have expanded our presence into products and professional services in the application development and integration, quality assurance, production readiness and production availability areas of the application life cycle. We extended our offerings to include application services by acquiring certain assets of Covisint LLC (Covisint) effective March 1, 2004. Covisint provides business-to-business applications and communication services that connect the global automotive industry. Additionally, we acquired Changepoint Corporation in May 2004. Changepoint offerings help IT organizations by providing critical insight into IT spending, operations and management. Initial technology integration plans, while still under development, suggest outstanding synergy between Compuware's application development, testing and performance management tools and Changepoint's IT governance solution. This combined solution will offer Chief Information Officers unmatched insight and visibility into their people, projects, resources and applications, helping technology leaders align IT investments with business priorities.

We were incorporated in Michigan in 1973. Our executive offices are located at One Campus Martius, Detroit, Michigan 48226-5099, and our telephone number is (313) 227-7300.

We operate in two business segments in the software and technology services industries: products and professional services. See Note 13 of Notes to Consolidated Financial Statements.

The following discussion may contain certain forward-looking statements within the meaning of the federal securities laws. Numerous important factors, including those discussed under Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Forward-Looking Statements could cause actual results to differ materially from those indicated by such forward-looking statements.

Our Internet address is www.compuware.com. We make available, free of charge on the web site, copies of reports we file with the Securities and Exchange Commission as soon as reasonably practicable after we electronically file such reports. The information contained on our web site should not be considered part of this report.

Our Business Strategy

Our business strategy is to provide a broad range of software and professional services offerings to the largest users of information technology in the world. Our solutions are focused on providing a real return on investment to our clients by increasing productivity, efficiency, and visibility into their IT applications throughout the application lifecycle. Our solutions and professional services are in the IT Governance, application development, quality assurance, production management and application services environments. Our strategy is to support the most widely used technologies and platforms implemented by the largest users of information technology in the world including mainframe, distributed, Java, .Net, Windows, Unix, Linux, Oracle, and SAP.

Companies with IT departments invest substantial resources to build and maintain large, complex, mission-critical applications. As a result, this target market can benefit most from our products and professional services offerings.

From our perspective, the application life cycle includes four primary phases: 1) the application development phase in which software source code is created, integrated with existing applications and modified over time; 2) the testing phase, in which application software is executed, debugged, tested and maintained in a series of repetitive, ongoing cycles for the life of the application; 3) the performance testing phase, when an application is tested under simulated production conditions to ensure it will function well once implemented; and 4) the production phase in which the performance and availability of operating systems, databases, servers, applications and networks is monitored and managed.

Products

The following table sets forth, for the periods indicated, a breakdown of license and maintenance revenue by product line and the percentage of total revenues for each line (in thousands):

Product Revenue	Year Ended March 31,			Percentage of Total Revenues		
	2004	2003	2002	2004	2003	2002
File-AID	\$ 169,063	\$ 182,224	\$ 230,820	13.4 %	13.2 %	13.3 %
Abend-AID	138,943	155,769	186,827	11.0	11.3	10.7
XPEDITER	113,647	110,880	136,848	9.0	8.1	7.9
QA Center Mainframe	20,004	24,527	30,880	1.6	1.8	1.8
STROBE	85,653	80,080	101,911	6.8	5.8	5.8
Total Mainframe Revenue	527,310	553,480	687,286	41.8	40.2	39.5
UNIFACE and Optimal	45,420	42,283	43,353	3.6	3.1	2.5
DevPartner	27,557	24,290	26,722	2.2	1.8	1.5
QA Center & File-AID/Client Server	39,141	34,691	36,524	3.1	2.5	2.1
Vantage	65,390	53,152	57,497	5.1	3.9	3.3
Total Distributed Product Revenue	177,508	154,416	164,096	14.0	11.3	9.4
Total Product Revenue	\$ 704,818	\$ 707,896	\$ 851,382	55.8 %	51.5 %	48.9 %

Compuware Software Products and the Application Life Cycle

Our software products enhance every step in the application life cycle, from application development and quality assurance to production readiness and availability, for mainframe and distributed platforms.

Application Development and Integration—Customers use our Abend-AID, DevPartner, File-AID, Optimal, QACenter, STROBE, UNIFACE, Vantage and XPEDITER products to achieve productivity gains.

Quality Assurance—The Abend-AID, DevPartner, File-AID, QACenter, STROBE and XPEDITER tools are used to automate the multiple, complex steps of thorough application testing.

Production Readiness—The Abend-AID, DevPartner, File-AID, QACenter, STROBE and Vantage product lines are used to ready applications for production.

Production Availability—The Abend-AID, File-AID, QACenter, STROBE, Vantage and XPEDITER product lines are used to find and fix application, server and/or network performance problems before they affect end users.

IT Governance—IT Governance by Changepoint allows IT organizations to evaluate all of these projects providing Chief Information Officers with critical insight into IT spending, operations and management.

Mainframe Market

We believe that the market for mainframe products is well defined, and that our mainframe products will continue to be in demand as the drive to extend legacy applications into distributed environments continues to emphasize the need for reliable, high-volume servers.

We intend to remain focused on developing, marketing and supporting high quality software tools both to support traditional uses of the mainframe and to enhance the efforts of IT staff who are working to web-enable their legacy applications portfolio. We believe that our longstanding customer relationships and brand equity in this arena will help us continue to improve the benefits our customers receive from our mainframe products. In addition, we continue to pursue product integration opportunities to increase the value that our customers obtain from the use of our products, to enhance the synergy among the functional groups working on key application projects and to make the entire process more streamlined, automated and repeatable.

Mainframe Software Products

Our mainframe products focus on improving the productivity of developers and analysts in analysis, unit testing, functional testing, performance testing, defect removal, fault management, file and data management and application performance management in the OS/390 and z/OS series environments.

Our mainframe products are functionally rich, are focused on user needs and require minimal user training. We strive to ensure a common look and feel across our products and emphasize ease of use in all aspects of product design and functionality. Most products can be used immediately without modification of customer development practices and standards and can be quickly integrated into day-to-day testing, debugging and maintenance activities.

Our mainframe products are grouped into the following five product lines:

File-AID Products

File-AID products provide a consistent, familiar and secure method for IT professionals to access, analyze, edit, compare, move and transform data across all strategic environments. File-AID is used to quickly resolve production data problems and manage ongoing changes to data and databases at any stage of the application life cycle.

Abend-AID Products

Abend-AID products assist IT professionals to quickly diagnose and resolve application and system failures. The products automatically collect program and environmental information, analyze the information and present diagnostic and supporting data in a way that can be easily understood by all levels of IT staff.

XPEDITER Products

XPEDITER interactive debugging products help developers integrate enterprise applications, build new applications and web-enable legacy ones, satisfying corporate scalability, reliability and security requirements. XPEDITER tools deliver powerful analysis and testing capabilities across multiple environments, helping developers test more accurately and reliably, in less time.

QACenter Mainframe Products

QACenter Mainframe products deliver complete testing functionality for automating test creation and execution, test results analysis and documentation. The products simulate the on-line systems environment, allowing programmers to test these applications under production conditions without requiring actual users at terminals. Its powerful functions and features enhance unit, concurrency, integration, migration, capacity and stress testing.

STROBE Products

Our STROBE MVS Application Performance Management and iSTROBE Application Performance Analysis System products work together to help clients locate and eliminate sources of excessive resource demands during every phase of an application's life cycle. Features in both products support an extensive array of subsystems, databases and languages.

Distributed Systems Market

In contrast to the mainframe market, the distributed systems market is characterized by multiple hardware, software and network configurations. Combined with the more recent push to web-enable applications, IT organizations find themselves under increasing pressure to rapidly create reliable, top-performing applications, despite an exponential increase in environment complexity. We believe our distributed and web products address these challenges and that we are well positioned to market distributed development, integration, functional and performance testing and application management software to our target markets.

Distributed Software Products

Our distributed products focus on improving the productivity of the entire development team, including architects, developers, testers and operating analysts. These products support requirements management, application development, unit and functional testing and application performance analysis. Our distributed products also help the development team in application profiling and rapid new application rollout, as well as in managing server and network application availability on multiple platforms including Microsoft Windows and Microsoft .NET, J2EE, AIX, Solaris and DC2000.

Our distributed systems software products are grouped into five product lines: UNIFACE and Optimal, DevPartner, QACenter and File-AID/CS, Vantage and IT Governance by Changepoint.

UNIFACE and Optimal Products

UNIFACE, our distributed systems application development product, is designed to assist software developers in the creation, integration, deployment and maintenance of complex distributed applications. UNIFACE enables software developers to create applications that are not tied to any specific hardware platform, operating system, database management system or graphical user interface. Application objects are captured in a central repository, which permits their reuse in the development of technology-independent applications and allows for easier management and maintenance of applications. In addition, UNIFACE insulates application development and deployment from the individual technical components that comprise a computing environment. This reduces development and maintenance costs and allows applications to be developed rapidly using existing, proven legacy code.

OptimalJ is our Java development product. OptimalJ accelerates application delivery by simplifying Java development, allowing developers of varying experience levels to rapidly produce reliable J2EE business applications. OptimalJ generates complete, working applications directly from a visual model, using sophisticated patterns to implement accepted best practices for coding to J2EE specifications.

UnifaceView is our business integration portal product. As a packaged, web-based portal application, UnifaceView enables customers to quickly implement an integrating platform to help bring together the diverse array of custom-built and packaged applications and web services that many companies have assembled over a period of time. UnifaceView brings these applications together in a single desktop portal with powerful integration and administrative functions, making it possible for a customer's IT department to effectively manage the "home-base" desktop of every employee in its organization.

UnifaceFlow is our business process automation and business process modeling product that automates the execution of business tasks running within and across an organization. UnifaceFlow helps solution architects model and automate business processes and tasks by aligning and

connecting the process to the application environment for improved workflow execution. This creates a more efficient and effective organization that benefits from faster process-cycle times, improved time-to-market, greater cost effectiveness and better customer service through improved response times.

DevPartner Products

DevPartner Studio helps developers build reliable, high-performance applications and components for Microsoft .NET and for native Windows by quickly solving problems with .NET migration, legacy integration, locating errors in application code and memory, tuning runtime performance across distributed applications, and assuring thorough testing.

DevPartner Studio Enterprise Edition combines powerful error detection, performance, memory, coverage and requirements management with comprehensive project tracking, defect management, task management and workflow automation. DevPartner Studio Enterprise Edition supports development of high-performing applications and components for Microsoft .NET and for native Windows.

DevPartner Java Edition pinpoints runtime errors, memory problems and performance bottlenecks and identifies code coverage/stability across all tiers of a Java application environment. Using DevPartner Java Edition, developers and testers can quickly prioritize and focus on solving the complexity, quality and performance problems associated with Java development.

DriverStudio products help developers create code that enables operating systems to communicate with peripheral devices such as printers, scanners and the Internet. The DriverStudio product line includes DriverStudio and SoftICE Driver Suite.

QACenter Distributed Products

QACenter delivers a unique offering of automated testing products and solutions designed to validate applications running in the full spectrum of environments, isolate and correct problems and ensure that systems can handle anticipated load before applications go live. QACenter products include:

QARun and TestPartner—Functional test automation tools that allow organizations to validate business-critical applications whether distributed, e-commerce (web/Java) or CRM/ERP.

QADirector—Provides the framework for managing the entire testing process from design through execution to analysis.

TrackRecord—A defect management solution that serves as a central repository and communication hub for all development-related activities and test-related activities and data.

Reconcile—An enterprise-wide requirements management system. Reconcile allows project teams to create, change, track, evaluate and report project requirements.

QALoad—An automated load testing solution for distributed, ERP and e-commerce applications.

Compuware Application Reliability Solution (CARS)—Combines Compuware software products and professional services into a defined process used to instill discipline, automate processes and ensure consistency and repeatability throughout the testing life cycle. Results are reported to IT management through the application quality workbench.

File-AID/Client Server

File-AID/Client Server is a comprehensive test data management tool designed to help developers, QA teams and DBAs work efficiently with data as they develop, test and support distributed applications. With File-AID/CS application developers can extract, load, copy, convert, transform, compare and edit all their data without having to be an expert in each database environment. All data related tasks are performed through an easy to use interface eliminating the need to write programs or scripts, code SQL or use multiple utilities.

Vantage Products

Vantage products allow IT professionals to manage, analyze and improve the performance of distributed applications in a variety of environments. The Vantage suite also helps IT organizations plan for and manage new distributed application rollout. Vantage products include:

ClientVantage—Monitors the performance and availability of critical business applications at the point of delivery—the client user interface.

NetworkVantage—Shows how users and applications consume critical shared network resources; provides the information necessary to troubleshoot problems related to unplanned use, unauthorized use, or poor configuration of the network; supports WAN bandwidth sizing decisions; and provides historical trending data for use in network growth management.

ServerVantage—Provides monitoring, alerting, troubleshooting and automated response throughout the server infrastructure.

VantageView—Performance dashboard that provides an overall enterprise view of application performance and availability across the customers infrastructure as well as access to the underlying performance metrics.

Application Vantage—Pinpoints the source of poor transaction performance. Provides real-time application performance troubleshooting, analyzing the interaction between the application, the network and the supporting server infrastructure. Application Vantage is also integrated with the ClientVantage product for 24-hour a day, seven days a week exception-based performance analysis.

Application Expert—Helps ensure successful deployment of new applications. Analyzes transactions before applications are deployed and predicts how they will perform under production conditions—helping to diagnose where potential problems will occur. The WAN provisioning module determines the aggregate network loading from a defined population of users and application workloads to permit the “rightsizing” of expensive WAN links.

Predictor—Predicts enterprise network behavior based on various scenarios such as changes in application mix, transaction volume, device outages and deployment of additional bandwidth.

IT Governance

IT Governance by ChangePoint—Helps IT organizations by providing critical insight into IT spending, operations and management. Combined with our other products, we offer Chief Information Officers insight and visibility into their people, projects, resources and applications, helping technology leaders align IT investments with business priorities.

Product Maintenance and Customer Support

We believe that effective support of our customers and products during both the trial period and for the license term is a substantial factor in product acceptance and subsequent new product sales. We believe our installed base is a significant asset and intend to continue to provide high levels of customer support and product upgrades to assure a continuing high level of customer satisfaction. In fiscal year 2004, we continued to experience a high customer maintenance renewal rate.

All customers who subscribe to our maintenance and support services are entitled to receive technical support and advice, including problem resolution services and support in product installation, error corrections and any product enhancements released by us during the maintenance period. Maintenance and support services are provided online, through our FrontLine technical support web site, by telephone access to technical personnel located in our development labs and by support personnel in the offices of our foreign subsidiaries and distributors.

Licensees have the option of renewing their maintenance agreements each year for an annual fee based on the license or list price of the product. They also have the option of committing to maintenance for longer terms, generally up to five years, on a contractual basis. For fiscal years 2004, 2003 and 2002, maintenance fees represented approximately 32.3%, 30.0%, and 24.9%, respectively, of our total revenues.

Technology Development and Support

Technology development and support includes, primarily, the costs of programming personnel associated with product development and support less the amount of software development costs capitalized during the period. Personnel costs associated with developing and maintaining internal systems and hardware/software costs required to support technology initiatives are also included here.

We have been successful in developing acquired products and technologies into marketable software for our distribution channels. We believe that our future growth lies in part in continuing to identify promising technologies from all potential sources, including independent software developers, customers, small startup companies and internal research and development.

Product development is performed primarily at our headquarters in Detroit, Michigan; and at our development labs in Amsterdam, The Netherlands; Toronto, Canada; Cambridge, Massachusetts; La Jolla, California; and Nashua, New Hampshire.

Total technology development and support costs were \$175.0 million, \$154.7 million and \$177.6 million during fiscal 2004, 2003 and 2002, respectively, of which \$11.3 million, \$11.4 million and \$13.3 million, respectively, were capitalized.

Our software products are distributed as object code on standard magnetic cartridges, diskettes and CDs, together with printed documentation. We also distribute product electronically. We purchase cartridges, diskettes, CDs and documentation printing from outside vendors. The product duplication, packaging and distribution to our customers is performed at our production center in West Bloomfield, Michigan.

Professional Services

We offer a broad range of IT services for distributed systems and mainframe environments. Our offerings include IT technical staffing and project assistance, e-business and wireless development, NearShore development services and ERP implementation. We also provide application life cycle management assistance for outsourcing customers' application development and maintenance activities as well as services for Compuware-owned products that enhance their value.

We believe that the demand for professional services will continue to be driven by the need to control costs, the significant level of resources necessary to support complex and rapidly changing hardware, software and communication technologies and the need for a larger technical staff for ongoing maintenance. Our business approach to professional services delivery emphasizes hiring experienced staff, extensive ongoing training, high staff utilization and immediate, productive deployment of new personnel at client accounts.

Our objective in the professional services division is to create long term relationships with customers in which our professional staff joins with the customer's IT organization to plan, design, program, implement and maintain technology-based solutions that achieve customer business goals. Typically, the professional services staff is integrated with the customer's development team on a specific application or project. Professional services staff work primarily at customer sites or at our professional services offices located throughout North America and Europe. We also have professional services

operations in other international locations. In addition, Compuware offers a NearShore Development Center that serves customers looking for flexible, cost-effective and high-quality application services delivered remotely from our facility in Montreal.

Application Services

Professional services includes our business-to-business applications and communication services, called the Automotive Industry Operating System (AIOS). The AIOS provides our customers with a common connection to their suppliers and customers. We work with manufacturers, suppliers and industry trade groups worldwide to define and implement effective common processes for the global automotive industry. Once connected through our system, customers are able to reduce costs, increase efficiency, enhance quality and improve time to market using Covisint Communicate Portal Solutions and Covisint Connect data messaging.

Covisint Communicate

Communicate Portal Solutions enables industry participants to access Original Equipment Manufacturers (OEM) applications, supplier applications and our applications via one common infrastructure, built on specifications developed with input from suppliers and OEM customers. This Communicate Portal serves as the framework for OEM-to-Supplier and Supplier-to-Supplier communications. Individual users gain the synergistic advantage of coming to the Communicate Portal using one user I.D. and password to access an entire industry in a single consistent user interface.

