

ANNUAL REPORT 2007



COMPUWARE®

Compuware delivers software and services that help make information technology an engine for business value.

Dear Fellow Shareholder,

In last year's Letter to Shareholders, I wrote that Compuware's management team understood the need to deliver growth in both earnings and revenue in FY '07. With more than 20 percent year-over-year growth in EPS and Compuware's first revenue growth in seven years, I'm pleased to report that Compuware achieved those milestones this fiscal year.

With powerful performances by Compuware's key growth-drivers like Vantage, Changepoint and Covisint leading to overall revenue growth and to Compuware's third consecutive year of increasing EPS, fiscal year 2007 represented an important inflection point for the company. Moving forward, the key focus for Compuware will be harnessing the company's momentum to further strengthen results.

To ensure Compuware seizes this opportunity in fiscal year 2008, I will continue to lead the company in implementing its comprehensive plans for driving strong operational results and for aligning costs with market conditions. Through these efforts, I expect Compuware to again deliver growth in earnings and revenues in the fiscal year ahead.

Specifically, Compuware will improve its operational results by continuing to market and invest in its solutions that have the greatest potential for growth. Compuware has this year launched its Test Factory, IT Portfolio Management, IT Service Management, Application Delivery Management and Enterprise Legacy Modernization initiatives. I expect these initiatives to further strengthen the already robust performance of Compuware solutions such as Changepoint, Vantage and the company's application development offerings by delivering Compuware customers greater visibility into their IT operations and more control over their IT resources.

Additionally, the company will work to maintain and even increase its extremely valuable mainframe customer base in FY '08. The mainframe remains a critical technology for large business, and therefore a lucrative and significant market for Compuware. Accordingly, Compuware will continue to ensure that its solutions deliver tremendous value for the mainframe and that the company's customers clearly understand that value.

The coming year will also be an important one for Compuware's Professional Services organization. In fiscal year 2008, I expect the company's plans for Professional Services to yield increases in utilization and billing rates, making the division more profitable.

Finally, I expect Compuware Covisint to continue adding customers in three major lines of business in the year ahead: automotive, healthcare and security. By expanding its already thriving automotive operation and by investing in its growing healthcare and security markets, Covisint should continue its rapid growth in fiscal year 2008.

Taken together, these sales drivers give me great optimism about the company's capacity to grow the business. I expect Compuware's sales teams to leverage these drivers to win new customers and to expand the company's relationships with existing customers.

As the operations team propels these efforts in fiscal year 2008, I will continue to lead the company's plan for aligning its costs and investments with market conditions. To this end, I have established a team of Compuware employees dedicated to working full-time on increasing the company's efficiency and on improving its business processes. Reporting directly to me, this Business Transformation Team will expedite the transformation of Compuware's business and ensure that the company, its employees and its investors prosper.

As an initial step in this effort, Compuware has carefully evaluated expenses across the organization. The company has begun implementing a plan that will take a minimum of \$50 million in operating expenses out of the business by the end of the fiscal year. These reductions will be across the company and in the areas that make the most sense for the business.

With cash and investments totaling nearly \$440 million as of March 31, 2007, the company continues to maintain a strong balance sheet. In FY '07 the company enhanced this balance sheet with an enviable operating cash flow of more than \$200 million. I expect a similar level of operating cash flow in the coming fiscal year. Finally, Compuware will continue to buy back the company's stock in fiscal year 2008, making each share you own proportionally more valuable.

I remain optimistic about Compuware's future, and I remain passionate about creating that bright future in partnership with Compuware employees and customers around the world. By focusing its investments where the return will be the greatest, Compuware will deliver enhanced operational results. By managing the company's costs, Compuware will improve its margins. Together, these efforts will increase the value of Compuware's stock for investors, strengthen the company for its employees and increase the value that Compuware delivers to its customers.

Sincerely,

A handwritten signature in black ink that reads "Peter Karmanos, Jr." with a stylized flourish at the end.

Peter Karmanos, Jr.
Chairman and CEO

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

FORM 10-K

[X]

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

FOR THE FISCAL YEAR ENDED MARCH 31, 2007

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:

Title of Each Class

Common Stock, par value \$.01 per share
Preferred Stock Purchase Rights

Name of Each Exchange on Which Registered

Nasdaq Stock Market
Nasdaq Stock Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No X

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer X Accelerated filer
Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, was \$2,237,756,592, based upon the closing sales price of the common stock on that date of \$7.79 as reported on The NASDAQ Global Select 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 301,152,638 shares of \$.01 par value common stock outstanding as of May 18, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's 2007 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**

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PART I

ITEM 1. BUSINESS

We deliver value to businesses worldwide by providing software products and professional services that improve the performance of information technology ("IT") organizations. Originally founded in 1973 as a professional services company, we began to offer mainframe productivity tools for fault diagnosis, file and data management, and application debugging in the late 1970's.

In the 1990's, IT moved toward distributed and web-based platforms. Our solutions portfolio grew in response, and we now market a comprehensive portfolio of IT solutions across the full range of enterprise computing platforms that help:

- Develop and deliver high quality, high performance enterprise business applications in a timely and cost-effective manner.
- Measure, manage and communicate application service in business terms, and maintain consistent, high levels of service delivery.
- Provide executive visibility, decision support and process automation across the entire IT organization to enable all available resources to be harnessed in alignment with business priorities.

Additionally, to be competitive in today's global economy, enterprises must securely share applications, information and business processes. We address this market need through our Covisint offerings, which help manage the supply chain through the integration of vital business information and processes between partners, customers and suppliers.

We operate in two reportable business segments in the software and technology services industries: products and professional services (see Note 13 of the Notes to Consolidated Financial Statements, included in Item 8 of this report).

For a discussion of developments in our business during fiscal 2007, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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. Our Internet address is www.compuware.com. We make available, free of charge on our 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.

The following discussion may contain certain forward-looking statements within the meaning of the federal securities laws. When we use words such as "may," "might," "will," "should," "believe," "expect," "anticipate," "estimate," "continue," "predict," "forecast," "projected," "intend" or similar expressions, or make statements regarding our future plans, objectives or expectations, we are making forward-looking statements. Numerous important factors, risks and uncertainties affect our operating results, including, without limitation, those discussed in Item 1A. Risk Factors and 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.

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 enterprise IT solutions are focused on providing a real return on investment for our clients by increasing the performance of the entire IT organization and enabling IT management to deliver maximum business impact in support of the organization's strategic objectives. We support the most widely used technologies and platforms, including IBM z/Series (mainframe), Java, Microsoft Windows and .NET, UNIX, Linux, Oracle and SAP.

We offer software solutions and professional services in three primary areas of IT value delivery:

- Application delivery, encompassing business requirements management, automated development, quality assurance, performance assurance and delivery management – enabling IT organizations to deliver packaged, outsourced or internally developed applications that meet business needs and production service requirements;
- Service management, in which the delivery of key business services is measured and managed – including the associated applications and infrastructure; and
- IT portfolio management, which enables IT executives to prioritize, measure and manage the entire spectrum of IT investments and activities through portfolio-based decision-making and to communicate the value delivered to the business.

PRODUCTS

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

Product Revenue	Year Ended March 31,			Percentage of Total Revenues		
	2007	2006	2005	2007	2006	2005
Mainframe Products						
Application Delivery						
File-AID	\$ 157,730	\$ 162,843	\$ 172,438	13.0 %	13.5 %	14.0 %
Xpediter	98,949	98,043	108,762	8.2	8.1	8.8
Hiperstation	18,002	17,859	23,343	1.5	1.5	1.9
Service Management						
Abend-AID	127,538	132,503	138,592	10.5	11.0	11.3
Strobe	82,588	91,683	83,608	6.8	7.6	6.8
Total Mainframe Products Revenue	484,807	502,931	526,743	40.0	41.7	42.8
Distributed Products						
Application Delivery						
Optimal and Uniface	50,529	50,663	47,403	4.2	4.2	3.8
File-Aid/CS, QA Center and CARS	48,627	44,877	42,688	4.0	3.7	3.5
DevPartner	26,569	26,324	28,078	2.2	2.2	2.3
Service Management						
Vantage	107,993	86,939	70,642	8.9	7.2	5.7
IT Portfolio Management						
Changepoint	22,481	18,512	14,945	1.8	1.6	1.2
Total Distributed Products Revenue	256,199	227,315	203,756	21.1	18.9	16.5
Total Product Revenue	\$ 741,006	\$ 730,246	\$ 730,499	61.1 %	60.6 %	59.3 %

COMPUWARE SOFTWARE PRODUCTS

Our software products enhance the effectiveness of key disciplines throughout the IT organization, from application delivery to service management and IT portfolio management, supporting all major enterprise computing platforms.

APPLICATION DELIVERY—Our Optimal, Uniface, DevPartner, QACenter, Hiperstation, File-AID and Xpediter products and the Compuware Application Reliability Solution (“CARS”) help IT organizations to consistently and efficiently develop and deliver reliable, scalable applications that meet business needs and deliver high levels of customer satisfaction.

SERVICE MANAGEMENT— Our Abend-AID, Strobe and Vantage products are used to manage IT service delivery – providing IT organizations with the ability to measure, manage and communicate service in business terms and enabling delivery of consistently high levels of service through systematic analysis of application and infrastructure performance.

IT PORTFOLIO MANAGEMENT— Our Changepoint solution provides IT executives with visibility into all aspects of IT activity, supports effective investment decision-making driven by business strategy, enables IT resources to be effectively aligned with business priorities through management of IT supply and demand, provides timely and accurate financial budgeting, tracking and reporting, and enables and enforces organizational best practices through process automation.

MAINFRAME MARKET

The market for mainframe products is well-defined and the drive to extend legacy applications into distributed environments continues to underscore the need for reliable, high-volume mainframe processing.

We intend to remain focused on developing, marketing and supporting high-quality software products, both to support traditional uses of the mainframe and to enable IT organizations to rationalize, modernize and extend their legacy application portfolios. 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 business applications and to make IT processes more streamlined, automated and repeatable.

MAINFRAME SOFTWARE PRODUCTS

Our mainframe products focus on improving the productivity of development, maintenance and support teams in application analysis, testing, defect isolation and removal, fault management, file and data management and application service management in the IBM OS/390 and z/Series environments. We believe that these products will remain among the industry’s leading solutions for this platform.

Our mainframe products are functionally rich, focused on customer needs and easy to install, while requiring 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. These products can be quickly integrated into day-to-day testing, debugging and maintenance activities.

Our mainframe products are grouped into two product lines: Application Delivery and Service Management products.

APPLICATION DELIVERY 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, including building test data environments to provide the right data in the shortest time. The File-AID product family can also be used to address data privacy requirements in preproduction test environments.

Xpediter interactive debugging products help developers integrate enterprise applications, build new applications and modernize and extend their legacy applications, 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.

Hiperstation products deliver complete preproduction testing functionality for automating test creation and execution, test results analysis and documentation. Hiperstation also provides application auditing capabilities to address regulatory compliance and other business requirements. The products simulate the on-line systems environment, allowing programmers to test applications under production conditions without requiring actual users at terminals. Their powerful functions and features enhance unit, concurrency, integration, migration, capacity and stress testing. When deployed in production, Hiperstation allows scalable logging of application transactions and provides audit reporting to aid in problem resolution and to support other uses of the captured transaction information such as analysis of security breaches.

SERVICE MANAGEMENT PRODUCTS

Abend-AID products enable 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. Automated failure notification helps speed problem resolution and reduce downtime.

Strobe and iStrobe are products that work together to help customers locate and eliminate sources of excessive resource demands during every phase of an application's life cycle. Strobe products measure the activity of z/OS-based online and batch applications, providing reports on where and how time is spent during execution. Strobe products support an extensive array of subsystems, databases and languages. These products can be applied via a systematic program to reduce the consumption of mainframe resources and reduce associated costs and/or make resources available for additional business workloads.

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 provide enhanced versatility through service-oriented architectures, IT organizations are challenged to combine agility, cost effectiveness and control in developing and delivering reliable, scalable and high quality enterprise applications that meet business needs, despite an exponential increase in environment complexity. We believe our distributed products address these challenges and that we are emerging as a premier provider of application delivery, service management and IT portfolio management solutions to enterprise IT organizations.

DISTRIBUTED SOFTWARE PRODUCTS

Our distributed products focus on maximizing the performance of the entire IT organization, including applications and operations organizations, as well as IT executive leadership. These products provide for an effective application delivery discipline from requirements definition and management, through application development and quality and performance assurance. They support service delivery through comprehensive service management capabilities encompassing business service management, end-user experience monitoring, application analytics and application infrastructure monitoring and management. They also support business-centric IT management through comprehensive IT portfolio management - enabling investment prioritization driven by business strategy, portfolio-driven management decision making, effective visibility and control over IT supply and demand, and value transparency back to line-of-business management.

Our distributed software products are grouped into three product lines: Application Delivery, Service Management and IT Portfolio Management products.

APPLICATION DELIVERY PRODUCTS

Optimal Trace is our business requirements management product. Optimal Trace enables the effective capture of business intent into a set of structured application requirements which can then be used to drive the rest of the application delivery process.

OptimalJ is our Java automated 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.

Uniface is our 4GL automated development and deployment product. With Uniface, developers can develop, integrate, maintain and deploy complex distributed applications. Uniface applications are hardware, operating system, database and user interface independent. This reduces the cost for customers when switching or upgrading to new platforms.

Uniface View is our business integration portal product. As a packaged, web-based application integration platform, Uniface View enables customers to quickly bring together diverse packaged and custom applications in a customizable desktop portal.

Uniface Flow is our business process automation and business process modeling product. Uniface Flow enables business analysts to model business processes and connect business tasks to application components. In addition Uniface Flow provides a business process server enabling customers to deploy their automated business processes.

File-AID/Client Server is a comprehensive test data management product that allows quality assurance teams to more efficiently reuse test cases with different test data enabling repeatable and consistent testing.

QACenter delivers a full spectrum of automated testing products and solutions designed to validate applications running across various distributed environments, isolate and correct problems and ensure that applications will meet performance requirements before they are deployed in production.

The QACenter product family provides the following capabilities:

Quality Assurance – supporting full life-cycle testing of large-scale distributed applications. QACenter provides the framework for managing the entire testing process, allowing users to track test requirements and associated test cases and scripts, to analyze and manage risk and improve efficiency with test management and analysis that aligns quality assurance with business goals to maximize application quality. It also provides functional test automation that allows organizations to validate business-critical applications including web-based, client/server and packaged applications. It provides a defect management solution that serves as a central repository and communication hub for all development-related activities and test-related activities and data.

Performance Assurance – providing automated load testing and preproduction performance prediction and monitoring capabilities to identify bottlenecks and to optimize performance for internally developed, outsourced and packaged applications running in distributed environments.

CARS is a comprehensive quality management solution that provides a risk-based testing framework used to ensure testing efforts align with business priorities. It consists of the CARS workbench (our software solution) combined with certified quality assurance expertise (professional services) and Qualitypoint (our risk-based proprietary methodology). This systematic testing approach provides adherence to a consistent quality assurance process, delivers the quality metrics required to make sound go / no go decisions and ensures the most critical of business requirements are met.

The DevPartner Studio family of products provide analysis, automation and metrics to help application delivery teams build reliable, high-performance applications and components for Microsoft.NET. These products provide code, memory and performance analysis, code coverage, security analysis and error simulation. This yields a rich set of quality, performance and security metrics to enable critical business capabilities to be efficiently built into applications during the construction phase, rather than during the testing phase of application delivery.

DevPartner Java Edition pinpoints runtime errors, memory problems and performance bottlenecks and identifies code coverage/stability across all tiers of a Java application environment. DevPartner Java Edition helps developers and testers more efficiently solve the complexity, quality and performance problems associated with Java development.

SERVICE MANAGEMENT PRODUCTS

Our Vantage family of service management products enable IT organizations to deliver outstanding service by measuring and managing service from the perspective of the business. The Vantage solution gathers business-relevant service metrics by monitoring end user response time and availability. These end user service metrics are integrated with deep application and infrastructure analytics, enabling IT organizations to proactively identify, resolve and prevent performance problems. The same end user service metrics are crucial to establishing an overall quality-of-service management environment incorporating a broad spectrum of service metrics from both Compuware and third-party management products through the Vantage business service management capability.

Vantage Service Manager – Provides a sophisticated business service management and service level reporting platform to provide a coherent view of business service -- incorporating end user experience metrics, application infrastructure metrics, and other service metrics across both distributed and mainframe environments and incorporating Vantage capabilities as well as insight available from Abend-AID, Strobe and third party monitoring and service desk solutions.

ClientVantage—Provides a complete measure of end-user experience for all users, all the time, by tracking response times, resource usage, application faults and availability. ClientVantage supports agentless performance monitoring of extremely high-transaction volume web-based and enterprise applications as well as active agent based monitoring which provides consistent service level metrics for key business transactions across defined user populations and service locations.

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 network bandwidth sizing decisions; and provides historical trending data for use in network growth management.

ServerVantage—Via agent-based or agentless technology, monitors the availability and performance of applications, databases and servers, allowing administrators to centrally manage events across all application components—web servers, firewalls, application servers, file systems, databases, middleware and operating systems.

Vantage Analyzer—Directs users straight to the source of application performance problems in both J2EE and .NET environments, using visibility and detailed transaction analysis, without draining production resources.

ApplicationVantage—Pinpoints the source of poor performance and infrastructure problems to the client, server or network in production and pre-production environments, eliminating time-consuming guesswork. Predictive analysis features enable IT organizations to ensure that new and modified applications roll out successfully and provide crucial information for establishing and meeting service requirements.

IT PORTFOLIO MANAGEMENT PRODUCTS

Changepoint provides business management capabilities for Chief Information Officers (“CIOs”) and IT organizations as well as for the IT professional services organizations that serve them. Accordingly, there are two versions of the Changepoint solution – Changepoint and Changepoint PSA (Professional Services Automation).

Changepoint provides CIOs and IT managers with critical insight into IT project and non-project activity, strategic and operational demand and resource allocation and availability, enabling portfolio-driven decision-making aligned with business strategy. Changepoint automates core IT business processes to reduce costs and increase efficiency and quality. It provides a sound financial framework which enables IT leadership to communicate value delivered to the business for every dollar of IT spend.

Portfolio management capabilities enable integrated management of all IT investments and resources. Changepoint supports project, application and investment planning portfolios, so that organizations can prioritize and manage the investments that best support business goals, even as business conditions and market requirements change.

Changepoint PSA provides total visibility into the performance of an IT professional services organization from detailed analyses of the performance of engagements, projects and customers to higher level views of workgroups, the sales pipeline, engagements, project portfolios and financial projections. A configurable management portal enables the consolidation of business-critical information from Changepoint PSA, as well as other critical business systems.

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 customer support and product upgrades to assure a continuing high level of customer satisfaction. In fiscal year 2007, 2006 and 2005, we experienced 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 product support 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 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 2007, 2006 and 2005, maintenance fees represented approximately 37.7%, 36.0% and 34.5%, respectively, of our total revenues.

