

AGILE SOFTWARE CORP  
Form 10-K  
July 14, 2005  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended April 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27071

**AGILE SOFTWARE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

incorporation or organization)

6373 San Ignacio Avenue, San Jose, California 95119-1200

77-0397905  
(I.R.S. Employer

Identification No.)

(Address of principal executive office)

(408) 284-4000

(Registrant's telephone number, including area code)

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

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$0.001

(Title of Class)

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 the filing requirements for the past 90 days. Yes  No

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The aggregate market value of Agile Software Corporation Common stock, \$0.001 par value, held by non-affiliates as of October 31, 2004 was \$294,722,317 based upon the last sales price reported for such date on the NASDAQ National Market on October 31, 2004. For purposes of this disclosure, shares of Common Stock held by persons who held more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant, have been excluded in that such persons may be deemed to be affiliates. Share ownership information of certain persons known by the Registrant to own greater than 5% of the outstanding Common Stock for purposes of the preceding calculation is based solely on information on Schedule 13F or 13G filed with the Securities and Exchange Commission and is as of October 31, 2004. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock of Agile Software Corporation issued and outstanding as of June 30, 2005 was 53,595,262.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The registrant has incorporated by reference into Part III of this Form 10-K portions of its proxy statement for the registrant's 2005 Annual Meeting of Stockholders, which definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the fiscal year to which this Report relates.

---

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**FORM 10-K**

**APRIL 30, 2005**

**TABLE OF CONTENTS**

**Form 10-K**

<u>Item No.</u>	<u>Name of Item</u>	<u>Page</u>
<b><u>PART I</u></b>		
ITEM 1.	<u>BUSINESS</u>	1
ITEM 2.	<u>PROPERTIES</u>	10
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	10
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	11
<b><u>PART II</u></b>		
ITEM 5.	<u>MARKET FOR AGILE SOFTWARE CORPORATION'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	12
ITEM 6.	<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	13
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	15
ITEM 7A.	<u>QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	36
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	47
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	80
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	80
<b><u>PART III</u></b>		
ITEM 10.	<u>DIRECTORS AND EXECUTIVE OFFICERS OF AGILE SOFTWARE CORPORATION</u>	82
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	82
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	82
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	82
ITEM 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	82
<b><u>PART IV</u></b>		
ITEM 15.	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	83
	<u>SIGNATURES</u>	85

## **Table of Contents**

### **PART I**

#### **ITEM 1. BUSINESS**

##### **Overview**

We develop and sell an integrated suite of product lifecycle management ( PLM ) software products and offer related business consulting and implementation services. Our solutions enable our customers to accelerate their time-to-market and revenue, reduce costs, improve product quality, ensure regulatory compliance and drive innovation throughout the product lifecycle. Albertsons, Alcatel, Boeing Service Company, Cisco Systems, Dell Computer Products, Eastman Kodak, Flextronics International, GlaxoSmithKline, Harris Corporation, Hitachi Corporation, LeapFrog Enterprises, Lockheed Martin Missile and Fire Control, Magna Steyr, Philip Morris International, Siemens A&D, QUALCOMM Corporation and ZF are among the over 10,000 customers that have licensed Agile solutions.

We focus solely on providing PLM solutions to companies in the electronics and high technology, industrial products, life sciences and other industries. Our strategy is to deliver business-ready solutions to streamline the information and process flow within a company's product operation, that are cost-effective and quickly provide measurable results. Our strategy is industry-focused with product capabilities tailored to the requirements of our target industries. We sell our products through a direct sales channel and distributors.

Since late 2002, we have augmented our internal efforts to expand our product offerings and increase our revenues by acquiring complementary businesses and technologies. Consistent with this strategy, we have completed the following five acquisitions since then: In December 2002, we acquired oneRev which provided us with technology to facilitate exchanging product information between disparate business systems across an enterprise's global supply chain. In March 2003, we acquired ProductFactory which provided us with program planning and execution solutions. In August 2003, we acquired Eigner, a Product Lifecycle Management solutions provider focused primarily on industrial products, including automotive supply chain, aerospace and defense and machinery market. This acquisition broadened the base of solutions we offer customers in the industrial products market and provided us with a strong European sales, support, and research and development presence. In October 2003, we acquired Tradec, which provided us with direct materials cost and performance management solutions to fill out the Agile Product Cost Management solution. In February 2005, we acquired Cimmetry, a provider of visual collaboration software that has become an increasingly important element of PLM solutions. As opportunities to acquire additional companies, technology, and resources arise, we may consider additional acquisitions in the future.

##### **Industry Background**

For product-oriented companies, delivering products to market is increasingly complex. As companies move to global, often outsourced design, manufacturing and service operations, and face increasing regulatory compliance concerns, the processes that people must follow to complete their work can no longer be handled with paper or inefficient information technology approaches. There are several business processes that companies struggle to modernize to remain competitive and address the regulatory and other compliance requirements. These include:

*New Product Development and Introduction.* The lifecycles of many products are very short. In order to compete effectively, companies need to be able to introduce new or enhanced products quickly and cost effectively. Products that are late to market, do not satisfy market requirements or have quality problems can severely impact the business, market share and financial results of companies.

*Customer Needs Management.* Understanding what the customer wants, whether for mass-produced products or small quantity, engineered-to-order products, is critical to gaining customer acceptance of a company's products. Manufacturers that cannot manage customer needs will suffer market share erosion, costly project overruns and liability for contract non-compliance.

*Direct Materials Sourcing.* As manufacturers outsource more and more of their production requirements, including in many cases engineering activities, to third-party suppliers, they no longer have

## **Table of Contents**

direct control over the internal procedures used to design and build their products. To ensure high quality, cost effective and timely availability of products, product information and changes must be communicated effectively across a very complex, global supply chain.

*Volume Production and Product Changes.* As a product transitions during its lifecycle from proof-of-concept and prototype to volume production, it is critical to link the proper design and planning information with production systems used to build the products. Communication of pending changes and quality trends across the enterprise is needed to ensure the right products are being built per customer, market and engineering requirements.

*Product Serviceability.* High quality customer service is an important differentiator for manufacturers. Not only is it important to capture and incorporate field service feedback in new product development and improving existing products, it is also important to communicate effectively product changes to service organizations for equipment that requires repair or overhaul.

*Compliance.* Whether driven by regulatory agencies such as the Federal Drug Administration or Department of Defense, industry standards like STEP, environmental compliance such as that required by the European Restriction of Hazardous Substance (RoHS) and Waste Electrical and Electronic Equipment (WEEE) directives or customer requirements or internal policies, companies need to comply with regulations and policies and be able to provide proof of compliance on demand. Clear, auditable records of what and why product decisions were made, by whom, and when are critical elements necessary to satisfy product compliance.

Recently, awareness of the impact that operational improvements in the business areas listed above can have on companies' profitability, product innovation, market acceptance of their products, compliance, and quality has increased. A market category called ***Product Lifecycle Management (PLM)*** has emerged over the past few years that describes the investments made by companies in the strategy, business process change and technology underlying their products as well as in the organizations responsible for manufacturing products in order to improve operational efficiency.

Companies, both large and small, domestic or global, face similar challenges. Companies in industries such as electronics and high technology, industrial products, life sciences and other industries, have made investments in PLM solutions and strategies.

## **The Agile PLM Solution**

At the core of the Agile PLM solution is the product record, the complex set of information that uniquely defines all aspects of a product at each stage of its lifecycle.

The product record includes the data about the product that manufacturers conceptualize, design, plan, build, sell, service and dispose of, including program plans, portfolio performance, design databases, configuration changes, planned and actual costs, decision documentation and problem reports. The product record also includes the processes by which companies manage their product operation such as change control procedures, direct materials sourcing, corrective and preventive action and compliance auditing. In total, the product record is the key asset underlying products that, when managed well, can significantly improve the productivity of a company allowing it to get products to market faster, improve profitability, and be sure their products and processes comply with applicable regulations.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Described below are the principal software products we offer. Many of these products are tightly integrated and may be purchased and used as a combined solution set.

*Agile Product Collaboration / Product Data Management.* Agile Product Collaboration manages product information including bills of material, documentation, engineering and manufacturing changes, configurations, and mechanical, electrical and software design and analysis databases, providing visibility to this information throughout the extended enterprise and streamlining the product development and delivery process.

## **Table of Contents**

*Agile Product Portfolio Management.* Agile Product Portfolio Management manages program and project information across the product lifecycle. This enables organizations to optimize resource allocation, product investment and program execution decisions by assessing key performance indicators such as schedule, cost and past portfolio financial performance.

*Agile Product Cost Management.* Agile Product Cost Management provides product cost intelligence between internal design and sourcing functions on the one hand and external supplier and partners on the other hand, and is used to streamline the direct materials sourcing process. Using Agile Product Cost Management, customers can plan and manage critical cost, commercial terms and other key product information early and throughout the product lifecycle. This enables users to achieve product total cost goals by promoting the use of preferred suppliers, aggregating demand across multiple organizations for greater buying power, and sharing product information across the supply chain.

*Agile Product Service & Improvement.* Agile Product Service & Improvement integrates customer, product, quality and regulatory information with the product record in order to track and rapidly address quality issues. Using Agile Product & Service Improvement, customers are able to drive proactive product quality improvement and lower the costs (warranty and service expenses) associated with quality issues.

*Agile Product Governance & Compliance.* Agile Product Governance & Compliance enables organizations to manage product and program compliance against internal and external standards and regulatory requirements, providing assurance of effective compliance throughout the product lifecycle.

*Agile Engineering Collaboration.* Agile Engineering Collaboration manages the complex design databases created by mechanical CAD, electronic CAD and design automation, software configuration management, and document authoring tools within the context of the product record ensuring that the correct version of the product design is being used at all times across the organization. Moreover, rich product information is made available to people outside of engineering through the easy-to-use *AutoVue* collaborative visualization tools eliminating the need for paper drawings and documentation.

*AutoVue.* AutoVue solutions enable users to view, mark up and collaborate across hundreds of different document formats including two-dimensional and three-dimensional mechanical CAD drawings, printed circuit board and integrated circuit layouts and schematics, scanned and raster documents, vector and graphics formats, and MS Office and Adobe PDF documents. AutoVue reads files natively meaning no intermediate translation is required ensuring that users are always accessing the right document. By using AutoVue, companies reduce or avoid altogether the cost of purchasing, installing, maintaining and end-user training that would be required to access these files in their native formats.

*Agile Product Catalog.* Agile Product Catalog provides a central repository for storing and aggregating technical product information, including specifications, parts, documents and CAD files, and product attributes. Through components classification, information can be classified, making it easy to find and reuse for initiatives such as data exchange between customers and suppliers or developing marketing and sales programs and collateral.

*Agile Requirements Management.* Agile Requirements Management facilitates the requirements management and product planning processes by linking customers, sales, marketing, engineering, and manufacturing more closely, and providing a single, unified environment to capture and manage product requirements and data. Agile Requirements Management helps companies ensure that the actual product meets the specifications of the original product plan.



## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

*Agile Configuration Management.* Agile Configuration Management extends core configuration management capabilities by providing configuration control linked to serial numbers that is integrated with the change identification and management process. Agile Configuration Management enables manufacturers of

## **Table of Contents**

complex, heavily regulated or highly customizable products, such as Aerospace & Defense suppliers, to ensure that the product delivered meets the customer's exact specifications. It also ensures that each unique configuration can be tracked and identified.

*Agile Maintenance Repair & Overhaul.* Agile Maintenance Repair & Overhaul enables manufacturers to plan and execute maintenance, repair and overhaul activities, providing an electronic audit trail between the as-delivered product and the current in-service configuration. Fully integrated with Agile PLM solutions, Agile Maintenance Repair & Overhaul links change activities and facilitates feedback between engineering, production, sales/marketing and field service personnel.

## **The Agile PLM Platform**

Agile currently offers products based on two technology platforms: (1) the Agile 9.0 PLM platform which includes the elements described below; and (2) Agile PLM e5.1 (and the recently released e6.0), which has a separate but similar set of platform features. Going forward, we intend to migrate the product families onto a common platform.

*Agile User Interface Framework.* The Agile UI Framework leverages configurable, prepackaged portlets to deliver content or services within customer portals. Portlets expose key services and user interface components in the Agile PLM platform as standard services that can be embedded seamlessly into a corporate or exchange portal. These portlets comply with industry standards and are certified with leading portal technologies, including IBM Websphere, to enable plug and play integration.

*Agile Integration Framework.* The Agile Integration Framework provides a comprehensive set of capabilities to enable integration between Agile PLM applications and other applications including MRP, ERP, CRM and internally developed business systems. Leveraging Internet standards such as XML and messaging as the primary vehicle for system-to-system communication enables rapid deployment of integrations and also reduces the overhead associated with ongoing maintenance. Standard adapters for systems such as SAP and J.D. Edwards are available and with partners offering several of their own system adaptors.

*Agile Analytics Framework.* Agile Analytics Framework provides a single point of access for all reporting functionality, including ad-hoc querying of the product record. Users can generate new reports from within Agile PLM without requiring a separate reporting application. Agile roles and discovery privileges enforce robust access control and data security.

*Agile Content Framework.* The Agile Content Framework links the product record in real-time to component information dispersed throughout the supply chain enabling evaluation and consolidation of manufacturer, enterprise and supplier information obtained from dispersed sources for optimal decision making throughout the product lifecycle. Component, Bill of Material and Approved Manufacturer / Vendor List data can be analyzed, cleansed, and mapped to consolidate product information coming from multiple sources like component catalogs into a usable asset for the engineering and sourcing organizations.

*Agile Common Services.* Agile PLM solutions are built on a common services oriented architecture (Agile Common Services), which offers flexibility and ease of administration. The use of common services minimizes configuration and maintenance and provides consistency across applications. Key components of the services architecture are electronic workflow, event subscription and notification, directory service integration (e.g., LDAP), advanced document handling, full text search, advanced security, and support for global localization requirements.

**The Agile Strategy**

Key elements in our strategy for achieving success are:

*Focus on Customer Success* Our top objective is to have 100% of our customers successfully implement and receive measurable financial benefits and operating improvements from their Agile PLM solutions. Agile has

## **Table of Contents**

been recognized for high levels of customer satisfaction in terms of product performance and capabilities, and service and support provided during the implementation and upgrading.

*Solutions Focused* We are focused on helping companies improve the efficiency of their product operations by providing targeted solutions, with built-in best practices. Rather than providing just technology, we focus on delivering solutions that measurably improve our customers' product operations and, as a result, their financial performance.

*Rapid Time To Benefit* Our research and development activities and implementation methodologies are specifically aimed at creating solutions that quickly provide measurable results for our customers. Many of our customers have implemented our software solutions in 90 to 120 days.

*Guaranteed Business Results* Customers demand low risk, high impact, and cost effective solutions, and our Guaranteed Business Results program is designed to meet these demands. Under this unique program, we encourage customers to stage their investments in our products to coincide with demonstrable business benefits. Orders made under our GBR program generally provide for phased purchases by the customer, with the order for the initial phase being firm and without contingencies and subsequent orders dependant upon achievement of agreed goals. This program demonstrates our commitment to solving our customer's critical business problems by sharing risks and aligning our interests.

*Focused Acquisitions* We have and expect to continue to more rapidly expand our product footprint and our customer base through acquisition of companies and complementary technologies. Consistent with this strategy, since December 2002 we have acquired five companies or businesses as described in more detail elsewhere in this annual report.

## **Customers**

To date, we have licensed our products to over 10,000 customers. No customer accounted for more than ten percent of our total revenues for fiscal 2005, 2004 or 2003.

We target our sales efforts to customers in four market categories:

*Electronics & High Technology.* This category includes companies in the following businesses: computers and peripherals; consumer electronics; networking and telecommunications equipment; semiconductor equipment; and contract manufacturing services.

*Industrial Products.* This category includes companies in the following businesses: automotive supply chain; aerospace and defense; and machinery and heavy equipment.

*Life Sciences.* This category includes companies in the following businesses: biotechnology; pharmaceutical; and medical devices.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

*Others.* This category includes companies in the following businesses: consumer packaged goods and products; apparel; and software.

**Table of Contents**

The following is a list of selected customers in our targeted market categories that have purchased at least \$100,000 of software licenses and/or services from us in the past three fiscal years:

**Electronics & High Technology**

Applied Materials, Inc.  
 Broadcom Corporation  
 Brocade Communications System  
 Celestica, Inc.  
 Coherent, Inc.  
 Conexant Systems, Inc.  
 Dell Computer Products  
 Dolby Laboratories, Inc.  
 Eastman Kodak Company  
 Elcoteq Network Corporation  
 Emerson Electric Company  
 Flextronics International  
 Foxconn (Hon Hai Precision Industry)  
 Fujitsu Limited  
 Funai Electric Company Limited  
 Hitachi Corporation  
 IBM Corporation  
 Jabil Circuit, Inc.  
 Jacobs Sverdrups  
 Juniper Networks, Inc.  
 Lucent Technologies  
 Marconi Corporation Plc  
 Microsoft Xbox

**Industrial Products**

Alps Automotive, Inc.  
 Ballard Power Systems  
 Ball Aerospace & Technologies Corp  
 BE Aerospace Business Jet Division  
 BF Goodrich  
 Boeing Service Company  
 ESCO, Inc.  
 Ferag AG  
 Handtmann  
 Harley Davidson/Buell Motorcycle Corporation  
 Hartzell Propeller  
 Heidenhain  
 Intertechnique  
 Lockheed Martin Missile and Fire Control  
 Magna Steyr  
 Metaldyne, Inc.  
 Rheinmetall AG  
 Saturn Electronics and Engineering, Inc.  
 Shure Inc.  
 Siemens A&D  
 Thyssenkrupp AG  
 TRW Automotive  
 ZF

NEC Corporation

Network Appliance

Nintendo of America

Qualcomm Corporation

Quanta Computers

Sanmina-SCI Systems

Sharp

Siemens

Solectron Corporation

Symbol Technologies Inc.

Texas Instruments, Inc.

Varian Semiconductor

ViaSat, Inc.

**Life Sciences**

Draeger Medical AG and Co

GE Medical Systems

GlaxoSmithKline Plc.

Hill-Rom Company, Inc.

Hologic, Inc.

Intuitive Surgical Inc.

Invitrogen Corporation

Johnson & Johnson

Medtronic, Inc.

SonoSite, Inc.

Tyco Healthcare

Welch Allyn, Inc.

**Others**

Albertson's Inc.

Bayer Consumer Healthcare

International Paper Evergreen Packaging

LeapFrog Enterprises

Playtex, Inc.

Rock-Tenn Alliance Group

## **Table of Contents**

### **Sales and Marketing**

We market and sell our products primarily through our direct sales force. Our sales force is based at our headquarters in San Jose, California, and at regional and local sales offices in the United States. Internationally, we maintain sales offices in Austria, Canada, China, Germany, Japan, Taiwan, Switzerland and the United Kingdom. We also complement our direct sales force through additional distribution channels, including non-exclusive distributors, systems integrators and consulting partners.