Covisint Connect

Connect is a data messaging service that provides a single connection for a company's computers to exchange data with the computers of its partners that can handle both EDI and XML technologies in one environment. The single connection will permit transfer of data to customers and suppliers in the format that makes the most sense for their company. This approach reduces the complexity of managing multiple formats that have been dictated by customers and the multitude of protocols and connection points that are required to conduct business. The service integrates industry standard eBusiness applications and is built from state-of-the-art technology designed for today's eBusiness. Connect gives our customer the flexibility to rapidly deploy new business processes to solve industry specific problems and can be used to exchange data between a company's current enterprise applications and its suppliers' applications.

Customers

Our products and professional services are used by the IT departments of a wide variety of commercial and government organizations. Our application services are used by global automotive industry OEMs and suppliers.

Ford Motor Company accounted for approximately 12% of total revenue during fiscal 2003. This revenue was primarily associated with the professional services segment of the business. No single customer accounted for greater than 10% of total revenue during fiscal 2004 and 2002 or greater than 10% of accounts receivable at March 31, 2004 and 2003.

Sales and Marketing

We market software products primarily through a direct sales force in the United States, Canada, Europe, Japan, Asia-Pacific, Brazil, Mexico and South Africa as well as through independent distributors giving us a presence in 60 countries.

We market our professional services primarily through account managers located in offices throughout North America, Europe, Asia-Pacific and Brazil. Senior professional services executives support branch marketing efforts by identifying new business opportunities and making joint sales calls. This marketing

structure enables us to keep abreast of, and respond quickly to, the changing needs of our clients and to call on the actual users of our professional services on a regular basis.

Competition

The markets for our software products are highly competitive and characterized by continual change and improvement in technology. We consider more than 40 firms to be directly competitive with one or more of our products. These competitors include BMC Software, Inc., Borland, Computer Associates International, Inc., International Business Machines Corporation (IBM), Mercury Interactive Corporation and Niku Corporation. Some of these competitors have substantially greater financial, marketing, recruiting and training resources than we do. The principal competitive factors affecting the market for our software products include: responsiveness to customer needs, functionality, performance, reliability, ease of use, quality of customer support, vendor reputation and price.

The market for professional services is highly competitive, fragmented and characterized by low barriers to entry. Our principal competitors in professional services include Accenture, Computer Sciences Corporation, Electronic Data Systems Corporation, IBM Global Services, Analysts International Corporation, Keane, Inc. and numerous other regional and local firms in the markets in which we have professional services offices. Several of these competitors have substantially greater financial, marketing, recruiting and training resources than we do. The principal competitive factors affecting the market for our professional services include responsiveness to customer needs, breadth and depth of technical skills offered, availability and productivity of personnel and the ability to demonstrate achievement of results and price.

We believe, based on our current market position, that we have competed effectively in the software products and professional services marketplaces. Nevertheless, a variety of external and internal events and circumstances could adversely affect our competitive capacity. Our ability to remain competitive will depend, to a great extent, upon our performance in product development and customer support. To be successful in the future, we must respond promptly and effectively to the challenges of technological change and our competitors' innovations by continually enhancing our own product and services offerings.

Proprietary Rights

We regard our products as proprietary trade secrets and confidential information. We rely largely upon a combination of trade secret, copyright and trademark laws together with our license agreements with customers and our internal security systems, confidentiality procedures and employee agreements to maintain the trade secrecy of our products. We typically provide our products to users under nonexclusive, nontransferable, perpetual licenses. Under the general terms and conditions of our standard product license agreement, the licensed software may be used solely for the licensee's own internal operations. Under certain limited circumstances, we may be required to make source code for our products available to our customers under an escrow agreement, which restricts access to and use of the source code. Although we take steps to protect our trade secrets, there can be no assurance that misappropriation will not occur. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

In addition to trade secret protection, we seek to protect our software, documentation and other written materials under copyright law, which affords only limited protection. We also assert trademark rights in our product names. We have been granted 26 patents and have numerous patent applications pending for certain product technology and have plans to seek additional patents in the future. However, because the industry is characterized by rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are more important to establishing and maintaining a technology leadership position than the various legal protections of our technology.

There can be no assurance that third parties will not assert infringement claims against us in the future with respect to current and future products or that any such assertion may not require us to enter into royalty arrangements which could require a partial payment to the third party upon sale of the product, or result in costly litigation. See Item 3, Legal Proceedings, for a description of certain pending litigation regarding proprietary rights.

Employees

As of March 31, 2004, we employed 8,660 people worldwide, with 1,864 in products sales, sales support and marketing; 1,563 in technology development and support; 4,452 in professional services and 781 in other general and administrative functions. Only a small number of our international employees are represented by labor unions. We have experienced no work stoppages and believe that our relations with our employees are good. Our success will depend in part on our continued ability to attract and retain highly qualified personnel in a competitive market for experienced and talented software developers, professional services staff and sales and marketing personnel.

Executive Officers of the Registrant

Our current executive officers, who serve at the discretion of our Board of Directors, are listed below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peter Karmanos, Jr.	61	Chairman of the Board and Chief Executive Officer
Tommi A. White	53	Chief Operating Officer
Henry A. Jallo	55	Executive Vice President, Global Account Management
Laura L. Fournier	51	Senior Vice President, Chief Financial Officer (Chief Accounting Officer) and Treasurer
Thomas M. Costello, Jr.	50	Senior Vice President, Human Resources, General Counsel and Secretary
Gerald W. Smith	39	Executive Vice President, IT Governance
Robert C. Paul	41	Chief Executive Officer and President of the Covisint Division

Peter Karmanos, Jr., is a founder of the Company and has served as Chairman of the Board since November 1978, as Chief Executive Officer since July 1987 and as President from January 1992 through October 1994.

Tommi A. White has served as Chief Operating Officer since October 2001. Ms. White joined Compuware in August 2001 as Executive Vice President. Before joining Compuware, Ms. White was Executive Vice President, Chief Administration and Technology Officer at Kelly Services, Inc. Ms. White was at Kelly Services, Inc. for nearly nine years.

Henry A. Jallo has served as Executive Vice President, Global Account Management since October 2001 and as Executive Vice President, Products Division from September 1998 through October 2001. From August 1994 through August 1998, Mr. Jallo served as Senior Vice President, Worldwide Sales.

Laura L. Fournier has served as Senior Vice President, Chief Financial Officer and Treasurer since April 1998. Ms. Fournier was Corporate Controller from June 1995 through March 1998. From February 1990 through May 1995, Ms. Fournier was Director of Internal Audit.

Thomas M. Costello, Jr., has served as General Counsel since January 1985, Vice President from January 1995 to May 2003 and Secretary since May 1995. Mr. Costello was appointed Senior Vice President of Human Resources in September 2003. Mr. Costello joined Compuware in June 1984 as Assistant General Counsel.

Gerald W. Smith was named Executive Vice President, IT Governance in May 2004. Mr. Smith joined Compuware as part of the Changepoint acquisition in May 2004. Mr. Smith co-founded Changepoint and served as its President and Chief Executive Officer since 1994.

Robert C. Paul has served as Chief Executive Officer and President of Covisint which was acquired in March 2004. Mr. Paul had spent nearly three years at Covisint. Before joining Covisint, Mr. Paul spent one year as President of SYNAPZ, a division of Future Three Corporation, and nearly two years as President and Chief Operating Officer at Coherent Networks International.

Segment Information; Payment Terms and Foreign Revenues

For a description of revenues and operating profit by segment for each of the last three fiscal years, see Note 13 of Notes to Consolidated Financial Statements, included in Item 8 of this report. For a description of extended payment terms offered to some customers, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Software Products - Revenue. The Company's foreign operations are subject to risks related to foreign exchange rates. For a discussion of this risk, see Item 7A Quantitative and Qualitative Disclosure about Market Risk. For financial information regarding geographic operations, see Note 13 of Notes to Consolidated Financial Statements, included in Item 8 of this report.

ITEM 2. PROPERTIES

In fiscal 2004, we completed the construction of our new corporate headquarters office building (Detroit facility) in Detroit, Michigan, which consolidated our corporate office functions and Detroit-area operations. We own the Detroit facility which is approximately 1.1 million square feet, including approximately 60,000 square feet to be leased to third parties for retail and related amenities. We also own a Farmington Hills, Michigan facility, which is approximately 225,000 square feet and a building in nearby West Bloomfield, which is approximately 40,000 square feet. In addition, we lease approximately 217,000 square feet of land on which the Detroit facility resides and approximately 33,000 square feet in a Farmington Hills office park. The Detroit facility houses our executive offices, primary research and development lab, principal marketing department, a professional services office, customer service and support teams. The West Bloomfield facility houses our production and distribution facilities.

In July 2003 we entered into an option and purchase agreement for our Farmington Hills, Michigan facility. The option agreement allows the holder to commit to purchase the building for one year after the execution of the agreement. The option selling price of the building approximates the current net book value of \$20 million for the building. If exercised, the holder would pay \$5 million upon exercise and the remaining balance in five years with interest being paid monthly at 7% of the unpaid balance.

We lease approximately 100 professional services and sales offices in 28 countries, including five remote product research and development facilities.

ITEM 3. LEGAL PROCEEDINGS

On March 12, 2002, we filed suit in the United States District Court for the Eastern District of Michigan against International Business Machines Corporation (“IBM”) alleging, among other things, infringement of our copyrights and misappropriation of our trade secrets with respect to our mainframe software tools, intentional interference with contractual relations with our employees and former employees, anti-trust law violations, tortious interference with our economic expectancy and various state law violations. We claim that (i) IBM has copied and misappropriated portions of our mainframe software tools and has wrongfully used our technology to develop competing products; (ii) IBM made false representations regarding our software products in violation of the Lanham Act; and (iii) IBM is using its monopoly power to engage in unlawful tying arrangements and is subverting competition on the merits by denying critical information to us and others in an effort to undermine our development efforts. The suit seeks injunctive relief and unspecified monetary damages, among other things, from IBM. In December 2003, the Court denied Compuware’s Motion for Preliminary Injunction on the trade secret and false advertising claims, ruling that there were fact issues that needed to be decided by a jury. Compuware’s Motion did not address IBM’s antitrust violations or unfair competition. Those claims, as well as the trade secret misappropriation claims are scheduled to be tried by a jury in September 2004. While we currently believe we ultimately will benefit from this litigation, the impact of this action on our liquidity, financial position and results of operations are not determinable at the present time. In addition, IBM has filed a counterclaim against Compuware alleging violation of six IBM patents. The Compuware products accused of infringement are File-AID CS, Abend-AID, and Xpediter. The Court bifurcated the patent counterclaims from the other claims and fact discovery is proceeding. No trial date has been set for the counterclaims. We believe we have valid defenses to the counterclaims, and we will vigorously defend against those claims.

On January 15, 2004, IBM filed patent infringement claims against Compuware in the United States District Court for the Southern District of New York alleging additional infringements of seven IBM patents. The Compuware products accused of infringement are Strobe, QA Center, DevPartner and Uniface. The suit seeks injunctive relief and unspecified monetary damages. Fact discovery is proceeding. No trial date has been set for these claims. We believe we have valid defenses to the claims, and intend to vigorously defend against the lawsuit. The impact of this action on our liquidity, financial position and results of operations are not determinable at the present time.

On January 21, 2003, the Company filed suit against Moody’s Investors Services, Inc. (“Moody’s”) in the United States District Court in the Eastern District of Michigan alleging breach of contract, defamation, silent fraud, and violation of the Investment Advisors Act. The Company claims, among other things, that Moody’s failed to deal fairly and did not operate in good faith when it lowered the Company’s credit rating two full levels on August 13, 2002. The suit seeks \$245,000 in compensatory damages (the total fees paid to Moody’s during the course of the business relationship), punitive damages, the costs related to the litigation and reasonable attorney fees. The Court has dismissed two of Compuware’s four claims. Discovery on this matter is proceeding.

The Company is a party to a consolidated class action proceeding filed in the United States District Court for the Eastern District of Michigan. The original lawsuits were filed on September 20, 2002 and October 10, 2002 respectively. On May 1, 2003, the cases were consolidated. The matter is now titled *In re Compuware Securities Litigation*. The suit was brought on behalf of purchasers of the Company’s common stock from January 1, 1999 to April 3, 2002. The defendants are the Company and Peter Karmanos, Jr. The plaintiffs allege that the Company failed to disclose under the securities laws its problems with the misappropriation of its software source code by IBM. The plaintiffs further allege that the Company omitted and/or disseminated materially false and misleading statements concerning its deteriorating relationship with IBM. The plaintiffs request that the court award them monetary damages and expenses of litigation, including reasonable attorneys fees. The Company strongly disagrees with the allegations and intends to vigorously defend against the lawsuit. The case is in a preliminary procedural stage at this time.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Stock Market's National Market under the symbol CPWR. As of June 1, 2004, there were approximately 6,710 shareholders of record of our common stock. We have not paid any cash dividends on our common stock since fiscal 1986. Our revolving credit agreement contains a minimum tangible net worth covenant that could limit our ability to pay dividends. The following table sets forth the range of high and low trading sale prices for our common stock for the periods indicated, all as reported by NASDAQ.

Fiscal Year Ended March 31, 2004	High	Low
Fourth quarter	\$ 8.65	\$ 5.90
Third quarter	6.25	5.08
Second quarter	6.49	4.74
First quarter	6.52	3.30
Fiscal Year Ended March 31, 2003	High	Low
Fourth quarter	\$ 5.06	\$ 3.22
Third quarter	5.78	2.75
Second quarter	5.73	2.35
First quarter	12.49	5.50

The Company has several stock option plans pursuant to which it grants performance-based stock options to employees, officers, and directors, as well as an Employee Stock Ownership Plan (ESOP), an Employee Stock Purchase Plan, and a Replacement Stock Option Award Program. For more information about our equity compensation plans, see Note 15 of Notes to Consolidated Financial Statements, included in Item 8 of this report.

The following table sets forth certain information, with respect to our equity compensation plans at March 31, 2004 (shares in thousands):

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity Compensation plans
Equity compensation plans approved by security holders	38,155	\$13.51	7,286
Equity compensation plans not approved by security holders	25,471	\$8.78	23,989

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected statement of operations and balance sheet data presented below are derived from our audited consolidated financial statements and should be read in conjunction with our audited consolidated financial statements and notes thereto and Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this report.

	Year Ended March 31,				
	2004	2003	2002	2001	2000
	(In thousands, except earnings per share data)				
Statement of Operations Data:					
Revenues:					
Software license fees	\$ 296,627	\$ 295,720	\$ 417,631	\$ 495,572	\$ 819,247
Maintenance fees	408,191	412,176	433,751	456,534	432,707
Professional services fees	559,829	667,444	889,162	1,083,050	996,120
Total revenues	<u>1,264,647</u>	<u>1,375,340</u>	<u>1,740,544</u>	<u>2,035,156</u>	<u>2,248,074</u>
Operating expenses:					
Cost of software license fees	31,579	30,740	34,102	37,885	28,835
Cost of professional services	513,621	611,644	840,149	973,854	877,453
Technology development and support	163,655	143,289	164,280	187,155	154,086
Sales and marketing	310,643	264,012	294,496	351,214	377,920
Administrative and general	209,797	191,131	207,166	250,324	214,961
Goodwill amortization and impairment (1 and 2)			426,344	42,092	25,586
Restructuring costs (2)			46,930		
Purchased research and development					17,900
Total operating expenses	<u>1,229,295</u>	<u>1,240,816</u>	<u>2,013,467</u>	<u>1,842,524</u>	<u>1,696,741</u>
Income (loss) from operations	35,352	134,524	(272,923)	192,632	551,333
Other income (expense)	20,665	21,691	22,076	(563)	10,443
Income (loss) before income taxes	<u>56,017</u>	<u>156,215</u>	<u>(250,847)</u>	<u>192,069</u>	<u>561,776</u>
Income tax provision (benefit)	6,185	53,113	(5,592)	72,986	209,800
Net income (loss)	<u>\$ 49,832</u>	<u>\$ 103,102</u>	<u>\$ (245,255)</u>	<u>\$ 119,083</u>	<u>\$ 351,976</u>
Basic earnings (loss) per share (3)	\$ 0.13	\$ 0.27	\$ (0.66)	\$ 0.33	\$ 0.98
Diluted earnings (loss) per share (3)	0.13	0.27	(0.66)	0.32	0.91
Shares used in computing net income (loss) per share:					
Basic earnings computation	382,630	377,028	371,786	365,192	358,560
Diluted earnings computation	384,608	378,440	371,786	372,809	384,691
Balance Sheet Data (at period end):					
Working capital	\$ 649,945	\$ 581,266	\$ 506,692	\$ 434,902	\$ 391,801
Total assets	2,234,081	2,122,685	1,993,938	2,279,374	2,415,907
Long term debt	-	-	-	140,000	450,000
Total shareholders' equity (4)	1,413,591	1,331,691	1,189,851	1,377,372	1,203,872

- (1) Effective April 1, 2002, in accordance with SFAS No. 142, the goodwill balance is no longer being amortized on a monthly basis. Instead it is tested at least annually for impairment. In fiscal 2002, 2001 and 2000, net income (loss) and earnings (loss) per share (diluted computation), exclusive of amortization of goodwill, would have been (\$212.4 million) and (57 cents), \$153.9 million and 41 cents and \$375.9 million and 98 cents, respectively.
- (2) Amortization and impairment of goodwill during 2002 included impairment charges of \$342.9 million associated with restructuring, \$35.2 million associated with a change in technology related to distributed products and \$9.3 million associated with the transfer of the engineering business to an unrelated third party discussed in the Professional Services Revenue section in Item 7 of this report. Restructuring costs in 2002 represent costs incurred with the reorganization of the operating divisions during the fourth quarter. See Note 7 of Notes to Consolidated Financial Statements for more details on these charges.
- (3) See Notes 1 and 11 of Notes to Consolidated Financial Statements for the basis of computing earnings per share.
- (4) No dividends were paid during the periods presented.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This discussion contains certain forward-looking statements within the meaning of the federal securities laws 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 our operating results, including, without limitation, those discussed below, and contained elsewhere in this report, and could cause actual results to differ materially from the results implied by these or any other forward-looking statements made by us, or on our behalf. There can be no assurance that future results will meet expectations. While we believe that our forward-looking statements are reasonable, you should not place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by applicable law, we do not undertake any obligation to publicly release any revisions which may be made to any forward-looking statements to reflect events or circumstances occurring after the date of this report.