TECHNOLOGY DEVELOPMENT AND SUPPORT

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; Gdansk, Poland; Toronto, Canada; Dublin, Ireland; Sydney, Australia; Cambridge, Massachusetts; San Diego, California; and Merrimack, New Hampshire.

Total technology development and support costs were \$135.5 million, \$117.2 million and \$130.6 million during fiscal 2007, 2006 and 2005, respectively, of which \$21.4 million, \$20.3 million and \$19.3 million, respectively, were capitalized.

PROFESSIONAL SERVICES

We offer a broad range of IT services for distributed systems and mainframe environments. Our offerings include technical staffing, application services and development, quality assurance, project management and application maintenance. We also offer professional services solutions that utilize Compuware's products for enhanced efficiency, quality and performance.

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, ongoing training, high staff utilization and immediate, productive deployment of new personnel at client locations.

Our objective in the professional services division is to create long-term relationships with customers in which our professional staff join 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.

Professional services also includes Covisint, our business-to-business (“b2b”) applications and interoperability services division.

Covisint provides a secure, collaborative services platform that digitizes and integrates information assets that cross disparate systems and user communities. By combining centralized identity and access management technologies, advanced portal functionality and global b2b messaging, users can find, access and share information across disparate systems more effectively.

For industries and communities of any size, anywhere, Covisint's collaborative services platform delivers the reliability and security of enterprise applications with the flexibility of a software-as-a-service model. Delivered as a service, Covisint extends the capabilities of legacy systems and applications across organizations and communities.

- Covisint provides a portal framework for web-based communications across an organization's extended enterprise and business communities.
- Covisint provides a robust messaging engine that is capable of consuming and distributing both electronic and paper-based messages.
- Covisint enables organizations and communities to implement a unified and leveraged approach to managing digital identities and information security across a wide variety of technologies and organizations. This leveraged approach results in reduced complexity with increased consistency and policy enforcement when sharing information across multiple participants.

CUSTOMERS

Our products and professional services are used by the IT departments of a wide variety of commercial and government organizations.

We did not have a single customer that accounted for greater than 10% of total revenue during fiscal 2007, 2006 or 2005, or greater than 10% of accounts receivable at March 31, 2007 and 2006.

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 and Asia-Pacific. 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 products and 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 Software Corp., CA, Inc., International Business Machines Corporation (“IBM”) and Hewlett-Packard Company. 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, distribution channels and price.

The distributed systems market in which we operate has many more competitors than our traditional mainframe market. Our ability to compete effectively and our growth prospects depend upon many factors, including the success of our existing distributed systems products, the timely introduction and success of future software products, the ability of our products to interoperate and perform well with existing and future leading databases and other platforms supported by our products and our ability to bring products to market that meet ever-changing customer requirements.

The market for professional services is highly competitive, fragmented and characterized by low barriers to entry. Our principal competitors in professional services include Accenture Ltd., Computer Sciences Corporation, Electronic Data Systems Corporation, IBM Global Services, Analysts International Corporation, Keane, Inc., Infosys Technologies, Sun Microsystems, Inc., GXS Strategies, Sterling Commerce Corp. 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, effective sales execution and our ability to acquire and integrate new technologies. 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 registered trademark rights in our product names. As of March 31, 2007, we have been granted 36 patents issued in the United States and have 15 patent applications pending with the United States Patent and Trademark Office for certain product technology and have plans to seek additional patents in the future. Once granted, we expect the duration of each patent will be up to 20 years from the effective date of filing of the applications. Our earliest issued patent filing date is fiscal 1992. 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 legal protection of our technology.

There can be no assurance that third parties will not assert infringement claims against us 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.

EMPLOYEES

As of March 31, 2007, we employed 7,539 people worldwide, with 1,390 in product sales, sales support and marketing; 1,574 in technology development and support; 3,596 in professional services and 979 in other general and administrative functions. Only a small number of our 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.	64	Chairman of the Board, Chief Executive Officer and President
Henry A. Jallos	58	President and Chief Operating Officer, Products
Robert C. Paul	44	President and Chief Operating Officer, Covisint
Laura L. Fournier	54	Senior Vice President, Chief Financial Officer (Chief Accounting Officer) and Treasurer
Thomas M. Costello, Jr.	53	Senior Vice President, Human Resources, Communications and Investor Relations, General Counsel and Secretary

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 and October 2003 to present.

Henry A. Jallos has served as President and Chief Operating Officer, Products, since January 2006. Mr. Jallos served as Corporate Executive Vice President from May 2005 through December 2005, Executive Vice President, Global Account Management from October 2001 through April 2005, Executive Vice President, Products Division from September 1998 through October 2001 and Senior Vice President, Worldwide Sales from August 1994 through August 1998.

Robert C. Paul has served as President and Chief Operating Officer of Compuware Covisint since January 2006. Prior to that time, Mr. Paul was Chief Executive Officer and President of Covisint since its acquisition by Compuware in March 2004. Mr. Paul had spent nearly three years at Covisint prior to the acquisition.

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 September 2003 and Secretary since May 1995. Mr. Costello was appointed Senior Vice President in September 2003. Mr. Costello is responsible for legal, human resources, communications and investor relations.

SEGMENT INFORMATION, PAYMENT TERMS AND FOREIGN REVENUES

For a description of revenues and operating profit by segment and for financial information regarding geographic operations for each of the last three fiscal years, see Note 13 of the 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 and other risks. For a discussion of these risks, see Item 1A Risk Factors and Item 7A Quantitative and Qualitative Disclosure about Market Risk.

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that we believe affect us are described below. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also impair business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and shareholders could lose all or part of their investment.

The majority of our software products revenue is dependent on our customers' continued use of IBM and IBM-compatible products

The majority of our revenue from software products is generated from products designed for use with IBM and IBM-compatible mainframe computers. As a result, the majority of our revenue from software products is dependent on our customers' continued use of IBM and IBM-compatible mainframe products. In addition, because our products operate in conjunction with IBM systems software, changes to IBM systems software may require us to adapt our products to these changes. An inability to do so, or any delay in doing so, may adversely affect our operating results.

Our software product revenue is dependent 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 which can negatively impact our software product revenue. Although we plan to increase prices as a means of improving revenues and gross margin, doing so may disproportionately decrease our sales volume due to these competitive pressures and, instead, have a negative effect on our results of operations and cash flows.

We may fail to achieve our forecasted financial results due to inaccurate sales forecasts or other factors.

Our revenues, and particularly our software license revenues, are difficult to forecast, and as a result, our actual financial results can vary substantially from our forecasted results. We base our financial forecasts on our "sales pipeline" (a common practice) and on expected sales from proposed initiatives to increase sales.

Our sales personnel monitor the status of all proposals and estimate when a customer will make a purchase decision and the dollar amount of the sale. These estimates are aggregated periodically to generate the sales pipeline. Our sales pipeline estimates can prove to be unreliable both in a particular quarter and over a longer period of time, in part because the "conversion rate" of the pipeline into

revenue can be very difficult to estimate due to the large number of variables that result in our customers making purchase decisions. In addition, changes in the conversion rate, or in the pipeline itself, could adversely affect our business or results of operations.

We also base financial forecasts on expected sales from proposed initiatives to increase sales. These proposed initiatives are longer term in nature and the sales resulting from them can prove to be unpredictable in both size and timing due to uncertainties related to sales execution, customer adoption, staffing requirements, compensation plans, poor estimates of expenses required to achieve these initiatives and other risks. If we do not achieve the sales volumes in the periods forecasted our actual financial results can vary significantly from our financial forecasts.

If we fail to achieve the results we expect from our expense reduction program, our results of operation and financial condition may be adversely affected.

We are in the process of implementing plans to reduce expenses, which include the consolidation of certain office locations, reduction in discretionary spending, reduction in the work force and other cost cutting measures. This might result in us incurring additional restructuring charges during fiscal 2008. There can be no assurance that our plans to reduce expenses will be completed in a timely manner or will produce the cost savings we anticipate.

Our software and technology may infringe the proprietary rights of others.

During the due diligence stage of any software acquisition, we research and investigate the title to the software we will be acquiring from the seller. This investigation generally includes without limitation, litigation searches, copyright and trademark searches, review of development documents and interviews with key employees of the seller regarding development, title and ownership of the software products being acquired. The acquisition document itself generally contains representations, warranties and covenants concerning the title and ownership of the software products as well as indemnification and remedy provisions in the event the representations, warranties and covenants are breached by the seller. Our new hires sign an offer letter which states that the new employee is being hired for his or her talent and skill rather than for any trade secrets or proprietary information of others of which he or she may have knowledge. Further, our employees execute an agreement stating that work developed for us or our clients belongs to us or our clients, respectively. Although we use all reasonable efforts to ensure we do not infringe on third party intellectual property rights, there can be no assurance that third parties will not assert infringement claims against us with respect to current and future products or that any such assertion will not require us to enter into royalty arrangements or result in costly litigation.

Our results could be adversely affected if our operating margins decline.

Our operating margins may decline. We are aware that sales 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 decline. 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, pricing pressures and technological changes.

The markets for our software products are highly competitive. We consider over 40 firms to be directly competitive with one or more of our products. Our competitors include, among others, BMC Software, Inc., Borland Software Corp., Hewlett-Packard Company, CA, Inc. and IBM. 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, sales channels, vendor reputation and price. 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 sales, product development and customer support. To be successful in the future, we must respond promptly and effectively to our customers' purchasing methodologies, challenges of technological change and our competitors' innovations by continually enhancing our product offerings.

We operate in an industry characterized by rapid technological change, evolving industry standards, changes in customer requirements and frequent new product introductions and enhancements. If we fail to keep pace with technological change in our industry, such failure would have an adverse effect on our revenues. During the past several years, many new technological advancements and competing products entered the marketplace. To the extent that our current product portfolio does not meet such changing requirements, our revenues will suffer. Delays in new product introductions or less-than-anticipated market acceptance of these new products are possible and would have an adverse effect on our revenues.

Developers of third party products, including operating systems, databases, systems software, applications, networks, servers and computer hardware, frequently introduce new or modified products. These new or modified third party products could incorporate features which perform functions currently performed by our products or could require substantial modification of our products to maintain compatibility with these companies' hardware or software. While we have generally been able to adapt our products and our business to changes introduced by new or modified third party product offerings, there can be no assurance that we will be able to do so in the future. Failure to adapt our products in a timely manner to such changes or customer decisions to forego the use of our products in favor of those with comparable functionality contained either in the hardware or other software could have a material adverse effect on our business, financial condition and operating results.

The market for professional services is highly competitive, fragmented and characterized by low barriers to entry.

Our principal competitors in professional services include, among others, Accenture Ltd., Computer Sciences Corporation, Electronic Data Systems Corporation, IBM Global Services, Analysts International Corporation, Keane, Inc., Infosys Technologies, Sun Microsystems, Inc., GXS Strategies, Sterling Commerce Corp. 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, ability to demonstrate achievement of results and price. There is no assurance that we will be able to compete successfully in the future.

We must develop or acquire product enhancements and new products to succeed.

Our success depends in part on our ability to develop product enhancements and new products which keep pace with continuing changes in technology and customer preferences. The majority of our products have been developed from acquired technology and products. We believe that our future growth lies, in part, in continuing to identify, acquire and then develop promising technologies and products. While we are continually searching for acquisition opportunities, there can be no assurance that we will continue to be successful in identifying, acquiring and developing products and technology. If any potential acquisition opportunities are identified, there can be no assurance that we will consummate and successfully integrate any such acquisitions and there can be no assurance as to the timing or effect on our business of any such acquisitions. Our failure to develop technological improvements or to adapt our products to technological change may, over time, have a material adverse effect on our business.

Acquisitions may be difficult to integrate, disrupt our business or divert the attention of our management and may result in financial results that are different than expected.

As part of our overall strategy, we have acquired or invested in, and plan to continue to acquire or invest in, complementary companies, products, and technologies and may enter into joint ventures and strategic alliances with other companies. Risks commonly encountered in such transactions include: the difficulty of assimilating the operations and personnel of the combined companies; the risk that we may not be able to integrate the acquired technologies or products with our current products and technologies; the potential disruption of our ongoing business; the inability to retain key technical, sales and managerial personnel; the inability of management to maximize our financial and strategic position through the successful integration of acquired businesses; the risk that revenues from acquired

companies, products and technologies do not meet our expectations; and decreases in reported earnings as a result of charges for in-process research and development and amortization of acquired intangible assets.

For us to maximize the return on some of our investments in acquired companies, the products of these entities must be integrated with our existing products. These integrations can be difficult and unpredictable, especially given the complexity of software and that acquired technology is typically developed independently and designed with no regard to integration. The difficulties are compounded when the products involved are well-established because compatibility with the existing base of installed products must be preserved. Successful integration also requires coordination of different development and engineering teams. This too can be difficult and unpredictable because of possible cultural conflicts and different opinions on technical decisions and product roadmaps. There can be no assurance that we will be successful in our product integration efforts or that we will realize the expected benefits.

With each of our acquisitions, we have initiated efforts to integrate the disparate cultures, employees, systems and products of these companies. Retention of key employees is critical to ensure the continued development, support, sales and marketing efforts pertaining to the acquired products. We have implemented retention programs to keep many of the key technical and sales employees of acquired companies; nonetheless, we have lost some key employees and may lose others in the future.

We are exposed to exchange rate risks on foreign currencies and to other international risks which may adversely affect our business and results of operations.

Approximately one-third of our total revenues are derived from foreign operations and we expect that foreign operations will continue to generate a significant percentage of our total revenues. Products are priced in the currency of the country in which they are sold. Changes in the exchange rates of foreign currencies or exchange controls may adversely affect our results of operations. The international business is also subject to other risks, including the need to comply with foreign and U.S. laws and the greater difficulty of managing business overseas. In addition, our foreign operations are affected by general economic conditions in the international markets in which we do business. A worsening of economic conditions in these markets could cause customers to delay or forego decisions to license new products or to reduce their requirements for professional services.

A further decline in the U.S. domestic automotive manufacturing business could adversely affect our professional services business.

Approximately 33% of our worldwide professional services revenue is generated from customers in the automotive industry, with the vast majority of that related to U.S. domestic automotive manufacturers. Many participants in the domestic automotive industry are engaged in restructuring and other efforts to cut costs, including IT expenditures. Further negative developments in this industry could reduce the demand for our services from these customers, which could have a significant impact on our professional services revenue and our margins.

Current laws may not adequately protect our proprietary rights.

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. We have many patents and many patent applications pending. However, existing patent and copyright laws afford only limited practical protection. 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. Any claims against those who infringe on our proprietary rights can be time consuming and expensive to prosecute, and there can be no assurance that we would be successful in protecting our rights despite significant expenditures.

The loss of certain key employees and technical personnel or our inability to hire additional qualified personnel could have a material adverse effect on our business.

Our success depends in part upon the continued service of our key senior management and technical personnel. Such personnel are employed at-will and may leave Compuware at any time. Our success also depends on our continuing ability to attract and retain highly qualified technical, managerial and sales personnel. The market for professional services and software products personnel has historically been, and we expect that it will continue to be, intensely competitive. There can be no assurance that we will continue to be successful in attracting or retaining such 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 a number of unpredictable factors.

We typically do not have a material backlog of unfilled orders, and revenues in any quarter are substantially dependent on orders booked in the quarter. A significant amount of our transactions are completed during the final weeks and days of the quarter, and therefore we generally do not know whether revenues or earnings will have met expectations until shortly after the end of the quarter. Our customers license our products under varying structures some of which require revenues to be deferred or recognized ratably over time. Changes in the mix of customer agreements could affect revenue in a quarter. Any significant shortfall in revenues or earnings or lowered expectations could cause our stock price to decline.

Investors should not rely on the results of prior periods or on historical seasonality in license revenue as an indication of our future performance. Our operating expense levels are relatively fixed and are based, in part, on our expectations of future revenue. If we have a shortfall in revenue in any given quarter, we will not be able to reduce our operating expenses for that quarter proportionately in response. Therefore, net income may be disproportionately affected by a fluctuation in revenue.

Maintenance revenue could decline.

Maintenance revenues have increased in recent years as a result of acquisitions and the continuing growth in the base of installed products and the processing capacity on which they run. Maintenance fees increase as the processing capacity on which the products are installed increases; consequently, we receive higher absolute maintenance fees with new license and maintenance agreements and as existing customers install our products on additional processing capacity. Declines in our license bookings or increased customer cancellations could lead to declines in our maintenance revenues.

Unanticipated changes in our operating results or effective tax rates, or exposure to additional income tax liabilities, could affect our profitability.

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. As a result, management must determine the appropriate allocation of income in accordance with local law for each of these jurisdictions. We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. Changes in estimates of projected future operating results or in assumptions regarding our ability to generate future taxable income could result in significant changes to our tax expense and valuation allowance and, therefore, 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.

We are required to file corporate income tax returns in the United States and in multiple foreign jurisdictions that are subject to United States, state and foreign tax laws. The United States, state and

foreign tax liabilities are determined, in part, by the amount of operating profit generated in these different taxing jurisdictions. We are also subject to routine corporate income tax audits in multiple jurisdictions. Our provision for income taxes includes amounts intended to satisfy income tax assessments that may result from the examination of our corporate tax returns that have been filed in these jurisdictions. The amounts ultimately paid upon resolution of these examinations could be materially different from the amounts included in the provision for income taxes and result in additional tax expense.

Acts of terrorism, acts of war and other unforeseen events may cause damage or disruption to us or our customers which could adversely affect our business, financial condition and operating results.

Natural disasters, acts of war, terrorist attacks and the escalation of military activity in response to such attacks or otherwise may have negative and significant effects, such as imposition of increased security measures, changes in applicable laws, market disruptions and job losses. Such events may have an adverse effect on the economy in general. Moreover, the potential for future terrorist attacks and the national and international responses to such threats could affect the business in ways that cannot be predicted. The effect of any of these events or threats could have an adverse affect on our business, financial condition and results of operations.

Our articles of incorporation, bylaws and rights agreement as well as certain provisions of Michigan law may have an anti-takeover effect.

Provisions of our articles of incorporation and bylaws, Michigan law and the Rights Agreement, dated October 25, 2000, as amended, between Compuware Corporation and Equiserve Trust Company, N.A. (now known as Computershare Trust Company N.A.), as rights agent, could make it more difficult for a third party to acquire Compuware, even if doing so would be perceived to be beneficial to shareholders.

The combination of these provisions inhibits a non-negotiated acquisition, merger or other business combination involving Compuware, which, in turn, could adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our executive offices, primary research and development lab, principal marketing department, primary professional services office, customer service and support teams are located in our corporate headquarters building in Detroit, Michigan. We own the facility, which is approximately 1.1 million square feet, including approximately 55,000 square feet available for lease to third parties for retail and related amenities. In addition, we lease approximately 217,000 square feet of land on which the facility resides.