To support our direct sales efforts and to actively promote our Agile brand, we engage in a variety of marketing activities. These include co-marketing strategies with our existing business partners, targeting additional strategic relationships, managing and maintaining our web site content, advertising in industry and other publications, conducting public relations campaigns and establishing and maintaining relationships with recognized industry analysts. We also actively participate in trade shows and host Agility user conferences in the United States and abroad.

An element of our sales strategy is to establish marketing alliances to promote sales and marketing of our products, as well as to increase product interoperability. We also pursue services alliances with consulting and integration firms to implement our software, provide customer support services, create customized customer presentations and demonstrations and endorse our products during the evaluation stage of the sales cycle. We currently have relationships with BearingPoint, Kalypso, Deloitte Consulting, Domain Systems, Inc., Ernst & Young, Hewlett Packard, Hitachi Consulting, IBM Global Services, PRTM and Satyam, for the implementation of our solutions.

### **Customer Care**

Customer Care is a collection of services where we offer assistance in planning, managing, implementing and supporting our solutions, as well as helping ensure the long-term success of our customer relationships. The services that we offer include solution delivery, customer support, and training.

*Solution Delivery.* We offer services, on a time and materials basis, not to exceed our fixed price, to assist in implementation planning, product installation, implementation assistance, legacy data loading and effectiveness audits. To facilitate and enhance the integration of our products with customers' existing design, manufacturing, finance and supply chain systems, we have both developed internal capabilities and expertise and entered into alliances with integration providers. This dual approach allows us to focus on our core competencies and leverage our partners' domain knowledge, which helps reduce time to market, both for our customers and us.

*Customer Support.* We believe that responsive technical support is a requirement for our continued growth. We provide technical support and unspecified product upgrades on a when-and-if available basis through our annual maintenance program. Customers generally purchase the first year of maintenance and support at the time they initially license one of our products. After the initial term of the license is complete, the customer may renew support, generally for a term of one year. Customer support is offered by telephone, email and fax and we also offer an Internet-based support that features frequently asked questions, technical alerts, product upgrades and updates, problem reporting and analysis, and self-help through our on-line knowledge base. In addition, in some cases our consulting and implementation partners provide customer support and maintenance.

*Training.* We offer a variety of classes and related materials to train our customers on system administration, upgrades and new releases. These classes are also available as part of our Train the Trainer program. Training classes are offered at our headquarters in San Jose, California, at our



## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

development center in Karlsruhe, Germany, at customer sites, and at other locations. To improve access to our explanatory materials, we offer on-line documentation contained on the compact discs for our products and from our web site for all our products. We also offer on-line help for the majority of our products. Customers can purchase additional documentation via our web site.

## **Table of Contents**

### **Product Development**

Our product development objectives are to:

Develop innovative solutions focused on streamlining the flow of information and work processes across product operations of the extended manufacturing enterprise and supply chain;

Develop solutions that deliver the highest return on investment to our customers; and

Utilize industry and technology standards where appropriate.

Our software development staff is divided into teams consisting of software engineers, architects, software quality assurance engineers, technical writers, and product and program managers. Working closely with our marketing department, we determine product functionality based upon market requirements, customer feedback, technical support and business consulting. We also try to incorporate standard technologies where possible to minimize research and development costs and ensure interoperability with other business solutions employed by our customers.

We maintain global development operations and have development centers in San Jose, California, Karlsruhe, Germany, Bangalore, India, and Suzhou, China. In February 2005, we acquired Cimmetry and as a result, we now maintain a development center in Montreal, Canada.

### **Product Technology and Architecture**

Our PLM software is supported by a scalable technology platform that ensures that the applications are scalable, reliable and extensible. The n-tier, standards-based architecture of the Agile platform uses technologies such as J2EE, XML and commercial components to manage the product record across Agile's solutions, and integrates that information with other applications within the customer enterprise. The result is a cost-effective enterprise business application suite that minimizes the need for complex custom or in-house software development. Key features of our technology platform include:

Support for commercial component technologies including Oracle RDBMS and Oracle Application Server, BEA WebLogic Application Server, and IBM Websphere Portal Server;

End user client access via HTML through Microsoft Internet Explorer or Netscape Navigator, a Java client or a Windows client;

Integration with other systems of record in use by manufacturing enterprises such as MRP, ERP, and CRM as well as custom and internally developed business applications. Common commercial solutions that can be integrated with Agile PLM include SAP, Oracle Applications, J.D. Edwards, and Peoplesoft.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

In addition, many of the Agile solutions are enabled for both single-byte and double-byte localization, and have been localized for English, Chinese, Japanese and German languages. We intend to provide localization for additional languages or products as market needs dictate.

We have entered into platform alliances to ensure that our products are based on industry standards and to enable us to take advantage of current and emerging technologies, including alliances with BEA, Sun Microsystems, Oracle and Microsoft. To promote development, definition, adoption, promotion and implementation of open standards that can be leveraged by our solutions, we work with several industry standards organizations such as the National Institute of Standards and Technology, National Electronics Manufacturing Initiative, Institute for Interconnecting and Packaging Electronic Circuits, RosettaNet, and World Wide Web Consortium.

### **Competition**

The market for PLM solutions is relatively new, fragmented, rapidly changing and consolidating, and becoming increasingly competitive. Moreover, there has been significant consolidation of enterprise software

## **Table of Contents**

companies, which can have the effect of rapidly and dramatically changing the competitive landscape in which we operate. We expect competition to persist and intensify as a result of both further consolidation and other forces, which could result in price reductions, reduced gross margins and loss of market share, any one of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services offered.

Principally we compete with the following:

In-house and out-sourced custom development efforts by potential customers;

Vendors of engineering information management software, such as Dassault Systems S.A., UGS, MatrixOne, Inc., and Parametric Technology Corporation;

Vendors offering related enterprise software (e.g. ERP) who seek to extend the functionality of their products, such as Oracle Corporation and SAP;

Vendors of visualization software;

Niche and new-to-the market vendors that provide partial PLM solutions such as IDE and Arena Systems; and

Vendors that are focused in regional markets.

We believe our solutions are differentiated from our competitors in the following respects:

Our research and development and marketing resources are focused on delivering PLM solutions that solve very specific business problems for our customers in the industries we serve;

Our sales and services organizations are focused on assisting customers to achieve demonstrable and meaningful benefits from our solutions; and

We provide cost-effective solutions designed to provide rapid time to benefit and substantial value for our customers over the lifetime of deployment.

We believe that our ability to compete depends on many factors both within and beyond our control, including:

The performance, functionality, price, reliability and speed of implementation of our solutions;

The timing and market acceptance of new products and product enhancements to our solutions;

The quality of our customer service; and

The effectiveness of our sales and marketing efforts.

**Proprietary Rights**

Our success and ability to compete depend upon our proprietary technology. We rely on patent, copyright, trade secret and trademark law to protect our proprietary information. As of June 30, 2005, we had two issued patents and 18 active patent applications pending in the United States. In certain cases we have filed corresponding patent applications in other jurisdictions. We also typically enter into agreements with our employees, consultants and customers to control their access to and distribution of our software, documentation and other proprietary information. Nevertheless, a third party could copy or otherwise obtain our software or other proprietary information without authorization, or could develop software competitive to ours. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around patents that may be issued to us or our other intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States of America. Our ability to monitor and detect infringing activities outside of the United States is limited.

## **Table of Contents**

We utilize third-party technology that is integrated with our products. Some of these products are re-sold directly by Agile or may be procured directly from the third party. We attempt to negotiate favorable contracts and obtain product infringement indemnification protection in contracts when we integrate third-party products and technology into our products. Third-party software may not continue to be available on commercially reasonable terms. If we cannot maintain licenses to this third-party software at an acceptable cost, shipments of our products could be delayed until equivalent software could be developed or licensed and integrated into our products. We do not believe that our business could be considered to be substantially dependent on any one of these license agreements, and none of these licenses are responsible for a significant amount of our revenues.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. It is possible that, in the future, third parties may claim that we, or our current or potential future products, infringe their intellectual property rights. We expect that software product developers and providers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of PLM products begins to overlap with other software applications. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. If our products were found to infringe a third party's proprietary rights, we could be required to enter into royalty or licensing agreements in order to continue to be able to sell our products. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

## **Employees**

As of April 30, 2005, we had a total of 678 employees. Of this total, 258 were in research and development, 185 were in sales and marketing, 162 were in professional services and maintenance, and 73 were in general and administration. At that date, we also had 42 independent contractors primarily supporting our professional services and product development organizations. None of our employees are represented by a union, and we have never experienced a work stoppage. We consider our relations with our employees to be good.

## **Available Information**

We make available, free of charge, by link from our website at [www.agile.com](http://www.agile.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after we have electronically filed or furnished such materials to the Securities and Exchange Commission. Information contained on our website is not part of this report. In addition, our filings with the Securities and Exchange Commission may be accessed through the Securities and Exchange Commission's EDGAR system at [www.sec.gov](http://www.sec.gov). All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

## **ITEM 2. PROPERTIES**

Our headquarters are currently located in an 82,000 square foot facility in San Jose, California under a lease that expires in 2011. We lease offices for sales and service personnel in various locations in the United States of America as well as in Bracknell, United Kingdom, Montreal, Canada, Tokyo, Japan, Taipei, Taiwan and various locations in Germany. We also lease office space for our development centers in Bangalore, India, Suzhou, China and Karlsruhe, Germany. We own land (approximately 16,600 square feet) and an office building (approximately 5,400 square feet) for sales, services and administrative personnel in Egerkingen, Switzerland.

We believe our current facilities will be adequate to meet our needs for the foreseeable future.

**ITEM 3. LEGAL PROCEEDINGS**

On or around October 25, 2001, a class action lawsuit was filed on behalf of holders of Agile securities in the Southern District of New York against Agile Software Corporation, Bryan D. Stolle and Thomas P. Shanahan

## **Table of Contents**

(collectively the Agile Defendants ) and others including underwriters Morgan Stanley and Deutsche Bank Securities. The case is now captioned *In re Agile Software, Inc. Initial Public Offering Securities Litigation*, 01 CIV 9413 (SAS), related to *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS).

On or about April 19, 2002, plaintiffs electronically served an amended complaint. The amended complaint is brought purportedly on behalf of all persons who purchased the Company's common stock from August 19, 1999 through December 6, 2000. It names as defendants the Agile Defendants; and several investment banking firms that served as underwriters of the Company's initial public offering and secondary offering. The complaint alleges liability under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement for the offerings did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offerings in exchange for excess commissions paid to the underwriters; and (2) the underwriters had arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The amended complaint also alleges that false analyst reports were issued. No specific damages are claimed.

The Company is aware that similar allegations have been made in other lawsuits filed in the Southern District of New York challenging over 300 other initial public offerings and secondary offerings conducted in 1999 and 2000. Those cases have been consolidated for pretrial purposes before the Honorable Judge Shira A. Scheindlin. On July 15, 2002, the Agile Defendants (as well as all other issuer defendants) filed a motion to dismiss the complaint. On February 19, 2003, the Court ruled on the motions to dismiss. The Court denied the motions to dismiss claims under the Securities Act of 1933 in all but 10 of the cases. In the case involving the Company, these claims were dismissed as to the initial public offering, but not the secondary offering. The Court denied the motion to dismiss the claim under Section 10(a) of the Securities Exchange Act of 1934 against the Company and 184 other issuer defendants, on the basis that the amended complaints in these cases alleged that the respective issuers had acquired companies or conducted follow-on offerings after the initial public offerings. As a consequence, the Court denied the motion to dismiss the Section 20(a) claims against the individual defendants. The motion to dismiss the Section 10(a) claims was granted with prejudice as to the individual defendants.

The Company has decided to accept a settlement proposal presented to all issuer defendants. In this settlement, plaintiffs will dismiss and release all claims against the Agile Defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO cases, and for the assignment or surrender of control of certain claims the Company may have against the underwriters. The Agile Defendants will not be required to make any cash payments in the settlement, unless the *pro rata* amount paid by the insurers in the settlement exceeds the limits of the insurance coverage, a circumstance which the Company does not believe will occur. The settlement will require approval of the Court, which cannot be assured, after class members are given the opportunity to object to the settlement.

On February 15, 2005, the Court issued an order providing preliminary approval of the settlement except insofar as the settlement would have cut off contractual indemnification claims that underwriters may have against securities issuers, such as the Company. The Court has set a hearing date of January 9, 2006, to consider final approval of the settlement.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2005.



Table of Contents

## PART II

**ITEM 5. MARKET FOR AGILE SOFTWARE CORPORATION S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Common Stock is traded on the NASDAQ National Market under the symbol AGIL. The price range per share reflected in the table below represents the high and low closing sales prices for our stock for the periods set forth, as reported by the NASDAQ National Market.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2005:</b>		
Quarter Ended April 30, 2005	\$ 7.93	\$ 6.55
Quarter Ended January 31, 2005	\$ 9.21	\$ 7.27
Quarter Ended October 31, 2004	\$ 8.80	\$ 6.67
Quarter Ended July 31, 2004	\$ 8.82	\$ 7.00
<b>Fiscal 2004:</b>		
Quarter Ended April 30, 2004	\$ 10.82	\$ 7.55
Quarter Ended January 31, 2004	\$ 12.19	\$ 9.21
Quarter Ended October 31, 2003	\$ 11.30	\$ 8.18
Quarter Ended July 31, 2003	\$ 10.55	\$ 6.40
<b>Fiscal 2003:</b>		
Quarter Ended April 30, 2003	\$ 7.60	\$ 5.88
Quarter Ended January 31, 2003	\$ 9.14	\$ 6.15
Quarter Ended October 31, 2002	\$ 7.47	\$ 5.11
Quarter Ended July 31, 2002	\$ 8.60	\$ 5.41

At June 30, 2005, we had 183 stockholders of record. The number of beneficial stockholders of our shares is greater than the number of stockholders of record. The last reported sale price of our Common Stock on June 30, 2005 was \$6.30. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends.

We did not repurchase any of our equity securities during the fourth quarter of fiscal 2005, nor issue any securities that were not registered under Securities Act of 1933. At June 30, 2005, we had 19,323,000 securities to be issued upon exercise of options with a weighted-average exercise price of \$9.24, with 6,993,000 securities remaining available for future issuance under our stock plans.

**Table of Contents****ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

	Fiscal Year Ended April 30,				
	2005	2004	2003	2002	2001
	(in thousands, except per share amounts)				
<b>Consolidated Statement of Operations Data:</b>					
Revenues:					
License	\$ 46,406	\$ 36,293	\$ 30,699	\$ 45,141	\$ 64,978
Service	70,581	60,012	39,810	32,630	22,081
<b>Total revenues</b>	<b>116,987</b>	<b>96,305</b>	<b>70,509</b>	<b>77,771</b>	<b>87,059</b>
Cost of revenues:					
License	4,333	3,694	2,790	3,107	3,830
Service	33,554	28,993	18,151	13,921	11,861
Stock compensation (recovery)	245	240	37	(47)	663
Acquisition-related compensation		595			
Amortization of intangible assets	1,245	709			
Impairment of prepaid software licenses		471	2,680	2,393	
<b>Total cost of revenues</b>	<b>39,377</b>	<b>34,702</b>	<b>23,658</b>	<b>19,374</b>	<b>16,354</b>
<b>Gross margin</b>	<b>77,610</b>	<b>61,603</b>	<b>46,851</b>	<b>58,397</b>	<b>70,705</b>
Operating expenses:					
Sales and marketing:					
Other sales and marketing	46,144	38,302	41,840	56,318	61,951
Stock compensation	440	3,158	2,227	220	7,294
Research and development:					
Other research and development	23,884	23,147	26,357	33,491	26,451
Stock compensation (recovery)	50	206	232	(189)	4,346
General and administrative:					
Other general and administrative	11,556	8,954	6,927	7,386	6,255
Stock compensation	197	678	136	298	3,749
Acquisition-related compensation		1,091			
Amortization of intangible assets	2,055	2,092		756	35,974
Acquired in-process research and development	1,700	500	400		
Restructuring charges	2,132	8,730	5,156	3,864	
Merger-related expenses (benefit)				(835)	4,985
Impairment of goodwill and other intangible assets					55,224
<b>Total operating expenses</b>	<b>88,158</b>	<b>86,858</b>	<b>83,275</b>	<b>101,309</b>	<b>206,229</b>
<b>Loss from operations</b>	<b>(10,548)</b>	<b>(25,255)</b>	<b>(36,424)</b>	<b>(42,912)</b>	<b>(135,524)</b>
Other income (expense):					
Interest and other income, net	4,068	3,093	4,900	10,158	18,749
Loss from foreign currency translation		(639)			
Impairment of investments			(3,673)	(1,446)	(8,561)
<b>Loss before provision for income taxes</b>	<b>(6,480)</b>	<b>(22,801)</b>	<b>(35,197)</b>	<b>(34,200)</b>	<b>(125,336)</b>

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Provision for income taxes	714	1,294	934	343	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net loss	\$ (7,194)	\$ (24,095)	\$ (36,131)	\$ (34,543)	\$ (125,336)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net loss per share:					
Basic and diluted	\$ (0.14)	\$ (0.48)	\$ (0.75)	\$ (0.73)	\$ (2.74)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average shares	52,914	50,191	48,495	47,451	45,703
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Table of Contents**

	As of April 30,				
	2005	2004	2003	2002	2001
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and investments	\$ 198,380	\$ 238,221	\$ 256,967	\$ 285,549	\$ 300,525
Working capital	155,376	149,591	243,181	267,706	293,705
Total assets	321,023	316,175	290,950	319,064	355,191
Long-term obligations	7,643	6,710			
Stockholders' equity	260,881	261,494	256,246	286,631	313,640

## **Table of Contents**

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

This annual report includes forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended). Such statements are based upon current expectations that involve risks and uncertainties, and we undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this report. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as may, will, should, estimates, predicts, potential, continue, strategy, believes, anticipates, plans, expects, intends, and similar expressions are intended to be forward-looking statements. Our actual results and the timing of certain events may differ materially from those reflected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the Risk Factors section included below in this Annual Report on Form 10-K. The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. Our fiscal year ends on April 30 of each year.

#### **Business Overview**

We develop and sell an integrated suite of product lifecycle management ( PLM ) software products and offer related business consulting and implementation services. Substantially all of our revenues are derived from the license of software products under software license agreements and from the delivery of associated professional and maintenance services. Our solutions enable our customers to accelerate their time-to-market and revenue, reduce costs, improve product quality, ensure regulatory compliance and drive innovation throughout the product lifecycle.

We believe that understanding the following key developments is helpful to an understanding of our operating results for fiscal 2005.

#### ***Increased Product Breadth***

We sold our first PLM product in 1996. At that time, our offering consisted of a single product. Over time, we have added features and functionality to our existing products as well as new products, both through internal development and acquisition. In January 2004, we began shipping Agile 9, our most comprehensive PLM product offering to date. Agile 9 provides extensive new features and capabilities, as well as an enterprise technology platform providing customers a broader, deeper PLM solution. As of April 30, 2005, we have licensed products to over 10,000 customers worldwide.