- In 2002, we filed a lawsuit against IBM alleging, among other things, copyright infringement, misappropriation of trade secrets, intentional interference with contractual relations and economic expectancy, false advertising and various violations of the Lanham Act, as well as various anti-trust law violations. We claim that IBM has misappropriated portions of our software tools, used our technology to develop competing products, used its monopoly power to engage in unlawful tying arrangements and subverted competition on the merits. IBM has filed a counterclaim against us alleging violation of six of their patents and in 2004 filed a separate complaint against us alleging violation of seven different IBM patents. Pursuing and defending these matters will be costly, time-consuming and may divert management's time and attention. Due to these matters, our legal expenses have increased substantially and our administrative and general expenses could further increase as a result of these factors. In addition, IBM may seek to influence our customers and potential customers to reduce or eliminate the amount of our products and services that they purchase, or our lawsuit against IBM and IBM's lawsuit against us may otherwise be viewed negatively by our customers and potential customers and cause them to refrain from buying our products and services. Any of the foregoing developments could adversely affect our position in the marketplace and our results of operations.
- While we are expanding our focus on distributed software products, a majority of our revenue from software products is dependent on our customers' continued use of IBM and IBM-compatible mainframe products and on the acceptance of our pricing structure for software licenses and maintenance. The pricing of our software licenses and maintenance is under constant pressure from customers and competitive vendors.
- In addition to the IBM claims discussed above, there can be no assurance that other third parties will not assert infringement claims against us in the future with respect to current and future products or that any such assertion may not require us to enter into royalty arrangements or result in costly litigation.
- Our operating margins may decline. We do not regularly compile margin analysis other than on a segment basis. However, we are aware that operating expenses associated with our distributed systems products are higher than those associated with our traditional mainframe products. Since we believe the best opportunities for revenue growth are in the distributed systems market, product operating margins could experience more pressure. In addition, operating margins in the professional services business are significantly impacted by small fluctuations in revenue since most costs are fixed during any short term period.

- Our results could be adversely affected by increased competition and pricing pressures. We consider over 40 firms to be directly competitive with one or more of our products. These competitors include but are not limited to BMC Software, Inc., Borland, Computer Associates International, Inc., IBM, Mercury Interactive Corporation and Niku Corporation. Some of these competitors have substantially greater financial, marketing, recruiting and training resources than we do.
- The market for professional services is highly competitive, fragmented and characterized by low barriers to entry. Our principal competitors in professional services include but are not limited to Accenture, Computer Sciences Corporation, Electronic Data Systems Corporation, IBM Global Services, Analysts International Corporation, Keane, Inc. and numerous other regional and local firms in the markets in which we have professional services offices. Several of these competitors have substantially greater financial, marketing, recruiting and training resources than we do.
- Our success depends in part on our ability to develop product enhancements and new products that keep pace with continuing changes in technology and customer preferences.
- Approximately 30% of our total revenue is derived from foreign sources. This exposes us to exchange rate risks on foreign currencies and to other international risks such as the need to comply with foreign and U.S. export laws, and the uncertainty of certain foreign economies.
- We regard our software as proprietary and attempt to protect it with copyrights, trademarks, trade secret laws and/or restrictions on disclosure, copying and transferring title. Despite these precautions, it may be possible for unauthorized third parties to copy certain portions of our products or to obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.
- We depend on key employees and technical personnel. The loss of certain key employees or our inability to attract and retain other qualified employees could have a material adverse effect on our business.
- Our quarterly financial results vary and may be adversely affected by certain relatively fixed costs. Our product revenues vary from quarter to quarter. Net income may be disproportionately affected by a fluctuation in revenues because only a small portion of our expenses varies with revenues.
- Historical seasonality in license revenue cannot be relied on as an indicator of future performance due to the current economic conditions affecting the IT industry.
- Changes in world economies could cause customers to further delay or forego decisions to license new products or upgrades to their existing environments or to reduce their requirements for professional services, and this could adversely affect our operating results.
- Acts of terrorism, acts of war and other unforeseen events may cause damage or disruption to our properties, employees, suppliers, distributors, resellers and customers which could adversely affect our business and operating results.

OVERVIEW

In this section, we discuss our results of operations on a segment basis for each of our financial reporting segments. We operate in two business segments in the technology industry: products and professional services. We evaluate segment performance based primarily on segment contribution before corporate expenses. References to years are to fiscal years ended March 31.

We provide software products and professional services designed to increase the productivity of the IT departments of businesses worldwide. In the early years of our company, we focused on offering professional services and mainframe products in the testing and implementation environment where we gained extensive experience and established long-term customer relationships. Over the past several years, we have expanded our presence into products and professional services in the application development and integration, quality assurance, production readiness and production availability areas of the application life cycle.

We focus on growing revenue and profit margins by enhancing and promoting our current product lines, expanding our product and service offerings through key acquisitions, developing strategic partnerships in order to provide clients with our product solutions and managing our costs. We achieved the following since the beginning of fiscal 2004:

- Acquired certain assets of Covisint effective March 1, 2004. Covisint provides business-to-business applications and communication services that connect the global automotive industry. Revenue associated with the acquired business was approximately \$11 million during Covisint's calendar year 2003. We do not expect Covisint to have a material effect on earnings in fiscal 2005.
- Acquired Changepoint Corporation in May 2004. Changepoint offerings provide Chief Information Officers with insight and visibility into their people, projects, resources and applications, helping technology leaders align IT investments with business priorities. Revenue associated with the acquired business was approximately \$20 million for the twelve months ending April 2004. We do not expect Changepoint to have a material effect on earnings in fiscal 2005.
- Released 38 mainframe and 55 distributed products, during fiscal 2004, designed to increase the productivity of the IT departments of our customers.
- Achieved increases in distributed product revenue which is a reflection of our increased focus in fiscal 2004 on promoting our distributed products.
- Began realigning our professional service segment to higher margin offerings. This was evident in fiscal 2004 as we decreased our revenue derived from low margin subcontract projects. We will continue this trend in fiscal 2005 where we anticipate a first quarter reduction in subcontract revenue and cost of approximately \$3.1 million and \$3.0 million, respectively.
- Implemented a cost reduction strategy that included salary reductions for executive management and most employees, additional employee contributions toward healthcare, elimination of company-sponsored holiday events and a review of other expenses. These measures were intended to save a total of \$10 million to \$15 million each quarter, starting in the third quarter of 2004. Savings in the third and fourth quarters of 2004 were in line with our overall estimates. Due to the positive financial results reported during the third and fourth quarters of 2004 and the outlook for continued revenue and profitability growth, certain of the cost-cutting measures that were put in place (primarily salary reductions) were rescinded effective April 1, 2004.

Our ability to achieve our strategies and objectives is subject to a number of factors some of which we may not be able to control. See "Forward-Looking Statements".

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain operational data from the consolidated statements of operations 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			2003	2002
	March 31,			to	to
	2004	2003	2002	2004	2003
REVENUE:					
Software license fees	23.5%	21.5%	24.0%	0.3%	(29.2)%
Maintenance fees	32.3	30.0	24.9	(1.0)	(5.0)
Professional services fees	44.2	48.5	51.1	(16.1)	(24.9)
Total revenues	100.0	100.0	100.0	(8.0)	(21.0)
OPERATING EXPENSES:					
Cost of software license fees	2.5	2.2	2.0	2.7	(9.9)
Cost of professional services	40.6	44.5	48.3	(16.0)	(27.2)
Technology development and support	12.9	10.4	9.4	14.2	(12.8)
Sales and marketing	24.6	19.2	16.9	17.7	(10.4)
Administrative and general	16.6	13.9	11.9	9.8	(7.7)
Goodwill amortization and impairment			24.5		(100.0)
Restructuring cost			2.7		(100.0)
Total operating expenses	97.2	90.2	115.7	(0.9)	(38.4)
Income (loss) from operations	2.8	9.8	(15.7)	(73.7)	149.3
Other income	1.6	1.6	1.3	(4.7)	(1.7)
Income (loss) before income taxes	4.4	11.4	(14.4)	(64.1)	162.3
Income tax provision (benefit)	0.5	3.9	(0.3)	(88.4)	**
Net income (loss)	3.9%	7.5%	(14.1)%	(51.7)%	142.0%

** Not meaningful

SOFTWARE PRODUCTS

Revenue

Our products are designed to support four key activities within the application development process: development and integration, quality assurance, production readiness and performance management of the application to optimize performance in production. Product revenue which consists of software license fees and maintenance fees, comprised 55.8%, 51.5% and 48.9% of total revenue during 2004, 2003 and 2002, respectively. OS/390 product revenue (mainframe revenue) decreased \$26.2 million or 4.7% during 2004 and decreased \$133.8 million or 19.5% during 2003. Revenue from distributed software products increased by \$23.1 million, or 15.0% during 2004 and decreased \$9.7 million, or 5.9% during 2003.

License revenue increased \$0.9 million or 0.3% during 2004 to \$296.6 million from \$295.7 million during 2003 and decreased \$121.9 million or 29.2% during 2003 from \$417.6 million during 2002. License revenue was positively impacted by fluctuations in foreign currencies during 2004 compared to fiscal 2003. Excluding the favorable effect of such foreign currency fluctuations, license revenue would have been approximately \$277.8 million during fiscal 2004, compared to \$295.7 million during fiscal 2003, a decrease of 6.1%.

Maintenance fees decreased \$4.0 million or 1.0% to \$408.2 million during 2004 from \$412.2 million during 2003 and decreased \$21.6 million or 5.0% during 2003 from \$433.8 million during 2002. Maintenance fees were positively impacted by fluctuations in foreign currencies during 2004 compared to fiscal 2003. Excluding the effect of foreign currency fluctuations, maintenance fees would have been approximately \$387.9 million during 2004, compared to \$412.2 million during 2003, a decrease of 5.9%.

The overall declines in product revenue from 2003 to 2004 and from 2002 to 2003 were primarily attributable to decreases in mainframe license fees and maintenance fees associated with an overall decrease in technology spending and a decrease in customer demand for large enterprise license agreements which are multi-year, and often multi-payment contracts.

We license software to customers using two types of software licenses, perpetual and term. Generally, perpetual software licenses allow customers a perpetual right to run our software on hardware up to a licensed aggregate MIPS (Millions of Instructions Per Second) capacity or to run our distributed software for a specified number of users or servers. Term licenses allow customers a right to run our software for a limited period of time on hardware up to a licensed aggregate MIPS capacity. Also, our customers purchase maintenance services that provide technical support and advice, including problem resolution services and assistance in product installation, error corrections and any product enhancements released during the maintenance period. Furthermore, based on customers' business needs, customers are allowed to license additional software and purchase multiple years of maintenance in a single transaction (multi-year transactions). In support of these multi-year transactions, we allow extended payment terms to qualifying customers.

To recognize revenue for these multi-year transactions the contract price is allocated between maintenance revenue and license revenue. All license revenue associated with perpetual license agreements is recognized when the customer commits unconditionally to the transaction, the software products and quantities are fixed, the software has been shipped to the customer and collection is reasonably probable. License revenue associated with term transactions or with transactions that include an option to exchange or select products in the future is deferred and recognized over the term of the agreement. When the license portion is paid over a number of years, the license portion of the payment stream is discounted to its net present value. Interest income is recognized over the payment term. The maintenance revenue associated with all sales is deferred and is recognized over the applicable maintenance period.

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

	Year Ended March 31,		
	2004	2003	2002
United States	\$ 375,670	\$ 409,441	\$ 532,772
Europe and Africa	246,579	221,272	223,636
Other international operations	82,569	77,183	94,974
Total product revenue	<u>\$ 704,818</u>	<u>\$ 707,896</u>	<u>\$ 851,382</u>

Product Contribution and Expenses

Financial information for the product segment is as follows (in thousands):

	Year Ended March 31,		
	2004	2003	2002
Revenue	\$ 704,818	\$ 707,896	\$ 851,382
Expenses	505,877	438,041	492,878
Product contribution	<u>\$ 198,941</u>	<u>\$ 269,855</u>	<u>\$ 358,504</u>

The product segment generated contribution margins of 28.2%, 38.1% and 42.1% during 2004, 2003 and 2002, respectively. Product expenses include cost of software license fees, technology development and support costs, and sales and marketing expenses. These factors are discussed below.

Cost of software license fees includes amortization of capitalized software, the cost of duplicating and disseminating products to customers and the cost of author royalties. As a percentage of software license fees, cost of software license fees were 10.6%, 10.4% and 8.2% in 2004, 2003 and 2002, respectively.

Technology development and support includes, primarily, the costs of programming personnel associated with product development and support less the amount of software development costs capitalized during the period. Also included here are personnel costs associated with developing and maintaining internal systems and hardware/software costs required to support technology initiatives. As a percentage of product revenue, costs of technology development and support were 23.2%, 20.2% and 19.3% in 2004, 2003 and 2002, respectively.

Capitalization of internally developed software products begins when technological feasibility of the product is established. Before the capitalization of internally developed software products, total research and development expenditures during 2004 increased \$20.3 million or 13.1%, to \$175.0 million from \$154.7 million in 2003 and decreased \$22.9 million or 12.9% during 2003 from \$177.6 million in 2002.

The increase in technology costs for 2004 was primarily attributable to higher compensation, benefit and bonus costs of approximately \$23.1 million offset by a decrease in depreciation expense of approximately \$2.6 million. Compensation, benefit and bonus costs were higher due to scheduled salary increases during 2004 and higher employee headcount in this area which increased by 5.9% to an average headcount of 1,529 people during 2004. Depreciation expense declined due to approximately \$18 million of computer equipment which became fully depreciated in the first and second quarters of 2004. A portion of the increase was offset by cost reduction strategies implemented in October 2003 that resulted in a reduction of technology development and support costs totaling \$2.0 during the third and fourth quarters of 2004.

The decrease in technology costs for 2003 was primarily attributable to lower bonus costs of approximately \$9.7 million, decreases in computer equipment depreciation and purchased software amortization totaling approximately \$7.8 million and reduced travel and communication costs of approximately \$3.2 million.

Sales and marketing costs consist primarily of personnel related costs associated with product direct sales and sales support, marketing for all our offerings, and personnel costs associated with new sales initiatives. Sales and marketing costs increased \$46.6 million or 17.7%, during 2004 to \$310.6 million from \$264.0 million in 2003 and decreased \$30.5 million or 10.4% during 2003 from \$294.5 million in 2002. As a percentage of product revenue, sales and marketing costs were 44.1%, 37.3% and 34.6% in 2004, 2003 and 2002, respectively.

The increase in sales and marketing costs for 2004 was primarily attributable to higher salary and benefit costs of approximately \$27.1 million, increased commission and bonus costs of approximately \$12.5 million and higher advertising costs of approximately \$5.8 million. Compensation, benefit, commission and bonus costs were higher due to salary increases during 2004, higher employee headcount in this area which increased by 4.6% to an average headcount of 1,852 people during 2004 and the negative effect of foreign currency fluctuations on these costs as the U.S. dollar continued to weaken throughout fiscal 2004. Approximately 50% of total sales and marketing compensation, benefit, commission and bonus costs were attributable to our non-U.S. sales force. The change in advertising costs was a result of increases in the promotion of our products in the distributed software marketplace during fiscal 2004. In late October 2003, we implemented cost reduction strategies that resulted in a reduction of sales and marketing costs totaling \$1.9 million during the third and fourth quarters of 2004.

The decrease in sales and marketing costs for 2003 was primarily attributable to reduced headcount which decreased by 18.8% to an average headcount of 1,770 people during 2003 resulting in lower compensation and benefit costs of approximately \$16.3 million, decreased travel costs of approximately \$4.6 million and lower bonus and commission costs of approximately \$6.6 million.

PROFESSIONAL SERVICES

Revenue

We offer a broad range of IT professional services, including business systems analysis, design and programming, software conversion and system planning and consulting. Revenue from professional services decreased \$107.6 million or 16.1% during 2004 and decreased \$221.7 million or 24.9% during 2003.

The decrease in revenue for 2004 was due, primarily, to a reduction in demand for professional services as customers continue to postpone large projects, continued downward pressure on our billing rates due to the highly competitive nature of the professional services market and an increased effort in fiscal 2004 to reduce our involvement with lower margin subcontract IT projects in order to focus our resources on higher margin projects for the future.

The decrease in revenue for 2003 was due, primarily, to a reduction in customer demand for professional services, the January 2002 assignment of our prime contract with a client to a company in which we have a minority equity investment (Caretech), and to a lesser extent, the transfer of our engineering business to an unrelated third party in December 2001. Professional services revenue was further negatively impacted by the closing of certain underperforming branch offices associated with the restructuring discussed below.

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

	Year Ended March 31,		
	2004	2003	2002
United States	\$ 499,670	\$ 599,913	\$ 795,284
Europe and Africa	56,749	64,816	90,536
Other international operations	3,410	2,715	3,342
Total professional services revenue	<u>\$ 559,829</u>	<u>\$ 667,444</u>	<u>\$ 889,162</u>

Professional Services Contribution and Expenses

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

	Year Ended March 31,		
	2004	2003	2002
Revenue	\$ 559,829	\$ 667,444	\$ 889,162
Expenses	513,621	611,644	840,149
Professional services contribution	<u>\$ 46,208</u>	<u>\$ 55,800</u>	<u>\$ 49,013</u>

During 2004, the professional services segment generated a contribution margin of 8.3%, compared to 8.4% and 5.5% during 2003 and 2002, respectively.

Cost of professional services consists primarily of personnel-related costs of providing services, including billable staff, subcontractors and sales personnel. Cost of professional services decreased \$98.0 million or 16.0% during 2004 and decreased \$228.5 million or 27.2% during 2003.