We lease approximately 96 professional services and sales offices in 32 countries, including 8 remote product research and development facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various 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 will have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. See Note 14 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

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 Global Select Market ("NASDAQ") under the symbol CPWR. As of May 18, 2007, there were approximately 4,885 shareholders of record of our common stock. We have not paid any cash dividends on our common stock since fiscal 1986 and have no current intention to pay dividends. The following table sets forth the range of high and low sale prices for our common stock for the periods indicated, all as reported by NASDAQ.

Fiscal Year Ended March 31, 2007	High	Low
Fourth quarter	\$ 9.75	\$ 8.28
Third quarter	8.75	7.30
Second quarter	7.95	6.02
First quarter	8.05	6.56

Fiscal Year Ended March 31, 2006	High	Low
Fourth quarter	\$ 9.55	\$ 7.60
Third quarter	9.99	6.91
Second quarter	9.98	7.08
First quarter	7.51	5.71

The Company has several stock option plans pursuant to which it grants share options to employees, officers, and directors, as well as an Employee Stock Ownership Plan ("ESOP"), an Employee Stock Purchase Plan ("ESPP"), and a Replacement Stock Option Award Program. For more information about our equity compensation plans, see Note 15 of the 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, 2007 (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	20,654	\$16.22	8,750
Equity compensation plans not approved by security holders	23,056	\$8.65	25,351

Issuance of Unregistered Shares

As disclosed in the Company's annual meeting proxy statement, Peter Karmanos, Jr., the Company's Chief Executive Officer, purchases shares from the Company on the same terms and subject to the same conditions and limitations as provided in the Company's ESPP with respect to all other employees of the Company, although he does not participate in the ESPP directly and is not entitled to the favorable tax treatment afforded to participants in the ESPP due to his beneficial ownership of more than 5% of the Company's outstanding shares. The description of the ESPP included in Note 15 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, is incorporated herein by reference. The Company has treated for administrative purposes the shares purchased by Mr. Karmanos as purchases pursuant to the ESPP. However, we have determined based on advice from counsel that since he is not allowed to participate in the ESPP, the issuance of shares may be considered unregistered. On February 28, 2007, 2,705 shares were issued to Mr. Karmanos for \$8.78 per share under this arrangement. Mr. Karmanos continues to hold all shares purchased under this arrangement. The sales of these securities to Mr. Karmanos were exempt from the registration requirements of the Securities Act of 1933 in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. There were no underwriters involved in connection with the sale of the above securities.

Common Share Repurchases

The following table sets forth, the repurchases of common stock for the quarter ended March 31, 2007:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value or maximum number of shares that may yet be purchased under the plans or programs	
				Discretionary Plan (a) (\$)	Rule 10b5-1 Plan (b) (shares)
For the month ended January 31, 2007	6,239,000	\$ 8.74	6,050,000	\$ 233,994,000	26,251,000
For the month ended February 28, 2007	12,849,000	9.24	11,799,000	168,714,000	21,501,000
For the month ended March 31, 2007	12,623,000	9.24	12,623,000	103,510,000	16,003,000
For the quarter ended March 31, 2007	<u>31,711,000</u>	<u>\$ 9.14</u>	<u>30,472,000</u>	<u>\$ 103,510,000</u>	<u>16,003,000</u>

(a) In August 2006 and December 2006, we announced that the Board of Directors authorized the discretionary repurchase of \$300.0 million and \$200.0 million, respectively, of the Company's common stock. Our purchases of stock may occur on the open market or in negotiated or block transactions based upon market and business conditions. Unless terminated earlier by resolution of our Board of Directors, the discretionary share repurchase plans will expire when we have repurchased all shares authorized for repurchase thereunder.

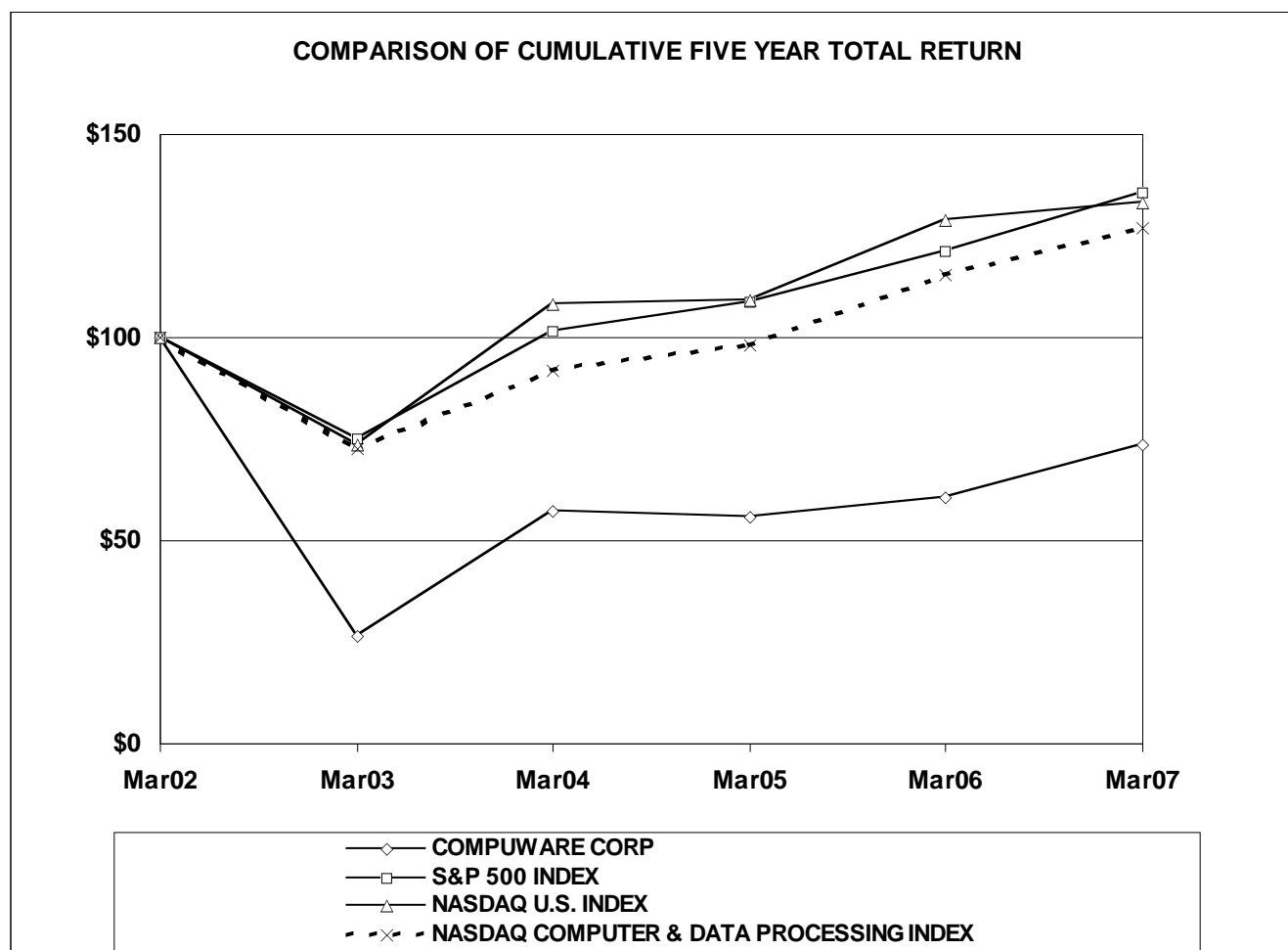
(b) In December 2006, the Board of Directors adopted a plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to repurchase 34.0 million shares of our common stock. A broker selected by us has the authority under the terms and limitations specified in the plan to repurchase shares on our behalf in accordance with the terms of the plan. In May 2007, we announced the plan was modified to include an additional 16.0 million shares and we expect these purchases to continue through September 30, 2007, although the Company may terminate the plan at any time.

"Total number of shares purchased" includes the surrender of 1.2 million shares to the Company valued at \$8.98 per share to pay the exercise price and related tax withholding obligations associated with option exercises during the quarter.

Comparison of Cumulative Five Year Total Return

The following line graph compares the yearly percentage change in the cumulative total shareholder return on our common shares with the cumulative total return of the cumulative total shareholder return of the S&P 500 Index, the Total Return Index for The NASDAQ U.S. Index and the cumulative total return of the Total Return Index for NASDAQ Computer and Data Processing Services Stocks for the period from April 1, 2002 through March 31, 2007. The graph includes a comparison to the S&P 500 index in accordance with SEC rules, as the Company's stock is part of such index. The graph assumes the investment of \$100 in our common shares, the S&P 500 index and each of the two NASDAQ indexes on March 31, 2002 and the reinvestment of all dividends.

The comparisons in the graph are required by the SEC. You should be careful about drawing any conclusions from the data contained in the graph, because past results do not necessarily indicate future performance. The information contained in this graph shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.



Total Return To Shareholders							
(Includes reinvestment of dividends)							
	Base	Indexed Returns					
	Period	Years Ending					
	March 31,	March 31,					
Company/ Index	2002	2003	2004	2005	2006	2007	
COMPUWARE CORP	100	26.26	57.40	55.77	60.65	73.51	
S&P 500 INDEX	100	75.24	101.66	108.47	121.19	135.52	
NASDAQ U.S. INDEX	100	73.40	108.33	109.06	128.61	133.38	
NASDAQ COMPUTER & DATA PROCESSING INDEX	100	72.80	91.99	97.85	115.17	126.93	

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,				
	2007	2006	2005	2004	2003
	(In thousands, except earnings per share data)				
Statement of Operations Data:					
Revenues:					
Software license fees	\$ 283,412	\$ 296,650	\$ 305,189	\$ 296,627	\$ 295,720
Maintenance fees	457,594	433,596	425,310	408,191	412,176
Professional services fees	471,996	475,115	501,340	559,829	667,444
Total revenues	<u>1,213,002</u>	<u>1,205,361</u>	<u>1,231,839</u>	<u>1,264,647</u>	<u>1,375,340</u>
Operating expenses:					
Cost of software license fees	28,581	23,262	27,293	31,579	30,740
Cost of maintenance fees (1)	41,533	41,687	42,128	41,874	40,180
Cost of professional services	420,729	417,485	444,996	513,621	611,644
Technology development and support	114,071	96,858	111,258	121,781	103,109
Sales and marketing	281,730	288,162	319,940	310,643	264,012
Administrative and general	193,578	190,538	199,628	207,613	188,814
Total operating expenses	<u>1,080,222</u>	<u>1,057,992</u>	<u>1,145,243</u>	<u>1,227,111</u>	<u>1,238,499</u>
Income from operations	132,780	147,369	86,596	37,536	136,841
Other income, net	60,277	44,091	19,629	18,481	19,374
Income before income taxes	193,057	191,460	106,225	56,017	156,215
Income tax provision	34,965	48,500	29,743	6,185	53,113
Net income	<u>\$ 158,092</u>	<u>\$ 142,960</u>	<u>\$ 76,482</u>	<u>\$ 49,832</u>	<u>\$ 103,102</u>
Basic earnings per share (2)	\$ 0.45	\$ 0.37	\$ 0.20	\$ 0.13	\$ 0.27
Diluted earnings per share (2)	0.45	0.37	0.20	0.13	0.27
Shares used in computing net income per share:					
Basic earnings computation	350,213	385,147	386,701	382,630	377,028
Diluted earnings computation	350,967	387,569	388,501	384,608	378,440
Balance Sheet Data (at period end):					
Working capital	\$ 391,823	\$ 899,773	\$ 780,223	\$ 616,628	\$ 541,153
Total assets	2,029,412	2,510,968	2,478,218	2,262,709	2,162,798
Long term debt	-	-	-	-	-
Total shareholders' equity (3)	1,132,148	1,579,499	1,516,155	1,413,591	1,331,691

- (1) The Company presented cost of maintenance fees as a separate line in the consolidated statements of operations during fiscal 2007. As a result, the prior year balances have been reclassified to conform to the fiscal 2007 presentation. This reclassification does not affect net income.
- (2) See Notes 1 and 11 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, for the basis of computing earnings per share.
- (3) No dividends were paid or declared 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. When we use words such as “may,” “might,” “will,” “should,” “believe,” “expect,” “anticipate,” “estimate,” “continue,” “predict,” “forecast,” “projected,” “intend” or similar expressions, or make statements regarding our future plans, objectives or expectations, we are making forward-looking statements. Numerous important factors, risks and uncertainties affect our operating results, including, without limitation, those discussed in Item 1A. Risk Factors and 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.

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. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and notes included in Item 8 of this report.

We deliver value to businesses worldwide by providing software products and professional services that improve the performance of IT organizations. Originally founded in 1973 as a professional services company, in the late 1970's we began to offer mainframe productivity tools for fault diagnosis, file and data management, and application debugging.

In the 1990's, IT moved toward distributed and web-based platforms. Our solutions portfolio grew in response, and we now market a comprehensive portfolio of IT solutions across the full range of enterprise computing platforms that help:

- Develop and deliver high quality, high performance enterprise business applications in a timely and cost-effective manner.
- Measure, manage and communicate application service in business terms, and maintain consistent, high levels of service delivery.
- Provide executive visibility, decision support and process automation across the entire IT organization to enable all available resources to be harnessed in alignment with business priorities.

Additionally, to be competitive in today's global economy, enterprises must securely share applications, information and business processes. We address this market need through our Covisint offerings, which help manage the supply chain through the integration of vital business information and processes between partners, customers and suppliers.

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.

The following occurred since the beginning of fiscal 2007:

- Acquired Proxima Technology Group, Inc. ("Proxima"), a privately held provider of the Centauri product that complements our Vantage product line by giving customers the ability to manage service delivery from a business perspective.
- Acquired SteelTrace Limited ("SteelTrace"), a privately held provider of requirements management products.
- Sold our 49% interest in Foresee Results, Inc. for \$11.3 million in cash, resulting in an \$11.3 million gain on sale.
- Repurchased approximately 82.3 million shares of our common stock during fiscal 2007 at an average price of \$8.31 per share under the Discretionary Plans and Rule 10b5-1 Plan.
- Released 21 mainframe and 41 distributed product enhancements, during fiscal 2007, designed to increase the productivity of the IT departments of our customers.
- Experienced a decrease in product contribution margin of 37.1% in fiscal 2007 from 38.4% in fiscal 2006 due to the increase in product expenses, primarily technology development and support costs, exceeding the increase in product revenue.
- Achieved a 12.7% increase in distributed product revenue in fiscal 2007 compared to fiscal 2006. The increase was a reflection of our continued focus on promoting our distributed products and an expanding maintenance base for those products.
- Experienced a 3.6% decrease in mainframe product revenue in fiscal 2007 compared to fiscal 2006 primarily related to a decline in license revenue.
- Experienced a decrease in professional services margin to 10.9% in fiscal 2007 from 12.1% in fiscal 2006 primarily due to an increase in subcontractor costs within our European operations related to projects that require specialized skill sets.
- Entered into license and maintenance agreements under the IBM settlement for approximately \$19.4 million. The remaining balance of \$10.6 million from the 2007 commitment of \$30.0 million was reported as "settlement" in the consolidated statements of operations.
- Experienced a \$26.6 million reduction in our income tax provision relating to settlements of prior year tax matters.

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			Period-to-Period	
	Total Revenues			Change	
	Fiscal Year Ended			2006	2005
	March 31,			to	to
	2007	2006	2005	2007	2006
REVENUE:					
Software license fees	23.4%	24.6%	24.8%	(4.5)%	(2.8)%
Maintenance fees	37.7	36.0	34.5	5.5	1.9
Professional services fees	38.9	39.4	40.7	(0.7)	(5.2)
Total revenues	100.0	100.0	100.0	0.6	(2.1)
OPERATING EXPENSES:					
Cost of software license fees	2.4	1.9	2.2	22.9	(14.8)
Cost of maintenance fees	3.4	3.5	3.4	(0.4)	(1.0)
Cost of professional services	34.7	34.7	36.1	0.8	(6.2)
Technology development and support	9.4	8.0	9.1	17.8	(12.9)
Sales and marketing	23.2	23.9	26.0	(2.2)	(9.9)
Administrative and general	16.0	15.8	16.2	1.6	(4.6)
Total operating expenses	89.1	87.8	93.0	2.1	(7.6)
Income from operations	10.9	12.2	7.0	(9.9)	70.2
Other income, net	5.0	3.7	1.6	36.7	124.6
Income before income taxes	15.9	15.9	8.6	0.8	80.2
Income tax provision	2.9	4.0	2.4	(27.9)	63.1
Net income	13.0%	11.9%	6.2%	10.6	86.9

SOFTWARE PRODUCTS

Revenue

Our products are designed to enhance the effectiveness of key disciplines throughout the IT organization from application delivery to service management and IT portfolio management supporting all major enterprise computing platforms. Product revenue which consists of software license fees and maintenance fees, comprised 61.1%, 60.6% and 59.3% of total revenue during 2007, 2006 and 2005, respectively.

Distributed software product revenue increased \$28.8 million or 12.7% during 2007 to \$256.2 million from \$227.4 million in 2006 and increased \$23.5 million or 11.6% during 2006 from \$203.8 million in 2005. The increases during 2007 and 2006 were primarily due to license and maintenance revenue growth related to our Vantage product line resulting from increased customer demand for performance-related software, primarily agentless monitoring, which was added in May 2005 when we acquired Adlex, Inc., and to a lesser extent license and maintenance revenue growth in our Changepoint product line.

Mainframe software product revenue decreased \$18.1 million or 3.6% during 2007 to \$484.8 million from \$502.9 million in 2006 and decreased \$23.8 million or 4.5% during 2006 from \$526.7 million in 2005. The decrease during 2007 was primarily a result of lower license revenue due to decreased demand for software on additional computing capacity in our European operations partially offset by continued growth in maintenance revenue due to strong renewal rates on maintenance contracts. The

decrease during 2006 compared to 2005 was primarily due to a decrease in license revenue related to our Xpediter and File-Aid product lines.

License fees decreased \$13.3 million or 4.5% during 2007 to \$283.4 million from \$296.7 million in 2006 and decreased \$8.5 million or 2.8% during 2006 from \$305.2 million in 2005. Fluctuations in foreign currencies positively impacted license fees by \$6.2 million in 2007 compared to 2006. The remaining decrease during 2007 was primarily due to a reduction of \$28.8 million in mainframe license fees, partially offset by an increase in distributed license fees related to our Vantage product line. Fluctuations in foreign currencies negatively impacted license fees by \$3.1 million in 2006 compared to 2005. The remaining decrease in 2006 was primarily due to weaker demand for our Xpediter and File-Aid product lines partially offset by growth in our Vantage product line.

Maintenance fees increased \$24.0 million or 5.5% to \$457.6 million during 2007 from \$433.6 million in 2006 and increased \$8.3 million or 1.9% during 2006 from \$425.3 million in 2005. Fluctuations in foreign currencies positively impacted maintenance fees by \$9.6 million in 2007 compared to 2006. The remaining increase during 2007 was primarily due to strong growth in distributed maintenance fees related to our Vantage product line and growth in our mainframe maintenance revenue. The increase in maintenance fees during 2006 compared to 2005 was primarily due to growth in our Vantage product line, partially offset by a \$4.4 million decline in maintenance fees due to the negative impact of foreign currency changes.