#### ***Expanded Industry Focus***

We were initially focused on solutions targeted principally for customers operating in the electronics and high technology and, to a lesser extent, medical device industries. As we have grown our business and expanded our product suite, we have also expanded our industry focus. While the electronics and high technology industry still represent the single largest industry for us, we now have significant customers in all of the following industries:

Electronics and high technology;

Industrial products;

Life sciences; and

Others.

## **Table of Contents**

### ***Acquisitions***

Our strategy has been, and continues to be, to expand our business both organically and through acquisitions of complementary products, technologies and companies. We have made the following acquisitions since December 2002:

*oneRev, Inc.* ( *oneRev* ), acquired in December 2002;

*ProductFactory, Inc.* ( *ProductFactory* ), acquired in March 2003;

*Eigner US Inc.* ( *Eigner* ), acquired in August 2003;

*TRADEC, Inc.* ( *TRADEC* ), acquired in September 2003; and

*Cimmetry Systems, Inc.* ( *Cimmetry* ), acquired in February 2005.

Through the acquisition of Eigner we acquired what is now our Product Catalog, Requirements Management, Configuration Management, Engineering Collaboration and Maintenance, Repair and Overhaul products. Eigner also provided us with a stronger presence in the automotive supply chain, industrial equipment, aerospace and defense industries, as well as in certain geographic markets such as the Central European region. Through the acquisition of TRADEC we acquired additional functionality to our existing products as well as new customers. Through the acquisition of Cimmetry we acquired visual collaboration software that has become an increasingly important element of PLM solutions. The results of all of these acquisitions are included in our statements of operations beginning as of the respective acquisition date.

### ***Restructurings***

We have taken a number of actions to reduce our expenses to better align our operations and cost structure with current and anticipated market conditions, as follows:

In fiscal 2003, we evaluated the economic conditions and initiated a restructuring of our operations. During the second quarter of fiscal 2003, we recorded a restructuring charge of \$5.2 million, primarily related to the consolidation of additional excess facilities and the abandonment of additional property and equipment;

During the second quarter of fiscal 2004, in connection with our move to our new headquarters in San Jose, California, we recorded a restructuring charge of \$7.5 million, primarily related to our outstanding lease commitments for properties that we vacated in September 2003 and the abandonment of certain long-lived assets;

During the second quarter of fiscal 2004, in connection with our acquisition of Eigner, we recorded an additional restructuring charge of \$1.2 million primarily related to the termination of 33 employees, to eliminate duplicative activities and reduce the cost structure of the combined company; and

During the first quarter of fiscal 2005, we terminated approximately 15% of our worldwide workforce and consolidated our China-based development centers into a single location. In connection with these actions, we recorded a restructuring charge of \$2.1 million.

### **Overview of Our Results**

We derive revenues from the license of software products under software license agreements and from the delivery of associated professional and maintenance services. Our license revenue is comprised of fees charged for the use of our products licensed under perpetual arrangements. Our service revenue is comprised of fees charged for implementation services and fees charged for post-contract customer support (i.e., technical support and product updates). Our implementation services are typically provided over a period of three to six months subsequent to the signing of a software license arrangement. Post-contract customer support is generally purchased at the time of initial license purchase, and renewed annually thereafter. Post-contract customer support revenue is recognized ratably over the support period, generally 12 months.



## **Table of Contents**

Our revenue has increased by 21% from fiscal 2004 to 2005 and 37% from fiscal 2003 to 2004, as a result of stronger sales from the North American region. While we believe that demand for our products in North America is strengthening, we have not yet seen the same strengthening in the market outside North America. The increase in revenue from the European region was mostly due to the acquisition of Eigner as well as the strengthening of European currencies compared to the US dollar, while our revenue from Asia Pacific has decreased due to weak sales in Japan. We will continue to seek to derive revenues from customers in North America as well as internationally. In fiscal 2005 we began to reorganize our international sales organization, a process that is still underway. In connection with these changes, we have recently hired a new country manager for Taiwan, and are seeking new sales leadership for Japan.

We were able to achieve the following results in fiscal 2005:

We recorded record fiscal year total revenues of \$117.0 million, a 21% increase from total revenues of \$96.3 million in fiscal 2004, and a 66% increase from total revenues of \$70.5 million in fiscal 2003.

Our license revenue reached \$46.4 million, a 28% increase from license revenue of \$36.3 million in fiscal 2004, and a 51% increase from license revenue of \$30.7 million in fiscal 2003.

Our net loss declined to \$7.2 million, a 70% decrease from our net loss of \$24.1 million in fiscal 2004, and an 80% decrease from our net loss of \$36.1 million in fiscal 2003.

Our cash flows provided by operations were \$1.9 million. In addition, we maintained a cash and investments balance as of April 30, 2005 of \$198.4 million.

Due to the amortization of the intangibles as a result of the Cimmetry acquisition and the adoption of Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-Based Payment, effective in our first quarter of fiscal 2006, we will likely not be profitable on a GAAP basis for the foreseeable future. Achieving and sustaining profitable results, even on a non-GAAP basis, will depend upon a combination of careful expense management coupled with higher revenue levels. Many of our expenses are relatively fixed in the short term and there can be no assurance that we will be able to maintain expenses at target levels. There can also be no assurance that our revenues will increase. As a result, there can be no assurance that we will achieve or maintain profitable operations in the future.

## **Use of Estimates and Critical Accounting Policies**

We have prepared our consolidated financial statements in accordance with accounting principals generally accepted in the United States of America. In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our reported revenues, loss from operations, and net loss, as well as on the value of certain assets and liabilities on our balance sheet. These estimates, assumptions and judgments about future events and their effects on our results cannot be determined with certainty, and are made based upon our historical experience and on other assumptions that are believed to be reasonable under the circumstances. These estimates may change as new events occur or additional information is obtained, and we may periodically be faced with uncertainties, the outcomes of which are not within our control and may not be known for a prolonged period of time. The discussion and analysis of our financial condition and results of operations are based upon these statements. While there are a number of accounting policies, methods and estimates affecting our financial statements, areas that are particularly significant include revenue recognition, allowance for doubtful accounts and sales returns, investments, prepaid software license fees, restructuring reserves, stock options and warrants, and business combinations and acquired intangible assets, which are described below. In addition, please refer to Note 1 of our consolidated financial statements for further discussion of our significant accounting policies.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

We have identified the policies below as critical to our business operations and understanding of our financial condition and results of operations. A critical accounting policy is one that is both material to the presentation of our financial statements and requires us to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. These policies may require us to

## **Table of Contents**

make assumptions about matters that are highly uncertain at the time of the estimate, and different estimates that we could have used, or changes in the estimate that are reasonably likely to occur, may have a material impact on our financial condition or results of operations.

In addition to the estimates and assumptions that we use to prepare our historical financial statements, we monitor our sales pipeline in order to estimate the timing and amount of future revenues. If we are unable to properly estimate the timing and amount of revenues, our future operations could be significantly impacted. Our sales pipeline may not consistently result in revenues in a particular period, as the data upon which the assumptions and estimates made by us may change.

### ***Revenue Recognition***

We recognize our software license revenue in accordance with Statement of Position ( SOP ) 97-2, Software Revenue Recognition, as amended by SOP 98-9 Software Revenue Recognition with Respect to Certain Arrangements. We recognize license revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection of the related receivables is reasonably assured, delivery of the product has occurred and the customer has accepted the product (including the expiration of any acceptance period set forth in the contract) if the terms of the contract include an acceptance requirement.

We consider a non-cancelable agreement signed by the customer and us to be evidence of an arrangement. We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment. To date, none of our arrangements with our customers grant a right of refund or adjustment to the customer. Reasonable assurance of collection is based upon our assessment of the customer's financial condition through review of their current financial statements or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. If we determine that collection is not reasonably assured, we defer the revenue and recognize the revenue upon cash collection. Delivery is considered to occur when media containing the licensed programs is provided to a common carrier, or the customer is given electronic access to the licensed software. With respect to sales to original equipment manufacturers ( OEMs ) and value-added resellers ( VARs ), delivery is considered to have occurred based on sell-through by the OEMs and VARs. Our typical end user license agreements do not contain acceptance clauses.

In the event that we grant a customer the right to specified upgrades and vendor-specific objective evidence of fair value exists for such upgrades, we defer license revenue in an amount equal to this fair value until we have delivered the specified upgrade. If vendor-specific objective evidence of fair value does not exist, then we defer recognition of the entire license fee until we deliver the specified upgrade. If professional services are essential to the functionality of the other elements of the arrangement, we defer recognition of revenue until we have satisfied our professional services obligations. To date, professional services have not been essential to the functionality of the other elements, and thus have been accounted for separately.

When our software licenses contain multiple elements, we allocate revenue to each element based on the relative fair values of the elements. Multiple-element arrangements generally include post-contract support (PCS or maintenance), software products, and in some cases, other professional services. Revenue from multiple-element arrangements is allocated to undelivered elements of the arrangement, such as PCS, based on the relative fair values of the elements specific to us, and we must analyze each license arrangement carefully to ensure that all of the individual elements have been identified, along with the fair value of each element. Our determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence, which is determined by sales of the individual element to third parties or by reference to a renewal rate specified in the related arrangement.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Where vendor-specific objective evidence of fair-value exists for all undelivered elements, but evidence does not exist for one or more delivered elements, we account for the delivered elements in accordance with the Residual Method prescribed by SOP 98-9. Under the residual method, the fair value of the undelivered elements

## **Table of Contents**

is deferred and the remaining portion of the arrangement fee is recognized as revenue. In most cases, the bundled multiple elements include PCS and the software product. In such cases, when vendor-specific objective evidence of fair value exists for all of the undelivered elements (most commonly PCS), the residual or remaining amount is recognized as revenue and the PCS is recognized ratably over the PCS term, which is typically 12 months.

Revenues from professional services consist of implementation services and training. Training revenues are recognized as the services are performed. Professional services are not considered essential to the functionality of the other elements of the arrangement and are accounted for as a separate element. Professional services are recognized as the services are performed for time and materials contracts or upon achievement of milestones on fixed-price contracts. A provision for estimated losses on fixed-price professional services contracts is recognized in the period in which the loss becomes known.

Customers typically prepay maintenance fees for the first 12 months and the related maintenance revenues are recognized ratably monthly over the term of the maintenance contract. Maintenance contracts include the right to unspecified upgrades on a when-and-if available basis, and ongoing support.

Deferred revenues include amounts received from customers for which revenue has not yet been recognized that generally results from deferred maintenance, consulting or training services not yet rendered and license revenue deferred until all requirements under SOP 97-2 are met. Deferred revenue is recognized upon delivery of our products, as services are rendered, or as other requirements requiring deferral under SOP 97-2 are satisfied.

### ***Allowance for Doubtful Accounts and Sales Returns***

We maintain an allowance for doubtful accounts to reduce amounts to their estimated realizable value. A considerable amount of judgment is required when we assess the realization of accounts receivables, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for doubtful accounts may be required. We initially record a provision for doubtful accounts based on our historical experience, and then adjust this provision at the end of each reporting period based on a detailed assessment of our accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, we consider (i) the aging of the accounts receivable; (ii) trends within and ratios involving the age of the accounts receivable; (iii) the customer mix in each of the aging categories and the nature of the receivable, such as whether it derives from license, professional services or maintenance revenue; (iv) our historical provision for doubtful accounts; (v) the credit worthiness of the customer; and (vi) the economic conditions of the customer's industry as well as general economic conditions, among other factors.

Should any of these factors change, the estimates that we make may also change, which could impact our future provision for doubtful accounts. For example, if the financial condition of our customers were to deteriorate, affecting their ability to make payments, an additional provision for doubtful accounts could be required.

Our license agreements do not offer our customers the unilateral right to terminate or cancel the contract and receive a cash refund. However, we provide for sales returns through a reserve that is based upon estimates of potential future credits related to current period revenues. We analyze historical credits, current economic trends, average deal size, changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns reserve. Revenue for the period is reduced to reflect the provision of our reserve for sales returns.

*Stock Options*

In connection with certain employee restricted Common Stock and stock option grants, in fiscal 2005 we recorded unearned stock compensation totaling \$374,000 attributable to options granted to our employees with

## **Table of Contents**

exercise prices below fair market value granted to our employees. At April 30, 2005, the unamortized balance of the unearned stock compensation was \$526,000. Unearned stock compensation, a component of stockholders' equity, represents the fair value of the unvested portion of restricted Common Stock and the difference between the exercise price of the option and the fair value of our Common Stock on the date of grant. Unearned stock compensation is amortized through charges to operations over the vesting period of the options, which is generally three to five years, using the accelerated method of amortization as described in Financial Accounting Standards Board Interpretation (FIN) No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans. Stock compensation expense, less recoveries, was \$932,000, \$4.3 million and \$2.6 million for fiscal 2005, 2004 and 2003, respectively.

Stock compensation expense related to stock options granted to non-employees is recognized as earned, over the applicable vesting period of the options, using the accelerated method of amortization prescribed by FIN 28. At each reporting date, we recalculate the value of the stock option using the Black-Scholes option pricing model and record changes in fair value for the unvested portion of the option. As a result, the stock compensation expense fluctuates with the movement in the fair market value of our Common Stock. Amortization of stock compensation for non-employees was not material for fiscal 2005. Amortization of stock compensation for non-employees was \$207,000 and \$892,000 for fiscal 2004 and 2003, respectively.

On April 30, 2005, our Board of Directors approved the acceleration of vesting of stock options held by employees and officers under our stock option plans with an exercise price of \$6.76 or higher. Options held by non-employee directors were excluded from the vesting acceleration. The closing price of our common stock on April 28, 2005, the last trading day before approval of acceleration, was \$6.58. As a condition to the acceleration, and to avoid any unintended personal benefits, we also imposed a holding period on shares underlying the accelerated options that will require all optionees to refrain from selling any shares acquired upon the exercise of the options until the date on which such shares would have vested under the options' original vesting terms.

The primary purpose of the accelerated vesting was to reduce future compensation expense associated with the accelerated stock options upon the adoption of FASB Statement No. 123R, Share-Based Payment, (SFAS 123R). Our Board of Directors believes, based on its consideration of this potential expense savings and the current intrinsic and perceived value of the accelerated stock options, that the acceleration is in the best interests of the Company and its shareholders. The Board of Directors further believes that the acceleration is consistent with possible changes to our overall equity compensation approach, which are expected to include a reduced use of stock options.

### ***Business Combinations and Acquired Intangible Assets***

We account for our purchases of acquired companies in accordance with SFAS No. 141, Business Combinations, and account for the related acquired intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. In accordance with SFAS No. 141, we allocate the cost of the acquired companies to the identifiable tangible and intangible assets acquired and liabilities assumed, with the remaining amount being classified as goodwill. Certain intangible assets, such as developed technologies, are amortized to expense over time, while in-process research and development costs (IPR&D), if any, are immediately expensed in the period the acquisition is completed. Identifiable intangible assets are currently amortized over one to five years using the straight-line method.

The majority of entities we acquire do not have significant tangible assets and, as a result, a significant portion of the purchase price is typically allocated to intangible assets and goodwill. Our future operating performance will be impacted by the future amortization of intangible assets, potential charges related to IPR&D for future acquisitions, and potential impairment charges related to goodwill. Accordingly, the allocation of the purchase price to intangible assets and goodwill has a significant impact on our future operating results. The allocation of the purchase price of the acquired companies to intangible assets and goodwill requires us to make





## **Table of Contents**

significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate for these cash flows. Should different conditions prevail, material write-downs of intangible assets and/or goodwill could occur.

Under SFAS No. 142, goodwill is no longer subject to amortization. Rather, we evaluate goodwill for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and we then compare the implied fair value of the goodwill to its carrying amount to determine the impairment loss, if any. Annual goodwill impairment testing will be performed, at a minimum, during the fourth quarter of each fiscal year.

## **Accounting for income taxes**

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then 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.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance for the entire portion of our deferred tax assets, including the net operating losses related to the income tax benefits arising from the exercise of employees' stock options, the benefit of which will be credited to equity when realized. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust our valuation allowance as well.

**Table of Contents****Results of Operations**

The following table sets forth selected consolidated financial data for the periods indicated, expressed as a percentage of total revenues.

	Fiscal Year Ended April 30,		
	2005	2004	2003
<b>Revenues:</b>			
License	40%	38%	44%
Service	60	62	56
<b>Total revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Cost of revenues:</b>			
License	4	4	4
Service	29	30	26
Stock compensation			
Acquisition-related compensation		1	
Amortization of intangible assets	1	1	
Impairment of prepaid software licenses			4
<b>Total cost of revenues</b>	<b>34</b>	<b>36</b>	<b>34</b>
<b>Gross margin</b>	<b>66</b>	<b>64</b>	<b>66</b>
<b>Operating expenses:</b>			
Sales and marketing:			
Other sales and marketing	39	40	59
Stock compensation		3	3
Research and development:			
Other research and development	20	24	37
Stock compensation			1
General and administrative:			
Other general and administrative	10	9	10
Stock compensation		1	
Acquisition-related compensation		1	
Amortization of intangible assets	2	2	
Acquired in-process research and development	2	1	1
Restructuring charges	2	9	7
<b>Total operating expenses</b>	<b>75</b>	<b>90</b>	<b>118</b>
Loss from operations	(9)	(26)	(52)
Other income (expense):			
Interest and other income, net	4	3	7
Loss from foreign currency translation		(1)	
Impairment of investments			(5)

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Loss before provision for income taxes	(5)	(24)	(50)
Provision for income taxes	1	1	1
	<u>        </u>	<u>        </u>	<u>        </u>
Net loss	(6)%	(25)%	(51)%
	<u>        </u>	<u>        </u>	<u>        </u>

### Comparison of Fiscal Years Ended April 30, 2005, 2004, and 2003

#### Revenues

Total revenues increased by 21% from fiscal 2004 to fiscal 2005. This increase was primarily attributable to increases in both license and service revenue from both existing and new customers in North America, and to a lesser extent our revenue from international operations (see the revenues by geographic region discussion below).

**Table of Contents**

Total revenues increased by 37% from fiscal 2003 to fiscal 2004. This increase was primarily attributable to increases in both license and service revenue as the result of our acquisition of Eigner as well as the growth from our new products to existing and new customers in North America. Excluding the contribution from Eigner, total revenues for fiscal 2004 increased by \$4.4 million from the prior-year period.

Our quarterly operating results have varied significantly in the past and are likely to vary significantly in the future. Our products have an unpredictable sales cycle. The timing of large orders, which continue to account for a significant percentage of our total license revenue, remains unpredictable as a result of the overall economic conditions and cautious capital spending by businesses. During fiscal 2005, 2004, and 2003, no one customer accounted for more than 10% of total revenues.