The decrease in cost of professional services for 2004 was primarily attributable to lower compensation, benefit, bonus and travel costs of approximately \$86.8 million and a decrease in subcontractor costs of approximately \$12.2 million. Compensation, benefit, bonus and travel costs were lower due to a 12.4% reduction in average employee headcount in this area to 4,956 people during 2004. In late October 2003, we implemented cost reduction strategies that resulted in a reduction of professional services costs totaling \$14.1 million during the third and fourth quarters of 2004. All professional services salaries have been reviewed and adjusted effective April 1, 2004.

The decrease in cost of professional services for 2003 was primarily attributable to reductions in staff associated with the restructuring discussed below, resulting in lower salaries and benefits, and decreased use of subcontractors for special services. The professional services billable staff decreased 25.8% to an average headcount of 5,660 people during 2003.

CORPORATE AND OTHER EXPENSES

Administrative and general expenses consist of costs associated with the operations and administration of the Company. These costs include the corporate executive, finance, human resources, legal and corporate communications departments. In addition, administrative and general costs include all facility-related costs, such as rent, building depreciation, maintenance, utilities, etc., associated with all of our locations. Administrative and general expenses increased \$18.7 million or 9.8%, during 2004 to \$209.8 million from \$191.1 million in 2003 and decreased \$16.1 million or 7.7% during 2003 from \$207.2 million in 2002.

The increase in administrative and general expenses for 2004 was primarily attributable to an increase in legal fees of approximately \$10.4 million and higher depreciation expense associated with the new Detroit headquarters building of approximately \$5.6 million. In late October 2003, we implemented cost reduction strategies that resulted in a reduction to administrative and general costs totaling \$1.7 million during the third and fourth quarters of 2004.

The decrease in administrative and general expenses in 2003 was primarily attributable to decreased building rent of approximately \$19.7 million, decreased utility costs of approximately \$6.0 million and decreased compensation, benefit and bonus costs of approximately \$20.7 million resulting from the restructuring discussed below offset, in part, by increased legal costs of approximately \$22.1 million.

External legal fees for all litigation, including IBM and other matters were \$45.0 million, \$34.6 million and \$12.5 million in 2004, 2003 and 2002. Litigation expense has increased significantly over the past two years due primarily to the IBM litigation. Because a majority of the costs in connection with the IBM litigation have been incurred during the preparation of this case for trial, we do not expect litigation

expenses to increase. Barring any unknown future litigation claims, these expenses should decline moderately.

Other income consists primarily of interest earnings on deferred customer receivables and interest income realized from investments. Other income for 2004 was \$20.7 million compared to \$21.7 million in 2003 and \$22.1 million in 2002.

Income taxes are accounted for 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. During the third quarter of 2004, we recorded an income tax benefit of \$9.5 million relating primarily to favorable tax settlements with the U.S. Internal Revenue Service and recent developments in other tax matters both in the US and other taxing jurisdictions. Excluding this tax benefit, the effective tax rate for 2004 was 28% compared to 34% for 2003. The decrease in the effective tax rate is primarily due to the higher percentage impact of certain tax benefit items as a result of the decline in income. The income tax provision was \$6.2 million for 2004, net of the \$9.5 million income tax benefit in the third quarter. This compares to an income tax provision of \$53.1 million for 2003.

RESTRUCTURING CHARGE

In the fourth quarter of 2002, we adopted a restructuring plan to reorganize our operating divisions, primarily the professional services segment. These changes were designed to increase profitability in the future by better aligning cost structures with current market conditions.

The restructuring plan included a reduction of professional services staff at certain locations, the closing of entire professional services offices and a reduction of sales support personnel, lab technicians and related administrative and financial staff. Approximately 1,600 employees worldwide were terminated as a result of the reorganization.

The following table summarizes the accrual for the restructuring and charges against the accrual during 2002, 2003 and 2004 (in thousands):

	Employee termination benefits	Facilities costs (primarily lease abandonments)*	Legal, consulting and outplacement costs	Other	Total restructuring charge
Restructuring charge	\$ 19,012	\$ 26,341	\$ 1,299	\$ 278	\$ 46,930
Incurred during year ended March 31, 2002	(553)	(676)			(1,229)
Accrual at March 31, 2002	18,459	25,665	1,299	278	45,701
Incurred during year ended March 31, 2003	(16,405)	(8,589)	(691)	(215)	(25,900)
Adjustment	(1,356)	2,012	(593)	(63)	
Accrual at March 31, 2003	\$ 698	\$ 19,088	\$ 15	\$ -	\$ 19,801
Incurred during year ended March 31, 2004	(591)	(5,600)	(4)		(6,195)
Accrual at March 31, 2004	\$ 107	\$ 13,488	\$ 11	\$ -	\$ 13,606

*Lease obligations will end in March of 2009.

During the year ended March 31, 2003, the Company determined the accruals associated with employee terminations, legal and outplacement were in excess of actual costs incurred. These excess accruals have been reduced. The accrual for facilities costs was increased, since the Company had not been as successful in subleasing abandoned leased space as originally anticipated.

Approximately 70% of the accrual related to facilities costs is included in "long term accrued expenses" in the consolidated balance sheet at March 31, 2004.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Note 1 of the Consolidated Financial Statements contains a summary of our significant accounting policies.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Assumptions and estimates were based on facts and circumstances at March 31, 2004. However, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. These accounting policies discussed below are considered by management to be the most important to an understanding of our financial statements, because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain.

Revenue Recognition – A basic criteria for revenue recognition is that collectibility is reasonably assured. We evaluate collectibility based on past customer history, external credit ratings and payment terms within various customer agreements. Future events or inaccuracies in reported credit data that result in a change to collectibility expectations could have a negative effect on our operating results.

Perpetual license fee revenue is recognized using the residual method, under which the fair value, based on Compuware-specific objective evidence (CSOE), of all undelivered elements of the agreement (e.g. maintenance and professional services) is deferred. CSOE is based on rates charged for maintenance and professional services when sold separately. Changes in rates charged for stand alone maintenance and professional services could have a significant impact on how bundled revenue agreements are characterized as license, maintenance or professional services and therefore, on the timing of revenue recognition in the future.

Generally, revenues from license and maintenance transactions that include installment payment terms are recognized in the same manner as those requiring current payment. This is because we have an established business practice of offering installment payment terms to customers and have a history of successfully enforcing original payment terms without making concessions. However, because a significant portion of our license fee revenue is earned in connection with installment sales, changes in future economic conditions or technological developments could adversely affect our ability to immediately record license fees for these types of transactions and/or limit our ability to collect these receivables.

Professional Services Fees – Professional services fees are generally based on hourly or daily rates. However, for services rendered under fixed-price contracts, revenue is recognized using the percentage of completion method. Unforeseen events that result in additional time or costs being required to complete such projects could affect the timing of revenue recognition for the balance of the project as well as services margins going forward, and could have a negative effect on our results of operations.

Based on our interpretation of US GAAP including SOP 97-2 and 98-9, Securities and Exchange Commission SAB 104 and EITF 00-21, we believe our revenue has been properly reported. New interpretations or pronouncements related to software revenue recognition policies could result in changes to our method of revenue recognition in the future.

Allowance for Doubtful Accounts – The collectibility of accounts receivable is regularly evaluated and we believe our allowance for doubtful accounts is appropriate for our accounts receivable balances. In evaluating the allowance, we consider historical loss experience, including the need to adjust for current conditions, and the aging of outstanding receivables. Larger accounts are reviewed on a detail

basis, giving consideration to collection experience and any information on the financial viability of the customer. The allowance is reviewed and adjusted each quarter based on the best information available at the time. Unforeseen events which negatively affect the ability of our customer's to meet their payment obligations would negatively impact our ability to collect outstanding amounts due from customers and may cause a material impact on our financial position and results of operations due to a change in the assumptions and judgment on which we base this estimate.

Capitalized Software – The cost of purchased and internally developed software is capitalized and stated at the lower of unamortized cost or expected net realizable value. We compute annual amortization using the straight-line method over the remaining estimated economic life of the software product which is generally five years. Software is subject to rapid technological obsolescence and future product revenue estimates supporting the capitalized software cost can be negatively affected based upon competitive products and pricing. Such adverse developments could reduce the estimated net realizable value of our capitalized software and could result in impairment or a shorter estimated life. Such events would require us to take a charge in the period in which the event occurred or to increase the amortization expense in future periods and would have a negative effect on our results of operations.

Impairment of Goodwill ñ We are required to assess the impairment of goodwill annually, or more frequently if events or changes in circumstances indicate that the carrying value may exceed the fair value. To analyze goodwill, we measure its fair value using an estimate of the related business's discounted cash flow. The discounted cash flow approach uses significant assumptions, including projected future cash flows, the discount rate reflecting the risk inherent in future cash flows, and a terminal growth rate.

The fair value of the reporting unit including the goodwill is then compared to the carrying value of each reporting unit (Products and Professional Services). If the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, the impairment loss is recognized as an operating expense in an amount equal to that excess. Changes in any of these estimates and assumptions, and unknown future events or circumstances (e.g. economic conditions or technological developments), could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge.

Investments in Partially Owned Companies - As discussed in Note 5 to the Consolidated Financial Statements, we have minority investments in and advances to certain privately held companies for strategic purposes. At March 31, 2004, the net carrying value of our investments and advances to these entities totaled \$25.9 million. Additionally, we have guaranteed outstanding lease obligations of \$3.2 million at March 31, 2004. We regularly evaluate the financial condition of these partially owned companies to assess potential impairment in the carrying value of our investments in and advances to these entities. We consider their current financial situation, including their ability to meet current cash requirements, expected future cash flows and any other information known to us in determining whether an impairment charge is appropriate. Unknown factors or unforeseen events that impair their ability to pay their obligations or to operate profitably could have an impact on our ability to recoup our investments in and outstanding advances to these companies and could require us to expense all or a portion of the outstanding investments and advances in that period.

Deferred Tax Assets Valuation Allowance and Tax Liabilities - We estimate income taxes in each of the jurisdictions in which we operate, net deferred tax assets based on expected future taxable benefits in such jurisdictions and our valuation allowance for deferred tax assets. For additional information regarding these estimates see Note 12 to the Consolidated Financial Statements. Changes in estimates of projected future operating results or in assumptions regarding our ability to generate future taxable income during the periods in which temporary differences are deductible could result in significant changes to these accruals and, therefore, to our net income.

In addition, we recognize contingent tax liabilities through tax expense for estimated exposures related to our current tax positions. We evaluate the need for contingent tax liabilities on a quarterly basis and any change in the amount will be recorded in our results of operations, as appropriate. It could take several years to resolve certain of these contingencies.

Other ñ Other accounting policies, although not generally subject to the same level of estimation as those discussed above, are nonetheless important to an understanding of the financial statements. Many assets, liabilities, revenue and expenses require some degree of estimation or judgment in determining the appropriate accounting.

Liquidity and Capital Resources

As of March 31, 2004, cash and investments totaled approximately \$767.1 million. During 2004 and 2003, cash flow from operations was \$258.1 million and \$370.4 million, respectively. A significant portion of operating cash flow is generated from the collection of the current portion of prior years' receivables. The decrease was primarily due to lower collections on customer receivables due to the general decline in revenue from the prior year. During these periods, capital expenditures for the Detroit Headquarters facility totaled \$65.2 million and \$219.1 million, respectively, and capital expenditures for other property and equipment and capitalized research and software development totaled \$20.7 million and \$17.6 million, respectively.

On May 2, 2003, we entered into a \$100 million revolving credit facility maturing on July 29, 2004. See Note 9 of Notes to Consolidated Financial Statements for a discussion of this revolving credit facility. No borrowings have occurred or are planned under this facility. We intend to renew this facility upon expiration.

We have relocated to our new corporate headquarters building. The total construction cost approximated \$350 million for the building and \$50 million for furniture and fixtures. Annual depreciation expense is approximately \$16 million. Future cash requirements to complete the construction will be minimal in fiscal year 2005.

In July 2003 we entered into an option and purchase agreement for our Farmington Hills, Michigan facility. The option agreement allows the holder to commit to purchase the building for one year after the execution of the agreement. The option selling price of the building approximates the current net book value of \$20 million for the building. If exercised, the holder would pay \$5 million upon exercise and the remaining balance in five years with interest being paid monthly at 7% of the unpaid balance.

On May 6, 2003, the Board of Directors authorized the repurchase of up to \$125 million of our common stock. Our purchases of stock may occur on the open market, through negotiated or block transactions based upon market and business conditions. We regularly evaluate market conditions for an opportunity to repurchase our stock. During August 2003, we repurchased approximately 200,000 shares of our common stock under this program at an average price of \$4.97 per share. Approximately \$124 million remains for future purchases under this program.

As discussed in Note 5 to the Consolidated Financial Statements, we regularly review the financial condition of our partially owned companies, inclusive of considering the companies' relationships with their major customers, to determine that the recorded amounts in our financial statements are appropriate and the investments (inclusive of the debt obligations) are not impaired. CareTech Solutions, Inc.'s (Caretech) most significant customer is the Detroit Medical Center and Subsidiaries (DMC). The DMC has publicly announced it is having financial difficulties. After consideration of all relevant factors, we concluded that no impairment charge or valuation allowance related to our investment in and receivables due from CareTech should be recorded at March 31, 2004. The DMC has requested, and CareTech has agreed, to provide the DMC with extended payment terms up to 90 days. In turn, we have also agreed to extend 90 day payment terms to CareTech. During the third quarter of fiscal 2004, the other shareholders of CareTech expressed an inability or unwillingness to provide additional funding to

meet any short falls in CareTech’s cash flow requirements. Therefore, we will record 100 percent of any future losses incurred by CareTech as a reduction to our outstanding advances to CareTech. At March 31, 2004, the carrying value of investments in and advances to Caretech was \$22.0 million.

On February 5, 2004, we entered into an asset purchase agreement with Covisint LLC (Covisint) which became effective March 1, 2004. We acquired selected assets and certain liabilities related to their Communicate Portal Solutions, Connect and Problem Solver businesses (acquired business) for approximately \$7 million in cash plus certain lease obligations up to \$2.1 million.

In May 2004, we acquired all outstanding shares of Changepoint Corporation, a privately held market-leader of IT Governance application software for approximately \$100 million in cash. The acquisition will be accounted for as a purchase during the first quarter of fiscal 2005, and, accordingly, assets and liabilities acquired will be recorded at fair value as of the acquisition date.

We continue to evaluate business acquisition opportunities that fit our strategic plans.

We believe available cash resources, together with cash flow from operations, will be sufficient to meet cash needs for the foreseeable future.

Contractual Obligations

The following table summarizes our payments under contractual obligations and our other commercial commitments as of March 31, 2004 (in thousands):

	Payment Due by Period as of March 31,						2010 and Thereafter
	Total	2005	2006	2007	2008	2009	
Contractual obligations:							
Operating leases	\$ 325,153	\$ 29,287	\$ 23,320	\$ 19,396	\$ 15,885	\$11,558	\$ 225,707
Other (1)	8,280	4,605	2,075	200	200	200	1,000
Total	<u>\$ 333,433</u>	<u>\$ 33,892</u>	<u>\$ 25,395</u>	<u>\$ 19,596</u>	<u>\$ 16,085</u>	<u>\$11,758</u>	<u>\$ 226,707</u>

(1) - Other includes a \$4.0 million commitment to various City of Detroit charities and a \$4.3 million advertising agreement.

Off-Balance Sheet Arrangements

As discussed in Note 5 to the Consolidated Financial Statements, we have guaranteed lease obligations of CareTech of up to \$12.5 million. We have not recorded any liability related to these guarantees since we believe that CareTech will continue to meet its obligations. At March 31, 2004, CareTech’s outstanding lease obligations were approximately \$3.2 million.

We currently do not have any non-consolidated special purpose entity arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed primarily to market risks associated with movements in interest rates and foreign currency exchange rates. We believe that we take the necessary steps to appropriately reduce the potential impact of interest rate and foreign exchange exposures on our financial position and operating performance. We do not use derivative financial instruments or forward foreign exchange contracts for investment, speculative or trading purposes. Immediate changes in interest rates and foreign currency rates discussed in the following paragraphs are hypothetical rate scenarios used to calibrate risk and do not currently represent management's view of future market developments. A discussion of our accounting policies for derivative instruments is included in the Notes to Consolidated Financial Statements in Item 8 of this report.

Interest Rate Risk

Exposure to market risk for changes in interest rates relates primarily to our cash investments and installment receivables. Derivative financial instruments are not a part of our investment strategy. Investments are placed with high quality issuers to preserve invested funds by limiting default and market risk. In addition, marketable debt securities and long term debt investments are classified as "held to maturity" which does not expose the consolidated statement of operations or balance sheet to fluctuations in interest rates.

The table below provides information about our investment portfolio. For investment securities, the table presents principal cash flows and related weighted average interest rates by expected maturity dates (in thousands, except interest rate):

	Year Ended March 31,			Total	Fair Value at March 31, 2004
	2005	2006	2007		
Cash Equivalents	\$454,916			\$454,916	\$454,916
Average Interest Rate	1.03%			1.03%	
Average Interest Rate (tax equivalent)	1.04%			1.04%	
Investments	\$149,654	\$157,252	\$5,232	\$312,138	\$312,320
Average Interest Rate	1.51%	1.56%	1.44%	1.53%	
Average Interest Rate (tax equivalent)	2.30%	1.98%	2.21%	2.14%	

We offer financing arrangements with installment payment terms in connection with our multi-year software sales. Installment accounts are generally receivable over a three to five year period. As of March 31, 2004, non-current accounts receivable amounted to \$198.7 million, and are due approximately \$117.4 million, \$52.4 million, \$18.7 million, \$6.2 million and \$4.0 million in each of the years ending March 31, 2006 through 2010, respectively. The fair value of non-current accounts receivable is estimated by discounting the future cash flows using the current rate at which the company would finance a similar transaction. At March 31, 2004, the fair value of such receivables is approximately \$198.4 million. Each 25 basis point increase in interest rates would have an associated \$600,000 negative impact on the fair value of non-current accounts receivable based on the balance of such receivables at March 31, 2004. A change in interest rates will have no impact on cash flows or net income associated with non-current accounts receivable.