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 or for a specific number of users or servers. 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, we enter into agreements with our customers that allow them 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. 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 delivered to the customer and collection is reasonably probable. License revenue associated with term transactions or with certain transactions that include an option to exchange or select products in the future is deferred and recognized over the term of the agreement or when all revenue recognition criteria have been met, depending on the terms 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,		
	2007	2006	2005
United States	\$ 403,820	\$ 391,421	\$ 399,690
Europe and Africa	234,079	245,553	240,233
Other international operations	103,107	93,272	90,576
Total product revenue	\$ 741,006	\$ 730,246	\$ 730,499

Product Contribution and Expenses

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

	Year Ended March 31,		
	2007	2006	2005
Revenue	\$ 741,006	\$ 730,246	\$ 730,499
Expenses	465,915	449,969	500,619
Product contribution	\$ 275,091	\$ 280,277	\$ 229,880

The product segment generated contribution margins of 37.1%, 38.4% and 31.5% during 2007, 2006 and 2005, respectively. The decrease in the contribution margin from 2007 compared to 2006 was due to the increase in product expenses, primarily technology development and support costs, exceeding the increase in product revenue. The improvement in the contribution margin from 2006 compared to 2005 was primarily due to decreases in sales and marketing expenses and technology development and support costs. These factors are discussed below.

Product expenses include cost of software license fees, cost of maintenance fees, technology development and support costs, and sales and marketing expenses.

Cost of software license fees includes amortization of capitalized software, the cost of duplicating and disseminating products to customers (including associated hardware costs) and the cost of author royalties. Cost of software license fees increased \$5.3 million or 22.9%, during 2007 to \$28.6 million from \$23.3 million in 2006 and decreased \$4.0 million or 14.8% during 2006 from \$27.3 million in 2005. The increase in costs for 2007 was primarily due to an increase in amortization of capitalized software and an increase in hardware costs resulting from increased demand in our Vantage product line. The decrease in costs for 2006 was primarily due to a reduction in amortization expense related to capitalized software acquired as a result of the fiscal 2000 Programart acquisition that became fully amortized in September 2004. As a percentage of software license fees, cost of software license fees were 10.1%, 7.8% and 8.9% in 2007, 2006 and 2005, respectively.

Cost of maintenance fees consists of the direct costs allocated to maintenance and product support such as helpdesk and technical support. Customers who subscribe to maintenance are also eligible to receive the benefit of new releases as well as support. New releases include significant research and development costs and are available to be licensed to new customers as well as maintenance customers. Cost of maintenance fees decreased \$200,000 or 0.4%, during 2007 to \$41.5 million from \$41.7 million in 2006 and decreased \$400,000 or 1.0% during 2006 from \$42.1 million in 2005. As a percentage of maintenance fees, cost of maintenance fees were 9.1%, 9.6% and 9.9% in 2007, 2006 and 2005, respectively, with the percentage decline due to the growth in maintenance revenue.

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 all technology initiatives. As a percentage of product revenue, costs of technology development and support were 15.4%, 13.3% and 15.2% in 2007, 2006 and 2005, respectively.

Capitalization of internally developed software products begins when technological feasibility of the product is established. Total technology development and support costs incurred internally and capitalized for the years ended March 31, 2007, 2006 and 2005 were as follows (in thousands):

	Year Ended March 31,		
	2007	2006	2005
Technology development and support costs incurred	\$ 135,455	\$ 117,124	\$ 130,575
Capitalized technology development and support costs	(21,384)	(20,266)	(19,317)
Technology development and support costs reported	<u>\$ 114,071</u>	<u>\$ 96,858</u>	<u>\$ 111,258</u>

Before the capitalization of internally developed software products, total technology development and support expenditures increased \$18.4 million or 15.7%, to \$135.5 million during 2007 from \$117.1 million in 2006 and decreased \$13.5 million or 10.3% during 2006 from \$130.6 million in 2005. The increase in costs for 2007 was primarily due to higher compensation and benefit costs resulting from increased employee headcount, primarily programming personnel, in order to meet new product initiatives. The decrease in costs for 2006 was primarily attributable to lower compensation and benefit costs due to reductions in employee headcount in this area.

Sales and marketing costs consist primarily of personnel related costs associated with product sales and sales support and marketing for all our offerings. Sales and marketing costs decreased \$6.5 million or 2.2%, during 2007 to \$281.7 million from \$288.2 million in 2006 and decreased \$31.7 million or 9.9% during 2006 from \$319.9 million in 2005. As a percentage of product revenue, sales and marketing costs were 38.0%, 39.5% and 43.8% in 2007, 2006 and 2005, respectively. The decrease in costs for 2007 was primarily attributable to lower bonus and commission costs in 2007 due to the decline in mainframe license revenue, partially offset by an increase in stock option expense related to the adoption of SFAS 123(R) effective April 1, 2006. The decrease in costs for 2006 was primarily attributable to lower compensation, benefit, bonus and commission costs due to a first quarter 2006 sales realignment that reduced headcount.

PROFESSIONAL SERVICES

Revenue

We offer a broad range of IT services to help businesses make the most of their IT assets. Some of these services include outsourcing and co-sourcing, application services and management, product solutions, project management, enterprise resource planning and customer relationship management services. Revenue from professional services decreased \$3.1 million or 0.7% during 2007 to \$472.0 million from \$475.1 million in 2006 and decreased \$26.2 million or 5.2% during 2006 from \$501.3 million in 2005. The decrease in revenue for 2007 primarily occurred in the United States due to cost cutting initiatives and pricing pressures on staff supplementation services for certain customers within the automotive sector. This reduction was partially offset by growth in application services revenue. The decrease in revenue for 2006 was primarily due to reduced spending from local and state government agencies related to budget reductions on IT programs and to reduced spending by our customers in the automotive sector primarily related to cost cutting initiatives adopted by domestic automotive manufacturers and suppliers.

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

	Year Ended March 31,		
	2007	2006	2005
United States	\$ 396,765	\$ 405,638	\$ 436,730
Europe and Africa	67,477	63,177	59,383
Other international operations	7,754	6,300	5,227
Total professional services revenue	<u>\$ 471,996</u>	<u>\$ 475,115</u>	<u>\$ 501,340</u>

Professional Services Contribution and Expenses

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

	Year Ended March 31,		
	2007	2006	2005
Revenue	\$ 471,996	\$ 475,115	\$ 501,340
Expenses	420,729	417,485	444,996
Professional services contribution	\$ 51,267	\$ 57,630	\$ 56,344

During 2007, the professional services segment generated a contribution margin of 10.9%, compared to 12.1% and 11.2% during 2006 and 2005, respectively. The decrease in contribution margin for 2007 compared to 2006 was primarily due to an increase in subcontractor costs within our European operations related to projects that require specialized skill sets. The increase in contribution margin for 2006 compared to 2005 was primarily due to improved utilization of professional services personnel and, to a lesser extent, a concerted effort to reduce low margin subcontractor projects.

Cost of professional services consists primarily of personnel-related costs of providing services, including billable staff, subcontractors and sales personnel. Cost of professional services increased \$3.2 million or 0.8% during 2007 to \$420.7 million from \$417.5 million in 2006 and decreased \$27.5 million or 6.2% during 2006 from \$445.0 million in 2005. The increase in costs for 2007 was primarily attributable to an increase in subcontractor expense as specialized skill sets were needed for certain projects within our application services and European operations. The decrease in costs for 2006 compared to 2005 was primarily attributable to lower compensation, benefit, bonus and travel costs of approximately \$18.6 million due to a reduction in employee headcount in this area and reductions in subcontractor expense of approximately \$9.2 million as a result of our ongoing efforts to reduce low margin subcontractor projects within our North American operations.

CORPORATE AND OTHER EXPENSES

Administrative and general expenses consist primarily of costs associated with the corporate executive, finance, human resources, administrative, legal, communications and investor relations departments. In addition, administrative and general expenses include all facility-related costs, such as rent, building depreciation, maintenance, utilities, etc., associated with worldwide sales, professional services and software development offices. Administrative and general expenses increased \$3.1 million or 1.6% during 2007 to \$193.6 million from \$190.5 million in 2006 and decreased \$9.1 million or 4.6% during 2006 from \$199.6 million in 2005.

The increase in cost for 2007 primarily related to a \$7.5 million increase in donations to charities, a \$6.9 million increase in foreign currency losses primarily related to inter-company balances with our wholly owned subsidiaries and a \$3.0 million increase in stock option expense related to the adoption of SFAS 123(R) effective April 1, 2006. The increases in these costs were partially offset by the effect of the following charges that occurred in 2006: (1) an impairment charge of \$3.9 million recorded in the first quarter of 2006 related to a purchased software application that management no longer intended to use; (2) impairment charges of \$6.7 million related to our former headquarters building in Farmington Hills, Michigan that were recorded during 2006; and (3) a litigation judgment charge of \$4.2 million recorded during 2006.

The decrease in cost for 2006 was primarily due to a \$16.9 million decline in legal expenses associated with the IBM litigation partially offset by the items discussed above.

Other income, net ("other income") consists primarily of interest income realized from investments, interest earned on deferred customer receivables, gain on sale of investment in ForeSee Results, Inc. ("ForeSee"), income associated with the IBM settlement agreement and income/losses generated from our investments in partially owned companies.

Other income increased \$16.2 million or 36.7% during 2007 to \$60.3 million from \$44.1 million in 2006 and increased \$24.5 million or 124.6% during 2006 from \$19.6 million in 2005. The increase in income for 2007 was a result of the following:

- Increase of \$11.3 million recorded for the gain on sale of our common shares in ForeSee (see Note 5 to the Consolidated Financial Statements for more information);
- Increase of \$5.2 million in interest income primarily resulting from higher interest rates earned on investments, partially offset by a lower average balance; and
- Increase of \$1.1 million in income generated from our investments in partially owned companies.

These increases were partially offset by a \$1.5 million decrease in interest earned on deferred customer receivables resulting from a decline in our non-current accounts receivable balance.

The increase in other income for 2006 was primarily attributable to a \$14.9 million increase in investment interest income, of which \$11.7 million was due to higher interest rates earned on investments and \$3.2 million was due to having a higher average investment balance throughout 2006 compared to 2005. In addition, we recorded \$10.6 million to other income related to the IBM settlement, representing the portion of the IBM settlement payment for the year that did not relate to the sale of products or services (see Note 14 to the Consolidated Financial Statements for more information).

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. The income tax provision was \$35.0 million, \$48.5 million and \$29.7 million, respectively, in 2007, 2006 and 2005 representing an effective tax rate of 18%, 25% and 28%.

During 2007, we reduced our income tax provision by \$26.6 million for certain items related to settlements of prior year tax matters. Substantially all of the decrease concerns taxes related to foreign operations. Approximately \$18.9 million of the reduction was driven by agreement on issues that affected a special deduction and credits afforded to United States based taxpayers that generate income from sales to foreign customers. In addition, a reduction of \$3.3 million was the result of an agreement regarding the proper character and timing of certain deductions. The remainder of the reduction is due primarily to interest.

During 2006, we reduced our income tax provision by \$11.1 million for certain items related to settlements of prior year tax matters. We concluded two separate Competent Authority proceedings resulting in a reduction to our income tax provision of approximately \$5.8 million. The remainder of the reduction was due primarily to taxes related to domestic operations, most notably the U.S. Research and Experimentation tax credit. We also decreased our valuation allowance by \$12.4 million during the quarter ended March 31, 2006 due almost entirely to U.S. foreign tax credit carryforwards that during the fourth quarter of fiscal 2006 became more likely than not to be realized.

For additional information regarding the difference between our effective tax rate and the statutory rate for fiscal 2007, 2006 and 2005, see Note 12 of the Consolidated Financial Statements included in Item 8 of this report.

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 by better aligning cost structures with current market conditions. See Note 7 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, for changes in the restructuring accrual for 2005, 2006 and 2007.

The Company is currently examining cost structures and implementing plans to reduce expenses, including consolidation of facilities and workforce reductions. Therefore, the Company may incur additional restructuring charges during fiscal 2008.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Note 1 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, 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 existing at March 31, 2007. However, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. The 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. We have discussed the development and selection of the critical accounting policies described below with the Audit Committee.

Product Revenue Recognition – We recognize product 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. 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.

Based on our interpretation of U.S. GAAP including Statement of Position 97-2 "Software Revenue Recognition" and 98-9 "Modifications 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 "Revenue Arrangements with Multiple Deliverables", 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.

Perpetual license fee revenue is recognized using the residual method, under which the fair value, based on vendor specific objective evidence ("VSOE") of all undelivered elements of the agreement (e.g. maintenance and professional services) is deferred. VSOE is based on rates charged for maintenance and professional services when sold separately. Based on market conditions, we periodically change pricing methodologies for license, maintenance and professional services. Changes in rates charged for stand alone maintenance and professional services could have an 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. Pricing modifications made during the years covered by this report have not had a significant impact on the timing or characterization of revenue recognized.

We have an increasing need for flexibility in licensing rights and offerings to our customers. As our contractual arrangements evolve to meet the needs of our customers, an increasing percentage of our license arrangements must be recognized over the terms of the arrangement. While this ratable recognition has no impact on our results over time, it may change the timing of forecasted revenue and impact quarterly and annual results.

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. Therefore, revenues from professional services are recognized in the period the services are performed, provided that collection of the related receivable is deemed probable. 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 as the customer derives value from the services, consistent with the proportional performance 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.

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 customers 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 – In accordance with SFAS No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed”, 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. We review for impairments each balance sheet date.

Impairment of Goodwill – In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, 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’ discounted cash flow and market comparable valuations. 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 compared to the carrying value of each reporting unit. If the carrying amount of the reporting unit exceeds its fair value, the goodwill associated with such reporting unit must be further evaluated for impairment. Under such evaluation, if the carrying amount of the reporting unit's 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 Company - As discussed in Note 5 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, we have a minority investment in and advances to CareTech Solutions, Inc. ("CareTech"), a privately held company, for strategic purposes. At March 31, 2007, the net carrying value of our investments and advances to this entity totaled \$16.4 million. We regularly evaluate the financial condition of CareTech to assess potential impairment in the carrying value of our investments in and advances to this entity. 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 CareTech 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 operate in multiple tax jurisdictions both inside and outside the United States. As a result, management must determine the appropriate allocation of income in accordance with local law for each of these jurisdictions. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events and are determined based on the difference between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which the differences are expected to reverse. We must then assess the likelihood that our deferred tax assets will be realized and, to the extent we believe that realization is not likely, we must establish a valuation allowance. For additional information regarding these matters see Note 12 of the Notes to Consolidated Financial Statements, included in Item 8 of this report. 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.

Stock-Based Compensation - We measure compensation expense for stock options using a Black-Scholes option pricing model. The expense for unvested stock options at April 1, 2006 is based upon the grant date fair value of those options as calculated using a Black-Scholes option pricing model for pro forma disclosures under SFAS No. 123, "Accounting for Stock-Based Compensation". The expense for all awards granted after April 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). We recognize these compensation costs net of an estimated forfeiture rate of 10% on a straight-line basis over the requisite service period of the award, which is generally the vesting term of five years.

The fair value of stock options was estimated at the grant date using a Black-Scholes option pricing model with the following assumptions for 2007: risk-free interest rate – 4.82%, volatility factor – 68.75% and expected option life – 6.9 years (dividend yield is not a factor as we have never issued cash dividends and do not anticipate issuing cash dividends in the future). For SFAS No. 123(R) calculation purposes, the weighted average grant date fair value of option shares granted in 2007 was \$5.04 per option share.

If we increased the assumptions for the risk-free interest rate and the volatility factor by 50 percent, the fair value of stock options granted in 2007 would increase 25 percent. If the Company decreased its assumptions for the risk-free interest rate and the volatility factor by 50 percent, the fair value of stock options granted in 2007 would decrease 42 percent.

Other – 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, 2007, cash and cash equivalents and investments totaled approximately \$439.1 million. During 2007 and 2006, cash flow from operations was \$204.7 million and \$229.7 million, respectively. During these periods, capital expenditures for property and equipment and capitalized research and software development totaled \$40.0 million and \$35.4 million, respectively.

We hold a \$100 million revolving credit facility maturing on July 26, 2007. See Note 9 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, for a description of the facility. No borrowings have occurred under this facility.

The Board of Directors has authorized the repurchase of our common stock under two plans, the “Discretionary Plan” and the “10b5-1 Plan”. Under the Discretionary Plan, the Board of Directors has authorized the repurchase of a total of up to \$750.0 million of our common stock (See Note 10 of the Consolidated Financial Statements). Our purchases of stock under the Discretionary Plan may occur on the open market, through negotiated or block transactions based upon market and business conditions and subject to applicable legal limitations. During 2007 and 2006, we repurchased 64.3 million shares and 14.9 million shares, respectively, of our common stock under the Discretionary Plan at an average price of \$8.11 and \$8.30 per share for a total of \$521.5 million and \$124.0 million, respectively. Approximately \$103.5 million remains authorized for future purchases under the Discretionary Plan.

We entered into the 10b5-1 Plan in December 2006 to repurchase up to 34.0 million shares of our common stock subject to price, volume and timing constraints set forth in the plan pursuant to Rule 10b5-1(c) of the Securities Exchange Act of 1934. The 10b5-1 Plan allows the repurchase of our common stock at times when we might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. A broker selected by us has the authority under the terms and limitations specified in the plan to repurchase shares on our behalf. As of March 31, 2007, the Company had repurchased 18.0 million shares for an aggregate \$162.4 million under the 10b5-1 Plan and approximately 16.0 million shares remained authorized for future repurchases. In May 2007, we executed an amendment to the 10b5-1 Plan that, among other things, extended the termination date from June 30, 2007 to September 30, 2007. In conjunction with its approval of the amendment, the Board also authorized the repurchase of up to an additional 16.0 million shares under the 10b5-1 Plan. The actual number of shares to be repurchased will depend on the terms of the 10b5-1 Plan and prevailing market conditions. The Company may terminate the plan at any time.

During fiscal 2007, we entered into a stock repurchase agreement whereby ForeSee purchased our minority equity interest in ForeSee for approximately \$11.3 million in cash. As part of the transaction, \$750,000 of the accrued interest on existing notes due to us was paid, and the notes were modified to increase the interest rate to 10.25% and to extend the term of the notes so that \$618,000 will become due (with interest) at March 30, 2009 and \$5.6 million will become due (with interest) at March 30, 2012. Our prior obligation to make up to \$367,000 in additional loans to ForeSee has been terminated (see Note 5 of the Consolidated Financial Statements for more information).

During fiscal 2007, we sold our former headquarters and distribution center buildings for a total of approximately \$15.4 million. These buildings were classified as held for sale in our consolidated financial statements at March 31, 2006.