Our revenues by geographic region for fiscal 2005, 2004, and 2003 are as follows:

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
North America	\$ 80,380	33%	\$ 60,327	14%	\$ 52,742
Europe	29,388	22	24,167	283	6,307
Asia-Pacific	7,219	(39)	11,811	3	11,460
<b>Total revenues</b>	<b>\$ 116,987</b>	<b>21%</b>	<b>\$ 96,305</b>	<b>37%</b>	<b>\$ 70,509</b>

During fiscal 2005, 2004, and 2003, revenues from customers located outside of North America were approximately 31%, 37%, and 25% of total revenues, respectively. During fiscal 2005 and 2004, revenues from customers located outside of North America were derived primarily from sales to customers in Europe and, to a lesser extent, the Asia-Pacific region. However, during fiscal 2003 our revenues outside of North America were derived primarily from sales to customers in the Asia-Pacific region and, to a lesser extent, Europe. The increase in sales to customers located outside of North America during fiscal 2005 and 2004 was primarily related to our acquisition of Eigner, whose customer base was largely located in Europe, as well as the benefit derived from the strengthening of the Euro compared to the US dollar during fiscal 2005. Sales to customers located in Asia-Pacific decreased in fiscal 2005 primarily related to weak sales in Japan.

**License Revenue**

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
License revenue	\$ 46,406	28%	\$ 36,293	18%	\$ 30,699
As a percentage of total revenues	40%		38%		44%

The increase in license revenue in absolute dollars from fiscal 2004 to 2005 was primarily due to increases in sales of newer products to new and existing customers in North America of \$11.7 million, slightly offset by the decrease in international sales, in particular sales to customers in Japan. The increase in license revenue as a percentage of total revenues during fiscal 2005 was due to a more significant increase in license revenue than in service revenue.

The increase in license revenue in absolute dollars from fiscal 2003 to 2004 was primarily due to the addition of Eigner products and customers mainly in Europe. The decrease in license revenue as a percentage of total revenues during fiscal 2004 was primarily due to a more significant increase in service revenue as discussed below.

**Table of Contents****Service Revenue**

	Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
	_____	Change	_____	Change	_____
	(in thousands, except percentages)				
Professional Service	\$ 26,999	26%	\$ 21,481	124%	\$ 9,585
Maintenance	43,582	13	38,531	27	30,225
	_____		_____		_____
Total service revenue	\$ 70,581	18%	\$ 60,012	51%	\$ 39,810
	_____		_____		_____
As a percentage of total revenues	60%		62%		56%

Service revenue includes fees earned, and to a lesser extent reimbursable expenses incurred, in connection with consulting, software implementation and training services we provide to our customers as well as fees from software maintenance agreements we offer. Service revenue inherently lags behind the related license revenue as the service engagements and maintenance (and the related revenue) commence after the initial license sale. As a result, the positive impact of increasing license revenue on service revenue tends to be delayed by one to two quarters. Additionally, as our maintenance revenue has a larger customer base than our license revenue, the percentage of increase in maintenance revenue (and thus service revenue) may be smaller than the percentage of increase in license revenue.

The increase in service revenue in absolute dollars from fiscal 2004 to 2005 was primarily due to a \$8.3 million increase in professional service and maintenance revenue in North America, driven by our growth in license revenue. The decrease in service revenue as a percentage of total revenues during fiscal 2005 was due to a more significant increase in license revenue than in service revenue.

The increase in service revenue in absolute dollars and as a percentage of total revenues from fiscal 2003 to 2004 was primarily due to our acquisition of Eigner, whose revenue comprised primarily professional service and maintenance revenue in the European region, combined with an increase in our implementation services as we are now selling a more comprehensive solution across all regions. In addition, maintenance revenue increased due to year over year growth of our installed customer base. Excluding the contribution from Eigner, total service revenue for fiscal 2004 increased by \$5.2 million from the prior-year period.

Our maintenance revenue depends upon both our software license revenue and renewals of maintenance agreements by our existing customers. Our maintenance revenue has increased on a year-over-year basis in each of fiscal 2005, 2004 and 2003 as a result of both new licenses and a high maintenance renewal rate. Due to the weak economic environment and in many cases significant reductions in personnel at many of our customers, we have experienced reductions in the size of some contract renewals as customers have elected to reduce the number of user licenses for which they are purchasing maintenance. We expect that service revenue will increase or decrease somewhat in relation to our license revenue.

**Cost of Revenues****Cost of License Revenue**

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
Cost of license revenue	\$ 4,333	17%	\$ 3,694	32%	\$ 2,790
As a percentage of license revenue	9%		10%		9%

Our cost of license revenue includes license fees due to third parties for technology integrated into or sold with our products, and the cost of order fulfillment such as shipping and packaging.

The increase in cost of license revenue in absolute dollars from fiscal 2004 to 2005 and fiscal 2003 to 2004 was primarily due to our overall increase in license revenue. The increase in cost of license revenue as a

**Table of Contents**

percentage of license revenue in fiscal 2004 compared to fiscal 2003 was due to the sale of more licenses with embedded third-party software, mainly Eigner products, resulting in an increase in license fees paid to third parties on third-party software integrated into our products. With the introduction of Agile 9 in late fiscal 2004 and acquisition of Cimmetry in late fiscal 2005, cost of license revenue as a percentage of license revenue in fiscal 2005 decreased as Agile 9 has a relatively lower embedded third-party software cost.

For fiscal 2006, we expect cost of license revenue in absolute dollars and as a percentage of license revenue to decrease somewhat as a result of the elimination of royalties payable to Cimmetry. Actual results, however, may fluctuate depending upon the amount of non-embedded third-party software sold in any particular period.

***Cost of Service Revenue***

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
Cost of service	\$ 33,554	16%	\$ 28,993	60%	\$ 18,151
As a percentage of service revenue	48%		48%		46%

Our cost of service revenue includes salaries and related expenses for the implementation, training services, and customer support organizations, costs of third parties contracted to provide implementation services to customers and an allocation of overhead expenses, including rent, information technology and other overhead expenses. In addition, cost of service revenue includes support and upgrade fees paid to third parties with respect to the third-party software integrated into or sold with our products for which our customers have purchased support from us.

The increase in cost of service revenue in absolute dollars from fiscal 2004 to 2005 and from fiscal 2003 to 2004 was primarily due to our overall increase in service revenue.

The increase in cost of service revenue as a percentage of service revenue during fiscal 2004 was primarily a result of increased reliance on third-party service providers, which provide lower margins than can be achieved when utilizing internal resources.

For fiscal 2006, we expect cost of service revenue to increase in absolute dollars and as a percentage of service revenue compared to fiscal 2005, as we expect to hire additional professional service personnel to meet increasing customer needs for services.

***Impairment of Prepaid Software Licenses***

Cost of revenues for fiscal 2004 and 2003 include charges of \$471,000 and \$2.7 million, respectively, for the impairment of non-refundable prepaid software licenses fees. We determined that the carrying value of these prepaid software licenses exceeded their net realizable value as a result of our decision to discontinue selling some of our products in which such third party licensed software was embedded.



## **Operating Expenses**

We classify all charges to operating expense categories based on the nature of the expenditures. Although each category includes expenses that are unique to the category type, there are common recurring expenditures that are typically included in all operating expense categories, such as salaries, employee benefits, incentive compensation, travel costs, communication, rent and other allocated facilities costs, information technology, and professional fees. Also included in our operating expenses is the amortization of stock compensation that is included in each of the sales and marketing, research and development, and general and administrative categories.

**Table of Contents**

As a result of our prior period restructuring efforts, as discussed further under *Restructuring Charges* below, we have realized significant costs savings to our operating expenses during each of the periods presented. Specifically, during fiscal 2005 and 2004, our aggregate facilities and depreciation expenses decreased \$1.3 million and \$3.2 million, respectively, when compared to our facilities and depreciation expenses during the respective prior periods. Significant portions of these costs savings, therefore, are reflected in the sales and marketing, research and development and general and administrative operating expenses through decreased facilities and depreciation expenses.

***Sales and Marketing***

The following table sets forth a summary of our sales and marketing expenses in absolute dollars and expressed as a percentage of total revenues for fiscal 2005, 2004 and 2003, excluding the stock compensation which is explained separately under *Stock Compensation (Recovery)* below.

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
Sales and marketing, excluding stock compensation	\$ 46,144	20%	\$ 38,302	(8)%	\$ 41,840
As a percentage of total revenues	39%		40%		59%

In addition to the common recurring expenditures mentioned above, our sales and marketing expenses include expenditures specific to the sales group, such as sales-related commissions and bonuses, and expenditures specific to the marketing group, such as public relations and advertising, trade shows, marketing collateral materials, and customer user group meetings, net of fees assessed, if any, for attendance.

The increase in sales and marketing expenses, excluding stock compensation, in absolute dollars from fiscal 2004 to 2005 was primarily related to increased personnel-related costs and sales incentive compensation associated with higher revenues.

The decrease in sales and marketing expenses, excluding stock compensation, in absolute dollars and as a percentage of total revenues from fiscal 2003 to 2004 was primarily related to a \$790,000 decrease in marketing and advertising costs as part of our reduction in direct advertising and corporate marketing programs, a \$656,000 decrease in personnel-related costs, primarily due to decreases in sales and marketing employee benefits and severances, and a \$1.8 million decrease in facilities and depreciation expenses.

For fiscal 2006, we expect sales and marketing expenses, excluding stock compensation, to increase or decrease in absolute dollars in proportion to increases or decreases in our license revenue.

***Research and Development***

The following table sets forth a summary of our research and development expenses in absolute dollars and expressed as a percentage of total revenues for fiscal 2005, 2004 and 2003, excluding the stock compensation which is explained separately under *Stock Compensation (Recovery)* below.

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
Research and development, excluding stock compensation	\$ 23,884	3%	\$ 23,147	(12)%	\$ 26,357
As a percentage of total revenues	20%		24%		37%

In addition to the common recurring expenditures mentioned above, our research and development expenses consist of costs associated with the development of new products, enhancements to existing products, and quality assurance procedures. These costs primarily consist of employee salaries, benefits, consulting costs and the cost of software development tools and equipment. To date, we have expensed as incurred all software development costs in research and development.

**Table of Contents**

The increase in research and development expenses, excluding stock compensation, in absolute dollars from fiscal 2004 to 2005 was primarily due to the addition of Cimmetry's research and development activities. As a percentage of revenue, research and development expenses decreased due to a more significant increase in total revenues compared to research and development expenses.

The decrease in research and development expenses, excluding stock compensation, in absolute dollars and as a percentage of total revenues from fiscal 2003 to 2004 was primarily due to lower outside consulting and lower operating costs, including salaries and related expenses, resulting from our continuing shift to new development centers in India and China, as well as \$1.5 million in decreases in our headquarter facilities and depreciation expenses.

For fiscal 2006, we expect research and development expenses, excluding stock compensation, in absolute dollars to increase when compared to our results for fiscal 2005 as a result of the addition of Cimmetry and other product development initiatives.

**General and Administrative**

The following table sets forth a summary of our general and administrative expenses in absolute dollars and expressed as a percentage of total revenues for fiscal 2005, 2004, and 2003, excluding the stock compensation which is explained separately under Stock Compensation (Recovery) below.

	<u>Fiscal 2005</u>	<u>% Change</u>	<u>Fiscal 2004</u>	<u>% Change</u>	<u>Fiscal 2003</u>
	(in thousands, except percentages)				
General and administrative, excluding stock compensation	\$ 11,556	29%	\$ 8,954	29%	\$ 6,927
As a percentage of total revenues	10%		9%		10%

In addition to the common recurring expenditures mentioned above, our general and administrative expenses consist primarily of compensation and benefits costs for executive, finance, human resources, legal and administrative personnel, director compensation, bad debt expense, and other costs associated with being a publicly held company, including periodic reporting under the rules and regulations of the Securities and Exchange Commission and compliance with the Sarbanes-Oxley Act of 2002.

The increase in general and administrative expenses, excluding stock compensation, in absolute dollars from fiscal 2004 to 2005 was due to increased audit fees, personnel costs and outside consultant fees of \$1.3 million to comply with increased regulatory requirements, including the regulations implemented in response to the Sarbanes-Oxley Act of 2002. In addition, we incurred general and administrative expenses of \$1.0 million as a result of including a full twelve months for Eigner, compared to less than nine months during fiscal 2004, and almost three months for Cimmetry.

The increase in general and administrative expenses, excluding stock compensation, in absolute dollars from fiscal 2003 to 2004 was primarily related to: (i) \$1.0 million in increased compensation and benefits, resulting from an increase in the number of general and administrative employees, primarily due to the addition of the Eigner employees; (ii) \$350,000 in increased provisions for doubtful accounts, as a result of an increase in accounts receivable associated with increased revenue; and (iii) \$540,000 in increased travel and outside consultants related primarily

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

to the integration of the companies acquired during the fiscal year, mainly Eigner.

For fiscal 2006, we expect general and administrative expenses, excluding stock compensation, to increase in absolute dollars when compared with our results for fiscal 2005 primarily due to additional costs related to Cimmetry, slightly offset by the decrease in costs to comply with the rules and regulations adopted in response to the Sarbanes-Oxley Act of 2002.

**Table of Contents****Stock Compensation (Recovery)**

	Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
	_____	Change	_____	Change	_____
(in thousands, except percentages)					
Stock compensation:					
Cost of revenues	\$ 245	2%	\$ 240	549%	\$ 37
Sales and marketing	440	(86)	3,158	42	2,227
Research and development	50	(76)	206	(11)	232
General and administrative	197	(71)	678	399	136
	_____		_____		_____
Total stock compensation	\$ 932	(78)%	\$ 4,282	63%	\$ 2,632
As a percentage of total revenues	1%		4%		4%

Stock compensation includes the amortization of unearned employee stock compensation, expenses incurred as a result of modifications to the terms of certain stock option grants, and expenses associated with options issued to non-employees, offset by recoveries associated with the impact of the reversal of accelerated amortization on unvested options cancelled in connection with employee terminations. The fair value of stock options granted to non-employees is recognized as an expense as the underlying stock options vest. We are required to remeasure the fair value of these options at each reporting period prior to vesting and then finally at the vesting dates of these options. As a result, the stock compensation for non-employees fluctuates with the movement in the fair value of our common stock.

The decrease in stock compensation expense in absolute dollars from fiscal 2005 to 2004 was primarily due to lower amortization associated with options granted in prior periods and fewer options granted to our employees with an exercise price below fair market value. We amortize the stock compensation using the accelerated method as described in FIN No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans.

The increase in stock compensation expense in absolute dollars from fiscal 2003 to 2004 was primarily related to: (i) \$1.8 million in increased employee-related stock compensation, primarily related to the modification of certain stock option grants to employees we terminated during fiscal 2004; and (ii) \$507,000 in decreased recoveries recognized from the reversal of accelerated amortization on cancelled options that had been held by terminated employees. These amounts were offset by a decrease of \$685,000 in stock compensation recognized on stock options granted to non-employees in prior periods, as the fair value of these stock options has decreased.

As of April 30, 2005, the estimated future amortization expense of unearned stock compensation was as follows (in thousands):

Fiscal Year	
_____	
2006	\$ 377
2007	121
2008	28
	_____
	\$ 526
	_____

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Effective May 1, 2005, we adopted SFAS No. 123R, Share-Based Payment. As a result, the calculation of employee stock compensation expenses and its related amortization will be significantly higher than the amount recorded in fiscal 2005. See Note 1 The Company and Summary of Significant Accounting Policies Recent Accounting Pronouncements and Note 15 Subsequent Events of our Consolidated Financial Statements included below.

**Table of Contents****Acquisition-Related Compensation**

	Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
	—	Change	—	Change	—
(in thousands, except percentages)					
Acquisition-related compensation:					
Cost of revenues	\$	(100)%	\$ 595	100%	\$
Operating expenses		(100)	1,091	100	
	—		—		—
Total acquisition-related compensation	\$	100%	\$ 1,686	(100)%	\$
As a percentage of total revenues			2%		

In connection with our acquisition of Eigner, we agreed to pay approximately \$1.7 million in retention bonuses to certain persons who were employees of Eigner at the date of the acquisition and who remained employees of Agile for six months following the acquisition. The retention bonuses were recorded as acquisition-related compensation in the consolidated statements of operations. During fiscal 2004, we recorded \$1.7 million of acquisition-related compensation, all of which was paid in February 2004.

**Amortization of Intangible Assets**

	Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
	—	Change	—	Change	—
(in thousands, except percentages)					
Amortization of intangible assets:					
Cost of revenues	\$ 1,245	76%	\$ 709	1213%	\$ 54
Operating expenses	2,055	(2)	2,092	100	
	—		—		—
Total amortization of intangible assets	\$ 3,300	18%	\$ 2,801	5087%	\$ 54
As a percentage of total revenues		3%		3%	

During fiscal 2005, 2004 and 2003 we made selective acquisitions of assets and businesses, including certain intangible assets. Intangible assets consist of developed technologies, customer relationships, trademarks and non-compete agreements acquired as part of our acquisitions described above. Intangible assets are subject to amortization and have original estimated weighted-average useful lives ranging from one to five years. No significant residual value is estimated for the intangible assets.

The components of acquired identifiable intangible assets are as follows (in thousands):

As of April 30, 2005			As of April 30, 2004		
Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount



Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

<b>Intangible Assets:</b>						
Developed technologies	\$ 9,200	\$ (1,965)	7,235	\$ 2,600	\$ (720)	\$ 1,880
Customer relationships	7,182	(2,892)	4,290	4,482	(1,239)	3,243
Trademarks	1,200	(60)	1,140			
Non-compete agreements	1,280	(1,210)	70	1,200	(867)	333
	<u>\$ 18,862</u>	<u>\$ (6,127)</u>	<u>\$ 12,735</u>	<u>\$ 8,282</u>	<u>\$ (2,826)</u>	<u>\$ 5,456</u>

**Table of Contents**

As of April 30, 2005, the estimated future amortization expense of acquired intangible assets is as follows (in thousands):

<b>Fiscal Years:</b>	
2006	\$ 5,508
2007	4,137
2008	2,670
2009	240
2010	180
	<u>\$ 12,735</u>

We may continue purchasing assets or businesses to accelerate industry or geographic expansion, or increase the features and functions of our products. These purchase transactions may result in the creation of additional intangible assets that leads to a corresponding increase in our amortization expense in future periods. Our future operating performance could be impacted by the future amortization of intangible assets.