Foreign Currency Risk

We have entered into forward foreign exchange contracts primarily to hedge amounts due to or from select subsidiaries denominated in foreign currencies (mainly in Europe and Asia-Pacific) against fluctuations in exchange rates. Our accounting policies for these contracts are based on our designation of the contracts as hedging transactions. The criteria we use 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, offsetting foreign exchange gains or losses on the foreign balances being hedged. 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 we enter 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. We operate in certain countries in Latin America and Asia-Pacific where there are limited forward currency exchange markets and thus we have unhedged transaction exposures in these currencies.

The table below provides information about our foreign exchange forward contracts at March 31, 2004. The table presents the value of the contracts in U.S. dollars at the contract maturity date and the fair value of the contracts at March 31, 2004 (in thousands, except contract rates):

	Contract date in 2004	Maturity date in 2004	Contract Rate	Forward Position in U.S. Dollars	Fair Value at March 31, 2004
Forward Sales					
Norwegian Krone	March 31	April 30	6.9425	\$ 490	\$ 496
Swedish Krona	March 31	April 30	7.6301	315	318
Swiss Franc	March 31	April 30	1.2796	727	734
				<u>\$ 1,532</u>	<u>\$ 1,548</u>
Forward Purchases					
Australian Dollar	March 31	April 30	1.3242	\$ 10,572	\$ 10,720
Danish Krone	March 31	April 30	6.1310	1,566	1,587
Euro Dollar	March 31	April 30	0.8209	28,621	28,906
Pounds Sterling	March 31	April 30	0.5481	10,035	10,140
Hong Kong Dollar	March 31	April 30	7.7827	4,626	4,619
Japanese Yen	March 31	April 30	104.1770	509	508
				<u>\$ 55,929</u>	<u>\$ 56,480</u>

Approximately 30% of our revenue is derived from foreign sources. This exposes us to exchange rate risks on foreign currencies related to the fair value of foreign assets and liabilities, net income and cash flows.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Compuware Corporation:

We have audited the accompanying consolidated balance sheets of Compuware Corporation and subsidiaries (the "Company") as of March 31, 2004 and 2003, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

DELOITTE & TOUCHE LLP

Detroit, Michigan
May 26, 2004

COMPUWARE CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2004 AND 2003
(In Thousands, Except Share Data)**

ASSETS	Notes	2004	2003	Notes	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT ASSETS:						
Cash and cash equivalents		\$ 454,916	\$ 319,466		\$ 35,298	\$ 37,588
Investments	3	149,654	156,737	7	115,786	101,196
Accounts receivable, less allowance for doubtful accounts of \$22,565 and \$26,543		452,057	515,819		39,176	33,383
Deferred tax asset, net	12	32,460	30,605		302,804	296,998
Income taxes refundable, net		33,946	10,853		493,064	469,165
Prepaid expenses and other current assets		19,976	16,951		300,664	299,079
Total current assets		1,143,009	1,050,431		22,073	22,750
INVESTMENTS	3	162,484	95,095	7	4,689	
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	4	444,401	386,678	12		
CAPITALIZED SOFTWARE, LESS ACCUMULATED AMORTIZATION OF \$193,491 AND \$167,089	8	45,489	54,514		820,490	790,994
OTHER:						
Accounts receivable		198,742	260,735		3,853	3,824
Goodwill	2,8	213,359	212,288		722,206	704,190
Deferred tax asset, net	12	20,174	20,174		681,115	631,906
Other assets	5,8	26,597	42,770	10,15	6,417	(8,229)
Total other assets		438,698	535,967		1,413,591	1,331,691
TOTAL ASSETS		\$2,234,081	\$2,122,685		\$2,234,081	\$2,122,685

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED MARCH 31, 2004, 2003 and 2002
(In Thousands, Except Per Share Data)

	Notes	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUES:				
Software license fees		\$ 296,627	\$ 295,720	\$ 417,631
Maintenance fees		408,191	412,176	433,751
Professional services fees		<u>559,829</u>	<u>667,444</u>	<u>889,162</u>
Total revenues		<u>1,264,647</u>	<u>1,375,340</u>	<u>1,740,544</u>
OPERATING EXPENSES:				
Cost of software license fees		31,579	30,740	34,102
Cost of professional services		513,621	611,644	840,149
Technology development and support		163,655	143,289	164,280
Sales and marketing		310,643	264,012	294,496
Administrative and general	5	209,797	191,131	207,166
Goodwill amortization and impairment	8			426,344
Restructuring costs	7			<u>46,930</u>
Total operating expenses		<u>1,229,295</u>	<u>1,240,816</u>	<u>2,013,467</u>
INCOME (LOSS) FROM OPERATIONS		35,352	134,524	(272,923)
OTHER INCOME		<u>20,665</u>	<u>21,691</u>	<u>22,076</u>
INCOME (LOSS) BEFORE INCOME TAXES		56,017	156,215	(250,847)
INCOME TAX PROVISION (BENEFIT)	12	<u>6,185</u>	<u>53,113</u>	<u>(5,592)</u>
NET INCOME (LOSS)		<u>\$ 49,832</u>	<u>\$ 103,102</u>	<u>\$ (245,255)</u>
Basic earnings (loss) per share	11	<u>\$ 0.13</u>	<u>\$ 0.27</u>	<u>\$ (0.66)</u>
Diluted earnings (loss) per share	11	<u>\$ 0.13</u>	<u>\$ 0.27</u>	<u>\$ (0.66)</u>

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED MARCH 31, 2004, 2003 and 2002
(In Thousands, Except Share Data)**

	Common Stock		Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Other	Shareholders'	Income (Loss)
			Capital		Comprehensive	Equity	
					Gain (Loss)		
BALANCE AT APRIL 1, 2001	369,816,432	\$ 3,698	\$ 620,743	\$ 774,059	\$ (21,128)	1,377,372	\$ (245,255)
Net loss				(245,255)		1,800	\$ 1,800
Foreign currency translation, net of tax					1,800		\$ (243,455)
Comprehensive loss							\$ (243,455)
Issuance of common stock	1,981,659	20	17,636			17,656	
Issuance of warrant (Note 10)			2,825			2,825	
Acquisition tax benefits			6,854			6,854	
Exercise of employee stock options and related tax benefit (Note 15)	4,022,163	40	24,492			24,532	
Other			4,067			4,067	
BALANCE AT MARCH 31, 2002	375,820,254	3,758	676,617	528,804	(19,328)	1,189,851	
Net income				103,102		103,102	\$ 103,102
Foreign currency translation, net of tax					11,099	11,099	\$ 11,099
Comprehensive income							\$ 114,201
Issuance of common stock	6,010,067	60	18,868			18,928	
Acquisition tax benefits			7,056			7,056	
Exercise of employee stock options and related tax benefit (Note 15)	536,835	6	1,649			1,655	
BALANCE AT MARCH 31, 2003	382,367,156	3,824	704,190	631,906	(8,229)	1,331,691	
Net income				49,832		49,832	\$ 49,832
Foreign currency translation, net of tax					14,646	14,646	\$ 14,646
Comprehensive income							\$ 64,478
Issuance of common stock	2,340,171	23	8,189			8,212	
Acquisition tax benefits			6,579			6,579	
Repurchase of common stock	(200,500)	(2)	(371)	(623)		(996)	
Exercise of employee stock options and related tax benefit (Note 15)	836,865	8	3,494			3,502	
Other			125			125	
BALANCE AT MARCH 31, 2004	385,343,692	3,853	722,206	681,115	6,417	1,413,591	

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2004, 2003 and 2002
(In Thousands)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:			
Net income (loss)	\$ 49,832	\$ 103,102	\$ (245,255)
Adjustments to reconcile net income (loss) to cash provided by operations:			
Goodwill amortization and impairment			426,344
Depreciation and amortization	55,175	53,808	63,619
Tax benefit from exercise of stock options	704	152	8,384
Issuance of common stock to Employee Stock Ownership Trust		9,425	10,657
Acquisition tax benefits	6,579	7,056	6,854
Deferred income taxes	23,775	36,577	(75,692)
Other	3,774	6,212	1,639
Net change in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	163,479	182,502	146,964
Prepaid expenses and other current assets	(1,404)	(9)	708
Other assets	4,887	776	1,972
Accounts payable and accrued expenses	(1,289)	(50,562)	21,435
Deferred revenue	(24,378)	4,464	36,438
Income taxes	(23,014)	16,870	(17,168)
Net cash provided by operating activities	<u>258,120</u>	<u>370,373</u>	<u>386,899</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of:			
Property and equipment:			
Headquarters facility	(65,240)	(219,071)	(81,644)
Other	(9,358)	(6,222)	(8,784)
Capitalized software	(11,287)	(11,369)	(13,300)
Business	(6,939)		
Investments:			
Proceeds	356,713	201,938	221,716
Purchases	(404,048)	(267,502)	(210,784)
Net cash used in investing activities	<u>(140,159)</u>	<u>(302,226)</u>	<u>(92,796)</u>
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Net proceeds from exercise of stock options	2,798	1,503	16,148
Employee contribution to stock purchase plans	8,293	9,563	6,999
Repurchase of common stock	(996)		
Proceeds from sale of warrant			2,825
Payment of long term debt			(140,000)
Net cash provided by (used in) financing activities	<u>10,095</u>	<u>11,066</u>	<u>(114,028)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>7,394</u>	<u>6,948</u>	<u>(110)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	135,450	86,161	179,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>319,466</u>	<u>233,305</u>	<u>53,340</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 454,916</u>	<u>\$ 319,466</u>	<u>\$ 233,305</u>

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED MARCH 31, 2004, 2003 and 2002

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 include business systems analysis, design, communication, 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 distributed systems 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 accounting principles generally accepted in the United States of America (US GAAP), which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at March 31, 2004 and 2003 and the results of operations for the years ended March 31, 2004, 2003 and 2002. While management has based their assumptions and estimates on the facts and circumstances known at March 31, 2004, final amounts may differ from estimates.

Certain amounts in the fiscal 2003 and 2002 financial statements have been reclassified to conform to the fiscal 2004 presentation.

Revenue Recognition - The Company earns revenue from licensing software products, providing maintenance and support for those products and rendering professional services. The Company's revenue recognition policies are based on US GAAP including Statements of Position 97-2 "Software Revenue Recognition" and 98-9 "Modification of SOP 97-2, "Software Revenue Recognition," With Respect to Certain Transactions", Securities and Exchange Commission Staff Accounting Bulletin 104 and Emerging Issues Task Force Issue 00-21 "Change in Accounting Principle: Revenue Arrangements with Multiple Deliverables". Accordingly, the Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectibility is reasonably assured.

Software license fees - The Company's software license agreements provide their customers with a right to use their software perpetually (perpetual licenses) or during a defined term (term licenses). Perpetual license fee revenue is recognized using the residual method, under which the fair value, based on Compuware-specific objective evidence (CSOE) of all undelivered elements of the agreement (e.g., maintenance and professional services) is deferred. CSOE is based on rates charged for maintenance and professional services when sold separately. The remaining portion of the fee, net of discretionary discounts, (the residual) is recognized as license fee revenue upon shipment of the products, provided that no significant obligations remain and collection of the related receivable is deemed probable. For term licenses and for agreements in which the fair value of the undelivered elements cannot be determined using CSOE (e.g., transactions that include an option to exchange or select products in the future), the Company recognizes the license fee revenue on a ratable basis over the term of the license agreement.

The Company offers flexibility to customers purchasing their products and related maintenance. Terms vary ranging from the standard perpetual license sale to large multi-year, multi-product contracts. The Company allows deferred payment terms on multi-year contracts, with installments collectible over the term of the contract. Based on the Company's collection history for deferred payments, the license fee

portion of the receivable is discounted to its net present value and recognized as discussed above. The discount is recognized as interest income over the term of the receivables, and amounted to \$12.6 million, \$15.5 million and \$19.6 million for fiscal 2004, 2003 and 2002, respectively. At March 31, 2004, current accounts receivable includes installments on multi-year contracts totaling \$252.6 million due within the year ending March 31, 2005. Non-current accounts receivable at March 31, 2004 amounted to \$198.7 million, and are due approximately \$117.4 million, \$52.4 million, \$18.7 million, \$6.2 million and \$4.0 million in each of the years ending March 31, 2006 through 2010, respectively.

Maintenance fees - The Company's maintenance agreements provide for technical support and advice, including problem resolution services and assistance in product installation, error corrections and any product enhancements released during the maintenance period. Maintenance is included with all mainframe software license agreements for one year, and for most distributed product agreements for three months. Maintenance is renewable thereafter for an annual fee. Maintenance fees are deferred and recognized as revenue on a ratable basis over the maintenance period.

Professional services fees - Revenues from professional services are recognized in the period the services are performed, provided that collection of the related receivable is deemed probable. Professional services fees are generally based on hourly or daily rates; however, for services rendered under fixed-price contracts, revenue is recognized using the percentage of completion method. Certain professional services contracts include a project and on-going support for the project. Revenue associated with these contracts is recognized over the support period when the on-going support is necessary to realize value from the initial project.

Deferred revenue - Deferred revenue consists primarily of maintenance fees related to the remaining term of maintenance agreements in effect at those dates. Deferred license fees and services fees are also included in deferred revenue for those contracts that are being recognized on a ratable basis. Long term deferred revenue at March 31, 2004 amounted to \$300.7 million, and is expected to be recognized approximately \$159.5 million, \$83.9 million, \$38.4 million, \$12.9 million, \$4.3 million and \$1.7 million in each of the years ending March 31, 2006 through 2011, respectively.

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, tax-free zero coupon bonds, U.S. Treasury notes, tax-free and tax advantage auction rate securities. Investments 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 current assets. The amortization of bond premiums and discounts is included in other income in the consolidated statements of operations.

Property and Equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which are generally estimated to be 40 years for buildings and three to ten years for furniture and fixtures, computer equipment and software. Leasehold improvements are amortized over the term of the lease, or the estimated life of the improvement, whichever is less. Depreciation and amortization of property and equipment totaled \$28.4 million, \$24.8 million and \$27.0 million for the years ended March 31, 2004, 2003 and 2002, respectively.

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, 2004 and 2003 is \$12.5 million and \$18.0 million, respectively.

Capitalization of internally developed software products begins when technological feasibility of the product is established. Technology development and support includes primarily the costs of programming personnel associated with product development and support net of amounts capitalized. Total technology development and support costs incurred internally by the Company were \$175.0 million,

\$154.7 million and \$177.6 million in fiscal 2004, 2003 and 2002, respectively, of which \$11.3 million, \$11.4 million and \$13.3 million, 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 is generally five years. Capitalized software amortization amounted to \$26.4 million, \$25.9 million and \$32.1 million in fiscal 2004, 2003 and 2002, respectively, which is included in "cost of software license fees" in the consolidated statements of operations. Included in the fiscal 2002 total is additional amortization of \$4.3 million related to acquired technology that is no longer utilized in the Company's products.

Goodwill - Effective April 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". Under this pronouncement, goodwill and those intangible assets with indefinite lives will no longer be amortized, but rather will be tested for impairment annually and/or when events or circumstances indicate that their fair value has been reduced below carrying value. The Company evaluated its goodwill as of March 31, 2004 and 2003 and determined there was no impairment.

Prior to the adoption of SFAS No. 142, goodwill was amortized over periods ranging from ten to twenty years using the straight-line method. Goodwill amortization expense was \$38.9 million for the year ended March 31, 2002. During fiscal 2002, the Company recorded an aggregate charge of \$387.4 million to recognize impairment of goodwill resulting from the restructuring announced on March 31, 2002 (\$342.9 million), the transfer of the professional services engineering division to an unrelated third party in December 2001 (\$9.3 million) and a change in technology related to its distributed products (\$35.2 million).

Fair Value of Financial Instruments - The carrying value of cash equivalents, current accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments. At March 31, 2004, the fair value of non-current receivables is approximately \$198.4 million compared to the carrying amount of \$198.7 million. At March 31, 2003, the fair value of non-current receivables was approximately \$262.3 million compared to the carrying amount of \$260.7 million. Fair value is estimated by discounting the future cash flows using the current rate at which the Company would finance a similar transaction.

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 their respective local currency as their 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 period the transactions occurred. Translation adjustments have been excluded from the results of operations and are reported as accumulated other comprehensive income or loss.

Foreign Currency Transactions and Derivatives - Gains and losses from foreign currency transactions are included in the determination of net income. To partially offset the risk of future currency fluctuations on balances due to or 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 or payables. The Company does not use foreign exchange contracts to hedge anticipated transactions. The net foreign currency transaction loss was \$934,000, \$1.7 million and \$1.3 million for the years ended March 31,

2004, 2003 and 2002, respectively. These amounts are included in “administrative and general” in the consolidated statements of operations.

At March 31, 2004, the Company had contracts maturing through April 2004 to sell \$1.5 million and purchase \$55.9 million in foreign currencies. At March 31, 2003, the Company had contracts maturing through April 2003 to sell \$4.3 million and purchase \$16.9 million in foreign currencies.

Stock-Based Compensation – Through March 31, 2004, in accordance with SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123” and SFAS No. 123, “Accounting for Stock-Based Compensation”, the Company applied 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 2004, 2003 and 2002 consistent with the method prescribed by SFAS No. 123, Compuware’s net income (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below (in thousands, except earnings per share data):

	Year Ended March 31,		
	2004	2003	2002
Net income (loss), as reported	\$ 49,832	\$ 103,102	\$ (245,255)
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(40,117)	(51,881)	(61,915)
Pro forma net income (loss)	<u>\$ 9,715</u>	<u>\$ 51,221</u>	<u>\$ (307,170)</u>
Earnings (loss) per share:			
As reported:			
Basic earnings (loss) per share	0.13	0.27	(0.66)
Diluted earnings (loss) per share	0.13	0.27	(0.66)
Pro forma:			
Basic earnings (loss) per share	0.03	0.14	(0.83)
Diluted earnings (loss) per share	0.03	0.14	(0.83)

The pro forma amounts for compensation cost may not be indicative of the effects on net income 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 fiscal 2004, 2003 and 2002, respectively: expected volatility of 72.40%, 94.46%, and 64.55%; risk-free interest rates of 2.7%, 2.9%, and 4.7%; and expected lives at date of grant of 5.0, 5.0, and 4.1 years. Dividend yields were not a factor as the Company has never issued cash dividends.