In January 2007, we acquired Proxima for approximately \$37.3 million in cash. Proxima is a privately held provider of the Centauri product that complements our Vantage product line by giving customers the ability to manage service delivery from a business perspective. The acquisition was accounted for as a purchase and, accordingly, assets and liabilities acquired were recorded at fair value as of the acquisition date.

In April 2006, we acquired SteelTrace Limited, a privately held provider of requirements management products that align application delivery to business needs through a structured, visual approach to the management of enterprise application requirements, for approximately \$20.7 million in cash. The acquisition was accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations" and, accordingly, the assets and liabilities acquired were recorded at fair value as of the acquisition date.

During fiscal 2006, we acquired ProviderLink Technologies and Adlex for approximately \$48.0 million in cash. During fiscal 2005, we acquired Changeport and Devstream for approximately \$109.8 million in cash. For more information about these acquisitions, see Note 2 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

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

We believe cash flow from operations will be sufficient to meet operating cash needs for the foreseeable future. We anticipate borrowing up to \$300.0 million in order to fund the planned expansion of the stock buyback program.

Recently Issued Accounting Pronouncements

In June 2006, the FASB ratified the consensus on Emerging Issues Task Force (EITF) Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement" (EITF 06-03). The scope of EITF 06-03 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added and some excise taxes. The Task Force affirmed its conclusion that entities should present these taxes in the income statement on either a gross or a net basis, based on their accounting policy, which should be disclosed pursuant to APB Opinion No. 22, Disclosure of Accounting Policies. If such taxes are significant, and are presented on a gross basis, the amounts of those taxes should be disclosed. The consensus on EITF 06-03 is effective for interim and annual reporting periods beginning after December 15, 2006. We currently record all such taxes on a net basis in our consolidated statements of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109". This Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained on its merits if audited and challenged. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. This Interpretation will be applicable for us beginning April 1, 2007. We will be required to apply the provisions of this Interpretation to all tax positions upon initial adoption with any cumulative effect to be recognized as an adjustment to retained earnings. Upon application, management estimates that a cumulative effect of less than \$5.0 million will be required to account for potential tax detriments not previously recognized under historical practice.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and therefore, does not expand the use of fair value in any new circumstances. This Statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact this Statement will have on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115,” which permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. This Statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating if it will elect the fair value option for any of our eligible financial instruments.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (“SAB 108”), codified as SAB Topic 1.N, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.” SAB 108 describes the approach that should be used to quantify the materiality of a misstatement and provides guidance for correcting prior year errors. We adopted SAB 108 in the second quarter of 2007. The adoption of SAB 108 did not result in any adjustments to our consolidated financial statements.

Contractual Obligations

The following table summarizes our payments under contractual obligations and our other commercial commitments as of March 31, 2007 (in thousands):

	Payment Due by Period as of March 31,						
	Total	2008	2009	2010	2011	2012	2013 and Thereafter
Contractual obligations:							
Operating leases	\$ 327,015	\$ 35,178	\$ 29,033	\$ 17,874	\$ 9,277	\$ 4,568	\$ 231,085
Other	11,403	3,340	3,213	2,550	450	450	1,400
Total	<u>\$ 338,418</u>	<u>\$ 38,518</u>	<u>\$ 32,246</u>	<u>\$ 20,424</u>	<u>\$ 9,727</u>	<u>\$ 5,018</u>	<u>\$ 232,485</u>

“Other” includes commitments under various advertising and charitable contribution agreements totaling \$10.0 million and \$1.4 million, respectively, at March 31, 2007. There are no long term debt obligations, capital lease obligations or purchase obligations.

Off-Balance Sheet Arrangements

We currently do not have any off balance sheet or non-consolidated special purpose entity arrangements as defined by the applicable SEC rules.

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 Note 1 of the Notes to Consolidated Financial Statements, included 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 statements of operations 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, 2007
	2008	2009		
Cash Equivalents	\$260,681		\$260,681	\$260,681
Average Interest Rate	3.44%		3.44%	
Average Interest Rate (tax equivalent)	3.65%		3.65%	
Investments	\$107,062	\$71,391	\$178,453	\$178,204
Average Interest Rate	3.60%	3.46%	3.00%	
Average Interest Rate (tax equivalent)	5.26%	5.32%	4.30%	

We offer financing arrangements with installment payment terms in connection with our multi-year software sales. Installment accounts are generally receivable over a two to five year period. As of March 31, 2007, non-current accounts receivable amounted to \$172.3 million, and are due approximately \$114.6 million, \$38.9 million, \$16.7 million, \$1.7 million and \$400,000 in each of the years ending March 31, 2009 through 2013, 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, 2007, the fair value of such receivables is approximately \$167.9 million. Each 100 basis point increase in interest rates would have an associated \$1.2 million and \$1.7 million negative impact on the fair value of non-current accounts receivable based on the balance of such receivables at March 31, 2007 and 2006, respectively. Each 100 basis point decrease in interest rates would have an associated \$1.3 million and \$1.7 million positive impact on the fair value of non-current accounts receivable based on the balance of such receivables at March 31, 2007 and 2006, respectively. 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. We also have non-U.S. subsidiaries with financial instruments that are not denominated in their reporting currency. At March 31, 2007, we performed a sensitivity analyses to assess the potential loss a 10% positive or negative change in foreign currency exchange rates would have on our income from operations. Based upon the analyses performed, such a change would not materially affect our consolidated financial position, results of operations or cash flows.

The table below provides information about our foreign exchange forward contracts at March 31, 2007. 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, 2007 (dollars in thousands):

	Contract date in 2007	Maturity date in 2007	Contract Rate	Forward Position in U.S. Dollars	Fair Value at March 31, 2007
Forward Sales					
South Africa	March 30	April 30	7.3623	\$ 869	\$ 882
Swiss Francs	March 30	April 30	1.2203	574	576
				<u>1,443</u>	<u>1,458</u>
Forward Purchases					
Australian Dollar	March 30	April 30	1.2356	9,955	9,953
Canadian Dollar	March 30	April 30	1.1562	9,514	9,527
Euro Dollar	March 30	April 30	0.7501	21,897	21,941
Hong Kong Dollar	March 30	April 30	7.7987	6,283	6,271
Singapore Dollar	March 30	April 30	1.5143	495	494
				<u>\$ 48,144</u>	<u>\$ 48,186</u>

Approximately 34% 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 Board of Directors and Shareholders of Compuware Corporation
Detroit, Michigan

We have audited the accompanying consolidated balance sheets of Compuware Corporation and subsidiaries (the "Company") as of March 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007. These 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 the 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 Compuware Corporation and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, 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, 2006 the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 24, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Detroit, Michigan
May 24, 2007

COMPUWARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2007 AND 2006 (In Thousands, Except Share Data)

ASSETS	Notes	2007	2006	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2007	2006
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents		\$ 260,681	\$ 612,062	Accounts payable		\$ 27,713	\$ 24,468
Investments	3	107,062	265,131	Accrued expenses	7	99,651	98,015
Accounts receivable, net		420,774	418,745	Accrued income tax reserve	12	11,555	37,819
Deferred tax asset, net	12	33,392	32,015	Accrued bonuses and commissions		30,764	34,756
Income taxes refundable, net		58,266	77,956	Deferred revenue		359,688	350,349
Prepaid expenses and other current assets		41,019	24,455				
Buildings – held for sale	4		14,816				
				Total current liabilities		529,371	545,407
Total current assets		921,194	1,445,180				
				DEFERRED REVENUE		321,881	343,246
INVESTMENTS	3	71,391	32,149	ACCRUED EXPENSES	7	11,346	17,244
				DEFERRED TAX LIABILITY, NET	12	34,666	25,572
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	4	385,227	395,653	Total liabilities		897,264	931,469
CAPITALIZED SOFTWARE, LESS ACCUMULATED AMORTIZATION	8	72,276	61,918	COMMITMENTS AND CONTINGENCIES	14		
				SHAREHOLDERS' EQUITY:			
OTHER:				Preferred stock, no par value - authorized 5,000,000 shares	10		
Accounts receivable		172,255	206,964	Common stock, \$.01 par value - authorized 1,600,000,000 shares; issued and outstanding 303,031,787 and 377,903,799 shares in 2007 and 2006, respectively	10,15	3,030	3,779
Goodwill	2,8	353,682	320,082	Additional paid-in capital		673,660	763,420
Deferred tax asset, net	12	15,987	13,983	Retained earnings		444,159	805,781
Other assets	5,8	37,400	35,039	Accumulated other comprehensive income		11,299	6,519
Total other assets		579,324	576,068	Total shareholders' equity		1,132,148	1,579,499
TOTAL ASSETS		\$2,029,412	\$2,510,968	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$2,029,412	\$2,510,968

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED MARCH 31, 2007, 2006 and 2005 (In Thousands, Except Per Share Data)

	Notes	2007	2006	2005
REVENUES:				
Software license fees		\$ 283,412	\$ 296,650	\$ 305,189
Maintenance fees		457,594	433,596	425,310
Professional services fees		471,996	475,115	501,340
Total revenues		1,213,002	1,205,361	1,231,839
OPERATING EXPENSES:				
Cost of software license fees		28,581	23,262	27,293
Cost of maintenance fees		41,533	41,687	42,128
Cost of professional services		420,729	417,485	444,996
Technology development and support		114,071	96,858	111,258
Sales and marketing		281,730	288,162	319,940
Administrative and general		193,578	190,538	199,628
Total operating expenses		1,080,222	1,057,992	1,145,243
INCOME FROM OPERATIONS		132,780	147,369	86,596
OTHER INCOME (EXPENSE)				
Interest income		39,427	35,705	22,252
Settlement	14	10,598	10,603	
Gain on sale of investment in partially owned company	5	11,250		
Other	5	(998)	(2,217)	(2,623)
Other income, net		60,277	44,091	19,629
INCOME BEFORE INCOME TAXES		193,057	191,460	106,225
INCOME TAX PROVISION	12	34,965	48,500	29,743
NET INCOME		<u>\$ 158,092</u>	<u>\$ 142,960</u>	<u>\$ 76,482</u>
Basic and diluted earnings per share	11	<u>\$ 0.45</u>	<u>\$ 0.37</u>	<u>\$ 0.20</u>

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED MARCH 31, 2007, 2006 and 2005 (In Thousands, Except Share Data)

	Common Stock		Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Other	Shareholders'	Income
			Capital		Comprehensive	Equity	
					Income		
BALANCE AT APRIL 1, 2004	385,343,692	\$ 3,853	\$ 722,206	\$ 681,115	\$ 6,417	\$ 1,413,591	
Net income				76,482		76,482	\$ 76,482
Foreign currency translation, net of tax					3,510	3,510	3,510
Comprehensive income							<u>\$ 79,992</u>
Issuance of common stock	2,536,030	26	13,154			13,180	
Acquisition tax benefits			6,986			6,986	
Exercise of employee stock options and related tax benefit (Note 15)	523,732	5	2,401			2,406	
BALANCE AT MARCH 31, 2005	388,403,454	3,884	744,747	757,597	9,927	1,516,155	
Net income				142,960		142,960	\$ 142,960
Unrealized loss on marketable securities, net of tax					(71)	(71)	(71)
Foreign currency translation, net of tax					(3,337)	(3,337)	(3,337)
Comprehensive income							<u>\$ 139,552</u>
Issuance of common stock and related tax benefit	1,368,967	14	9,463			9,477	
Repurchase of common stock	(14,941,279)	(149)	(29,214)	(94,641)		(124,004)	
Acquisition tax benefits			20,783			20,783	
Exercise of employee stock options and related tax benefit (Note 15)	3,072,657	30	17,369	(135)		17,264	
Other			272			272	
BALANCE AT MARCH 31, 2006	377,903,799	3,779	763,420	805,781	6,519	1,579,499	
Net income				158,092		158,092	\$ 158,092
Unrealized loss on marketable securities, net of tax					71	71	71
Foreign currency translation, net of tax					4,709	4,709	4,709
Comprehensive income							<u>\$ 162,872</u>
Issuance of common stock and related tax benefit	599,442	6	4,737			4,743	
Repurchase of common stock	(82,301,156)	(823)	(171,878)	(511,214)		(683,915)	
Acquisition tax benefits			5,257			5,257	
Exercise of employee stock options and related tax benefit (Note 15)	6,829,702	68	62,692	(8,500)		54,260	
Stock option compensation			9,432			9,432	
BALANCE AT MARCH 31, 2007	303,031,787	\$ 3,030	\$ 673,660	\$ 444,159	\$ 11,299	\$ 1,132,148	

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2007, 2006 and 2005 (In Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:			
Net income	\$ 158,092	\$ 142,960	\$ 76,482
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	55,026	50,193	56,388
Gain on sale of investment in partially owned company	(11,250)		
Building impairment		6,702	
Issuance of common stock to Employee Stock Ownership Trust	200		4,872
Acquisition tax benefits	5,257	20,783	6,986
Stock option compensation	9,432		
Deferred income taxes	6,953	23,057	27,731
Other	(208)	6,274	3,189
Net change in assets and liabilities, net of effects from acquisitions and currency fluctuations:			
Accounts receivable	61,202	58,972	(32,614)
Prepaid expenses and other current assets	(13,857)	187	(2,307)
Other assets	(1,211)	(1,767)	2,346
Accounts payable and accrued expenses	(46,483)	(6,722)	(25,110)
Deferred revenue	(38,448)	(30,366)	122,316
Income taxes	20,027	(40,548)	2,008
Net cash provided by operating activities	<u>204,732</u>	<u>229,725</u>	<u>242,287</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:			
Purchase of:			
Businesses, net of cash acquired	(51,818)	(42,896)	(104,993)
Property and equipment	(18,590)	(14,480)	(28,702)
Capitalized software	(21,457)	(20,894)	(19,299)
Proceeds from sale of property	15,466		
Proceeds from sale of investment in partially owned company	11,250		
Investments:			
Proceeds	495,371	450,865	208,427
Purchases	(376,387)	(380,922)	(267,740)
Net cash provided by (used in) investing activities	<u>53,835</u>	<u>(8,327)</u>	<u>(212,307)</u>
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Net proceeds from exercise of stock options including excess tax	54,364	13,590	1,772
Employee contribution to stock purchase plans	4,635	8,902	8,288
Repurchase of common stock	(676,757)	(124,004)	
Net cash provided by (used in) financing activities	<u>(617,758)</u>	<u>(101,512)</u>	<u>10,060</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>7,810</u>	<u>(5,511)</u>	<u>2,731</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(351,381)</u>	<u>114,375</u>	<u>42,771</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>612,062</u>	<u>497,687</u>	<u>454,916</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 260,681</u>	<u>\$ 612,062</u>	<u>\$ 497,687</u>

See notes to consolidated financial statements.

COMPUWARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED MARCH 31, 2007, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Compuware Corporation (the "Company" or "Compuware") develops, markets and supports an integrated set of systems software products designed to improve the effectiveness of information technology ("IT") organizations in application delivery, service management and IT portfolio management. 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 intercompany balances and transactions. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity and the disclosure of contingencies at March 31, 2007 and 2006 and the results of operations for the years ended March 31, 2007, 2006 and 2005. While management has based their assumptions and estimates on the facts and circumstances existing at March 31, 2007, final amounts may differ from estimates.

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 consistent with U.S. 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 "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 its customers with a right to use its 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 vendor specific objective evidence ("VSOE") of all undelivered elements of the agreement (e.g., maintenance and professional services) is deferred. VSOE 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 delivery 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 VSOE, the Company recognizes the license fee revenue on a ratable basis over the term of the license agreement or when all elements have been delivered, depending on the nature of the undelivered elements.

The Company offers flexibility to customers purchasing licenses for its products and related maintenance. Terms of these transactions range from standard perpetual license sales that include one year of maintenance to large multi-year (generally two to five years), 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 successful 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 receivable, and amounted to

\$5.2 million, \$6.7 million and \$8.2 million for fiscal 2007, 2006 and 2005, respectively. At March 31, 2007, current accounts receivable includes installments on multi-year contracts totaling \$225.0 million due within the year ending March 31, 2008. Non-current accounts receivable at March 31, 2007 amounted to \$172.3 million, and approximately \$114.6 million, \$38.9 million, \$16.7 million, \$1.7 million and \$400,000 are due in each of the years ending March 31, 2009 through 2013, 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 license agreements for up to one year and 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 – Professional services fees are generally based on hourly or daily rates; therefore, revenues from professional services are recognized in the period the services are performed provided that collection of the related receivable is deemed probable. For development 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 operations for the project. Revenue associated with these contracts is recognized over the service period as the customer derives value from the services, consistent with the proportional performance method.

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. Commission costs associated with deferred revenue are also deferred. Long term deferred revenue at March 31, 2007 amounted to \$321.9 million, of which approximately \$183.8 million, \$88.6 million, \$31.1 million, \$15.7 million and \$2.7 million is expected to be recognized in each of the years ending March 31, 2009 through 2013, respectively.

Cash and Cash Equivalents - The Company considers all investments with an original maturity of three months or less to be cash equivalents.

Investments consist of municipal obligations, U.S. Treasury securities and tax free auction rate securities. Those investments that mature within one year from the balance sheet date are classified as current assets. The auction rate securities are classified as available-for-sale and are recorded at fair value based on market quotes. Net unrealized gains or losses associated with available-for-sale investments are recorded as a component of accumulated other comprehensive income. All other investments are classified as held-to-maturity and carried at amortized cost. The amortization of bond premiums and discounts is included in "interest income" in the consolidated statements of operations.

Allowance for Doubtful Accounts – The Company considers historical loss experience, including the need to adjust for current conditions, the aging of outstanding accounts receivable and information available related to specific customers when estimating the allowance for doubtful accounts. The allowance is reviewed and adjusted based on the Company's best estimates.

The following table summarizes the allowance for doubtful accounts and changes to the allowance during each of the years ended March 31, 2007, 2006 and 2005 (in thousands):

			(1)		
	Balance at	Charged	Charged		Balance at
Allowance for	Beginning	Against	to Other	(2)	End of
Doubtful Accounts:	of Period	Income	Accounts	Deductions	Period
Year ended March 31, 2007	\$ 12,263	\$ 1,168	\$ 15	\$ 4,516	\$ 8,930
Year ended March 31, 2006	18,084	162	9	5,992	12,263
Year ended March 31, 2005	22,565	(2,393)	300	2,388	18,084
(1) Allowance for doubtful accounts related to recent acquisitions.					
(2) Write-off of uncollectible accounts, product maintenance cancellations and service cost overruns.					

The decreases of \$3.3 million from March 31, 2006 to March 31, 2007 and \$5.8 million from March 31, 2005 to March 31, 2006 were primarily due to write-offs of customer accounts receivable balances that were reserved for in prior years and for which the inability to collect became certain during the respective fiscal years.