**Acquired In-Process Research and Development**

	<u>Fiscal 2005</u>	%	<u>Fiscal 2004</u>	%	<u>Fiscal 2003</u>
		Change		Change	
	(in thousands, except percentages)				
Acquired in-process research and development	\$ 1,700	240%	\$ 500	25%	\$ 400
As a percentage of total revenues	2%		1%		1%

In connection with various acquisitions we made during fiscal 2005 and 2004, we allocated a portion of the purchase price to acquired in-process research and development (IPR&D). The amounts allocated to the acquired IPR&D were immediately expensed in the period each acquisition was completed because the projects associated with the acquired IPR&D efforts had not yet reached technological feasibility and no future alternative uses existed for the technology. In calculating the value of the acquired IPR&D, we, with the assistance of an independent appraiser, used established valuation techniques accepted in the technology and software industries. This calculation gave consideration to relevant market size and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by us and our competitors, individual product sales cycles, and the estimated lives of each of the products derived from the underlying technology. The value of the acquired IPR&D reflects the relative value and contribution of the acquired research and development. Consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the expected cost to complete the project in determining the value assigned to the acquired IPR&D. The projects have been subsequently completed within our estimates. During fiscal 2005 and 2004, we recognized charges of \$1.7 million and \$500,000 for acquired IPR&D related to our acquisitions of Cimmetry and Eigner, respectively. During fiscal 2003, we recognized a \$400,000 charge for acquired IPR&D related to our acquisitions of oneREV and ProductFactory.

**Restructuring Charges****Fiscal 2005****Fiscal 2004****Fiscal 2003**

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

	—————	%	—————	%	—————
		<b>Change</b>		<b>Change</b>	
		—————		—————	
		(in thousands, except percentages)			
Restructuring charges	\$ 2,132	(76)%	\$ 8,730	69%	\$ 5,156
As a percentage of total revenues		2%		9%	7%

From time to time, management has initiated various restructurings of our operations and facilities. These restructurings have been taken primarily in response to redundant or excess capacity brought about by

**Table of Contents**

acquisitions and/or significant changes in economic conditions and market demand. During the second quarter of fiscal 2003, we recorded restructuring charges of \$5.2 million (the 2003 Restructuring ). The 2003 Restructuring consisted primarily of the consolidation of excess facilities and abandonment of certain assets in connection with the consolidation of excess facilities. As of April 30, 2005, \$937,000 of the 2003 Restructuring obligations remained, which represents costs related to excess facilities.

During the second quarter of fiscal 2004, we recorded restructuring charges of \$8.7 million (the 2004 Restructuring ) as follows:

In connection with our move to our new headquarters in San Jose, California, during the second quarter of fiscal 2004, we recorded a restructuring charge of \$7.5 million, which was comprised of (i) \$5.5 million related to the fair value of the remainder of our outstanding lease commitments for properties that we vacated in September 2003, net of the fair value of estimated sublease income and net of deferred rent of \$581,000 related to the vacated properties, and (ii) \$2.0 million related to the abandonment of certain long-lived assets, including leasehold improvements, furniture and fixtures, and computer equipment.

In connection with our acquisition of Eigner during the second quarter of fiscal 2004, we recorded an additional restructuring charge of \$1.2 million, primarily related to the severance, benefits, payroll taxes and other associated costs of the termination of 33 Agile employees (see Note 6 Business Combination Eigner).

As of April 30, 2005, \$1.3 million of the 2004 Restructuring obligations remained, which represents costs related to excess facilities.

In the first quarter of fiscal 2005, we announced a further restructuring involving termination of employment of approximately 15% of our employees worldwide and consolidation of our Chinese development centers into a single location (the 2005 Restructuring ). In connection with the 2005 Restructuring, we recorded a restructuring charge of \$2.1 million. As of April 30, 2005, \$420,000 of the 2005 Restructuring obligations remained, which represents costs related to severance.

We review the assumptions used in estimating our restructuring charges, principally sublease income expectations for excess facilities and employee termination expenses, quarterly. Based upon this review, we did not make any material adjustments to our prior restructuring estimates and assumptions during the quarter ended April 30, 2005. Furthermore, we currently do not expect our existing restructuring estimates and assumptions to change materially.



## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

As a percentage of total revenues

4%

3%

7%

Interest and other income, net consists of interest earned on cash, cash equivalents, and investments, as well as other miscellaneous non-operating transactions.

The increase in interest and other income, net from fiscal 2004 to 2005 was due principally to higher interest rates, partially offset by lower average cash and investment balances principally due to the acquisition of Cimmetry.

The decrease in interest and other income, net from fiscal 2003 to 2004 was due principally to lower interest rates and, to a lesser extent, lower average cash and investment balances.

**Table of Contents**

For fiscal 2006, we expect interest and other income, net in absolute dollars to be comparable to our results for fiscal 2005 as we expect the average interest rate to be higher but offset by lower overall cash, cash equivalents and investments balance as a result of the acquisition of Cimmetry.

***Loss from Foreign Currency Translation***

	Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
	_____	_____	_____	_____	_____
	(in thousands, except percentages)				
Loss from foreign currency translation	\$	(100)%	\$ 639	100%	\$
As a percentage of total revenues			1%		

In connection with our acquisition of Eigner, we assumed an obligation with a vendor to Eigner, providing for quarterly payments denominated in Euros through fiscal 2007. As the obligation was denominated in Euros, and the functional currency of the subsidiary holding the obligation was the U.S. Dollar, we were required to remeasure the value of the obligation at the end of each period. As a result of the Euro strengthening against the U.S. Dollar during the second and third quarters of fiscal 2004, a remeasurement of the obligation at the end of each such period to the functional currency, net of payments made, resulted in an unrealized loss from foreign currency translation of \$639,000.

In fiscal 2005, the obligation was assigned to a subsidiary that has the same functional currency as the obligation.

***Impairment of Investments***

	Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
	_____	_____	_____	_____	_____
	(in thousands, except percentages)				
Impairment of investments	\$		\$	(100)%	\$ 3,673
As a percentage of total revenues					5%

During fiscal 2003, we determined that certain investments that we had made in privately held companies and a venture fund had incurred a decline in value that, based upon the deterioration of the financial condition of the issuers and portfolio companies of the venture fund, was considered other-than-temporary. Accordingly, we recorded impairment charges totaling \$3.7 million to write down the investments to their estimated fair values. At April 30, 2003, the carrying value of our private equity investments was zero.

***Provision for Income Taxes***

Fiscal 2005	%	Fiscal 2004	%	Fiscal 2003
_____	_____	_____	_____	_____
	Change		Change	

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

	(in thousands, except percentages)			
Provision for income taxes	\$ 714	(45)%	\$ 1,294	39%
Effective income tax rates	11%		6%	3%

Our provision for income taxes primarily reflects actual taxes associated with our international operations, since we incurred overall net losses in all fiscal years presented. As a result, our effective income tax rates have fluctuated and have not correlated to our operating income or loss. Other than the provision for foreign taxes, and to a lesser extent, provision for state income taxes and U.S. deferred tax liabilities, no provision for income taxes has been recorded since our inception because we have incurred net losses in all periods. We have recorded a valuation allowance for the full amount of our net deferred tax assets, including our net operating loss carryforwards and tax credits, as sufficient uncertainty exists regarding our ability to realize the deferred tax asset balance.



**Table of Contents****Liquidity and Capital Resources***Overview*

Our principal source of liquidity consists of cash, cash equivalents and investments, as follows (in thousands):

	<u>As of April 30,</u>	
	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 81,760	\$ 45,337
Short-term and long-term investments	116,620	192,884
	<u>\$ 198,380</u>	<u>\$ 238,221</u>

Our cash, cash equivalents, and investments are placed with high credit quality financial institutions, commercial companies and government agencies in order to limit the amount of credit exposure. Our liquidity could be negatively impacted by a decrease in demand for our products, which are subject to rapid technological changes, or a reduction of capital expenditures by our customers as a result of a downturn in the global economy, among other factors. As of April 30, 2005, our working capital was \$155.4 million and our days sales outstanding was 77 days.

*Cash Flows*

In summary, our cash flows were as follows (in thousands):

	<u>Fiscal Year Ended April 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash provided by (used in) operating activities	\$ 1,900	\$ (14,929)	\$ (23,218)
Net cash provided by (used in) investing activities	26,865	(5,660)	(45,417)
Net cash provided by financing activities	6,606	9,239	3,113

Cash provided by operating activities during fiscal 2005 consists of our net loss for the period of \$7.2 million and a net decrease of approximately \$2.4 million in other operating assets and liabilities, offset by non-cash items of \$11.5 million (primarily depreciation and amortization). Cash used in operating activities during fiscal 2004 was primarily due to our net loss for the period of \$24.1 million, offset by non-cash items of \$16.5 million, and a net decrease of approximately \$7.4 million in working capital.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Cash provided by investing activities during fiscal 2005 resulted from \$75.7 million of net maturities of short-term and long-term investments, offset by \$44.8 million cash paid in business combinations and \$4.0 million of purchases of property and equipment. Cash used in investing activities during fiscal 2004 resulted from \$8.4 million of purchases of property and equipment, primarily related to tenant improvements made at our corporate headquarters in San Jose, California, and \$3.1 million of net cash paid in business combinations, offset by \$5.8 million of net maturities of short-term and long-term investments.

Cash provided by financing activities in fiscal 2005 and 2004 was primarily due to the issuance of Common Stock associated with the exercise of stock options and our employee stock purchase plan totaling \$6.6 million and \$9.9 million, respectively. During fiscal 2004, cash provided from financing activities was offset slightly by the settlement of certain capital lease obligations acquired totaling \$718,000. We expect cash provided by financing activities to decrease in future periods as we grant fewer stock options to our employees.

We anticipate that our operating expenses, particularly in sales and marketing and research and development will constitute a material use of our cash resources over the next quarter, partially offset by anticipated collections of accounts receivable. In addition, we may utilize cash resources to fund acquisitions of investments in complementary businesses, technologies or product lines. We believe that our existing cash, cash equivalents and investments, together with our anticipated cash flows from operations will be sufficient to meet our working capital and operating resource expenditure requirements for at least the next twelve months.

**Table of Contents****Contractual Obligations and Commitments**

Our contractual obligations and commitments mainly consist of operating leases for facilities and future royalty payments. Our future fixed commitments consisted of the following as of April 30, 2005 (in thousands):

<b>Contractual Obligations and Commitments</b>	<b>Payments Due by Period</b>				
	<b>Total Amounts Committed</b>	<b>Less than 1 year</b>	<b>1 3 years</b>	<b>4 5 years</b>	<b>Over 5 years</b>
Operating leases (1)	\$ 11,945	\$ 4,628	\$ 3,740	\$ 2,305	\$ 1,272
Purchase commitments (2)	5,880	1,829	4,051		
Others (3)	1,862	423	486	124	829
<b>Total</b>	<b>\$ 19,687</b>	<b>\$ 6,880</b>	<b>\$ 8,277</b>	<b>\$ 2,429</b>	<b>\$ 2,101</b>

- (1) Operating lease obligations have not been reduced by estimated sublease income of \$523,000. Operating lease obligations also include \$2.6 million of accrued excess facilities costs. We lease facilities under non-cancelable operating leases that expire through July 2011.
- (2) In connection with our acquisition of Eigner, we assumed a commitment for monthly payments through fiscal 2007 and quarterly payments through fiscal 2008 to purchase software license and consulting services from a vendor to Eigner
- (3) Others consists of a mortgage loan ( payable in equal quarterly installments of approximately \$8,500 plus variable interest rate currently at 3.5%, until year 2027, and is collateralized by our land and building located at Egerkingen, Switzerland) and a purchase commitment of approximately \$30,000 per month until May 2007.

We sell our software licenses and services to our customers under software license agreements. Each software license agreement contains the relevant terms of the contractual arrangement with the customer, and generally includes provisions that indemnify the customer against losses, expenses, and liabilities from damages that may be awarded against the customer in the event our software is found to infringe upon a third-party patent, copyright, trademark, or other proprietary right. The software license agreement generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including but not limited to certain time- and geography-based scope limitations and a right to replace an infringing product.

We believe our internal development processes and other policies and practices limit our exposure related to the indemnification provisions of software license agreement. In addition, we require our employees to sign a proprietary information and inventions agreement, which further protects our confidential and proprietary information and assigns the rights of our employees' development work to us. To date, we have not had to reimburse any of our customers for any losses related to these indemnification provisions and we are not aware of any material claims. Accordingly, we have not accrued any liabilities related to such indemnification provisions in our accompanying consolidated financial statements. We evaluate estimated losses for such indemnification provisions under SFAS No. 5 Accounting for Contingencies, as interpreted by FIN No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.

We do not have any off-balance-sheet arrangements with unconsolidated entities or related parties and, accordingly, our liquidity and capital resources are not subject to off-balance-sheet risks from unconsolidated entities.

**Recent Accounting Pronouncements**

In March 2005, the SEC issued Staff Accounting Bulletin ( SAB ) No. 107. SAB No. 107 covers key topics related to the implementation of SFAS No. 123R which include the valuation models, expected volatility, expected option term, income tax effects of SFAS No. 123R, classification of stock-based compensation cost, capitalization of compensation costs, and disclosure requirements. We adopted SFAS No. 123R in the first quarter of fiscal 2006 (see Note 15 Subsequent Events) and will begin to recognize stock-based compensation related to employee equity awards in our condensed consolidated statements of operations using a fair value

## **Table of Contents**

based method on a prospective basis. Since we currently account for equity awards granted to our employees using the intrinsic value method under APB No. 25, we expect the adoption of SFAS No. 123R will have an adverse impact on our results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard is effective for fiscal periods beginning after June 15, 2005. We believe that the adoption of SFAS No. 153 will not have a material impact on our consolidated statement of income or financial condition.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Currency Risk**

We develop products in the United States, Canada, Germany, India, and China, and market our products primarily in North America, Europe, and the Asia-Pacific region. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets, and there is no assurance that exchange rate fluctuations will not harm our business in the future. In the second half of fiscal 2004, we started to sell our products through some of our foreign subsidiaries in their functional currencies, which provides some natural hedging because most of the subsidiaries' operating expenses are denominated in their functional currencies. Regardless of this natural hedging, our results of operations may be adversely impacted by the exchange rate fluctuation. Although we will continue to monitor our exposure to currency fluctuations, and, where appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, we are not currently engaged in any financial hedging transactions.

### **Interest Rate Risk**

Our interest income is sensitive to changes in the general level of U.S. short-term interest rates, particularly since all of our investments are in instruments with maturities of less than two years. The primary objective of our investment activities is to preserve principal while at the same time maximize the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain our entire portfolio of cash in money market funds and investments classified as available-for-sale. In general, money market funds and investments with maturities of less than two years are not subject to significant market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Because our mortgage arrangement is based on variable rates of interest, our interest expense is sensitive to changes in the general level of interest rates environment. Since these obligations represent a small percentage of our total capitalization, we believe that there is not a material risk exposure.

The table below represents principal (or notional) amounts and related weighted-average interest rates by year of maturity of our investment portfolio (in thousands, except interest rates).

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

	<b>Maturing within</b>	<b>Maturing between</b>	<b>Thereafter</b>	<b>Total</b>
	<b>12 months</b>	<b>1 and 2 years</b>		
Cash equivalents	\$ 58,506	\$	\$	\$ 58,506
<i>Weighted average interest rate</i>	<i>2.89%</i>	<i>%</i>	<i>%</i>	<i>2.89%</i>
Investments in fixed maturity securities	\$ 87,418	\$ 23,176	\$	\$ 110,594
<i>Weighted average interest rate</i>	<i>2.08%</i>	<i>3.31%</i>	<i>%</i>	<i>2.34%</i>
<b>Total</b>	<b>\$ 145,924</b>	<b>\$ 23,176</b>	<b>\$</b>	<b>\$ 169,100</b>

**Table of Contents**

**RISK FACTORS**

If any of the events described in the following risk factors occur, our business, financial condition or results of operations would likely suffer. In that event, the trading price of our common stock could decline. Any forward-looking statements set forth in this Report should be considered in light of the factors discussed below.

***Defects in Our Software Products Could Harm Our Reputation, Diminish Demand For Our Products, Be Costly to Remediate, Expose Us to Litigation and/or Cause Our Revenue to Decline***

Our software products are complex and may contain errors that may be detected at any point in the life of the product. This risk is more significant as it relates to new products, where there is limited experience with the product in customer environments, and increases with the complexity of the product in question.

We began shipping Agile 9 in January 2004. Agile 9 is a suite of products based on a newly developed architecture, and provides extensive new features and capabilities delivered on an enterprise technology platform. Agile 9 has also been developed to operate with a wider array of database, applications server and underlying technologies than were our prior products. Some of these underlying technologies are themselves relatively new and immature both with respect to their stability and the ability to integrate with other applications. In addition, more than was the case with our prior products, Agile 9 is being implemented to address a broader range of customer requirements. As can be expected with software as complex as Agile 9, in the course of customer implementation activities for Agile 9 with which we have been involved to date, we have encountered bugs and errors not identified during our pre-release testing. While we do not believe that any of these bugs or errors affect the functionality of Agile 9, these errors, and other errors we may find in Agile 9 or in any of the other products we sell, including the soon-to-be released Agile e6 or the recently acquired Cimmetry product line, could result in (i) lost or delayed revenue and market acceptance, (ii) injury to our reputation, (iii) increased service and warranty costs, including the potential need to provide services at reduced fees or no charge at all in order to address customer concerns, and (iv) claims or litigation for breach of contract or warranty. Any of these adverse consequences, either alone or in conjunction with others, could have a material negative impact on our business and results of operations.

***If We Do Not Achieve A High Level of Customer Satisfaction, Our Customers May Not Purchase Additional Products From Us and Our Reputation in the Market Could suffer, Adversely Impacting Our Ability to Attract New Customers***

The size of a new customer's initial order is often relatively small and may include a limited number of user licenses. In subsequent orders, customers typically add user licenses and/or additional products. We depend, to a significant extent, on sales of additional user licenses and products to our existing customers to grow our revenues. Therefore, it is important that our customers are satisfied with their initial product implementations and that they believe that expanded use of the product they purchased will provide them with additional benefits.

Our products are generally integrated with many disparate systems operated by our customers. Through our professional services organization, we provide implementation services for our software on a fee-for-service basis. Implementations generally involve migrating data from existing systems, and configuring the Agile products to operate with the customers' existing computer systems and software. Agile 9, first released in January 2004, and the soon-to-be released Agile e6, each provide new product modules, extensive new features and capabilities and are designed to address a broader set of business objectives than were our prior products. Agile 9 and Agile e6 implementations may involve multiple products being deployed across multiple departments within the customer organizations and configuring the Agile software to operate with a broader range of existing systems and software. As a result, implementations of Agile 9 and Agile e6 will often take longer than was the case with our earlier products, where only one product was deployed across a typically narrower user base, and may lead to delays in, or the failure to

place, orders for additional licenses or products. This is particularly true where delays in implementation cause delays in the deployment and initial production use of our products.



## **Table of Contents**

The added product modules, features and functionality of our newer products has also meant that our newer products sometimes require more user training than was the case with our prior products. In addition, as is often the case with major software upgrades, customers who were accustomed to the user interfaces and commands of prior versions of our software have in some cases experienced dissatisfaction with the new user interfaces, and at having to learn the new commands and navigation tools of Agile 9. Such user experiences can lead to dissatisfaction with our products as a whole and delays in, or the failure to place, orders for additional licenses or products.