Under SFAS No. 123, the fair value of the employees’ stock purchase rights acquired by participation in the Employee Stock Purchase Plan were estimated using the Black-Scholes model with assumptions comparable to the stock option plans above. The weighted-average fair value of the purchase rights granted in fiscal 2004, 2003 and 2002 were \$1.07, \$1.11, and \$2.13 per share, respectively.

Earnings Per Share (EPS) - 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 - The Company's principal operating segments are products and professional services. The Company provides software products and professional services to the world's largest IT organizations that help information technology professionals efficiently develop, implement and support the applications that run their businesses.

Recently Issued Accounting Pronouncements - In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation 46, "Consolidation of Variable Interest Entities." In December 2003, the FASB issued a revised Interpretation 46 (FIN 46R). The FASB deferred the effective date for consolidation of variable interest entities and amended the consolidation requirements. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46R apply to older entities in the first fiscal year or interim period ending after March 15, 2004. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has determined that none of its partially owned companies meet the consolidation requirements of FIN 46R. See Note 5 for a discussion of partially owned companies.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS No. 150). This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company adopted the provisions of the Statement as of May 31, 2003 resulting in no change to the financial statements.

2. ACQUISITION

Effective March 1, 2004, the Company purchased certain assets and assumed certain liabilities of Covisint, LLC (Covisint), related to Covisint's Communicate and Connect businesses (acquired business) for approximately \$7 million plus certain lease obligations up to \$2.1 million. The acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations". The assets and liabilities acquired have been recorded at fair value as of the acquisition date. The aggregate amount by which the acquisition cost exceeded the fair value of the net assets acquired was approximately \$201,000. Revenues and expenses of this business have been reported as part of the professional services segment in fiscal 2004. Covisint's application services include business-to-business applications and communication services that connect the global automotive industry.

3. INVESTMENTS

A summary of securities at March 31, 2004 and 2003 is set forth below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>March 31, 2004:</u>				
Municipal Obligations	\$ 127,964	\$ 145	\$ 48	\$ 128,061
Tax Advantage Auction Rate Corporate Securities	5,000			5,000
Tax Free Auction Rate Securities	109,889	11		109,900
US Treasury Securities	67,000	91	21	67,070
Zero Coupon Municipal Bonds	2,285	4		2,289
Securities classified as held to maturity	<u>\$ 312,138</u>	<u>\$ 251</u>	<u>\$ 69</u>	<u>\$ 312,320</u>
<u>March 31, 2003:</u>				
Municipal Obligations	\$ 122,679	\$ 474	\$ 9	\$ 123,144
Tax Advantage Auction Rate Corporate Securities	39,000			39,000
Tax Free Auction Rate Securities	58,100			58,100
US Treasury Securities	19,987	235		20,222
Zero Coupon Municipal Bonds	12,066		5	12,061
Securities classified as held to maturity	<u>\$ 251,832</u>	<u>\$ 709</u>	<u>\$ 14</u>	<u>\$ 252,527</u>

Scheduled maturities of securities classified as held to maturity at March 31, 2004 were as follows (in thousands):

	Amortized Cost	Fair Value
Due in:		
2005	\$ 149,654	\$ 149,712
2006	157,252	157,387
2007	5,232	5,221
Total	<u>\$ 312,138</u>	<u>\$ 312,320</u>

4. PROPERTY AND EQUIPMENT

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

	March 31,	
	2004	2003
Land	\$ 1,776	\$ 1,776
Construction in progress		325,881
Buildings and improvements	393,141	31,836
Leasehold improvements	18,552	17,700
Furniture and fixtures	75,837	41,947
Computer equipment and software	79,872	77,519
	<u>569,178</u>	<u>496,659</u>
Less accumulated depreciation and amortization	124,777	109,981
Total	<u>\$ 444,401</u>	<u>\$ 386,678</u>

In July 2003, the Company entered into an option and purchase agreement for the former headquarters building. The option agreement allows the holder to commit to purchase the building for one year after the execution of this agreement. The option selling price of the building approximates the current net book value of \$20 million for the building. If exercised, the holder would pay \$5 million upon exercise and the remaining balance in five years with interest paid monthly at 7% of the unpaid balance.

5. INVESTMENTS IN PARTIALLY OWNED COMPANIES

At March 31, 2004, the Company held a 33.3% interest in CareTech Solutions, Inc. (CareTech) and a 49% interest in Foresee Results, Inc. (Foresee).

CareTech provides information technology outsourcing for healthcare organizations including data, voice, applications and data center operations. This investment is accounted for under the equity method including consideration of EITF 98-13, "Accounting by an Equity Method Investor for Investee Losses When the Investor has Loans to and Investments in Other Securities of an Investee" (EITF 98-13).

At March 31, 2004 and 2003, the Company's carrying value of its investments in and advances to CareTech was \$22.0 million and \$21.1million, respectively. Included in the net investment at March 31, 2004 and 2003, is a note receivable with an adjusted basis of \$14.7 million and \$16.2 million, respectively, and accounts receivable due from CareTech of \$7.3 million and \$4.9 million, respectively. The note is payable in quarterly installments through January 2012 and bears interest at 5.25%. At March 31, 2004, CareTech was current with the terms of the note.

Since 1999, the Company has guaranteed lease obligations of CareTech up to \$12.5 million. The Company has not recorded any liability related to these guarantees since it believes that CareTech will continue to meet its obligations. At March 31, 2004, CareTech's outstanding lease obligations were approximately \$3.2 million.

CareTech's most significant customer is the Detroit Medical Center and Subsidiaries (DMC). The DMC has publicly announced that it is having financial difficulties. The Company considered the financial situation of the DMC at March 31, 2004 and concluded that no impairment charge or valuation allowance related to our investment in and receivables due from CareTech was warranted. The DMC has requested, and CareTech has agreed, to provide the DMC with extended payment terms up to 90 days. The Company therefore agreed to extend 90 day payment terms to CareTech.

During the third quarter of fiscal 2004, the other shareholders of CareTech expressed an inability or unwillingness to provide additional funding to meet CareTech's cash flow requirements. Therefore, the Company will record 100 percent of any future losses incurred by CareTech as a reduction to the Company's outstanding advances to CareTech. For the years ended March 31, 2004, 2003, and 2002, the Company recognized net income (loss) of \$177,000, \$(64,000) and \$173,000, respectively, from its investment in CareTech.

ForeSee was incorporated in October 2001 to provide online customer satisfaction management. This investment is also accounted for under the equity method including EITF 98-13.

At March 31, 2004 and 2003, the Company's carrying value of its investments in and advances to ForeSee was \$3.9 million and \$4.2 million, respectively. Included in the net investment at March 31, 2004 and 2003, are notes receivable from ForeSee with an adjusted basis of \$3.7 million and \$3.5 million, respectively. The ForeSee notes bear interest at the prime rate (4.00% at March 31, 2004) and are due between June 2007 and December 2008. The Company has pledged \$667,000 in additional loans to ForeSee, if needed, subject to approval by the ForeSee shareholders. During the second quarter of fiscal 2004, the Company's equity investment in ForeSee was reduced to zero. At that point, the Company began recording 100 percent of the losses sustained by ForeSee as a reduction to the Company's outstanding advances to ForeSee since the Company is uncertain whether the other shareholders are willing or able to sustain their share of the losses. The Company continues to monitor the financial situation of ForeSee on a regular basis and has concluded that no impairment reserve was warranted at March 31, 2004. For the years ended March 31, 2004, 2003, and 2002, the Company recognized net losses of \$2.4 million, \$2.2 million and \$1.0 million, respectively, from its investment in ForeSee.

Professional services revenue for the years ended March 31, 2004, 2003 and 2002 included approximately \$21.3 million, \$27.5 million, and \$20.6 million, respectively, from services provided to CareTech customers on a subcontractor basis. Professional services revenue for the years ended March 31, 2004, 2003 and 2002 included approximately \$932,000, \$1.2 million and \$580,000, respectively, from services provided to ForeSee.

Prior to January 2002, CareTech provided services to Compuware customers on a subcontractor basis. Cost of professional services for the years ended March 31, 2004, 2003 and 2002 included approximately \$0, \$16,000 and \$37.5 million, respectively, related to these services.

6. RELATED PARTY TRANSACTIONS

The Company purchases products and services from companies associated with certain officers or directors of the Company.

G. Scott Romney, Director of the Company, is a partner in the law firm of Honigman Miller Schwartz and Cohn LLP (Honigman). Honigman provides legal services to the Company. For the years ended March 31, 2004, 2003 and 2002, legal services provided by Honigman to the Company were approximately \$4.4 million, \$4.6 million, and \$271,000, respectively. These costs are included in "administrative and general" in the consolidated statements of operations.

Dennis W. Archer, Director of the Company, is a partner in the law firm of Dickinson Wright PLLC (Dickinson). Dickinson provides legal services to the Company. For the years ended March 31, 2004, 2003 and 2002, legal services provided by Dickinson to the Company were approximately \$117,000, \$259,000 and \$0, respectively. These costs are included in "administrative and general" in the consolidated statements of operations.

Peter Karmanos, Jr., Chairman of the Board and Chief Executive Officer of the Company, and Thomas Thewes, Vice-Chairman of the Board through September 2002, are the sole shareholders of

Compuware Sports Corporation (CSC). CSC operates an amateur hockey program in Southeastern Michigan. On September 8, 1992, the Company entered into a one-year Promotion Agreement with CSC to promote and sponsor business. The promotion agreement automatically renews for successive one-year terms, unless terminated with 60 days prior notice by either party. For the years ended March 31, 2004, 2003 and 2002, advertising costs related to this agreement were approximately \$840,000, \$858,000 and \$845,000, respectively. These costs are included in "sales and marketing" in the consolidated statements of operations.

Peter Karmanos, Jr. and Thomas Thewes control the entities that own and manage the Compuware Arena. The Company entered into an advertising agreement with the arena to promote and sponsor business, including the right to name the arena "Compuware Arena" and the right to place advertising in and around the arena. For the years ended March 31, 2004, 2003 and 2002, advertising costs related to this agreement were approximately \$276,000, \$269,000 and \$266,000, respectively. These costs are included in "sales and marketing" in the consolidated statements of operations.

The Company utilizes Karmanos Printing and Graphics, Inc. for certain printing services. Karmanos Printing and Graphics, Inc. is owned by the brother and sister-in-law of Peter Karmanos, Jr. For the years ended March 31, 2004, 2003 and 2002, printing charges from Karmanos Printing and Graphics, Inc. were approximately \$649,000, \$625,000 and \$1.1 million, respectively. These costs are primarily included in "sales and marketing" in the consolidated statements of operations.

7. RESTRUCTURING CHARGES

In the fourth quarter of fiscal 2002, the Company adopted a restructuring plan to reorganize its operating divisions, primarily the professional services segment. These changes were designed to increase profitability in the future by better aligning cost structures with current market conditions.

The restructuring plan included a reduction of professional services staff at certain locations, the closing of entire professional services offices and a reduction of sales support personnel, lab technicians and related administrative and financial staff. Approximately 1,600 employees worldwide were terminated as a result of the reorganization.

The following table summarizes the accrual for the restructuring and charges against the accrual during fiscal 2002, 2003 and 2004 (in thousands):

	Employee termination benefits	Facilities costs (primarily lease abandonments)	Legal, consulting and outplacement costs	Other	Total restructuring charge
Restructuring charge	\$ 19,012	\$ 26,341	\$ 1,299	\$ 278	\$ 46,930
Incurred during year ended March 31, 2002	(553)	(676)			(1,229)
Accrual at March 31, 2002	18,459	25,665	1,299	278	45,701
Incurred during year ended March 31, 2003	(16,405)	(8,589)	(691)	(215)	(25,900)
Adjustment	(1,356)	2,012	(593)	(63)	
Accrual at March 31, 2003	698	19,088	15		19,801
Incurred during year ended March 31, 2004	(591)	(5,600)	(4)		(6,195)
Accrual at March 31, 2004	\$ 107	\$ 13,488	\$ 11	\$	\$ 13,606

During the year ended March 31, 2003, the Company determined the accruals associated with employee terminations, legal and outplacement were in excess of actual costs incurred. These excess accruals have been reduced. The accrual for facilities costs was increased, since the Company has not been as successful in subleasing abandoned leased space as originally anticipated.

Approximately 70% of the accrual related to facilities costs is included in "long term accrued expenses" in the consolidated balance sheet at March 31, 2004.

8. GOODWILL AND INTANGIBLE ASSETS

The components of the Company's intangible assets were as follows (in thousands):

	March 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized intangible assets:			
Trademarks (1)	\$ 370		\$ 370
Amortized intangible assets:			
Capitalized software (2)	238,980	(193,491)	45,489
Other (3)	7,220	(4,413)	2,807
Total amortized intangible assets	<u>\$ 246,200</u>	<u>\$ (197,904)</u>	<u>\$ 48,296</u>

	March 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Capitalized software (2)	\$ 221,603	\$ (167,089)	\$ 54,514
Other (3)	6,200	(4,055)	2,145
Total amortized intangible assets	<u>\$ 227,803</u>	<u>\$ (171,144)</u>	<u>\$ 56,659</u>

- 1) Certain trademarks were acquired as part of the Covisint acquisition in fiscal 2004. These trademarks are deemed to have an indefinite life and therefore are not being amortized.
- 2) Amortization of capitalized software is included in "cost of software license fees" in the consolidated statements of operations. Capitalized software is generally amortized over five years.
- 3) Other amortized intangible assets include trademarks associated with past product acquisitions and Covisint customer contracts. These trademarks are being amortized over ten years. The Covisint customer contracts are being amortized over three years.

Amortization expense on intangible assets for the years ended March 31, 2004, 2003 and 2002 was \$26.8 million, \$26.2 million, and \$34.3 million, respectively. Annual amortization expense, based on identified intangible assets at March 31, 2004, is expected to be as follows (in thousands):

	Year Ended March 31,					
	2005	2006	2007	2008	2009	Thereafter
Capitalized software	\$ 19,671	\$ 10,440	\$ 7,656	\$ 5,080	\$ 2,642	
Other	670	670	642	330	330	165
Total	<u>\$ 20,341</u>	<u>\$ 11,110</u>	<u>\$ 8,298</u>	<u>\$ 5,410</u>	<u>\$ 2,972</u>	<u>\$ 165</u>

Effective April 1, 2002, in accordance with FASB 142, the goodwill balance is no longer being amortized on a monthly basis. Instead, it is tested at least annually for impairment. The Company evaluated its goodwill at March 31, 2004 and 2003 and determined there was no impairment in either fiscal year. Changes in the carrying amounts of goodwill for the years ended March 31, 2004 and 2003 are as follows (in thousands):

Goodwill:	<u>Products</u>	<u>Services</u>	<u>Total</u>
Balance at March 31, 2002, net	\$ 72,182	\$ 139,610	\$ 211,792
Effect of foreign currency translation		496	496
Balance at March 31, 2003, net	72,182	140,106	212,288
Acquisition		201	201
Effect of foreign currency translation		870	870
Balance at March 31, 2004, net	<u>\$ 72,182</u>	<u>\$ 141,177</u>	<u>\$ 213,359</u>

The Company's reported net loss and diluted loss per share exclusive of amortization of goodwill in fiscal 2002 on an after-tax basis were as follows (in thousands except per share data):

	<u>Year Ended</u> <u>March 31, 2002</u>
Reported net loss	\$ (245,255)
Add goodwill amortization, net of tax	32,825
Adjusted net loss	<u>\$ (212,430)</u>
Adjusted basic loss per share	<u>\$ (0.57)</u>
Adjusted diluted loss per share	<u>\$ (0.57)</u>

9. LONG TERM DEBT

The Company has no long term debt.

On May 2, 2003, the Company entered into a \$100 million revolving credit facility maturing on July 29, 2004. If at any time the combined unencumbered liquid assets of the Company (as defined in the credit facility) are less than \$200 million, the credit facility will be reduced to \$50 million. Interest is payable at 1% over the Eurodollar rate or at the prime rate, at the Company's option (4% at March 31, 2004). The terms of the credit facility contain, among other provisions, a covenant to maintain a minimum \$1 billion consolidated net worth, and specific limitations on additional indebtedness, liens and merger activity. No borrowings have occurred or are planned under this facility.

The Company incurs interest expense primarily related to the accrual for certain abandoned leases. Cash paid for interest totaled approximately \$2.2 million, \$2.2 million and \$3.6 million for the years ended March 31, 2004, 2003 and 2002, respectively.

10. CAPITAL STOCK

Preferred Stock Purchase Rights - Under the Company's shareholder rights plan, each shareholder receives one right to purchase one two-thousandth of a share of Series A Junior Participating Preferred Stock (a right) for each share of common stock owned by the shareholder. Holders of the rights are entitled to purchase for \$40.00 one two-thousandth of one share of the Company's Series A Junior Participating Preferred Stock in certain limited circumstances involving acquisitions of, or offers for, 15% or more of the Company's common stock. After any such acquisition is completed, each right entitles its holder to purchase for \$40.00 an amount of common stock of the Company, or in certain circumstances securities of the acquirer, having a then current market value of two times the exercise price of the right. In connection with the shareholder rights plan, the Company has designated 800,000 shares of its 5,000,000 shares of authorized but unissued Preferred Stock as "Series A Junior Participating Preferred Stock." Each one two-thousandth of each share of Series A Junior Participating Preferred Stock will generally be afforded economic rights similar to one share of the Company's common stock. The rights are redeemable for a specified period at a price of \$0.001 per right and expire on November 9, 2010 unless extended or earlier redeemed by the Board of Directors.