Property and Equipment are stated at cost less accumulated depreciation. 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, \$29.3 million and \$31.9 million for the years ended March 31, 2007, 2006 and 2005, 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 in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Net purchased software included in capitalized software at March 31, 2007 and 2006 is \$20.9 million and \$15.5 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 and capitalized by the Company for the years ended March 31, 2007, 2006 and 2005 were as follows (in thousands):

	Year Ended March 31,		
	2007	2006	2005
Technology development and support costs incurred	\$ 135,455	\$ 117,124	\$ 130,575
Capitalized technology development and support costs	(21,384)	(20,266)	(19,317)
Technology development and support costs reported	<u>\$ 114,071</u>	<u>\$ 96,858</u>	<u>\$ 111,258</u>

The amortization for both internally developed and purchased software products is computed on a product-by-product basis. Capitalized software is reviewed for impairment each balance sheet date. The annual amortization is the greater of the amount computed using (a) the ratio of current gross revenues compared with 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 \$22.4 million, \$18.2 million and \$22.4 million in fiscal 2007, 2006 and 2005, respectively, which is primarily included in "cost of software license fees" in the consolidated statements of operations.

Goodwill and Other Intangibles - Goodwill for each operating segment and those intangible assets with indefinite lives are tested for impairment annually and/or when events or circumstances indicate that their fair value may have been reduced below carrying value. The Company evaluated its goodwill as of March 31, 2007 and 2006 and determined there was no impairment.

Fair Value of Financial Instruments - The carrying value of cash equivalents, current accounts receivable and accounts payable approximate fair values due to the short-term maturities of these instruments. At March 31, 2007, the fair value of non-current receivables is approximately \$167.9 million compared to the carrying amount of \$172.3 million. At March 31, 2006, the fair value of non-current receivables was approximately \$202.4 million compared to the carrying amount of \$207.0 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.

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 gain (loss) was \$(5.9) million, \$1.0 million and \$(1.7) million for the years ended March 31, 2007, 2006 and 2005, respectively. These amounts are included in "administrative and general" in the consolidated statements of operations.

At March 31, 2007, the Company had contracts maturing through April 2007 to sell \$1.4 million and purchase \$48.1 million in foreign currencies. At March 31, 2006, the Company had contracts maturing through April 2006 to sell \$7.5 million and purchase \$35.7 million in foreign currencies.

Stock-Based Compensation - Effective April 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for fiscal 2007 includes compensation expense for all stock-based compensation awards ("awards") granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in

accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Stock-based compensation expense for all awards granted after April 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes these compensation costs net of an estimated forfeiture rate on a straight-line basis over the requisite service period of the award, which is generally the vesting term of five years. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). See Note 15 to the consolidated financial statements for a further discussion on stock-based compensation including the impact on net income during the period.

Prior to the adoption of SFAS 123(R), the Company measured compensation expense for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Awards were granted at current market prices at the date of grant. Therefore, no compensation cost was recognized for the Company's fixed stock option plans or its stock purchase plans. The Company applied the disclosure provisions of SFAS 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure", as if the fair-value-based method had been applied in measuring compensation expense. 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 2006 and 2005 consistent with the method prescribed by SFAS No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below (in thousands, except earnings per share data):

	Year Ended March 31,			
	2006			2005
Net income:				
As reported	\$ 142,960			\$ 76,482
Compensation cost, net of tax	(8,990)			(29,912)
Pro forma	<u>\$ 133,970</u>			<u>\$ 46,570</u>
Earnings per share:				
As reported:				
Basic and diluted earnings per share	\$ 0.37			\$ 0.20
Pro forma:				
Basic and diluted earnings per share	0.35			0.12

The weighted average fair value of stock options granted in the years ended March 31, 2006 and 2005 and the assumptions used to estimate those values using a Black-Scholes option pricing model were as follows:

	Year Ended March 31,	
	2006	2005
Expected volatility	73.9%	47.8%
Risk-free interest rate	3.7%	3.9%
Expected lives at date of grant (in years)	5.1	5.0
Weighted average fair value of the options granted	\$ 4.47	\$ 3.48

Dividend yields were not a factor, as the Company has never issued cash dividends.

Effective April 1, 2006, the Company modified the terms of the international and domestic employee stock purchase plans eliminating the option component associated with the plan and increasing the purchase price from 85% to 95% of the last day's average high and low price for each offering period consistent with the non-compensatory requirements of SFAS 123(R). The fair value of the option component of the employee purchase plan shares purchased prior to April 2006 was 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 2006 and 2005 were \$1.47 and \$1.21 per share, respectively.

Earnings Per Share ("EPS") - Basic EPS is computed by dividing earnings available to common shareholders 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 reporting segments are products and professional services that are comprised of multiple operating segments. The Company provides software products and professional services that help information technology professionals of the world's largest IT organizations efficiently develop, implement and support the applications that run their businesses.

Recently Issued Accounting Pronouncements – In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (R) that requires companies to expense the value of employee stock options and other forms of stock-based compensation effective for annual periods beginning after June 15, 2005. The Company adopted SFAS No. 123(R) using the modified prospective method in the first quarter of fiscal 2007.

In June 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). This Statement became effective for accounting changes and corrections of errors made in fiscal 2007 and beyond. The adoption of SFAS No. 154 did not have a material effect on the Company's consolidated results of operations and financial position.

In June 2006, the FASB ratified the consensus on Emerging Issues Task Force ("EITF") Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement" ("EITF 06-03"). The scope of EITF 06-03 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added and some excise taxes. The Task Force affirmed its conclusion that entities should present these taxes in the income statement on either a gross or a net basis, based on their accounting policy, which should be disclosed pursuant to APB Opinion No. 22, Disclosure of Accounting Policies. If such taxes are significant, and are presented on a gross basis, the amounts of those taxes should be disclosed. The consensus on EITF 06-03 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company currently records all such taxes on a net basis in its consolidated statements of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109". This Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained on its merits if audited and challenged. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. This Interpretation will be applicable for the Company beginning April 1, 2007. The Company will be required to apply the provisions of this Interpretation to all tax positions upon initial adoption with any cumulative effect to be recognized as an adjustment to retained earnings. Upon application, management estimates that a cumulative effect of less than \$5.0 million will be required to account for potential tax detriments not previously recognized under historical practice.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and therefore, does not expand the use of fair value in any new circumstances. This Statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact this Statement will have on the Company's financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," which permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. This Statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating if it will elect the fair value option for any of the Company's eligible financial instruments.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), codified as SAB Topic 1.N, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements." SAB 108 describes the approach that should be used to quantify the materiality of a misstatement and provides guidance for correcting prior year errors. The Company adopted SAB 108 in the second quarter of 2007. The adoption of SAB 108 did not result in any adjustments to the Company's financial statements.

Reclassification - The Company presented cost of maintenance fees as a separate line in the consolidated statements of operations during fiscal 2007. As a result, the fiscal 2006 and 2005 financial statements have been reclassified to conform to the fiscal 2007 presentation. This reclassification does not affect net income.

2. ACQUISITIONS

Acquisitions are accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations" and, accordingly, the assets and liabilities acquired are recorded at fair value as of the acquisition date.

In January 2007, the Company acquired Proxima Technology Group, Inc. ("Proxima") for approximately \$37.3 million in cash. Proxima is a privately held provider of the Centauri product that complements our Vantage product line by giving customers the ability to manage service delivery from a business perspective. The purchase price exceeded the fair value of the acquired assets and liabilities by \$19.9 million which was recorded to goodwill. Intangible assets subject to amortization totaled \$9.9 million, of

which \$6.2 million and \$3.0 million related to purchased software and customer relationships, respectively, each with a useful life of five years. The remaining intangible assets subject to amortization have useful lives of up to two years.

In April 2006, the Company acquired SteelTrace Limited, a privately held provider of requirements management products that align application delivery to business needs through a structured, visual approach to the management of enterprise application requirements, for approximately \$20.7 million in cash. The purchase price exceeded the fair value of the acquired assets and liabilities by \$14.2 million which was recorded to goodwill. Intangible assets subject to amortization totaled \$6.7 million of which \$4.8 million and \$1.5 million related to purchased software and customer relationships, respectively, with a useful life of five and three years, respectively. The remaining intangible assets subject to amortization have a useful life of one year.

In March 2006, the Company acquired ProviderLink Technologies ("ProviderLink"), a privately held company that offers technology that improves efficiency in the sharing of healthcare information and records for approximately \$12.0 million in cash. The purchase price exceeded the fair value of the acquired assets and liabilities by \$8.2 million which was recorded to goodwill. Intangible assets subject to amortization totaled \$3.5 million, of which \$1.7 million and \$1.6 million related to purchased software and customer relationships, respectively, each with a useful life of five years. The remaining intangible assets subject to amortization have a useful life of two years.

In May 2005, the Company acquired Adlex, Inc. ("Adlex"), a privately owned software company that helps companies manage the quality of service that business critical applications deliver to end users, for approximately \$36.0 million in cash. The purchase price exceeded the fair value of the acquired assets and liabilities by \$25.4 million which was recorded to goodwill. Intangible assets subject to amortization totaled \$5.4 million, of which \$3.5 million and \$1.5 million related to purchased software and customer relationships, respectively, each with a useful life of five years. The remaining intangible assets subject to amortization have a useful life of two years.

In October 2004, the Company acquired certain assets and liabilities of DevStream Corporation ("DevStream"), a privately owned software company, for \$9.8 million of which \$1.8 million was based on a percentage of revenue generated from the DevStream products from the time of acquisition through December 31, 2006. The purchase price exceeded the fair value of the acquired assets and liabilities by \$7.2 million, which was recorded to goodwill. Included in the acquisition was \$2.7 million of purchased software which has a useful life of five years.

In May 2004, the Company acquired privately held Changeport Corporation ("Changeport"), a provider of IT Governance application software for approximately \$100.0 million in cash. The purchase price exceeded the fair value of the acquired assets and liabilities by \$71.3 million, which was recorded to goodwill. Intangible assets subject to amortization totaled \$15.7 million of which \$9.0 million and \$5.2 million related to purchased software and customer relationships, respectively, each with a useful life of five years. The remaining intangible assets subject to amortization have a useful life of three years.

3. INVESTMENTS

A summary of securities at March 31, 2007 and 2006 is set forth below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2007				
Held-to-maturity securities:				
Municipal obligations	\$ 167,617	\$ 10	\$ 260	\$ 167,367
U.S. Treasury securities and obligations of U.S. government agencies	10,836	1		10,837
Total held-to-maturity	<u>\$ 178,453</u>	<u>\$ 11</u>	<u>\$ 260</u>	<u>\$ 178,204</u>
March 31, 2006				
Held-to-maturity securities:				
Municipal obligations	\$ 130,288		\$ 409	\$ 129,879
U.S. Treasury securities and obligations of U.S. government agencies	51,975		99	51,876
Total held-to-maturity	182,263		508	181,755
Available-for-sale:				
Tax free auction rate securities	115,130		113	115,017
Total investments	<u>\$ 297,393</u>		<u>\$ 621</u>	<u>\$ 296,772</u>

Scheduled maturities of securities classified as held-to-maturity at March 31, 2007 were as follows (in thousands):

	Amortized Cost	Fair Value
Held-to-maturity		
Due in:		
2008	\$ 107,062	\$ 107,003
2009	71,391	71,201
Total	<u>\$ 178,453</u>	<u>\$ 178,204</u>

4. PROPERTY AND EQUIPMENT

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

	March 31,	
	2007	2006
Buildings and improvements	\$ 370,052	\$ 369,210
Leasehold improvements	24,493	19,522
Furniture and fixtures	77,575	75,572
Computer equipment and software	78,759	73,826
	550,879	538,130
Less accumulated depreciation and amortization	165,652	142,477
Total	<u>\$ 385,227</u>	<u>\$ 395,653</u>

Buildings held for sale as of March 31, 2006 with net book values of \$14.8 million were sold during fiscal 2007 for approximately \$15.4 million. During fiscal 2006, an impairment charge of \$6.7 million related to one of the buildings was included in "administrative and general" in the consolidated statements of operations.

5. INVESTMENTS IN PARTIALLY OWNED COMPANIES

At March 31, 2007, the Company held a 33.3% interest in CareTech Solutions, Inc. ("CareTech").

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.

At March 31, 2007 and 2006, the Company's carrying value of its investments in and advances to CareTech was \$16.4 million and \$16.6 million, respectively. Included in the net investment at March 31, 2007 and 2006, is a note receivable with a basis of \$10.4 million and \$12.2 million, respectively, and accounts receivable due from CareTech of \$4.8 million and \$3.9 million, respectively. The note is payable in quarterly installments through January 2012 and bears interest at 5.25%.

The Company reviewed CareTech's financial situation at March 31, 2007 and concluded that no impairment charge or valuation allowance related to its investment in CareTech was warranted. For the years ended March 31, 2007, 2006 and 2005, the Company recognized income of \$646,000, \$679,000 and \$784,000, respectively, from its investment in CareTech.

During fiscal 2007, the Company sold its 49% interest in ForeSee Results, Inc. ("ForeSee") which was incorporated in October 2001 to provide online customer satisfaction management. This investment was also 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".

On March 30, 2007, the Company entered into a stock repurchase agreement whereby ForeSee purchased all of the common shares in ForeSee owned by the Company (4,410,000 common shares) for approximately \$11.3 million in cash. The entire amount was recorded to "gain on sale of investment in partially owned company" in the consolidated statements of operations as the Company's equity investment in ForeSee was zero. As part of the transaction, a portion of the accrued interest on existing notes due the Company was paid, and the notes were modified to increase the interest rate to 10.25% and to extend the term of the notes so that \$618,000 will become due (with interest) at March 30, 2009 and \$5.6 million will become due (with interest) at March 30, 2012. The notes will be subordinate in payment rights to certain third party financing obtained by ForeSee in connection with the transaction. As of March 31, 2007, the carrying value of the notes was \$3.3 million. The Company's prior obligation to make up to \$367,000 in additional loans to ForeSee has been terminated.

At March 31, 2006, the Company's carrying value of its investments in and advances to ForeSee was \$2.4 million. Included in the net investment at March 31, 2006 was notes receivable from ForeSee totaling \$5.6 million with an adjusted basis of \$2.2 million. During fiscal 2004, the Company's equity investment in ForeSee was reduced to zero. At that point, the Company began recording 100% of the losses sustained by ForeSee as a reduction to the Company's outstanding advances to ForeSee since the Company was uncertain whether the other shareholders were willing or able to sustain their share of the losses. For the years ended March 31, 2007, 2006 and 2005, the Company recognized income (loss) of \$472,000, \$(638,000) and \$(1.2) million, respectively, from its investment in ForeSee in addition to the fiscal 2007 gain on the disposal of the common shares in ForeSee.

Professional services revenue for the years ended March 31, 2007, 2006 and 2005 included approximately \$24.9 million, \$23.0 million and \$20.5 million, respectively, from services provided to CareTech customers on a subcontractor basis. Professional services revenue for the years ended March 31, 2007, 2006 and 2005 included approximately \$334,000, \$698,000 and \$844,000, respectively, from services provided to ForeSee.

6. RELATED PARTY TRANSACTIONS

The Company sells and purchases products and services to and 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"). For the years ended March 31, 2007, 2006 and 2005, fees for legal services provided by Honigman to the Company were approximately \$97,000, \$498,000 and \$2.9 million, 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"). For the years ended March 31, 2007, 2006 and 2005, fees for legal services provided by Dickinson to the Company were approximately \$134,000, \$107,000 and \$291,000, respectively. These costs are included in "administrative and general" in the consolidated statements of operations.

Peter Karmanos, Jr., Chairman of the Board, is a shareholder of Compuware Sports Corporation ("CSC"). CSC operates an amateur hockey program in Southeastern Michigan. On September 8, 1992, the Company entered into a Promotion Agreement with CSC to promote the Company's business. The promotion agreement automatically renews each year, unless terminated with 60 days prior notice by either party. Advertising costs related to this agreement were approximately \$840,000 for each of the years ended March 31, 2007, 2006 and 2005. These costs are included in "sales and marketing" in the consolidated statements of operations.

Peter Karmanos, Jr. and a partner control the entities that own and/or manage various sports arenas. The Company entered into an advertising agreement with one arena to promote the Company's business, including the right to name the arena "Compuware Arena". The Company also rents suites and places advertising at the arenas. Total costs related to these agreements were approximately \$627,000, \$376,000 and \$415,000 for the years ended March 31, 2007, 2006 and 2005, respectively. These costs are 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 restructuring accrual and charges against the accrual during fiscal 2005, 2006 and 2007 (in thousands):

	Employee Termination Benefits	Facilities Costs (Primarily Lease Abandonments)	Other	Total Restructuring Charge
Balance at April 1, 2004	\$ 107	\$ 13,488	\$ 11	\$ 13,606
Paid during year ended				
March 31, 2005	(82)	(2,695)	(1)	(2,778)
Accrual at March 31, 2005	25	10,793	10	10,828
Paid during year ended				
March 31, 2006	(21)	(2,529)		(2,550)
Adjustment	(4)	(2,314)	(10)	(2,328)
Accrual at March 31, 2006		5,950		5,950
Paid during year ended				
March 31, 2007		(1,748)		(1,748)
Adjustment		(1,783)		(1,783)
Accrual at March 31, 2007	\$	\$ 2,419	\$	\$ 2,419

During the year ended March 31, 2007 and 2006, the Company recorded a reduction of \$1.8 million and \$2.3 million, respectively, in the restructuring accrual related to subleases of abandoned lease space in excess of what was originally anticipated. These adjustments were included in “administrative and general” in the consolidated statements of operations.

Approximately \$1.2 million and \$4.1 million of the accrual related to facilities costs is included in “long term accrued expenses” in the consolidated balance sheets at March 31, 2007 and 2006, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

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

March 31, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized intangible assets:			
Trademarks (1)	\$ 5,865		\$ 5,865
Amortized intangible assets:			
Capitalized software (2)	\$ 328,957	\$ (256,681)	\$ 72,276
Customer relationship agreements (3)	13,827	(5,571)	8,256
Non-compete agreements (3)	2,794	(2,222)	572
Other (4)	6,883	(5,900)	983
Total amortized intangible assets	\$ 352,461	\$ (270,374)	\$ 82,087
March 31, 2006			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized intangible assets:			
Trademarks (1)	\$ 5,853		\$ 5,853
Amortized intangible assets:			
Capitalized software (2)	\$ 295,996	\$ (234,078)	\$ 61,918
Customer relationship agreements (3)	9,235	(2,935)	6,300
Non-compete agreements (3)	2,057	(1,164)	893
Other (4)	6,381	(5,091)	1,290
Total amortized intangible assets	\$ 313,669	\$ (243,268)	\$ 70,401

- (1) Certain trademarks were acquired as part of the Covisint and Changepoint acquisitions in fiscal 2004 and 2005. These trademarks are deemed to have an indefinite life and therefore are not being amortized.
- (2) Amortization of capitalized software is primarily included in "cost of software license fees" in the consolidated statements of operations. Capitalized software is generally amortized over five years.
- (3) Customer relationship agreements and non-compete agreements were acquired as part of recent acquisitions. The customer relationship agreements are being amortized over periods up to five years. The non-compete agreements are being amortized over periods up to three years.
- (4) Other amortized intangible assets include trademarks associated with product acquisitions and are being amortized over periods up to ten years.