Failure to maintain customer satisfaction for any reason could mean that follow-on orders would be delayed or may not occur at all, either of which would have a materially adverse effect on our results of operations.

***Our Quarterly Operating Results Fluctuate and Are Difficult to Predict. The Timing of Large Orders is Highly Unpredictable. Our Expenses are Relatively Fixed in the Short Term. Unpredicted Revenue Shortfalls Could Disproportionately and Adversely Affect Operating Results. If Our Future Results Are Below the Expectations of Public Market Analysts or Investors, the Price of Our Common Stock May Decline Significantly***

Our quarterly operating results have varied significantly in the past and are likely to vary significantly in the future. Our products have a complex and unpredictable sales cycle. The timing of large orders, which can account for a significant percentage of our total license revenue, remains unpredictable as a result of the overall economic conditions, cautious capital spending by businesses and customer expenditure approval processes. In addition, due to the longer implementation cycles associated with our newer products, follow-on orders from existing customers may not follow original orders as quickly as they have done in the past thus making the timing of such orders harder to predict. If any large order anticipated for a particular quarter is not received in that quarter, or the related license revenue is not recognizable in that quarter, we may experience an unplanned shortfall in revenues. In contrast, our expense levels are relatively fixed in the near term and are based in part on expectations of future revenues. As a result, a revenue shortfall from estimated levels can cause a disproportionately adverse impact on our operating results for the quarter in which the revenue shortfall occurs.

Due to these and other factors, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indicators of our future performance. It is possible that in some future periods our results of operations may be below our guidance or the expectations of public market analysts and investors. If this were to occur, the price of our common stock would likely decline, potentially significantly.

***If Our Service Revenue Increases As a Percentage of Total Revenues, Our Gross Margins Could Decrease; Demand for Our Services is Exceeding Internal Capacity, Increasing Reliance on Third-Party Subcontractors Which Adversely Impacts Gross Margin; We Currently Perform Some of Our Implementations on a Fixed-Price Basis, Which Could Cause Us to Incur More Costs Than We Expect***

We realize lower margins on service revenue, particularly with respect to professional services, than on license revenue. As a result, if service revenue increases as a percentage of total revenues, or, if we increase our use of third parties to provide such services, our gross margins may decrease.

The profitability of our professional services is critically dependent on our ability to maintain a minimum average billing rate and a fairly high utilization level of professional services personnel. If we are unable to maintain or improve our billing and utilization rates, the profitability of our professional services activities, our service revenue and our overall profitability will suffer.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

During fiscal 2005, demand for our services, principally implementation services for Agile 9, began to exceed the capacity of our internal services organization. As a result, we have had to engage third parties to subcontract all or a portion of the services engagements in some instances. The costs associated with using third parties are significantly higher than the costs associated with direct delivery of services. As a result, the increased

## Table of Contents

use of third parties has adversely impacted our services gross margins. We expect to continue to rely to a significant extent on third parties for the next few quarters which will continue to adversely affect our gross margins. In addition, beginning in fiscal 2005 and continuing into fiscal 2006, we have been hiring additional personnel for our professional services organization. Newly hired services personnel require up-front training and take some time before becoming fully productive. Accordingly, the addition of a significant number of new services personnel can adversely affect services margins in the short term. As a result of our continued reliance on third-party contractors and our recent and anticipated hiring, we expect the gross margins on our services business during fiscal 2006 to decline from the level achieved in fiscal 2005.

We may at times charge customers a fixed fee for installation services. If we underestimate the amount of time or resources required to install our products in fixed-fee situations, our gross margins could decline, adversely impacting our operating results.

***We Have Recently Made Several Acquisitions and Expect to Make Additional Acquisitions in the Future. If We Fail to Successfully Integrate the Acquired Companies, We May Not Achieve the Anticipated Benefits of the Acquisitions. If We Fail to Identify and Successfully Acquire Additional Products, Technologies and Companies, Our Long-Term Competitive Position May Be Adversely Affected***

In February 2005, we acquired substantially all of the business assets of Cimmetry, Inc., during fiscal 2004, we acquired Eigner US Inc. and TRADEC, Inc. and during fiscal 2003, we acquired oneREV, Inc. and ProductFactory, Inc. While each of these acquisitions has resulted or is expected to result in benefits to us as a combined company, achieving the full benefits of each of these and any future acquisitions depends on many factors, including the successful and timely integration of the products, technologies and operations of the acquired companies. These integration efforts are difficult and time consuming, especially considering the highly technical and complex nature of each company's products. We may encounter risks to our business during our integration of acquired products, technologies or companies including:

Difficulties in integration of acquired personnel, operations, technologies or products;

Unanticipated costs associated with acquisitions such as integration expenses and expenses associated with retiring excess facilities or other assets;

Diversion of management's attention from other business concerns;

Adverse effects on our existing business relationships with our customers and business partners, and the risk of losing the customers of acquired companies particularly where, as is the case with our recent Cimmetry acquisition, those customers may compete with us;

Inability to retain key employees of acquired companies; and

Difficulties and added expenses associated with bringing acquired companies into our internal control framework in a timely manner as may be required for on-going compliance with the Sarbanes-Oxley Act of 2002.

If we are unable to successfully and timely integrate acquired businesses, products or technologies, or to train, retain and motivate personnel from acquired companies, we may not receive the intended benefits of acquisitions.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Going forward, we believe that acquiring additional products, technologies and/or companies will be important to remaining competitive in the PLM marketplace. However, we may not be able to identify complementary acquisition targets or, even once targets are identified, we may not be able to reach agreement on the terms of acquisition or complete the acquisitions. Acquisitions could cause us to issue dilutive equity securities, incur debt or contingent liabilities, amortize goodwill and other intangibles, write off in-process research and development and other acquisition-related expenses, any of which could adversely affect our financial condition and operating results.

## **Table of Contents**

### ***Uncertainty about the Impact of SFAS 123R Could Adversely Affect Us***

Effective in the first quarter of fiscal 2006, we adopted SFAS 123R, which will result in a significant difference in the way in which we account for employee stock options. SFAS 123R is relatively new and, while it is expected to become mandatory in the future, to date has not yet been adopted by many companies. As a result, it may be difficult for analysts and others reviewing our financial statements to compare our financial statements to our prior period statements and to those of other companies that have not adopted SFAS 123R. Our stock price could be adversely affected if, as a result of adoption SFAS 123R, our financial performance compares unfavorably to other similarly situated companies.

In addition, in connection with the adoption of SFAS 123R, we will be required to develop appropriate assumptions and a model for valuing equity-based compensation for which there are not clear standards. There is a risk that, either through an error in application or as a result of subsequent accounting guidelines, we could determine that the assumptions or model we used requires modification. If that were to occur, we may be required to correct the charges taken with respect to employee equity-based compensation.

Finally, in connection with the adoption of SFAS 123R, we are reviewing our overall equity compensation strategy, and anticipate issuing fewer stock options to our employees than we have in the past. These changes in approaches to employee compensation could adversely affect our ability to attract and retain the highly qualified personnel we need to succeed.

### ***We Have a History of Losses and May Not Achieve or Maintain Profitability***

Since inception, we have funded our business primarily through selling our stock, not from cash generated from our business. We have incurred annual losses in each of the years since we were formed. We incurred losses of \$7.2 million, \$24.1 million and \$36.1 million in fiscal 2005, 2004 and 2003, respectively. As of April 30, 2005, we had an accumulated deficit of approximately \$289.0 million.

Due to the amortization of the intangibles as a result of the Cimmetry acquisition and the adoption of FAS 123R effective in our first quarter of fiscal 2006, we will likely not be profitable on a GAAP basis for the foreseeable future. Achieving and sustaining profitable results, even on a non-GAAP basis, will depend upon a combination of careful expense management coupled with higher revenue levels. Many of our expenses are relatively fixed in the short term and there can be no assurance that we will be able to maintain expenses at target levels. There can also be no assurance that our revenues will increase. As a result, there can be no assurance that we will achieve or maintain profitable operations in the future.

### ***Our Success Depends Upon Attracting and Retaining Qualified Employees***

Our success as a company is dependent upon our ability to attract and retain qualified employees. We are currently seeking to hire technically qualified individuals to augment the resources in our services delivery, product development and product support. If we are unable to attract the qualified people we seek, or if we are unable to retain our existing employees, our customer satisfaction and therefore our business could suffer. In addition, it generally takes six to 12 months for a sales executive to become fully productive. Turnover of sales executives tends to be higher in the first quarter of each fiscal year. If we are unable to retain our key sales executives, our revenue could be materially and adversely affected.

***Software Product Development Is Inherently Complex, and We Could Experience Difficulties in Introducing New Products and Upgrades Which Could Result in Lost or Delayed Sales***

In addition to Agile 9, Agile Advantage, Agile e5/6 and the newly acquired Cimmetry products, our future financial performance also depends on our successful and timely development, introduction and market acceptance of other new and enhanced products, including products that we may introduce using technology that we acquire from other companies. The lifecycles of our products are difficult to predict because the market for our products is characterized by rapid technological change, changing customer needs and evolving industry standards.

## **Table of Contents**

Although our software products can be used with a variety of popular industry standard relational database management system platforms, there may be future or existing platforms that achieve popularity in the marketplace that may not be architecturally compatible with our software product design. It may be necessary for us to invest significant resources to adapt our software if new or different platforms or operating environments become widely adopted in our current and prospective customer base. In addition, we believe that our software must be able to accommodate substantial numbers of users to achieve the level of market acceptance and customer satisfaction that we believe is critical to our success.

If we are unable to offer new and enhanced products as the market and technology evolve, if our products are not sufficiently scalable, or if we encounter development difficulties with new products we release, we may find it difficult to sell products to existing and prospective customers. Moreover, customers may delay purchasing decisions if they are aware that new or enhanced products are soon to be released. If we experience difficulties or delays in releasing new and enhanced products that customers are expecting, we may experience lost or delayed sales. Delays in releasing new and enhanced products could have a material negative impact on our results of operations, particularly in the periods when the new or enhanced products were expected to become available.

### ***We Have Many New Sales Representatives, Particularly in Our International Sales Force, Who Could Take Time to Reach Productivity which could Result in Lost or Delayed Sales***

We sell our products primarily through our direct sales force. Late in fiscal 2003 and continuing through fiscal 2004, we reorganized our North American sales organization. In fiscal 2005 we began to reorganize our international sales organization, a process that is still underway. In connection with these changes, we have recently hired a new country manager for Taiwan, and are seeking new sales leadership for Japan. As a result of these changes, many of our account executives, particularly our international sales executives, are relatively new to Agile. It generally takes six to twelve months for a new account executive to become fully productive. Changes in account executives can also result in the need to reestablish relationships with existing customers. This can result in dissatisfaction, and lost or delayed sales as customers become accustomed to their new account executives.

In addition, a significant number of Eigner sales personnel joined Agile as a result of the Eigner acquisition, and we expect to add further sales personnel as a result of our acquisition of Cimmetry. Training these individuals on the Agile products and the Agile sales personnel on the products acquired with Eigner and with Cimmetry is and will be a substantial undertaking and is still ongoing. The ability of our entire sales force to effectively sell our full suite of products will be important to our growth. If the new members of our sales team are unable to quickly become fully productive, or if we cannot successfully cross-train our expanded sales force in our full suite of products, it may be difficult for us to sell our products, we may lose sales opportunities and market share, take longer to close anticipated sales, and experience a shortfall in revenues.

### ***Competition Among Providers of Product Lifecycle Management Software May Increase, Particularly if Industry Consolidation Continues, Which May Cause Us to Reduce Price, and Experience Accompanying Reduced Gross Margins or Loss Business to Competitors, Resulting Ultimately in a Loss of Market Share***

We believe that the market for product lifecycle management solutions is becoming increasingly competitive due to a number of factors, including: (i) consolidation in the product lifecycle management software industry; (ii) alliances among existing competitors; (iii) alliances between our competitors and systems integrators; and (iv) entry of new competitors. In addition, as a result of the increasing availability of offshore software development resources efforts, we have begun to face additional competition from customers and prospective customers custom development efforts. Finally, we are seeing pricing pressure from customers and prospects that, during the recent economic downturn, became accustomed to receiving substantial discounts on all of their purchases.

We have occasionally experienced some pricing pressure on sales of our products, where competitors have offered to sell licenses at much lower cost in exchange for customer purchases of maintenance or other products



## **Table of Contents**

or services from the competitor. In some situations, we believe competitors may have offered initial licenses at no cost in order to establish a relationship with the customer. We expect that these pressures will continue, particularly with the constraint in the capital budgets for purchases of enterprise software that our customers are operating under. In order to remain competitive, and retain or expand our market share, and to expand into new industries, we may have to meet some of these demands for lower prices on our license fees, and offer initial licenses at low, or even no cost, to the customer.

There is a risk that, even as the economy improves overall, businesses may not increase their information technology spending commensurate with their business growth. Moreover, even in an environment of increasing information technology spending, we (and other PLM vendors) are not only competing for PLM opportunities but also competing against unrelated internal projects and against vendors of unrelated products and services, all of whom are competing for the limited information technology funding being made available by current and prospective customers. There can be no assurance that PLM in general or Agile in particular will compete favorably against other potential uses of information technology spending.

We may not be able to maintain our competitive position against current and potential competition, particularly competitors that have longer operating histories and significantly greater financial, technical, marketing, sales and other resources than we do and therefore may be able to respond more quickly than us to new or changing opportunities, technologies and customer requirements. Also, many current and potential competitors have greater name recognition and more extensive customer bases that could be leveraged to gain market share to our detriment. These competitors may be able to undertake more extensive promotional activities, adopt more aggressive pricing policies, and offer more attractive terms to purchasers than we can.

These and other competitive factors could result in price reductions, reduced revenues and gross margins and lost market share and an inability to expand into new markets and industries, any one of which could materially and adversely affect our results of operations.

### ***We Have Significantly Expanded Our International Operations Which Has Increased Our Exposure to Risks Inherent in Conducting Business Activities in Geographies Outside of the United States***

In May 2002, we began establishing research and development operations in India and China and in August 2003, through our acquisition of Eigner, we began significant operations in Germany. Additionally, in February 2005 we began significant operations in Canada through our acquisition of Cimmetry. We also have sales offices located in many additional locations. In addition to the increase in our international operations, we derive a significant portion of our revenues from customers located outside of the United States. For example, during fiscal 2005, revenues from customers located outside of North America were approximately 31% of total revenues. We expect both our operations and revenues from outside of North America to represent a significant portion of our overall operations and revenues, respectively.

Our recent and expected international expansion subjects us to a number of risks associated with conducting operations internationally, including:

Difficulties in managing geographically disparate operations;

Longer sales cycles associated with educating foreign customers on the benefits of using our products;

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Greater difficulty and longer time in collecting accounts receivable from customers located abroad;

Difficulty in providing customer support for our software in multiple time zones and languages;

The need to develop our software in multiple foreign languages;

Difficulties in enforcing agreements through non-U.S. legal systems;

Unexpected changes in regulatory requirements that may limit our ability to export our software or sell into particular jurisdictions or impose multiple conflicting tax laws and regulations;

**Table of Contents**

Political and economic instability, civil unrest or war;

Terrorist activities that impact international commerce;

Difficulties in protecting our intellectual property rights, particularly in countries where the laws and practices do not protect proprietary rights to as great an extent as do the laws and practices of the United States;

Changing laws and policies affecting economic liberalization, foreign investment, currency convertibility or exchange rates, taxation or employment; and

Nationalization of foreign owned assets, including intellectual property.

In addition, prior to the acquisition of Eigner, most of our revenues have been denominated in United States dollars. In both Europe and Japan, an increasing portion of our revenues is denominated in local currencies (Euro and Yen, respectively). As a result, we are exposed to greater risks in currency fluctuations. We currently do not engage in foreign exchange hedging activities, and therefore our international revenues and expenses are currently subject to the risks of foreign currency fluctuations. For example, we assumed a Euro-denominated obligation in connection with our acquisition of Eigner. As a result of the Euro strengthening against the US Dollar during fiscal 2004, we recorded an unrealized loss from foreign currency translation of \$639,000 related to this obligation.

We believe that continued expansion of our international operations will be necessary for our future success, and a key aspect to our business strategy has been and is to expand our sales and support organizations internationally. Therefore, we believe that we will need to commit additional significant resources to expand our international operations. If we are unable to successfully expand further in international markets on a timely basis, or if this expansion is more difficult than expected, we may not be able to achieve desired levels of revenue growth. In addition, due to the time delay between hiring sales executives and such executives becoming fully productive, expansion of our international operations could have the near term effect of increasing our cost structure without an immediate corresponding increase in revenues thus adversely affecting our profitability.

***Our Efforts to Expand Sales of Our Products to Other Industries May Not Succeed, Thereby Limiting Our Available Markets and Revenue Growth Potential***

We currently sell our products primarily to companies in the electronics/high technology, industrial (including automotive and aerospace) and life sciences industries. We also market products to customers in additional industries, including consumer packaged goods, retail and government. Although we have targeted enterprises in these other markets as potential customers, these potential customers may not be as willing to purchase our products as our customers in the electronic and high technology, industrial and life sciences industries have been. Targeting additional industries requires us to invest significant amounts in sales and marketing activities. If we are unable to expand into other industries and markets, we may not recover this investment. In addition, if we are not able to expand into other industries, we may be unable to maintain or increase sales of our software.

***If We Become Subject to Product Liability Litigation, It Could Be Time Consuming and Costly to Defend***

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Since our products are used for mission critical applications in the supply chain, errors, defects or other performance problems could result in financial or other harm to our customers. For example, our products are designed to communicate information relating to changes in product specifications during the manufacturing process. If a supplier or other participant receives inaccurate or erroneous data, it is possible that it could claim it incurred damages based on its reliance on that data. Although our license agreements generally contain provisions designed to limit our exposure to product liability damages, existing or future laws or unfavorable judicial decisions could negate such limitation of liability provisions. While we carry product liability insurance, our insurance may not fully cover these claims. Product liability litigation, even if successfully defended, would be time-consuming and costly to defend and could harm our business.

## **Table of Contents**

### ***Changes in Global Business Conditions Could Adversely Affect Demand for Our Products and Services Thereby Negatively Impacting Our Revenues and Results of Operations***

Our operating results have been adversely affected over the past few years by the reduced levels of capital spending, overall weak economic conditions affecting our current and potential customers and political uncertainties such as the ongoing threat of terrorist strikes. The economic environment that we faced in fiscal 2004 and 2005 was uncertain, and that uncertainty continues in fiscal 2006. Because customers and potential customers are deferring and may continue to defer major infrastructure investments until general economic conditions improve, we may be especially prone to this weak economy, particularly as it relates to large license transactions. Although we have begun to see early evidence of strengthening demand, weak economic conditions may continue to adversely impact our business for at least the new few quarters.