Common Stock Warrant - In November 2001, the Company issued a non-transferrable warrant entitling a customer to purchase one million shares of common stock at \$10.51 per share in exchange for approximately \$2.8 million in cash, which was the warrant's fair value at the date of issue. The warrant expires on November 16, 2004 or on the fifth day after the Company's common stock trades at an average price of \$20.00 per share for five consecutive days, whichever is earlier.

Stock Repurchase Plan - On May 6, 2003, the Company's Board of Directors authorized the repurchase of up to \$125 million of the Company's common stock. Purchases of common stock occur on the open market, through negotiated or block transactions, periodically, based upon market and business conditions. The Company regularly evaluates market conditions for an opportunity to repurchase common stock. During fiscal 2004, approximately 200,000 shares of Company common stock were acquired under this program.

11. EARNINGS (LOSS) PER COMMON SHARE

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

	Year Ended March 31,		
	2004	2003	2002
<u>Basic earnings (loss) per share:</u>			
Numerator: Net income (loss)	\$ 49,832	\$ 103,102	\$ (245,255)
Denominator:			
Weighted-average common shares outstanding	382,630	377,028	371,786
Basic earnings (loss) per share	\$ 0.13	\$ 0.27	\$ (0.66)
<u>Diluted earnings (loss) per share:</u>			
Numerator: Net income (loss)	\$ 49,832	\$ 103,102	\$ (245,255)
Denominator:			
Weighted-average common shares outstanding	382,630	377,028	371,786
Dilutive effect of stock options and warrant	1,978	1,412	
Total shares	384,608	378,440	371,786
Diluted earnings (loss) per share	\$ 0.13	\$ 0.27	\$ (0.66)

During the years ended March 31, 2004, 2003 and 2002, the warrant and stock options to purchase approximately 60,345,000, 61,917,000 and 66,864,000 shares, respectively, were excluded from the diluted EPS calculation because they were anti-dilutive.

12. 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,	
	2004	2003
Deferred tax assets:		
Deferred maintenance	\$ 8,506	\$ 10,661
Amortization of intangible assets	50,601	60,319
Restructuring accrual	4,762	6,823
Allowance for doubtful accounts	5,740	7,028
U.S. tax credit carryforwards	16,849	5,768
Foreign net operating loss carryforwards	19,172	21,706
Other	34,769	31,702
	<u>140,399</u>	<u>144,007</u>
Less valuation allowance	9,497	6,915
Net deferred tax assets	<u>130,902</u>	<u>137,092</u>
Current portion	<u>32,832</u>	<u>30,850</u>
Long term portion	<u>\$ 98,070</u>	<u>\$ 106,242</u>
Deferred tax liabilities:		
Capitalized research and development costs	\$ 11,544	\$ 12,790
Depreciation	42,186	16,633
Other	49,401	56,890
Total deferred tax liabilities	<u>103,131</u>	<u>86,313</u>
Current portion	<u>372</u>	<u>245</u>
Long term portion	<u>\$ 102,759</u>	<u>\$ 86,068</u>

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

	Year Ended March 31,		
	2004	2003	2002
Current:			
Federal	\$ (26,198)	\$ 6,946	\$ 56,794
Foreign	10,591	9,785	8,673
State	(1,215)	465	4,426
Total current tax provision (benefit)	<u>(16,822)</u>	<u>17,196</u>	<u>69,893</u>
Deferred:			
Federal	20,282	30,934	(71,435)
Foreign	765	2,642	1,081
State	1,960	2,341	(5,131)
Total deferred tax expense (benefit)	<u>23,007</u>	<u>35,917</u>	<u>(75,485)</u>
Total income tax provision (benefit)	<u>\$ 6,185</u>	<u>\$ 53,113</u>	<u>\$ (5,592)</u>

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

	Year Ended March 31,		
	2004	2003	2002
Federal income tax (benefit) at statutory rates	\$ 19,606	\$ 54,675	\$ (87,796)
Increase (decrease) in taxes:			
Export sales benefit	(3,679)	(4,065)	(4,290)
State income taxes, net	484	1,824	(458)
Goodwill amortization and impairment			88,600
Settlement of prior year tax matters (1)	(9,500)		
Other, net	(726)	679	(1,648)
Provision (benefit) for income taxes	<u>\$ 6,185</u>	<u>\$ 53,113</u>	<u>\$ (5,592)</u>

(1) Primarily relates to favorable tax settlements with the U.S. Internal Revenue Service and recent developments in other tax matters both in the U.S. and other taxing jurisdictions.

At March 31, 2004 the Company has foreign net operating loss carryforwards for income tax purposes of \$19.2 million which expire as follows (in thousands):

Year ending March 31:	
2005	1,840
2006	497
2008	235
2010	236
2011	742
Unlimited carryforward	15,622

The deferred tax asset for these foreign loss carryforwards has been reduced by a valuation allowance of \$1.6 million.

For U.S. tax purposes, \$741,000 (expiring 2010 through 2020) of net operating losses is available to reduce U.S. federal income taxes. In addition, \$10.4 million (expiring in 2008 and 2009) of foreign tax credits are available to offset future U.S. federal income tax liabilities; the deferred tax asset for these foreign tax credits has been reduced by a valuation allowance of \$5.2 million. Deferred tax assets related to charitable contribution and general business credit carryforwards are available to offset future U.S. federal income tax liabilities of \$8.2 million (expiring in 2009, 2023 and 2024). A capital loss carryforward is available to offset future U.S. federal capital gains of \$290,000 (expiring in 2007); this asset has been reduced entirely by a valuation allowance.

Cash paid (received) for income taxes totaled \$4.6 million, (\$7.9 million), and \$65.9 million for the years ended March 31, 2004, 2003 and 2002, respectively.

13. SEGMENT INFORMATION

Compuware operates in two business segments in the software industry: products and professional 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 extended its offerings to include application services by adding Covisint effective March 1, 2004. Revenues and expenses of the application services business have been reported as part of the professional services segment beginning March 1, 2004.

The Company's products are designed to support four key activities within the application development process: development and integration, quality assurance, production readiness and performance management of the application to optimize performance in production. The Company also offers a broad range of data processing professional services including business systems analysis, design, communication, programming, software conversion and system planning and consulting.

Ford Motor Company accounted for approximately 12% of total revenue during fiscal 2003. This revenue was primarily associated with the professional services segment of the business. No single customer accounted for greater than 10% of total revenue during fiscal 2004 and 2002 or greater than 10% of accounts receivable at March 31, 2004 and 2003.

The Company evaluates the performance of its segments based primarily on operating profit (loss) before corporate expenses, other income (expense), restructuring charges, and goodwill amortization and impairment. The allocation of income taxes is not evaluated at the segment level. Financial information for the Company's business segments is as follows (in thousands):

	Year Ended March 31,		
	2004	2003	2002
Revenues:			
Products:			
Mainframe	\$ 527,310	\$ 553,480	\$ 687,286
Distributed systems	177,508	154,416	164,096
Total products revenue	<u>704,818</u>	<u>707,896</u>	<u>851,382</u>
Professional services	559,829	667,444	889,162
Total revenues	<u>\$ 1,264,647</u>	<u>\$ 1,375,340</u>	<u>\$ 1,740,544</u>
Income (loss) from operations:			
Products	\$ 198,941	\$ 269,855	\$ 358,504
Professional services	46,208	55,800	49,013
Corporate expenses	(209,797)	(191,131)	(207,166)
Goodwill amortization			(38,926)
Income from operations before goodwill impairment and other charges	35,352	134,524	161,425
Goodwill impairment charge			(387,418)
Restructuring charge			(46,930)
Other income	20,665	21,691	22,076
Income (loss) before income taxes	<u>\$ 56,017</u>	<u>\$ 156,215</u>	<u>\$ (250,847)</u>

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

	Year Ended March 31,		
	2004	2003	2002
Revenues:			
United States	\$ 875,340	\$ 1,009,354	\$ 1,328,056
Europe and Africa	303,328	286,088	314,172
Other international operations	85,979	79,898	98,316
Total revenue	<u>\$ 1,264,647</u>	<u>\$ 1,375,340</u>	<u>\$ 1,740,544</u>

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

14. COMMITMENTS AND CONTINGENCIES

The Company leases land, office space and equipment under various operating lease agreements extending through fiscal 2100. Certain of these leases contain provisions for renewal options and escalation clauses. The Company also has commitments under various contribution and advertising agreements. The following is a schedule of future minimum commitments for the next five years and in total (in thousands):

	Payment Due by Period as of March 31,						
	Total	2005	2006	2007	2008	2009	2010 and Thereafter
Contractual obligations:							
Operating leases	\$ 325,153	\$ 29,287	\$ 23,320	\$ 19,396	\$ 15,885	\$ 11,558	\$ 225,707
Other (1)	8,280	4,605	2,075	200	200	200	1,000
Total	<u>\$ 333,433</u>	<u>\$ 33,892</u>	<u>\$ 25,395</u>	<u>\$ 19,596</u>	<u>\$ 16,085</u>	<u>\$ 11,758</u>	<u>\$ 226,707</u>

(1) - Other includes a \$4.0 million commitment to various City of Detroit charities and a \$4.3 million advertising agreement.

In connection with the new headquarters facility, the Company has entered into a lease agreement for the land associated with the facility. Total rent payments under this agreement were approximately \$750,000 and \$717,000 for the years ended March 31, 2004 and 2003, respectively. The agreement includes provisions for annual rent increases based on increases in the Consumer Price Index with a maximum of 5% per year. The lease expires in fiscal 2100.

Director Compensation - Effective April 1, 2002, the Board of Directors approved the 2002 Directors Phantom Stock Plan (the Plan) for external Board members to provide increased incentive to make contributions to the long term growth of the Company, to align the interests of directors with the interests of shareholders, and to facilitate attracting and retaining directors of exceptional ability. The Plan provides for issuance of rights to receive the value of a share of the Company's common stock in cash upon vesting which occurs upon the retirement of the director from the Board. Phantom shares are granted automatically at the beginning of each fiscal year and at the discretion of the Board. As of March 31, 2004, approximately 168,000 phantom shares had been issued. The expense incurred related to this program was approximately \$968,000 and \$275,000 for the years ended March 31, 2004 and 2003, respectively, and is included in "administrative and general" in the consolidated statements of operations. Any fluctuation in the Company's stock price as quoted on the NASDAQ will result in a change to the expected payments under the Plan.

Legal Matters - On March 12, 2002, the Company filed suit in the United States District Court for the Eastern District of Michigan against International Business Machines Corporation ("IBM") alleging, among other things, infringement of our copyrights and misappropriation of our trade secrets with respect to our mainframe software tools, intentional interference with contractual relations with our employees and former employees, anti-trust law violations, tortious interference with our economic expectancy and various state law violations. The suit seeks injunctive relief and unspecified monetary damages, among other things, from IBM. In addition, IBM has filed a counterclaim against Compuware alleging violation of six IBM patents. The Compuware products accused of infringement are File-AID CS, Abend-AID, and Xpediter. The Court bifurcated the patent counterclaims from the other claims and fact discovery is proceeding. No trial date has been set for the counterclaims. We believe we have valid defenses to the counterclaims, and we will vigorously defend against those claims. In December 2003, the Court denied the Company's Motion for Preliminary Injunction on the trade secret and false advertising claims, ruling that there were fact issues that needed to be decided by a jury. The Company's Motion did not address IBM's antitrust violations or unfair competition. Those claims, as well as the trade secret misappropriation claims are scheduled to be tried by a jury in September 2004.

On January 15, 2004, IBM filed patent infringement claims against Compuware in the United States District Court for the Southern District of New York alleging infringement of seven IBM patents. The suit seeks injunctive relief and unspecified monetary damages. We believe we have valid defenses to the claims, and intend to vigorously defend against the lawsuit.

The Company is a party to a consolidated class action proceeding filed in the United States District Court for the Eastern District of Michigan. The suit was brought on behalf of purchasers of the Company's common stock from January 1, 1999 to April 3, 2002. The plaintiffs allege that the Company failed to disclose under the securities laws its problems with the misappropriation of its software source code by IBM. The plaintiffs further allege that the Company omitted and/or disseminated materially false and misleading statements concerning its deteriorating relationship with IBM. The plaintiffs request that the court award them monetary damages and expenses of litigation, including reasonable attorneys fees. The Company strongly disagrees with the allegations and intends to vigorously defend against the lawsuit.

The Company is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. The Company does not believe that the outcome of any of these legal matters, including those discussed above, will have a material adverse effect on the Company's consolidated financial position or results of operations.

15. 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 US 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. Contributions totaled \$4.9 million, \$9.4 million and \$10.7 million in fiscal 2004, 2003 and 2002, respectively. The 2004 contribution was distributed to the ESOP subsequent to March 31, 2004. This is a non-leveraged ESOP plan.

Employee Stock Purchase Plan - During fiscal 1996, the Company adopted and the shareholders approved the global Employee Stock Purchase Plan under which the Company was authorized to issue up to eight million shares of common stock to eligible employees, all of which were distributed as of March 2001. During fiscal 2002, the shareholders approved international and domestic employee stock purchase plans authorizing 15 million shares for issuance to eligible employees. Currently, the offering periods commence on April 1st and October 1st each year. Under the terms of the plan, employees can elect to have up to ten percent of their compensation withheld to purchase Company stock at the close of the offering period. The value of the stock purchased in any calendar year cannot exceed \$25,000 per

employee. The purchase price is 85% of the first or last day's average high and low price for each offering period, whichever is lower. During fiscal 2004, 2003 and 2002, the Company sold approximately 2,340,000, 3,482,000, and 1,007,000 shares, respectively, to eligible employees under the plan.

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 and directors of the Company, of which approximately 36,877,000 options were outstanding at March 31, 2004. 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 2004, the Company granted approximately 619,000 options under the five different Employee Stock Option Plans. Options granted under these plans 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.

In March 2001, the Company adopted the 2001 Broad Based Stock Option Plan. The plan was approved by the Board of Directors, but was not submitted to the shareholders for approval. (At March 2001, shareholder approval was not required.) The plan provides for grants of options to purchase up to 50,000,000 shares of the Company's common stock to employees or directors of the Company. Under the terms of the plan, the Company may grant nonqualified stock options at the fair market value of the stock on the date of grant. During fiscal 2004, the Company granted approximately 2,235,000 options under the Broad Based Stock Option Plan. Approximately 25,471,000 options were outstanding at March 31, 2004. Options granted under the Broad Based Stock Option Plan either vest every six months over a four year period or 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.

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. During fiscal 2004, no options were granted under the Non-Employee Director Stock Option Plan. Approximately 1,247,000 options were outstanding at March 31, 2004.

Prior to March 31, 2002, each non-employee director received an annual grant of 20,000 options with additional grants for board and committee meeting attendance. Non-employee directors were granted stock options out of the Non-Employee Director Stock Option Plan or the Fiscal 1999 Stock Option Plan.

At March 31, 2004, approximately 31,000 options were outstanding under plans that were terminated by the Company, of which virtually all 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. During fiscal 2004, approximately 55,000 options were exercised under the Replacement Stock Option Award program for which approximately 37,000 replacement options were granted.

The Company applied the intrinsic value method of recognition and measurement under APB Opinion No. 25 to its stock-based compensation plans. Accordingly, no compensation expense related to employee stock options is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant. See Note 1 for the Company's pro forma net income and earnings per share in accordance with SFAS No. 123.

A summary of the status of fixed stock option grants under Compuware's stock-based compensation plans as of March 31, 2004, 2003 and 2002, and changes during the years ending on those dates is as follows (shares in thousands):

	2004		2003		2002	
	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	64,233	\$ 11.75	65,864	\$ 12.30	46,272	\$ 13.53
Granted	2,854	5.45	5,975	7.17	31,380	9.46
Exercised	(837)	3.37	(552)	2.82	(4,022)	5.02
Exchanged	(37)	6.06	(12)	8.35	(878)	12.07
Forfeited	(2,587)	10.84	(7,042)	13.79	(6,888)	12.62
Outstanding at year end	<u>63,626</u>	\$ 11.62	<u>64,233</u>	\$ 11.75	<u>65,864</u>	\$ 12.30
Options exercisable at year end	<u>42,128</u>	\$ 13.06	<u>34,510</u>	\$ 12.78	<u>27,581</u>	\$ 12.42
Weighted-average fair value of options granted during the year	<u>\$ 3.22</u>		<u>\$ 5.24</u>		<u>\$ 5.09</u>	

The following table summarizes information about stock options outstanding at March 31, 2004 (shares in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares Under Option	Weighted-Avg. Remaining Life	Weighted-Avg. Exercise Price	Shares Under Option	Weighted-Avg. Exercise Price
\$ 0.01 to \$10.00	43,644	6.22	\$ 8.11	23,888	\$ 8.09
10.01 to 20.00	11,341	4.43	14.90	9,712	14.82
20.01 to 30.00	7,969	4.00	24.41	7,884	24.41
30.01 to 42.00	672	4.20	32.23	644	32.24
	<u>63,626</u>	5.60	11.62	<u>42,128</u>	13.06
	Number of securities to be issued upon exercise of outstanding options		Weighted-average exercise price of outstanding options		Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	38,155		\$13.51		7,286
Equity compensation plans not approved by security holders	25,471		8.78		23,989

The maximum number of shares for which additional options may be granted was 31,275,605, 31,596,483 and 32,058,441 at March 31, 2004, 2003 and 2002, respectively. At March 31, 2004, a total of 95,901,688 shares of the Company's common stock are reserved for issuance under the warrant and all option plans. Income tax benefits associated with the exercise of stock options are reflected as adjustments to additional paid-in capital.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for the years ended March 31, 2004 and 2003 is as follows (in thousands, except for per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2004:					
Revenues	\$ 306,012	\$ 302,753	\$ 318,185	\$ 337,697	\$ 1,264,647
Operating income (loss)	(1,494)	(16,468)	12,131	41,183	35,352
Pre-tax income (loss)	3,615	(11,830)	17,119	47,113	56,017
Net income (loss)	2,603	(8,518)	21,825	33,922	49,832
Basic earnings (loss) per share	0.01	(0.02)	0.06	0.09	0.13
Diluted earnings (loss) per share	0.01	(0.02)	0.06	0.09	0.13
Fiscal 2003:					
Revenues	\$ 346,599	\$ 357,994	\$ 333,139	\$ 337,608	\$1,375,340
Operating income	28,860	47,398	32,031	26,235	134,524
Pre-tax income	34,038	51,258	38,528	32,391	156,215
Net income	22,465	33,830	25,429	21,378	103,102
Basic earnings per share	0.06	0.09	0.07	0.06	0.27
Diluted earnings per share	0.06	0.09	0.07	0.06	0.27

17. SUBSEQUENT EVENT

In May 2004, the Company acquired all outstanding shares of Changeport Corporation, a privately held market-leader of IT Governance application software for approximately \$100 million in cash. The acquisition will be accounted for as a purchase during the first quarter of fiscal 2005, and, accordingly, assets and liabilities acquired will be recorded at fair value as of the acquisition date.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause the material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. No changes in the Company's internal control over financial reporting occurred during the quarter ended March 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is contained in the Proxy Statement for the 2004 Annual Meeting of Shareholders under the captions “Corporate Governance” (excluding the Report of the Audit Committee), “Election of Directors” and “Other Matters – Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is contained in the Proxy Statement under the caption “Compensation of Executive Officers and Directors” (excluding the Compensation Committee Report on Executive Compensation and the Performance Graph) and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is contained in the Proxy Statement under the caption “Security Ownership of Management and Major Shareholders” and is incorporated herein by reference. In addition, the information contained in the Equity Compensation table under Item 5 of this report and in Note 15 in the Notes to Consolidated Financial Statements which are included in this report in Item 8 is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is contained in the Proxy Statement under the caption “Other Matters – Related Party Transactions” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is contained in the Proxy Statement under the caption “Other Matters – Relationship with Independent Public Accountants” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report.