Amortization expense of intangible assets for the years ended March 31, 2007, 2006 and 2005 was \$26.6 million, \$20.9 million, and \$24.5 million, respectively. Annual amortization expense, based on identified intangible assets at March 31, 2007, is expected to be as follows (in thousands):

	Year Ended March 31,					
	2008	2009	2010	2011	2012	Thereafter
Capitalized software	\$ 22,115	\$ 20,280	\$ 15,115	\$ 10,144	\$ 4,354	\$ 268
Customer relationships	2,516	2,516	1,568	1,205	451	
Non-compete agreements	322	250				
Other	488	330	165			
Total	<u>\$ 25,441</u>	<u>\$ 23,376</u>	<u>\$ 16,848</u>	<u>\$ 11,349</u>	<u>\$ 4,805</u>	<u>\$ 268</u>

The Company evaluated its goodwill at March 31, 2007 and 2006 and determined there was no impairment in either fiscal year. Changes in the carrying amounts of goodwill for the years ended March 31, 2007 and 2006 are as follows (in thousands):

Goodwill:	Products	Services	Total
Balance at March 31, 2005, net	\$ 152,044	\$ 141,347	\$ 293,391
Acquisitions	33,561		33,561
Adjustment to previously recorded purchase price (1)	(6,705)		(6,705)
Effect of foreign currency translation	10	(175)	(165)
Balance at March 31, 2006, net	\$ 178,910	\$ 141,172	\$ 320,082
Acquisitions	34,087		34,087
Adjustment to previously recorded purchase price (1)	(1,063)	68	(995)
Effect of foreign currency translation	13	495	508
Balance at March 31, 2007, net	<u>\$ 211,947</u>	<u>\$ 141,735</u>	<u>\$ 353,682</u>

- (1) At the time of certain acquisitions, the Company treated amounts associated with prior acquisitions as a contingent liability for tax purposes and reduced the basis of tax amortizable goodwill for these amounts not recognized for tax purposes creating a deferred tax liability ("DTL"). It became evident in fiscal 2006 that no tax adjustments will be made to the Company's treatment of these amounts, therefore the DTL will not be realized and \$5.3 million was reversed against goodwill. The remaining adjustment to goodwill in fiscal 2006 and the adjustment in fiscal 2007 primarily relates to tax adjustments for ChangePoint that resulted from the completion of audits of tax years prior to the acquisition.

9. DEBT

The Company has no long term debt.

The Company holds a \$100 million revolving credit facility. On July 27, 2006, the Company amended the credit agreement extending the maturity to July 26, 2007. The amended credit agreement eliminated the liquidity and net worth covenants and no longer restricts merger and acquisition activity when the Company is the continuing or surviving entity. Interest is payable at 1% over the Eurodollar rate or at the prime rate (8.25% at March 31, 2007), at the Company's option. No borrowings have occurred under this facility.

The Company incurs interest expense primarily related to the accrual for certain abandoned leases. Cash paid for interest totaled approximately \$1.9 million, \$2.0 million and \$2.0 million for the years ended March 31, 2007, 2006 and 2005, respectively.

10. CAPITAL STOCK

Preferred Stock Purchase Rights - The Company entered into a Rights Agreement with Equiserve Trust Company, N.A., now known as Computershare Trust Company N.A., as Rights Agent, in October 2000 (as subsequently amended, the "rights plan"). The rights plan was adopted to discourage abusive, undervalued and other undesirable attempts to acquire control of the Company by making acquisitions of control that are not approved by the Company's Board of Directors economically undesirable for the acquiror. Pursuant to the rights plan, each share of the Company's common stock has attached to it one right, which initially represents the right to purchase one two-thousandth of a share of Series A Junior Participating Preferred Stock (a right) for \$40. The rights are not exercisable until (1) the first public announcement that a person or group has acquired, or obtained the right to acquire, except under limited circumstances, beneficial ownership of 20% or more of the outstanding common stock; or (2) the close of business on the tenth business day (or such later date as the Company's Board of Directors may determine) after the commencement of a tender or exchange offer the consummation of which would result in a person or group becoming the beneficial owner of 20% or more of the outstanding common stock. If a person becomes a beneficial owner of 20% or more of the outstanding common stock, each right converts into a right to purchase multiple shares of common stock of the Company, or in certain circumstances securities of the acquirer, at a 50% discount from the then current market value. In connection with the 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." The rights are redeemable for a specified period at a price of \$0.001 per right and expire on May 9, 2009, unless extended or earlier redeemed by the Board of Directors.

Stock Repurchase Plans – The Company's Board of Directors has authorized the repurchase of the Company's common stock under two plans, the "Discretionary Plan" and the "10b5-1 Plan".

Under the Discretionary Plan, the Board of Directors has authorized management to regularly evaluate market conditions for an opportunity to repurchase common stock at its discretion within the parameters established by the Board. The authorizations and repurchases under this plan were as follows (in thousands):

Date Authorized	Amount Authorized	Shares Acquired During Fiscal		Balance Remaining for Future Purchases at March 31, 2007
		2006	2007	
May 2003	\$ 125,000	14,941		
April 2006	125,000		17,631	
August 2006	300,000		36,169	
December 2006	200,000		10,504	\$ 103,510

There were no Company shares repurchased under this plan in 2005.

The Company entered into the 10b5-1 Plan in December 2006 to repurchase up to 34.0 million shares of the Company's common stock subject to price, volume and timing restraints set forth in the plan pursuant to Rule 10b5-1(c) of the Securities Exchange Act of 1934. The 10b5-1 Plan allows the repurchase of common stock at times when the Company might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. A broker selected by the Company has the authority under the terms and limitations specified in the plan to repurchase shares on behalf of the Company. As of March 31, 2007, the Company had repurchased 18.0 million shares for an aggregate \$162.4 million under the 10b5-1 Plan of which \$7.2 million was paid subsequent to March 2007. Approximately 16.0 million shares remained authorized for future repurchases. The Company may terminate the plan at any time.

11. EARNINGS PER COMMON SHARE

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

	Year Ended March 31,		
	2007	2006	2005
Basic earnings per share:			
Numerator: Net income	\$ 158,092	\$ 142,960	\$ 76,482
Denominator:			
Weighted-average common shares outstanding	350,213	385,147	386,701
Basic earnings per share	\$ 0.45	\$ 0.37	\$ 0.20
Diluted earnings per share:			
Numerator: Net income	\$ 158,092	\$ 142,960	\$ 76,482
Denominator:			
Weighted-average common shares outstanding	350,213	385,147	386,701
Dilutive effect of stock options	754	2,422	1,800
Total shares	350,967	387,569	388,501
Diluted earnings per share	\$ 0.45	\$ 0.37	\$ 0.20

During the years ended March 31, 2007, 2006 and 2005, stock options to purchase approximately 33,608,000, 38,231,000 and 58,492,000 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,	
	2007	2006
Deferred tax assets:		
Deferred maintenance	\$ 21,907	\$ 12,853
Amortization of intangible assets	42,121	29,949
Accrued expenses	22,987	21,722
U.S. tax credit carryforwards	20,025	28,050
Net operating loss carryforwards	12,150	12,415
Other	14,880	16,743
	134,070	121,732
Less valuation allowance	4,029	2,966
Net deferred tax assets	130,041	118,766
Current portion	36,430	33,032
Long term portion	\$ 93,611	\$ 85,734
Deferred tax liabilities:		
Amortization of intangible assets	\$ 21,420	\$ 18,010
Capitalized research and development costs	18,357	16,232
Depreciation	66,924	61,068
Other	8,627	3,030
Total deferred tax liabilities	115,328	98,340
Current portion	3,038	1,017
Long term portion	\$ 112,290	\$ 97,323

Income before income taxes and the income tax provision include the following (in thousands):

	Year Ended March 31,		
	2007	2006	2005
Income before income taxes:			
U.S.	\$ 172,819	\$ 159,028	\$ 82,115
Foreign	20,238	32,432	24,110
Total income before income taxes	\$ 193,057	\$ 191,460	\$ 106,225
Income tax provision			
Current:			
U.S. Federal	\$ 16,967	\$ 8,117	\$ 2,353
Foreign	11,265	14,934	747
U.S. State	2,434	2,055	294
Total current tax provision	30,666	25,106	3,394
Deferred:			
U.S. Federal	6,165	22,763	19,287
Foreign	(3,024)	1,540	6,256
U.S. State	1,158	(909)	806
Total deferred tax provision	4,299	23,394	26,349
Total income tax provision	\$ 34,965	\$ 48,500	\$ 29,743

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

	Year Ended March 31,		
	2007	2006	2005
Federal income tax at statutory rates	\$ 67,570	\$ 67,011	\$ 37,179
Increase (decrease) in taxes:			
State income taxes, net	2,215	1,326	715
Export sales benefit	(2,954)	(3,088)	(7,676)
Settlement of prior year tax matters (1)	(26,550)	(11,126)	
Taxes relating to foreign operations	992	6,948	(5,571)
Tax credits	(5,060)	(4,698)	1,037
Valuation allowance (2)	(3,768)	(12,400)	5,870
Other, net	2,520	4,527	(1,811)
Provision for income taxes	\$ 34,965	\$ 48,500	\$ 29,743

- (1) During the quarter ended March 31, 2007, the Company reduced its income tax provision by \$26.6 million for certain items related to settlements of prior year tax matters. Substantially all of the decrease concerns taxes related to foreign operations. Approximately \$18.9 million of the reduction was driven by an agreement on issues that affected a special deduction and credits afforded to U.S. based taxpayers that generate income from sales to foreign customers. In addition, a reduction of \$3.3 million was the result of an agreement regarding the proper character and timing of certain deductions. The remainder of the reduction is due primarily to interest.

During the quarter ended March 31, 2006, the Company reduced its income tax provision by \$11.1 million for certain items related to settlements of prior year tax matters. The Company concluded two separate Competent Authority proceedings resulting in a reduction to the Company's income tax provision of approximately \$5.8 million. The remainder of the reduction was due primarily to taxes related to domestic operations, most notably the U.S. Research and Experimentation tax credit.

- (2) During the quarter ended March 31, 2007, the Company released a valuation allowance related to the potential expiration of capital loss carryforwards in the amount of \$2.9 million as a result of the sale of the Company's investment in ForeSee. In addition, the Company recognized approximately \$900,000 related to operating losses in Brazil, which the Company now believes are more likely than not to be realized.

During the quarter ended March 31, 2006, additional positive evidence became available to allow the Company to decrease its valuation allowance by \$12.4 million. The decrease relates almost entirely to U.S. foreign tax credit carryforwards that during the fourth quarter of fiscal 2006 became more likely than not to be realized.

At March 31, 2007, the Company has foreign net operating loss carryforwards for income tax purposes of \$8.5 million which expire as follows (in thousands):

Year ending March 31:		
2008		\$ 190
2015		50
2016		100
2017		65
2018		3
Unlimited carryforward		8,129

The deferred tax asset for these foreign loss carryforwards has been reduced by a valuation allowance of \$1.5 million.

For U.S. tax purposes, \$2.5 million (expiring in fiscal 2008 through 2026) of net operating losses are available to reduce U.S. federal income taxes. In addition, \$13.2 million (expiring in fiscal 2014 through 2015) of foreign tax credits are available to offset future U.S. federal income tax liabilities. Deferred tax assets related to charitable contribution and general business credit carryforwards are available to offset future U.S. federal income tax liabilities of \$9.5 million (expiring in fiscal 2025 through 2027).

In addition, the Company has \$45,000 (expiring in fiscal 2008) of tax credits in foreign jurisdictions available to offset future foreign income tax liabilities.

Cash paid for income taxes totaled \$28.0 million, \$35.0 million and \$55,000 for the years ended March 31, 2007, 2006 and 2005, respectively.

The Company has open tax years, from tax periods 1996 and forward, with various significant taxing jurisdictions, including the U.S., Brazil and the United Kingdom. These open years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The Company has now concluded on nearly all matters with the U.S. Internal Revenue Service related to its examination for tax years 2000 through 2004. As of March 31, 2007 and 2006, the Company has a reserve of \$11.6 million and \$37.8 million, respectively, for those matters where the amount of loss is probable and estimable. The amount of the reserve is based on management's best estimate given the Company's history with similar matters and interpretations of current laws and regulations.

13. SEGMENT INFORMATION

Compuware reports on two reportable 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 increase the effectiveness of their organizations.

The Company's products are designed to enhance the effectiveness of key disciplines throughout IT organizations from application development and delivery to service management and IT portfolio management supporting all major enterprise computing platforms. The Company also offers a broad range of IT professional services including business systems analysis, design, communication, programming, software conversion and system planning and consulting.

No single customer accounted for greater than 10% of total revenue during the years ended March 31, 2007, 2006 or 2005, or greater than 10% of accounts receivable at March 31, 2007 or 2006.

The Company evaluates the performance of its segments based primarily on operating profit before corporate expenses and other charges. 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,		
	2007	2006	2005
Revenues:			
Products:			
Mainframe	\$ 484,807	\$ 502,931	\$ 526,743
Distributed systems	256,199	227,315	203,756
Total products revenue	741,006	730,246	730,499
Professional services	471,996	475,115	501,340
Total revenues	<u>\$ 1,213,002</u>	<u>\$ 1,205,361</u>	<u>\$ 1,231,839</u>
Income (loss) from operations:			
Products	\$ 275,091	\$ 280,277	\$ 229,880
Professional services	51,267	57,630	56,344
Corporate expenses	(193,578)	(190,538)	(199,628)
Income from operations	132,780	147,369	86,596
Other income, net	60,277	44,091	19,629
Income before income taxes	<u>\$ 193,057</u>	<u>\$ 191,460</u>	<u>\$ 106,225</u>

The Company does not evaluate assets and capital expenditures on a segment basis, and accordingly such information is not provided.

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

	Year Ended March 31,		
	2007	2006	2005
Revenues:			
United States	\$ 800,585	\$ 797,059	\$ 836,420
Europe and Africa	301,556	308,730	299,616
Other international operations	110,861	99,572	95,803
Total revenues	<u>\$ 1,213,002</u>	<u>\$ 1,205,361</u>	<u>\$ 1,231,839</u>
	March 31,		
	2007	2006	
Long-lived assets:			
United States	\$ 681,128	\$ 677,954	
Europe and Africa	44,274	13,388	
Other international operations	85,783	86,311	
Total long-lived assets	<u>\$ 811,185</u>	<u>\$ 777,653</u>	

Long-lived assets are comprised of property, plant and equipment, goodwill and capitalized software.

14. COMMITMENTS AND CONTINGENCIES

The Company leases office space, equipment and land under various operating lease agreements extending through fiscal 2100. Total rent payments under these agreements were approximately \$36.9 million, \$35.0 million and \$40.7 million, respectively, for the years ended March 31, 2007, 2006 and 2005. Certain of these leases contain provisions for renewal options and escalation clauses. The Company also has commitments under various advertising and charitable contribution agreements totaling \$10.0 million and \$1.4 million, respectively, at March 31, 2007. Total expense related to these agreements was approximately \$3.5 million, \$3.3 million and \$6.4 million, respectively, for the years ended March 31, 2007, 2006 and 2005. The following is a schedule of future minimum commitments (in thousands):

	Payment Due by Period as of March 31,						
	Total	2008	2009	2010	2011	2012	2013 and Thereafter
Contractual obligations:							
Operating leases	\$ 327,015	\$ 35,178	\$ 29,033	\$ 17,874	\$ 9,277	\$ 4,568	\$ 231,085
Other	11,403	3,340	3,213	2,550	450	450	1,400
Total	<u>\$ 338,418</u>	<u>\$ 38,518</u>	<u>\$ 32,246</u>	<u>\$ 20,424</u>	<u>\$ 9,727</u>	<u>\$ 5,018</u>	<u>\$ 232,485</u>

The Company also leases a portion of the new headquarters facility to retail tenants. The following is a schedule of future minimum lease income commitments (in thousands):

	Payment Due by Period as of March 31,						
	Total	2008	2009	2010	2011	2012	2013 and Thereafter
Lease income commitments:							
Operating lease income	\$ 7,190	\$ 870	\$ 848	\$ 781	\$ 714	\$ 704	\$ 3,273

Director Compensation - Effective April 1, 2002, the Board of Directors approved the 2002 Directors Phantom Stock Plan (the "Plan") for non-employee directors 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, 2007, approximately 461,000 phantom shares were outstanding. The expense incurred related to this program was approximately \$1,906,000, \$1,499,000 and \$397,000 for the years ended March 31, 2007, 2006 and 2005, 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.

In May 2005, the Board of Directors authorized non-employee directors to defer receipt of all or a portion of their director's fees via a deferred compensation plan. As an alternative to a cash deferral, the plan allows non-employee directors to defer their cash compensation into deferred compensation stock units, which are based upon the price of Compuware's common stock. As of March 31, 2007, approximately 6,000 units were outstanding. No amounts were deferred under this plan during the year ended March 31, 2006.

Settlement – In March 2005, the Company settled all of its outstanding litigation with International Business Machines Corporation ("IBM"). Under the settlement agreement and subsequent clarifications, IBM and the Company entered into a business arrangement whereby IBM will purchase software licenses and maintenance from the Company valued at \$140 million over five years (\$20 million in fiscal 2006, \$30 million in each of the following years.) During fiscal 2007 and 2006, IBM utilized \$19.4 million and \$9.4 million, respectively, of their license and maintenance commitment, resulting in an unused commitment balance of \$10.6 million for each fiscal year. These amounts are reported as "settlement" in the consolidated statements of operations.

Legal Matters – The Company and one of its employees were parties to a libel lawsuit filed in April 2002 by two former employees titled *Mary McCarthy O'Lee and Aidan O'Lee v. Compuware Corp., et al.*, Case No. 406409, Superior Court of the State of California, City and County of San Francisco. Plaintiffs alleged damages totaling \$1 million. The case was tried to a jury in late June and early July 2005. The jury rendered a verdict against the Company and awarded plaintiffs a total of \$1.15 million in compensatory and \$10 million in punitive damages. On post-trial motions, the trial court affirmed the compensatory damages but reduced the punitive damages award to \$3.45 million. The Company appealed seeking a further reduction of the damages award. The plaintiffs also appealed seeking to reinstate the original verdict award. The appellate court affirmed the trial court's decision, and the Company has satisfied the judgment in April 2007. The matter is now closed.

The Company is one of dozens of defendants in a patent infringement lawsuit filed on April 10, 2007 titled *Disc Link Corporation v. Oracle Corp., et al.*, Case No. 5:07-cv-58 in the United States District Court for the Eastern District of Texas. The plaintiff claims that the Company and the other defendants supply, distribute or offer for sale products that infringe U.S. Patent No. 6,314,574 entitled "Information

Distribution System". Plaintiff seeks unspecified compensatory damages, trebling of damages for willful infringement, and fees and costs. We deny the allegation and are vigorously defending against it.