### ***The Market For Our Products Is Still Developing, and There Is Significant Uncertainty as to How Rapidly It Will Grow, If at All, and How Large It Will Become***

The market for PLM software products is still developing. Our customers and potential customers have not traditionally automated product lifecycle management solutions like we offer throughout their supply chains. As this is a relatively new market, we cannot be certain that this market will continue to develop and grow.

Many customers and prospective customers have already invested substantial resources in other methods of sharing product information during the manufacturing and supply process, most notably internally developed applications. These customers and prospective customers may be reluctant to adopt a new approach that may replace, limit or compete with their existing systems or methods. Moreover, customers and prospective customers have many competing demands placed on their available information technology budgets. There can be no assurance that PLM in general or Agile in particular will compete favorably against other potential uses of information technology spending.

We expect that we will continue to need to pursue intensive marketing and sales efforts to educate prospective customers about the uses and benefits of our products. Along with our direct efforts in these areas, we also rely upon relationships with consulting and integration partners to increase the market awareness of the existence and benefits of our PLM solutions. Currently, only a limited number of companies provide this type of market support for our products. These companies are not contractually obligated to promote our products, and they may have similar or more established relationships with our competitors. If these service providers reduce or discontinue their relationships with us, market acceptance of our products could be harmed.

As a result of these factors, demand for and market acceptance of our products is subject to a high level of uncertainty. If the PLM market fails to develop as we anticipate, or if our products do not receive wide acceptance, our ability to grow would be limited.

### ***If We Are Unable to Protect Our Intellectual Property We May Lose a Valuable Asset, Experience Reduced Market Share or Incur Costly Litigation to Protect Our Rights; We May Also Be Subject to Intellectual Property Infringement Claims That, With or Without Merit, Could Be Costly to Defend or Settle***

Our success and ability to compete depend upon our proprietary technology, particularly the technology underlying our products. We rely on patent, trademark, trade secret and copyright laws to protect our intellectual property. Despite our efforts to protect our intellectual property, a third party could copy or otherwise obtain our software or other proprietary information without authorization.

We may have to resort to litigation to enforce our intellectual property rights, to protect our patents, trade secrets or know-how or to determine their scope, validity or enforceability. Enforcing or defending intellectual property rights is expensive, could cause the diversion of our resources, and may not prove successful. Our protective measures may prove inadequate to protect our proprietary rights, and any failure to enforce or protect our rights could cause us to lose a valuable asset. In addition, the laws of some countries do not protect our

## **Table of Contents**

proprietary rights to as great an extent as do the laws of the United States, and we expect that it will become more difficult to monitor the use of our products as we increase our international presence.

We may, from time to time, be subject to claims of infringement of other parties' proprietary rights or claims that our own intellectual property rights are invalid. There has been a substantial amount of litigation in the software industry regarding intellectual property rights. It is possible that, in the future, third parties may claim that our current or potential future products infringe their intellectual property. We expect that software product developers and providers of electronic commerce solutions will increasingly be subject to infringement claims as the number of products and competitors in our industry grows and the functionality of PLM products begins to overlap with other software applications. Any infringement claims made against us, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or negative publicity. In addition, if our products were found to infringe a third party's proprietary rights, we could be required to enter into royalty or licensing agreements in order to continue to be able to sell our products. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or acceptable at all.

### ***We Depend on Third-Party Licensed Technology That if Lost, Could Result in Increased Cost or Delays in Sales of Our Products***

We license technology on a non-exclusive basis from many companies for use with our products. We utilize database management software from Oracle. Our customers can purchase this software directly from Oracle or from us. In addition, we integrate software into our products licensed from BEA and Oracle for application server technology, from Actuate for reporting capabilities, Spicer for document viewing and Cognos for analytics, as well as products from several other providers. We anticipate that we will continue to license technology from third parties in the future. Some of the software we license from third parties would be difficult to replace and may not continue to be available on commercially reasonable terms, if at all. The loss or inability to maintain any of these technology licenses could result in delays in the licensing of our products until equivalent technology is identified, licensed, and integrated. The increased use of third-party software could result in higher royalty payments and a loss of product differentiation and lower product gross margins.

### ***The Market Price of our Common Stock Has Been and May Continue to Be Volatile, Which Could Result in Substantial Losses for Individual Security Holders***

The market price for our common stock has been, and is likely to continue to be, highly volatile. During fiscal 2005, the high and low closing sales prices of our common stock were \$9.21 and \$6.55, respectively. Our stock price is subject to wide fluctuations in response to factors, some of which will be beyond our control.

In the past, following periods of volatility in the market price of their securities, many companies have been the subject of securities class action litigation. If, in addition to the pending litigation discussed elsewhere in which we are currently involved, we are involved in any additional securities class action suits, it could result in further, significant costs and diversion of our management's attention and resources, and could cause the prices of our securities to fall.

### ***Legislative Action and Potential New Accounting Pronouncements Could Cause our General and Administrative Expenses to Increase***

In order to comply with the Sarbanes-Oxley Act of 2002, as well as recent changes to listing standards by NASDAQ, and rules implemented by the Securities and Exchange Commission, we have had to hire additional personnel and utilize additional outside legal, accounting and advisory

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

services, and may continue to require such additional resources. These efforts cost \$1.3 million during fiscal 2005, which has caused our general and administrative costs to increase. Moreover, in the rapidly changing regulatory environment in which we now operate, there is significant uncertainty as to what will be required to comply with many of the new rules and regulations. As a result, we may be required to spend substantially more than we currently estimate, and may need to divert resources from other activities, as we develop our compliance plans.



**Table of Contents**

***Provisions Contained in Our Charter Documents and in Certain Anti-Takeover Measures Adopted By Us May Delay or Prevent a Change in Our Control***

Provisions of our Delaware certificate of incorporation and bylaws and of Delaware law could make it more difficult for a third party to acquire us, even if a change in control would be beneficial to our stockholders. These provisions also may prevent changes in our management. We are subject to the provision of Section 203 of the Delaware General Corporation Law, which restricts certain business combinations with interested stockholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination.

In addition, our Board of Directors has the authority to issue up to 10 million shares of Preferred Stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of shares of Preferred Stock, while potentially providing desirable flexibility in connection with possible acquisitions and for other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. Further, in March 2001, our Board of Directors adopted a Preferred Stock purchase rights plan intended to guard against certain takeover tactics. The existence of this plan could also have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**AGILE SOFTWARE CORPORATION**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<b>Consolidated Financial Statements:</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	48
<u>Consolidated Balance Sheets</u>	50
<u>Consolidated Statements of Operations</u>	51
<u>Consolidated Statements of Stockholders' Equity</u>	52
<u>Consolidated Statements of Cash Flows</u>	53
<u>Notes to Consolidated Financial Statements</u>	54
<b>Financial Statement Schedule:</b>	
<u>Schedule II. Consolidated Valuation and Qualifying Accounts</u>	80

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Agile

Software Corporation:

We have completed an integrated audit of Agile Software Corporation's 2005 consolidated financial statements and of its internal control over financial reporting as of April 30, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

***Consolidated financial statements and financial statement schedule***

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Agile Software Corporation and its subsidiaries at April 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

***Internal control over financial reporting***

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of April 30, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. 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 opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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. An audit of internal control over financial reporting includes 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

A company's internal control over financial reporting is a process designed 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

**Table of Contents**

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California

July 13, 2005

**Table of Contents****AGILE SOFTWARE CORPORATION****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts)**

	<b>April 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 81,760	\$ 45,337
Short-term investments	93,444	124,495
Accounts receivable, net of allowance for doubtful accounts of \$1,892 and \$1,512, respectively	26,899	19,998
Other current assets	5,157	5,356
<b>Total current assets</b>	<b>207,260</b>	<b>195,186</b>
Long-term investments	23,176	68,389
Property and equipment, net	10,067	10,234
Intangible assets, net	12,735	5,456
Other assets	1,127	2,186
Goodwill	66,658	34,724
<b>Total assets</b>	<b>\$ 321,023</b>	<b>\$ 316,175</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,409	\$ 4,773
Accrued expenses and other current liabilities	16,275	16,508
Accrued restructuring, current	2,010	4,210
Deferred revenue	25,190	20,104
<b>Total current liabilities</b>	<b>51,884</b>	<b>45,595</b>
Accrued restructuring, non-current	615	2,376
Other non-current liabilities	7,643	6,710
<b>Total liabilities</b>	<b>60,142</b>	<b>54,681</b>
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred Stock, \$.001 par value; 10,000 shares authorized; no shares issued or outstanding		
Common Stock, \$.001 par value; 200,000 shares authorized, 53,579 and 52,413 shares issued and outstanding as of April 30, 2005 and 2004, respectively	54	52
Additional paid-in capital	551,846	544,927
Notes receivable from stockholders	(77)	(83)
Unearned stock compensation	(526)	(1,139)
Accumulated other comprehensive loss	(1,391)	(432)
Accumulated deficit	(289,025)	(281,831)

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Total stockholders' equity	260,881	261,494
Total liabilities and stockholders' equity	\$ 321,023	\$ 316,175

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****AGILE SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)**

	<b>Fiscal Year Ended April 30,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Revenues:</b>			
License	\$ 46,406	\$ 36,293	\$ 30,699
Service	70,581	60,012	39,810
<b>Total revenues</b>	<b>116,987</b>	<b>96,305</b>	<b>70,509</b>
<b>Cost of revenues:</b>			
License	4,333	3,694	2,790
Service	33,554	28,993	18,151
Stock compensation	245	240	37
Acquisition-related compensation		595	
Amortization of intangible assets	1,245	709	
Impairment of prepaid software licenses		471	2,680
<b>Total cost of revenues</b>	<b>39,377</b>	<b>34,702</b>	<b>23,658</b>
<b>Gross margin</b>	<b>77,610</b>	<b>61,603</b>	<b>46,851</b>
<b>Operating expenses:</b>			
Sales and marketing:			
Other sales and marketing	46,144	38,302	41,840
Stock compensation	440	3,158	2,227
Research and development:			
Other research and development	23,884	23,147	26,357
Stock compensation	50	206	232
General and administrative:			
Other general and administrative	11,556	8,954	6,927
Stock compensation	197	678	136
Acquisition-related compensation		1,091	
Amortization of intangible assets	2,055	2,092	
Acquired in-process research and development	1,700	500	400
Restructuring charges	2,132	8,730	5,156
<b>Total operating expenses</b>	<b>88,158</b>	<b>86,858</b>	<b>83,275</b>
Loss from operations	(10,548)	(25,255)	(36,424)
Other income (expense):			
Interest and other income, net	4,068	3,093	4,900
Loss from foreign currency translation		(639)	
Impairment of investments			(3,673)



Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Loss before provision for income taxes	(6,480)	(22,801)	(35,197)
Provision for income taxes	714	1,294	934
Net loss	\$ (7,194)	\$ (24,095)	\$ (36,131)
Net loss per share:			
Basic and diluted	\$ (0.14)	\$ (0.48)	\$ (0.75)
Weighted average shares	52,914	50,191	48,495

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****AGILE SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands)

	Common Stock		Additional Paid-in Capital	Notes Receivable From Stockholders	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total	Comprehensive Loss
	Shares	Amount							
Balance at April 30, 2002	48,441	48	512,349	(249)	(4,004)	92	(221,605)	286,631	\$ (34,668)
Repurchases of unvested Common Stock	(36)		(58)	24				(34)	
Issuance of Common Stock on exercise of options	276		1,223					1,223	
Issuance of Common Stock under Employee Stock Purchase Plan	333	1	1,884					1,885	
Issuance of Restricted Stock	134								
Unrealized gain on investments						1		1	1
Repayment of notes receivable from stockholders				39				39	
Unearned stock compensation			658		(658)				
Amortization of unearned stock compensation					2,632			2,632	
Net loss							(36,131)	(36,131)	(36,131)
Balance at April 30, 2003	49,148	49	516,056	(186)	(2,030)	93	(257,736)	256,246	\$ (36,130)
Repurchases of unvested Common Stock	(8)		(5)					(5)	
Issuance of Common Stock on exercise of options	1,215	1	8,087					8,088	
Issuance of Common Stock under Employee Stock Purchase Plan	263		1,766					1,766	
Unrealized loss on investments						(391)		(391)	(391)
Foreign currency translation adjustment						(134)		(134)	(134)
Repayment of notes receivable from stockholders				103				103	
Unearned stock compensation			3,391		(3,391)				
Amortization of unearned stock compensation					4,282			4,282	
Issuance of Common Stock in acquisition	1,795	2	15,632					15,634	
Net loss							(24,095)	(24,095)	(24,095)
Balance at April 30, 2004	52,413	\$ 52	\$ 544,927	\$ (83)	\$ (1,139)	\$ (432)	\$ (281,831)	\$ 261,494	\$ (24,620)
Issuance of Common Stock on exercise of options	843	1	4,614					4,615	
Issuance of Common Stock under Employee Stock Purchase Plan	323	1	1,986					1,987	
Unrealized loss on investments						(602)		(602)	(602)
Foreign currency translation adjustment						(357)		(357)	(357)
Repayment of notes receivable from stockholders				6				6	
Unearned stock compensation			319		(319)				

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Amortization of unearned stock compensation					932					932		
Net loss										(7,194)	(7,194)	(7,194)
Balance at April 30, 2005	53,579	\$ 54	\$ 551,846	\$ (77)	\$ (526)	\$ (1,391)	\$ (289,025)	\$ 260,881	\$ (8,153)			

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****AGILE SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Fiscal Year Ended April 30,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (7,194)	\$ (24,095)	\$ (36,131)
Adjustments to reconcile net loss to net cash used in operating activities:			
Acquired in-process research and development	1,700	500	400
Provision for doubtful accounts	586	550	200
Depreciation and amortization	8,286	8,506	7,546
Stock compensation	932	4,282	2,632
Loss from foreign currency translation		639	
Impairment of investments			3,673
Non-cash portion of restructuring and other charges	39	2,043	3,179
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(4,394)	(5,800)	(5,718)
Other assets, current and non-current	1,011	1,963	(401)
Accounts payable	2,979	(4,273)	(2,207)
Accrued expenses and other liabilities, current and non-current	(6,845)	476	1,529
Deferred revenue	4,800	280	2,080
Net cash provided by (used in) operating activities	<u>1,900</u>	<u>(14,929)</u>	<u>(23,218)</u>
<b>Cash flows from investing activities:</b>			
Purchases of investments	(116,531)	(290,136)	(250,949)
Proceeds from maturities of investments	192,192	295,976	214,010
Cash paid in business combinations, net of cash acquired	(44,808)	(3,106)	(4,314)
Acquisition of property and equipment	(3,988)	(8,394)	(4,164)
Net cash provided by (used in) investing activities	<u>26,865</u>	<u>(5,660)</u>	<u>(45,417)</u>
<b>Cash flows from financing activities:</b>			
Payment of acquired capital lease obligations		(718)	
Proceeds from issuance of common stock, net of repurchases	6,602	9,854	3,074
Repayment of notes receivable from stockholders	6	103	39
Net cash provided by financing activities	<u>6,608</u>	<u>9,239</u>	<u>3,113</u>
Effect of exchange rate changes on cash	<u>1,050</u>	<u>(1,165)</u>	
Net increase (decrease) in cash and cash equivalents	36,423	(12,515)	(65,522)
Cash and cash equivalents at beginning of period	45,337	57,852	123,374
Cash and cash equivalents at end of period	<u>\$ 81,760</u>	<u>\$ 45,337</u>	<u>\$ 57,852</u>

	<u>          </u>	<u>          </u>	<u>          </u>
<b>Supplementary disclosure of cash flows information</b>			
Cash paid during the period for taxes	\$ 581	\$ 1,209	\$ 945
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Non-cash investing activities:</b>			
Common Stock issued in business combination	\$	\$ 15,634	\$
	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**The Company**

Agile Software Corporation ( Agile ) was incorporated in California on March 13, 1995 and is headquartered in San Jose, California. We reincorporated in Delaware in June 1999. We develop and sell a broad suite of product lifecycle management integrated software applications that enable customers to collaborate over the Internet with their supply and design chain partners to manage the product record in a product supply chain, and the business processes that contribute to and utilize the product record. These product lifecycle management solutions speed the build and buy process across the virtual manufacturing network, and manage product content and critical communication, collaboration and commerce transactions among original equipment manufacturers, electronic manufacturing services providers, customers and suppliers.

**Principles of consolidation and basis of presentation**

The accompanying consolidated financial statements include the accounts of Agile and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**Reclassifications**

Certain reclassifications have been made to the prior year consolidated statements of operations and consolidated statements of cash flows to conform to the current year presentation. These reclassifications have no impact on previously reported net loss or net cash activities.

As a result of changes in industry practice related to auction rate securities and in order to comply with the requirements of applicable accounting literature, we reclassified our auction rate securities previously classified as cash equivalents, as short-term investments in the accompanying Consolidated Balance Sheets. The Company had historically classified these instruments as cash equivalents if the period between interest rate resets was 90 days or less, which was based on our ability to either liquidate our holdings or roll our investment over to the next reset period. As a result of this reclassification, cash and cash equivalents was reduced, and short term investments was increased, by \$67.7 million at April 30, 2004, and corresponding changes were made in our consolidated statements of cash flows. This reclassification has no impact on our net loss or net loss per share for any period presented.

These securities are classified as available-for-sale pursuant to Statement of Accounting Standards No. 115. Furthermore, we classified these securities as short-term because (i) we acquired and held these securities with the intent to liquidate them as the need for working capital arose in

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

the ordinary course of business; (ii) we are able to either liquidate our holdings or roll our investment over to the next reset period at each interest rate reset interval, usually every 7, 28 or 25 days. In addition, as a result of the ability to sell the securities as part of the auction process at short, predetermined intervals, they are priced and traded in the financial markets as short term instruments.

In addition, we reclassified \$471,000 and \$2.7 million related to impairments of non-refundable prepaid software licenses from restructuring charge to a separate component of cost of revenues in the accompanying Consolidated Statement of Operations for fiscal 2004 and 2003, respectively. This reclassification had no impact on our loss from operations or net loss for the respective years.

We also reclassified \$1.6 million of tenant incentives received in fiscal 2004 in connection with the move to our new headquarters in San Jose, California. The reclassification increased property and equipment and total

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

liabilities by \$1.5 million (net of amortization) in the Consolidated Balance Sheet as of April 30, 2004. In addition, net cash used in operating activities decreased by \$1.6 million and net cash used in investing activities increased by \$1.6 million in the Consolidated Statement of Cash Flows for the fiscal year ended April 30, 2004. This reclassification had no impact on our loss from operations, net loss or net cash flows for fiscal year 2005.