1. Consolidated Financial Statements

The following consolidated financial statements of the Company and its subsidiaries are filed herewith:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	33
Consolidated Balance Sheets as of March 31, 2004 and 2003	34
Consolidated Statements of Operations for each of the years ended March 31, 2004, 2003, and 2002	35
Consolidated Statements of Shareholders' Equity for each of the years ended March 31, 2004, 2003, and 2002	36
Consolidated Statements of Cash Flows for each of the years ended March 31, 2004, 2003, and 2002	37
Notes to Consolidated Financial Statements	38-57

2. Financial Statement Schedule included in Part IV of this form:

Report of Independent Registered Public Accounting Firm	64
Schedule II - Valuation and Qualifying Accounts and Reserves	64

All other financial statement schedules not listed above are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

3. EXHIBITS

The exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index attached to this report. The Exhibit Index is incorporated herein by reference.

(b) Reports on Form 8-K

A Current Report on Form 8-K pursuant to Items 9 and 12 was filed on January 26, 2004 reporting that on January 22, 2004, the Company issued a press release announcing financial results for the fiscal quarter ended December 31, 2003 and certain other information. A copy of the earnings conference call transcript was also furnished with the Report. The information was considered furnished, rather than filed. No financial statements were filed with this report.

A Current Report on Form 8-K pursuant to Items 9 and 12 was filed on February 6, 2004 reporting that on February 5, 2004, the Company issued a press release announcing that it entered into a definitive agreement for Compuware to acquire the products and

technology of Covisint LLC. The information was considered furnished, rather than filed. No financial statements were filed with this report.

A Current Report on Form 8-K pursuant to Item 9 was filed on March 2, 2004 reporting that on March 1, 2004, Compuware closed the transaction to acquire the products and technology of Covisint LLC. The information was considered furnished, rather than filed. No financial statements were filed with this report.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Farmington Hills, State of Michigan on June 4, 2004.

COMPUWARE CORPORATION

By: _____
Peter Karmanos, Jr.
Chairman of the Board, Chief
Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ Peter Karmanos, Jr.	Chairman of the Board, Chief Executive Officer And Director (Principal Executive Officer)	June 4, 2004
_____ Laura L. Fournier	Senior Vice President, Chief Financial Officer and Treasurer (Chief Financial and Accounting Officer)	June 4, 2004
_____ Dennis W. Archer	Director	June 4, 2004
_____ Gurminder S. Bedi	Director	June 4, 2004
_____ Elizabeth A. Chappell	Director	June 4, 2004
_____ Elaine K. Didier	Director	June 4, 2004
_____ William O. Grabe	Director	June 4, 2004
_____ William R. Halling	Director	June 4, 2004
_____ Faye A. Nelson	Director	June 4, 2004
_____ Glenda D. Price	Director	June 4, 2004
_____ W. James Prowse	Director	June 4, 2004
_____ G. Scott Romney	Director	June 4, 2004
_____ Lowell P. Weicker, Jr.	Director	June 4, 2004

EXHIBITS

The following exhibits are filed herewith or incorporated by reference. Each management contract or compensatory plan or arrangement filed as an exhibit to this report is identified below with an asterisk before the exhibit number. The Company's SEC file number is 000-20900.

<u>Exhibit Number</u>	<u>Description of Document</u>
2.3	Asset Purchase Agreement, dated February 4, 2004, by and between Compuware Corporation and Covisint, LLC. (13)
2.4	Amended and Restated Share Purchase Agreement among 3087769 Nova Scotia Company and Compuware Corporation and Changepoint Corporation and Each of the Sellers, dated as of April 27, 2004. (13)
3(i).1	Restated Articles of Incorporation of Compuware Corporation, as amended, as of October 25, 2000. (9)
3(i).5	Amended and Restated Bylaws of Compuware Corporation, as of October 2001. (10)
4.0	Rights Agreement dated as of October 25, 2000 between Compuware Corporation and Equiserve Trust Company, N.A., as Rights Agent. (7)
4.1	Warrant dated November 16, 2001 (11)
4.2	Revolving Credit Agreement dated as of May 2, 2003, between Compuware Corporation and Comerica Bank (12)
4.3	Amendment No. 1 to Credit Agreement, dated as of April 30, 2004. (13)
*10.4	1992 Stock Option Plan. (1)
10.24	Promotion Agreement, dated September 8, 1992, between Compuware Sports Corporation and the Company. (1)
*10.35	Fiscal 1993 Stock Option Plan. (1)
*10.36	Stock Option Plan for Non-Employee Directors. (1)
*10.37	Fiscal 1998 Stock Option Plan (3)
*10.51	Fiscal 1996 Stock Option Plan (6)
10.52	Advertising Agreement, dated December 1, 1996, between Arena Management Company and the Company (6)
*10.83	Fiscal 1999 Stock Option Plan (8)
*10.85	2001 Broad Based Stock Option Plan (5)
*10.86	First Amendment to 1992 Stock Option Plan (2)
*10.87	First Amendment to 1993 Stock Option Plan (2)
*10.88	First Amendment to 1996 Stock Option Plan (2)
*10.89	First Amendment to Stock Option Plan For Non-Employee Directors (4)
*10.90	Phantom Stock Plan (12)
21.1	Subsidiaries of the Registrant (13)
23.1	Consent of Independent Registered Public Accounting Firm (13)
31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (13)
31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (13)
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (13)
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (13)

-
- (1) Incorporated by reference to the corresponding exhibit to the Registration Statement on Form S-1, as amended (Registration No. 33-53652).
 - (2) Incorporated by reference to exhibits 12.0, 12.1 and 12.2 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.
 - (3) Incorporated by reference to exhibit 4.1 to the Registration Statement on Form S-8 (Registration Statement No. 333-37873).

- (4) Incorporated by reference to exhibit 12.3 to the 1998 Annual Report on Form 10-K.
- (5) Incorporated by reference to exhibit 4.10 to the Registration Statement on Form S-8 (Registration Statement No. 333-57984).
- (6) Incorporated by reference to the corresponding exhibit to the fiscal 2000 Annual Report on Form 10-K.
- (7) Incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 26, 2000.
- (8) Incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000.
- (9) Incorporated by reference to the corresponding exhibit to the fiscal 2001 Annual Report on Form 10-K.
- (10) Incorporated by reference to the corresponding exhibit to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001.
- (11) Incorporated by reference to the corresponding exhibit to the Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2001.
- (12) Incorporated by reference to the corresponding exhibit to the fiscal 2003 Annual Report on Form 10-K.
- (13) Filed herewith

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Compuware Corporation:

We have audited the financial statements of Compuware Corporation and subsidiaries (the "Company") as of March 31, 2004 and 2003, and for each of the three years in the period ended March 31, 2004, and have issued our report thereon dated May 26, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets*); such financial statements and report are included in this Annual Report on Form 10-K. Our audits also included the financial statement schedule of Compuware Corporation and subsidiaries, listed in Item 15(a)2. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Detroit, Michigan
May 26, 2004

COMPUWARE CORPORATION AND SUBSIDIARIES

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES YEARS ENDED MARCH 31, 2004, 2003 AND 2002 (In thousands)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at beginning of period	Charged To costs and expenses	Charged to other accounts-- describe	(1) Deductions-- describe	Balance at end of period
Allowance for doubtful accounts:					
Year ended March 31, 2004	\$ 26,543	\$ 2,711		\$ 6,689	\$ 22,565
Year ended March 31, 2003	23,190	10,139		6,786	26,543
Year ended March 31, 2002	21,267	10,037		8,114	23,190

(1) Write-off of uncollectible accounts, product maintenance cancellations and service cost overruns.

Compuware Corporation
BOARD OF DIRECTORS

DENNIS W. ARCHER

Chairman,
Dickinson Wright PLLC

GURMINDER S. BEDI

Member of the Board,
Private Investor

ELIZABETH A. CHAPPELL

President and Chief Executive Officer,
Detroit Economic Club

DR. ELAINE K. DIDIER

Professor, University Library,
Oakland University

WILLIAM O. GRABE

Managing Member,
General Atlantic Partners

WILLIAM R. HALLING

Member of the Board,
Private Investor

PETER KARMANOS, JR.

Chairman of the Board and Chief Executive Officer,
Compuware Corporation

FAYE ALEXANDER NELSON

President and Chief Executive Officer,
Detroit Riverfront Conservancy

DR. GLENDA D. PRICE

President,
Marygrove College

W. JAMES PROWSE

Member of the Board,
Private Investor

G. SCOTT ROMNEY

Partner,
Honigman Miller Schwartz and Cohn LLP

THOMAS THEWES

Vice Chairman of the Board (Emeritus)

LOWELL P. WEICKER, JR.

Member of the Board,
Private Investor

Compuware Corporation
BOARD OF DIRECTORS COMMITTEES

AUDIT:

William R. Halling (Chair)
Dr. Elaine K. Didier
Dr. Glenda D. Price
W. James Prowse

COMPENSATION:

William O. Grabe (Chair)
Faye Alexander Nelson
Lowell P. Weicker, Jr.

**NOMINATING/CORPORATE
GOVERNANCE:**

W. James Prowse (Chair)
Gurminder S. Bedi
William O. Grabe
William R. Halling
Lowell P. Weicker, Jr.

STRATEGIC PLANNING:

G. Scott Romney (Chair)
Dennis W. Archer
Gurminder S. Bedi
Elizabeth A. Chappell

SHAREHOLDER RELATIONS:

Elizabeth A. Chappell (Chair)
Faye Alexander Nelson
W. James Prowse
G. Scott Romney

**DIVERSITY AND COMMUNITY
RELATIONS:**

Dennis W. Archer (Chair)
Elizabeth A. Chappell
Dr. Elaine K. Didier
Dr. Glenda D. Price

Compuware Corporation
EXECUTIVE COMMITTEE

LAWRENCE S. ANGELI

Vice President,
Marketing

CHRIS BOCKHAUSEN

Senior Vice President and
Chief Information Officer

THOMAS M. COSTELLO, JR.

Senior Vice President,
Human Resources,
General Counsel and Secretary

PENNY DEITCH

Director,
Diversity and Community Relations

LISA ELKIN

Vice President,
Communications and
Investor Relations

LAURA FOURNIER

Senior Vice President,
Chief Financial Officer and Treasurer

HENRY JALLOS

Executive Vice President,
Global Account Management

PETER KARMANOS, JR.

Chairman of the Board and
Chief Executive Officer

DENISE KNOBBLOCK

Executive Vice President,
Administration

BOB PAUL

Chief Executive Officer and President,
Covisint Division

DANIEL J. SCHOENBAUM

Vice President,
Strategy

GERRY SMITH

Executive Vice President,
IT Governance

DONNA VENTIMIGLIA

Vice President,
Enterprise Customer Relationships

TOMMI WHITE

Chief Operating Officer

Compuware Corporation OPERATIONS LEADERSHIP

IRENE DAWSON

Senior Vice President,
Geographic Sales and Delivery,
Europe, Middle East and Africa

JOHN ERMANNI

Vice President,
Program Management Office
and Inside Sales

MARY HEPLER

Senior Vice President,
Professional Services

STEVE JOBSON

Senior Vice President,
Geographic Sales and Delivery,
Asia Pacific

PAUL JOHNSON

Senior Vice President,
Geographic Sales and Delivery,
North American East

TOSHITAKA NASHIZAWA

Senior Vice President,
Geographic Sales and Delivery,
Japan

ALBERTO NEVES

Senior Vice President,
Geographic Sales and Delivery,
Latin America

JOHN PENDERS

Senior Vice President, Sales Support
Worldwide Support Champion

STEVE SCHEIDT

Senior Vice President,
Geographic Sales and Delivery,
North American Central

ROD SCHMITT

Senior Vice President,
Geographic Sales and Delivery,
North American West

MARK SMITH

Vice President,
Worldwide Professional Services

ANDY TITUS

Senior Vice President,
Products Worldwide Sales Champion

Shareholder Information

GENERAL OFFICE

One Campus Martius
Detroit, MI 48226-5099
313.227.7300

TRANSFER AGENT

EquiServe Trust Company, N.A.
P.O. Box 219045
Kansas City, MO 64121
877.282.1169

AUDITOR

Deloitte & Touche
600 Renaissance Center, Suite 900
Detroit, MI 48243-1807

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 3 p.m. Eastern Time on August 24, 2004, in Detroit, Michigan. Notice of place of meeting with proxy form accompanies the Annual Report to Shareholders.

INVESTOR RESOURCES

Compuware maintains and updates a web site and a phone line specifically for our investors.

To access our investor web site, go to www.compuware.com and click on the Investor Relations link. The Compuware toll-free investor hot line is 877.779.CPWR.

FORM 10-K

Additional copies of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission for fiscal 2004, are available without charge by writing to:

Lisa Elkin
Vice President, Communications and Investor Relations
Compuware Corporation
One Campus Martius
Detroit, MI 48226-5099

COMMON STOCK LISTING

The company's common stock is traded on NASDAQ. The company's symbol is CPWR.

Compuware Offices

NORTH AMERICA

Appleton, WI	Chicago, IL	Fort Myers, FL	Minneapolis, MN	Phoenix, AZ
Atlanta, GA	Cincinnati, OH	Grand Rapids, MI	Montreal, QC	Raleigh, NC
Austin, TX	Cleveland, OH	Houston, TX	Nashua, NH	San Diego, CA
Baltimore, MD	Columbus, OH	Kansas City, KS	Nashville, TN	Seattle, WA
Boston, MA	Dallas, TX	Lansing, MI	New York, NY	St. Louis, MO
Calgary, AB	Denver, CO	Los Angeles, CA	Oakland, CA	Tampa, FL
Campbell, CA	Detroit, MI	Madison, WI	Ottawa, ON	Toronto, ON
Charlotte, NC	Fort Lauderdale, FL	Milwaukee, WI	Philadelphia, PA	Washington, D.C.

INTERNATIONAL

Amsterdam, The Netherlands	Dreieich, Germany	Linz, Austria	Nagoya, Japan	Slough, United Kingdom
Baden, Switzerland	Düsseldorf, Germany	Lisbon, Portugal	Osaka, Japan	Sophia Antipolis, France
Ballerup, Denmark	Hamburg, Germany	Lysaker, Norway	Panama City, Panama	Sydney, Australia
Berlin, Germany	Helsinki, Finland	Madrid, Spain	Paris, France	Tokyo, Japan
Brasilia, Brazil	Hong Kong, China	Manchester, United Kingdom	Prague, Czech Republic	Vienna, Austria
Brisbane, Australia	Johannesburg, South Africa	Melbourne, Australia	Rio de Janeiro, Brazil	Warsaw, Poland
Canberra, Australia	Kista, Sweden	Mexico City, Mexico	Rome, Italy	Zaventem, Belgium
Cape Town, South Africa	Koln, Germany	Milan, Italy	São Paulo, Brazil	
Dartford, United Kingdom	Lausanne, Switzerland	Munich, Germany	Seoul, South Korea	
			Singapore, Singapore	

IN ADDITION, THE COMPANY'S DISTRIBUTORS AND RESELLERS HAVE OFFICES THAT DIRECTLY SERVE

Argentina	Costa Rica	Hong Kong	The Netherlands	Slovakia
Australia	Croatia	India	Nicaragua	South Africa
Austria	Czech Republic	Indonesia	Norway	Sweden
Bahrain	Denmark	Ireland	Panama	Switzerland
Bolivia	Dominican Republic	Israel	Peru	Taiwan ROC
Botswana	Ecuador	Japan	Philippines	Thailand
Brazil	Finland	Korea	Poland	Turkey
Central Africa	France	Kuwait	Puerto Rico	United Arab Emirates
Chile	Germany	Malaysia	Russia	United Kingdom
China	Greece	Mauritius	Saudi Arabia	United States
Colombia	Guatemala	Mexico	Singapore	Venezuela



COMPUWARE
www.compuware.com

COMPUWARE CORPORATION

One Campus Martius
Detroit, MI 48226-5099
313.227.7300 - 800.521.9353
Fax: 313.227.7555

All Compuware products and services listed within are trademarks or registered trademarks of Compuware Corporation. All other company names or product names are trademarks of their respective owners.

© 2004 Compuware Corporation