From time to time, in addition to the matters identified above, Compuware is subject to legal proceedings, claims, investigations and proceedings in the ordinary course of business. In accordance with U.S. generally accepted accounting principles, Compuware makes a provision for a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against Compuware. It is possible, nevertheless, that our consolidated financial position, cash flows or results of operations could be affected by the resolution of one or more of such contingencies.

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 U.S. 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 \$200,000 in fiscal 2007. During fiscal 2006 and 2005, only the minimum contribution was made to the Plan. This is a non-leveraged ESOP plan.

Employee Stock Purchase Plan - During fiscal 2002, the shareholders approved international and domestic employee stock purchase plans under which the Company was authorized to issue up to 15 million shares of common stock to eligible employees. Under the terms of the plan, employees can elect to have up to 10% 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 95% of the last day's average high and low price for each three month offering period. During fiscal 2007, 2006 and 2005, the Company sold approximately 570,000, 1,369,000 and 1,901,000 shares, respectively, to eligible employees under the plan.

Employee Stock Option Plans - The Company adopted five stock option plans dating back to 1991. These plans provide for grants of options to employees and to directors to purchase up to 91,000,000 shares of the Company's common stock, of which approximately 20,118,000 options were outstanding at March 31, 2007. 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 2007, the Company granted approximately 655,000 options under these Plans. Fifty percent of the option shares granted under these plans become exercisable on the third year anniversary of the date of grant, and 25% of the option shares vest on each of the fourth year and fifth year anniversaries of the date of grant. 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, as shareholder approval was not required at the time. The plan provides for grants of options to employees and to directors to purchase up to 50,000,000 shares of the Company's common stock. 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 2007, the Company granted approximately 1,495,000 options under the Broad Based Stock Option Plan. Approximately 23,057,000 options were outstanding at March 31, 2007. Option shares granted under the Broad Based Stock Option Plan either vest every six months over a four year period or 50% of the option shares become exercisable on the third year anniversary of the date of grant, and 25% of the option shares vest on each of the fourth year and fifth year anniversaries of the date of grant. 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 a director. The Company did not grant options under the Non-Employee Director Stock Option Plan during fiscal 2007. Approximately 534,000 options were outstanding at March 31, 2007.

At March 31, 2007, approximately 1,000 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. There were no exercises under the Replacement Stock Option Award program during fiscal 2007.

A summary of option activity under the Company's stock-based compensation plans as of March 31, 2007, and changes during the the year then ended is presented below (shares and intrinsic value in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of April 1, 2006	55,710	\$ 11.66		
Granted	2,150	7.39		
Exercised	(8,069)	7.66		
Forfeited	(1,115)	6.94		
Cancelled/expired	(4,966)	12.33		
Outstanding as of March 31, 2007	43,710	\$ 12.23	3.92	\$ 31,384
Ending vested and expected to vest	42,083	\$ 12.42	3.75	\$ 27,636
Exercisable as of March 31, 2007	36,041	\$ 13.32	3.12	\$ 13,013

The total fair value of shares vested and the total intrinsic value of options exercised during the years end March 31, 2007, 2006 and 2005 were as follows (intrinsic values in thousands):

	Year Ended March 31,		
	2007	2006	2005
Fair value of shares vested	\$ 5.58	\$ 5.45	\$ 14.77
Intrinsic value of options exercised	9,986	12,866	1,812

SFAS 123(R) requires the use of a valuation model to calculate the fair value of stock option awards. The Company has elected to use the Black-Scholes option pricing model, which incorporates various assumptions including volatility, expected term, risk-free interest rates and dividend yields. The volatility is based on historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the stock option granted. The Company uses historical volatility because management believes such volatility is representative of prospective trends. The expected term of an award is based on the simplified method as described in SAB 107. The risk-

free interest rate assumption is based upon observed interest rates appropriate for the expected term of our awards. The dividend yield assumption is based on the Company's history and expectation regarding dividend payouts.

The weighted average fair value of stock options granted in the year ended March 31, 2007 and the assumptions used to estimate those values using a Black-Scholes option pricing model were as follows:

	Year Ended		
	March 31, 2007		
Expected volatility	68.75%		
Risk-free interest rate	4.82%		
Expected lives at date of grant (in years)	6.9		
Weighted average fair value of the options granted	\$ 5.04		

Dividend yields were not a factor in determining fair value of stock options granted as the Company has never issued cash dividends and does not anticipate issuing cash dividends in the future.

For the year ended March 31, 2007, stock-based compensation expense was allocated as follows (in thousands):

	Year Ended
	March 31, 2007
Stock-based compensation classified as:	
Cost of software license fees	\$ 4
Cost of maintenance fees	283
Cost of professional services	1,508
Technology development and support	777
Sales and marketing	3,910
Administrative and general	2,950
Total stock-based compensation expense before income taxes	9,432
Income tax benefit	(3,270)
Total stock-based compensation expense after income taxes	\$ 6,162
Effect on basic and diluted earnings per share	\$ 0.02

As of March 31, 2007, \$16.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options is expected to be recognized over a weighted-average period of approximately 2.65 years.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for the years ended March 31, 2007 and 2006 is as follows (in thousands, except for per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2007:					
Revenues	\$ 296,318	\$ 288,507	\$ 315,148	\$ 313,029	\$ 1,213,002
Gross profit	171,991	168,057	195,273	186,838	722,159
Operating income	32,882	25,446	42,741	31,711	132,780
Pre-tax income	43,763	36,059	51,753	61,482	193,057
Net income	29,321	24,809	36,486	67,476	158,092
Basic and diluted earnings per share	0.08	0.07	0.11	0.21	0.45
Fiscal 2006:					
Revenues	\$ 297,328	\$ 292,646	\$ 305,905	\$ 309,482	\$ 1,205,361
Gross profit	175,269	171,823	187,971	187,864	722,927
Operating income	29,477	28,253	47,034	42,605	147,369
Pre-tax income	36,210	36,105	56,268	62,877	191,460
Net income	24,623	24,190	37,700	56,447	142,960
Basic and diluted earnings per share	0.06	0.06	0.10	0.15	0.37

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure information required to be disclosed in the Company's reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

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 (the "Exchange Act"). 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, at the reasonable assurance level, to cause the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is defined under applicable Securities and Exchange Commission rules as a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U. S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

As of March 31, 2007, management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Based on the assessment, management determined that the Company's internal control over financial reporting was effective, as of March 31, 2007, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the Company's internal control over financial reporting as of March 31, 2007. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Changes in Internal Control Over Financial Reporting

No changes in the Company's internal control over financial reporting occurred during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Compuware Corporation
Detroit, Michigan

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Compuware Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to

provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2007, of the Company and our report dated May 24, 2007, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

DELOITTE & TOUCHE LLP

Detroit, Michigan
May 24, 2007

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is contained in the Proxy Statement 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 “Corporate Governance – Compensation of Directors” 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, AND DIRECTOR INDEPENDENCE

The information required by this Item is contained in the Proxy Statement under the caption “Other Matters – Related Party Transactions” and “Corporate Governance – Board of Directors – Director Independence” 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 “Ratification of Appointment of the Independent Registered Public Accounting Firm” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(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	42
Consolidated Balance Sheets as of March 31, 2007 and 2006	43
Consolidated Statements of Operations for each of the years ended March 31, 2007, 2006, and 2005	44
Consolidated Statements of Shareholders' Equity for each of the years ended March 31, 2007, 2006, and 2005	45
Consolidated Statements of Cash Flows for each of the years ended March 31, 2007, 2006, and 2005	46
Notes to Consolidated Financial Statements	47-73

2. Financial Statement Schedules

All financial statement schedules 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.

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 Detroit, State of Michigan on May 25, 2007.

COMPUWARE CORPORATION

By: /S/ PETER KARMANOS, JR.
 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>
<u>/S/ PETER KARMANOS, JR.</u> Peter Karmanos, Jr.	Chairman of the Board, Chief Executive Officer And Director (Principal Executive Officer)	May 25, 2007
<u>/S/ LAURA L. FOURNIER</u> Laura L. Fournier	Senior Vice President, Chief Financial Officer and Treasurer (Chief Financial and Accounting Officer)	May 25, 2007
<u>/S/ DENNIS W. ARCHER</u> Dennis W. Archer	Director	May 25, 2007
<u>/S/ GURMINDER S. BEDI</u> Gurminder S. Bedi	Director	May 25, 2007
<u>/S/ WILLIAM O. GRABE</u> William O. Grabe	Director	May 25, 2007
<u>/S/ WILLIAM R. HALLING</u> William R. Halling	Director	May 25, 2007
<u>/S/ FAYE A. NELSON</u> Faye A. Nelson	Director	May 25, 2007
<u>/S/ GLENDA D. PRICE</u> Glenda D. Price	Director	May 25, 2007
<u>/S/ W. JAMES PROWSE</u> W. James Prowse	Director	May 25, 2007
<u>/S/ G. SCOTT ROMNEY</u> G. Scott Romney	Director	May 25, 2007

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>
2.6	Agreement and Plan of Merger dated May 6, 2005 by and among Compuware Corporation, Compuware Acquisition Corp., Adlex, Inc., and with respect to Article VIII, Tad Witkowicz, as Shareholder Representative (15)
2.7	Stock Purchase Agreement by and among Compuware Corporation, Proxima Technology Group, Inc., and each of the shareholders of Proxima Technology Group, Inc. dated as of January 2, 2007 (23)
3(i).1	Restated Articles of Incorporation of Compuware Corporation, as amended, as of October 25, 2000 (9)
3(i).1	Amended and Restated Bylaws of Compuware Corporation, as of January 3, 2002. (12)
4.0	Rights Agreement dated as of October 25, 2000 between Compuware Corporation and Equiserve Trust Company, N.A., as Rights Agent (7)
4.2	Revolving Credit Agreement dated as of May 2, 2003, between Compuware Corporation and Comerica Bank (10)
4.3	Amendment No. 1 to Credit Agreement, dated as of April 30, 2004 (11)
4.4	Amendment No. 2, dated as of July 29, 2004, Revolving Credit Agreement dated as of May 2, 2003, between Compuware Corporation and Comerica Bank (13)
4.5	Amendment No. 3 to Credit Agreement, dated July 28, 2005 (18)
4.6	Amendment To Rights Agreement, dated as of October 29, 2001 (19)
4.7	Amendment No. 2 To Rights Agreement, dated as of May 9, 2006 (19)
4.8	Amended and Restated Credit Agreement dated May 2, 2003 as of July 27, 2006 (22)
*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 (10)
*10.91	Nonqualified Stock Option Agreement for Executive Officers (13)
*10.92	Nonqualified Stock Option Agreement for Outside Directors (13)
*10.93	Phantom Share Award Agreement (13)
*10.95	Settlement Agreement dated March 21, 2005 by and among Compuware Corporation and International Business Machines Corporation (14)
*10.96	First Amendment to the Compuware Corporation 2002 Directors Phantom Stock Plan (16)
*10.97	Amendment Number 1 to Settlement Agreement dated November 29, 2005 by and among Compuware Corporation and International Business Machines Corporation (17)
*10.98	2005 Non-Employee Directors' Deferred Compensation Plan (20)
*10.99	Executive Incentive Plan – Corporate (21)
*10.100	Parallel Nonqualified Stock Purchase Plan Arrangement (25)
*10.101	Fifth Amendment to the Compuware Corporation ESOP/401(k) Plan (22)

*10.102	Post-Retirement Consulting Agreement, dated March 1, 2007, between Compuware Corporation and Peter Karmanos, Jr. (24)
21.1	Subsidiaries of the Registrant (25)
23.1	Consent of Independent Registered Public Accounting Firm (25)
31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (25)
31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (25)
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (25)

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1, as amended (Registration No. 33-53652).
- (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.
- (3) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration Statement No. 333-37873).
- (4) Incorporated by reference to the Company's fiscal 1998 Annual Report on Form 10-K.
- (5) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration Statement No. 333-57984).
- (6) Incorporated by reference to the Company's fiscal 2000 Annual Report on Form 10-K.
- (7) Incorporated by reference 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 the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000.
- (9) Incorporated by reference to the Company's fiscal 2001 Annual Report on Form 10-K.
- (10) Incorporated by reference to the Company's fiscal 2003 Annual Report on Form 10-K.
- (11) Incorporated by reference to the Company's fiscal 2004 Annual Report on Form 10-K.
- (12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.
- (13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004.
- (14) Incorporated by reference to the Company's Form 8-K filed on March 21, 2005
- (15) Incorporated by reference to the Company's Form 8-K filed on May 9, 2005.
- (16) Incorporated by reference to the Company's Form 8-K/A filed on May 17, 2005.
- (17) Incorporated by reference to the Company's Form 8-K filed on November 29, 2005.
- (18) Incorporated by reference to the Company's Form 8-K filed on August 2, 2005.
- (19) Incorporated by reference to the first Form 8-K filed by the Company on May 11, 2006.
- (20) Incorporated by reference to the second Form 8-K filed by the Company on May 11, 2006.
- (21) Incorporated by reference to the Company's Form 8-K filed on June 6, 2006.
- (22) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006.
- (23) Incorporated by reference to the Company's Form 8-K filed on January 8, 2007.
- (24) Incorporated by reference to the Company's Form 8-K filed on March 2, 2007.
- (25) Filed herewith.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter Karmanos, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Compuware Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting and;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Peter Karmanos, Jr.

Peter Karmanos, Jr.
Chief Executive Officer
May 25, 2007

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laura L. Fournier, certify that:

1. I have reviewed this annual report on Form 10-K of Compuware Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting and;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Laura L. Fournier

Laura L. Fournier
Chief Financial Officer
May 25, 2007

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Compuware Corporation (the "Company") on Form 10-K for the fiscal year ending March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Peter Karmanos, Jr., Chief Executive Officer of the Company, and Laura L. Fournier, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Peter Karmanos, Jr.

Peter Karmanos, Jr.
Chief Executive Officer
May 25, 2007

/s/ Laura L. Fournier

Laura L. Fournier
Chief Financial Officer
May 25, 2007

Compuware Corporation Board of Directors

Dennis W. Archer

Partner and Chairman,
Dickinson Wright PLLC

Gurminder S. Bedi

Member of the Board,
Private Investor

William O. Grabe

Managing Director,
General Atlantic LLC

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 CEO,
Detroit Riverfront Conservancy

Dr. Glenda D. Price

President (Emeritus),
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),
Private Investor

Compuware Corporation Board of Directors Committees

Audit

William R. Halling - Chairperson

Dr. Glenda D. Price

W. James Prowse

Compensation

William O. Grabe - Chairperson

Gurminder S. Bedi

Faye Alexander Nelson

Diversity, Community Relations and Shareholder Relations

Dennis W. Archer - Chairperson

Faye Alexander Nelson

Dr. Glenda D. Price

G. Scott Romney

Executive

Peter Karmanos, Jr. - Chairperson

Dennis W. Archer

Gurminder S. Bedi

W. James Prowse

Nominating and Corporate Governance

W. James Prowse - Chairperson

Gurminder S. Bedi

William O. Grabe

William R. Halling

Strategic Planning

G. Scott Romney - Chairperson

Dennis W. Archer

Gurminder S. Bedi

Compuware Corporation Executive Committee

Ken Baldwin

Vice President, Professional Services

Chris Bockhausen

Senior Vice President, Technology and Chief Information Officer

Thomas M. Costello, Jr.

Senior Vice President, Human Resources, Communications
and Investor Relations, General Counsel and Secretary

Laura Fournier

Senior Vice President, Chief Financial Officer and Treasurer

Andrew Hittle

Vice President, Business Transformation

Henry Jallos

President and Chief Operating Officer, Products

Peter Karmanos, Jr.

Chairman and Chief Executive Officer

Denise Knobbblock

Chief Administrative Officer

Bob Paul

President and Chief Operating Officer, Compuware Covisint

John Williams

Senior Vice President, Product Management
and Strategy

Shareholder Information

General Offices

One Campus Martius
Detroit, MI 48226-5099
313.227.7300

Transfer Agent

Computershare Trust Company N.A.
P.O. Box 43078
Providence, RI 02940-3078
877.282.1169
www.computershare.com

Auditor

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

Annual Meeting

The Annual Meeting of Shareholders will be held at 3:00 p.m. Eastern time on August 28, 2007 in Detroit, Michigan at the Compuware headquarters building. Notice of the place of the 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 2007, are available without charge by writing to:

Thomas M. Costello, Jr.
Secretary
Compuware Corporation
One Campus Martius
Detroit, MI 48226-5099

Common Stock Listing

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

Compuware Offices

North America

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

International

Amsterdam, The Netherlands	Düsseldorf, Germany	Melbourne, Australia	Seoul, South Korea
Auckland, New Zealand	Frankfurt, Germany	Milan, Italy	Shanghai, China
Bangalore, India	Gdansk, Poland	Munich, Germany	Singapore, Singapore
Berlin, Germany	Hamburg, Germany	Nagoya, Japan	Sophia Antipolis, France
Brasilia, Brazil	Helsinki, Finland	Osaka, Japan	Stockholm, Sweden
Bratislava, Slovakia	Hong Kong, China	Oslo, Norway	Sydney, Australia
Brisbane, Australia	Johannesburg, South Africa	Panama City, Panama	Tokyo, Japan
Brussels, Belgium	Linz, Austria	Paris, France	Vienna, Austria
Canberra, Australia	Lisbon, Portugal	Prague, Czech Republic	Warsaw, Poland
Cape Town, South Africa	London, United Kingdom	Rio de Janeiro, Brazil	Zurich, Switzerland
Copenhagen, Denmark	Madrid, Spain	Rome, Italy	
Dublin, Ireland	Manchester, United Kingdom	São Paulo, Brazil	

In addition, Compuware business partners and resellers have offices that directly serve:

Argentina	Ecuador	Malaysia	Singapore
Australia	El Salvador	Mauritius	Slovakia
Austria	Finland	Mexico	South Africa
Bahrain	France	Morocco	South Korea
Belgium	Germany	The Netherlands	Spain
Botswana	Greece	New Zealand	Sweden
Brazil	Guatemala	Nicaragua	Switzerland
Canada	Hong Kong	Norway	Taiwan ROC
Caribbean	India	Oman	Thailand
Chile	Indonesia	Panama	Turkey
China	Ireland	Peru	United Arab Emirates
Colombia	Israel	Poland	United Kingdom
Costa Rica	Italy	Portugal	United States
Croatia	Japan	Puerto Rico	Uruguay
Czech Republic	Kuwait	Qatar	Venezuela
Denmark	Luxembourg	Russia	
Dominican Republic	Macau	Saudi Arabia	



Compuware World Headquarters

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Detroit, MI 48226

313.227.7300 | 800.521.9353

Fax: 313.227.7555

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