**Use of estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash, cash equivalents and marketable securities**

We consider all highly liquid investment securities with remaining maturities of three months or less at the date of purchase to be cash equivalents. Investments in auction rate securities with a stated maturity date of more than three months are determined to be short-term investments rather than cash equivalents. We determine the appropriate classification of our investments in marketable securities at the time of purchase, and re-evaluate this designation at each balance sheet date. We classify all securities, including auction rate securities held as short-term investments, as available-for-sale and carry them at fair value with unrealized gains or losses related to these securities included as a component of stockholders' equity in the consolidated balance sheet. Our investment objectives include the safety and preservation of invested funds and liquidity of investments that is sufficient to meet cash flow requirements. Cash, cash equivalents, short-term and long-term investments in debt and equity securities are placed with high credit quality financial institutions, commercial companies and government agencies in order to limit the amount of credit exposure. Realized gains and losses are determined using the specific identification method.

**Concentrations of credit risk**

Our cash, cash equivalents, marketable securities and accounts receivable are potentially subject to concentration of credit risk. Cash, cash equivalents and marketable securities are deposited with financial institutions that we believe are of high credit quality. Our accounts receivables are derived from revenue earned from customers located primarily in the United States of America, Europe and the Asia-Pacific region. We perform ongoing credit evaluations of our customers and to date have not experienced any material losses.

For fiscal 2005, 2004 and 2003, no customers accounted for more than 10% of total revenues. At April 30, 2005 and 2004, no customers accounted for more than 10% of net accounts receivable. At April 30, 2003, one customer represented approximately 22% of net accounts



receivable.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of the customer's current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based on a percentage of our accounts receivable, our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and appropriate reserves have been established, we cannot guarantee that we will continue to experience the same credit loss rates that we have experienced in the past.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We sell our products to end-users and through resellers. We continuously monitor our customer account balances and actively pursue collections on past due balances. We maintain an allowance for doubtful accounts that is based upon historical collections performance, and also include a component for certain known customer collections. If actual bad debts differ from the reserves calculated based on historical trends and known customer issues, we record an adjustment to bad debt expense in the period in which the difference occurs.

**Fair value of financial instruments**

Our financial instruments, including cash, cash equivalents, marketable securities, accounts receivable, accounts payable, and notes payable are carried at cost, which approximates their fair value because of the short-term maturity of these instruments. The fair value of our available-for-sale marketable securities is further disclosed in Note 4 Cash, Cash Equivalents and Investments.

**Prepaid software license fees**

Prepaid software license fees are paid to third party software developers under development arrangements for technology integrated into or sold with our products. We amortize the prepaid license fees to cost of revenues based either upon the actual number of units of the related product that we ship or net revenue earned on the related product, over the period of the agreement with the third party developer or the expected life of the software product, depending upon the terms of the respective development contract. We evaluate the future realization of such costs quarterly and charge to operations (i.e. cost of revenues) any amounts that we deem unlikely to be fully realized through future sales of the related software product, or changes in our planned use of the technology. Such costs are classified as current and noncurrent assets based upon estimated product release date.

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation and amortization. The building is depreciated on a straight-line basis over ten years. Computer equipment and software are depreciated on a straight-line basis over eighteen to thirty-six months. Furniture and fixtures are depreciated on a straight-line basis over five years. Leasehold improvements are amortized over the shorter of the lease term or the useful life of the improvements. Repairs and maintenance costs are expensed as incurred.

**Advertising expense**

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

We expense the costs of producing advertisements at the time production occurs, and expense the cost of communicating advertising in the period during which the advertising space or airtime is used. Advertising is included in sales and marketing expense and totaled \$538,000, \$274,000 and \$345,000, for fiscal 2005, 2004 and 2003, respectively.

### **Software development costs**

We account for software development costs in accordance with Statement of Financial Accounting Standards ( SFAS ) No 2, Accounting for Research and Development Costs and No. 86, Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Development costs for software to be sold or otherwise marketed are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life, or in the ratio of current revenues to total projected product revenues, whichever is greater. To date, the period between achieving technological

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

feasibility, which we have defined as the establishment of a working model, which typically occurs when the beta testing commences, and the general availability of such software has been short and software development costs qualifying for capitalization have been insignificant. Accordingly, we have not capitalized any software development costs.

**Goodwill and intangible assets**

On May 1, 2002, we adopted SFAS, No. 142, Goodwill and Other Intangible Assets, which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, goodwill is no longer subject to amortization. Rather, we evaluate goodwill for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and we then compare the implied fair value of the goodwill to its carrying amount to determine the impairment loss, if any. Annual goodwill impairment testing will be performed, at a minimum, during the fourth quarter of each fiscal year.

Other intangible assets mainly represent existing technology, customer relationships, order backlog and non-compete agreements acquired in business combinations.

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets. Factors we consider important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, or a significant decline in our market capitalization relative to net book value. An asset is considered impaired if its carrying amount exceeds its fair market value. We assess the recoverability of our long-lived and intangible assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting our average cost of capital.

**Revenue recognition**

We recognize our software license revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9 Software Revenue Recognition with Respect to Certain Arrangements. We recognize license revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection of the related receivables is reasonably assured, delivery of the product has occurred and the customer has accepted the product (including the expiration of any acceptance period set forth in the contract) if the terms of the contract include an acceptance requirement.

We consider a non-cancelable agreement signed by the customer and us to be evidence of an arrangement. We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment. To date, none of our arrangements with our customers grant a right of refund or adjustment to the customer. Reasonable assurance of collection is based upon our assessment of the customer's financial condition through review of their current financial statements or credit reports. For follow-on sales to existing customers, prior payment history is also

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

used to evaluate probability of collection. If we determine that collection is not reasonably assured, we defer the revenue and recognize the revenue upon cash collection. Delivery is considered to occur when media containing the licensed programs is provided to a common carrier, or the customer is given electronic access to the licensed software. With respect to sales to original equipment manufacturers ( OEMs ) and value-added resellers ( VARs ), delivery is considered to have occurred based on sell-through by the OEMs and VARs. Our typical end user license agreements do not contain acceptance clauses.

In the event that we grant a customer the right to specified upgrades and vendor-specific objective evidence of fair value exists for such upgrades, we defer license revenue in an amount equal to this fair value until we have delivered the specified upgrade. If vendor-specific objective evidence of fair value does not exist, then we defer recognition of the entire license fee until we deliver the specified upgrade. If professional services are essential to the functionality of the other elements of the arrangement, we defer recognition of revenue until we have satisfied our professional services obligations. To date, professional services have not been essential to the functionality of the other elements, and thus have been accounted for separately.

When our software licenses contain multiple elements, we allocate revenue to each element based on the relative fair values of the elements. Multiple-element arrangements generally include post-contract support (PCS or maintenance), software products, and in some cases, other professional services. Revenue from multiple-element arrangements is allocated to undelivered elements of the arrangement, such as PCS, based on the relative fair values of the elements specific to us, and we must analyze each license arrangement carefully to ensure that all of the individual elements have been identified, along with the fair value of each element. Our determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence, which is determined by sales of the individual element to third parties or by reference to a renewal rate specified in the related arrangement.

Where vendor-specific objective evidence of fair-value exists for all undelivered elements, but evidence does not exist for one or more delivered elements, we account for the delivered elements in accordance with the residual method prescribed by SOP 98-9. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. In most cases, the bundled multiple elements include PCS and the software product. In such cases, when vendor-specific objective evidence of fair value exists for all of the undelivered elements (most commonly PCS), the residual or remaining amount is recognized as revenue and the PCS is recognized ratably over the PCS term, which is typically 12 months.

Revenues from professional services consist of implementation services and training. Training revenues are recognized as the services are performed. Professional services are not considered essential to the functionality of the other elements of the arrangement and are accounted for as a separate element. Professional services are recognized as the services are performed for time and materials contracts or upon achievement of milestones on fixed-price contracts. A provision for estimated losses on fixed-price professional services contracts is recognized in the period in which the loss becomes known.

Customers typically prepay maintenance fees for the first 12 months and the related maintenance revenues are recognized ratably monthly over the term of the maintenance contract. Maintenance contracts include the right to unspecified upgrades on a when-and-if available basis, and ongoing support.

Deferred revenues include amounts received from customers for which revenue has not yet been recognized that generally results from deferred maintenance, consulting or training services not yet rendered and license revenue deferred until all requirements under SOP 97-2 are met. Deferred revenue is recognized upon delivery of our products, as services are rendered, or as other requirements requiring deferral under SOP 97-2 are satisfied.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our license agreements do not offer our customers the unilateral right to terminate or cancel the contract and receive a cash refund. In addition, the terms of our license agreements do not offer customers price protection. However, we provide for sales returns reserve based upon estimates of potential future credits related to current period revenues. We analyze historical credits, current economic trends, average deal size, changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns reserve. Revenue for the period is reduced to reflect the provision of sales returns reserve.

**Comprehensive loss**

Comprehensive income (loss) consists of net income (loss), net unrealized foreign currency translation adjustment and net unrealized gains or losses on available-for-sale marketable securities and is presented in the consolidated statements of stockholders' equity.

**Stock compensation**

We account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, and comply with the disclosure provisions of Statement of Financial Accounting Standard ( SFAS ) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Under APB Opinion No. 25, unearned compensation is based on the difference, if any, on the date of the grant, between the market value of our Common Stock and the exercise price of the instrument granted. Unearned compensation is amortized and expensed in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. ( FIN ) 28 using the accelerated method of amortization. If a stock option is unvested and cancelled due to termination of employment, any excess amortization recorded using the accelerated method over what would have been amortized on a straight-line basis is reversed in the period of cancellation, and classified as recovery.

We account for stock-based compensation issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ( EITF ) No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

***Fair value disclosures***

Pro forma information regarding net loss and loss per share is required to be disclosed under SFAS No. 123. This information is required to be determined as if we had accounted for our stock-based compensation plans under the fair value method.



## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

The fair value of shares and options issued pursuant to our stock-based compensation plans at the grant date were calculated using the Black-Scholes option pricing model as prescribed by SFAS No. 123 with the following weighted average assumptions:

	<u>Stock Option Plans</u>			<u>Stock Purchase Plan</u>		
	<u>Fiscal Year Ended</u>			<u>Fiscal Year Ended</u>		
	<u>April 30,</u>			<u>April 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Dividend yield						
Expected volatility	64%	54%	84%	41%	48%	84%
Average risk-free interest rate	3.69%	3.79%	2.85%	2.35%	1.21%	1.15%
Expected life (in years)	5	5	5	0.5	0.5	0.5

Table of Contents

## AGILE SOFTWARE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of assumptions, including the expected stock price volatility. We use volatility rates based upon our historical volatility rates. Based upon the above assumptions, the weighted average fair value per share of options granted under the stock option plans during fiscal 2005, 2004 and 2003 was \$4.51, \$5.16 and \$5.17, respectively. The weighted average fair value per share of shares subject to purchase under the employee stock purchase plan during fiscal 2005, 2004 and 2003 was \$2.14, \$2.60 and \$3.01, respectively.

Had we recognized compensation expense using the fair value method as prescribed under the provisions of SFAS No. 123, our net loss would have been increased to the pro forma amounts below for fiscal 2005, 2004 and 2003, respectively (in thousands, except per share amounts):

	Fiscal Year Ended April 30,		
	2005	2004	2003
Net loss as reported	\$ (7,194)	\$ (24,095)	\$ (36,131)
Add: Stock-based compensation included in reported net loss	932	4,282	2,632
Less: Stock-based employee compensation under SFAS No. 123	(44,467)	(25,736)	(32,199)
Pro forma net loss	\$ (50,729)	\$ (45,549)	\$ (65,698)
Net loss per basic and diluted share as reported	\$ (0.14)	\$ (0.48)	\$ (0.75)
Pro forma net loss per basic and diluted share	\$ (0.96)	\$ (0.91)	\$ (1.35)

The stock-based employee compensation under SFAS 123 in fiscal 2005 includes the effect of the acceleration of employee stock options of \$24.7 million as described at Note 11 Employee Benefit Plans Acceleration of Stock Options.

Effective May 1, 2005, we adopted SFAS No. 123(R), Share-Based Payment. As a result, future amortization of employee stock compensation expenses will be recorded in our Consolidated Statement of Operations. See Note 1 The Company and Summary of Significant Accounting Policies Recent Accounting Pronouncements and Note 15 Subsequent Events.

**Income taxes**

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

We account for income taxes under an asset and liability approach that requires the expected future tax consequences of temporary differences between book and tax basis of assets and liabilities be recognized as deferred tax assets and liabilities. Generally accepted accounting principles require us to evaluate the realizability of our net deferred tax assets on an ongoing basis. A valuation allowance is recorded to reduce the net deferred tax assets to an amount that will more likely than not be realized. Significant factors considered by management in assessing the need for a valuation allowance include our historical operating results, the length of time over which the differences will be realized, tax planning opportunities and expectations for future earnings. In the consideration of the realizability of net deferred tax assets, recent losses must be given substantially more weight than any projections of future profitability.

### **Foreign currency translation**

For foreign operations where the local currency is the functional currency, assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Income and expense items are

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

translated at average rates of exchange prevailing during each period. Translation adjustments are accumulated in other comprehensive income as a component of stockholders' equity.

For foreign operations where the U.S. dollar is the functional currency, monetary assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Income and expense items are translated at average rates of exchange prevailing during each period. Translation adjustments are recognized currently as a component of foreign currency gain or loss included in the consolidated statement of operations.

**Segment information**

We consider ourselves to be one reportable operating segment, specifically the development, marketing and selling of our enterprise class product lifecycle management solutions, and operate across domestic and international markets. Substantially all of our identifiable assets are located in North America and Europe. Information related to geographic segments is included in Note 13 Segment and Geographic Information.

**Recent Accounting Pronouncements**

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107. SAB No. 107 covers key topics related to the implementation of SFAS No. 123R which include the valuation models, expected volatility, expected option term, income tax effects of SFAS No. 123R, classification of stock-based compensation cost, capitalization of compensation costs, and disclosure requirements. We adopted SFAS No. 123R in the first quarter of fiscal 2006 (see Note 14 Subsequent Events) and will begin to recognize stock-based compensation related to employee equity awards in our condensed consolidated statements of operations using a fair value based method on a prospective basis. Since we currently account for equity awards granted to our employees using the intrinsic value method under APB No. 25, we expect the adoption of SFAS No. 123R will have an adverse impact on our results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions. SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard is effective for fiscal periods beginning after June 15, 2005. We believe that the adoption of SFAS 153 will not have a material impact on our consolidated statement of income or financial condition.

**NOTE 2 NET LOSS PER SHARE**

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of Common Stock outstanding during the period. Diluted net loss per share is the same as basic net loss per share because the calculation of diluted net loss per share excludes potential shares of Common Stock since their effect is anti-dilutive. Potentially dilutive shares of Common Stock consist of unvested restricted Common Stock and incremental shares of Common Stock issuable upon the exercise of stock options and warrants.

Table of Contents

## AGILE SOFTWARE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share amounts):

	Fiscal Year Ended April 30,		
	2005	2004	2003
<b>Numerator:</b>			
Net loss	\$ (7,194)	\$ (24,095)	\$ (36,131)
<b>Denominator:</b>			
Weighted average shares	52,923	50,293	48,719
Weighted average unvested shares of restricted Common Stock subject to repurchase	(9)	(102)	(224)
Denominator for basic and diluted calculation	52,914	50,191	48,495
<b>Net loss per share:</b>			
Basic and diluted	\$ (0.14)	\$ (0.48)	\$ (0.75)

The following table sets forth potential shares of Common Stock that are not included in the diluted net loss per share calculation above because to do so would be anti-dilutive as of the dates indicated below (in thousands):

	As of April 30,		
	2005	2004	2003
Warrants to purchase Common Stock			50
Unvested Common Stock subject to repurchase		42	189
Options to purchase Common Stock	19,323	18,096	15,135
Total shares excluded	19,323	18,138	15,374

**NOTE 3 BALANCE SHEET COMPONENTS:**

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Property and equipment comprise the following (in thousands):

	<u>As of April 30,</u>	
	<u>2005</u>	<u>2004</u>
Land and building	\$ 1,269	\$ 1,095
Computer hardware and software	23,720	21,986
Furniture and equipment	2,643	2,996
Leasehold improvements	5,248	5,179
	<u>32,880</u>	<u>31,256</u>
Less: Accumulated depreciation and amortization	(22,813)	(21,022)
	<u>\$ 10,067</u>	<u>\$ 10,234</u>

Depreciation and amortization of property and equipment totaled \$4.4 million, \$5.2 million and \$7.5 million for fiscal 2005, 2004 and 2003, respectively.

**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accrued expenses and other liabilities comprise the following (in thousands):

	<b>As of April 30,</b>	
	<b>2005</b>	<b>2004</b>
Accrued employee costs	\$ 7,102	\$ 6,114
Accrued royalties and adverse purchase commitment	3,181	3,392
Accrued professional and related fees	1,567	1,517
Accrued severances, current	724	1,276
Taxes payable	2,183	2,079
Other	1,518	2,130
	<b>\$ 16,275</b>	<b>\$ 16,508</b>

Other non-current liabilities comprise the following (in thousands):

	<b>As of April 30,</b>	
	<b>2005</b>	<b>2004</b>
Adverse purchase commitment, non-current	\$ 3,571	\$ 4,671
Deferred revenue, non-current	1,647	
Mortgage loan	754	711
Others	1,671	1,328
	<b>\$ 7,643</b>	<b>\$ 6,710</b>

In connection with our acquisition of Eigner, we assumed a commitment to purchase certain software licenses and post contract customer support with a vendor to Eigner, providing for quarterly payments denominated in Euros through fiscal 2007. As there was no future use for the software and related maintenance, an accrual for the expected loss was recorded at the time of acquisition for the adverse purchase commitment.

Mortgage loan is payable in equal quarterly installments of approximately \$8,500 plus variable interest rate, currently at 3.5%, until year 2027, and is collateralized by our land and building located at Egerkingen, Switzerland.





Table of Contents

## AGILE SOFTWARE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 4 CASH, CASH EQUIVALENTS AND INVESTMENTS:

The following are the components of cash, cash equivalents and investments (in thousands):

	As of April 30, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash, cash equivalents and short-term investments:				
Government debt securities	\$ 50,237	\$	\$ (479)	\$ 49,758
Corporate debt securities	96,442		(275)	96,167
<b>Total debt securities</b>	<b>146,679</b>		<b>(754)</b>	<b>145,925</b>
Equity securities	5,888	26		5,914
<b>Total available for sale securities</b>	<b>152,567</b>	<b>26</b>	<b>(754)</b>	<b>151,839</b>
Cash and money market funds	23,365			23,365
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 175,932</b>	<b>\$ 26</b>	<b>\$ (754)</b>	<b>\$ 175,204</b>
Long-term investments:				
Government debt securities	\$ 4,495	\$	\$ (30)	\$ 4,465
Corporate debt securities	18,854	5	(148)	18,711
<b>Total long-term investments</b>	<b>\$ 23,349</b>	<b>\$ 5</b>	<b>\$ (178)</b>	<b>\$ 23,176</b>
<b>Total cash, cash equivalents, short- and long-term investments</b>	<b>\$ 199,281</b>	<b>\$ 31</b>	<b>\$ (932)</b>	<b>\$ 198,380</b>
	As of April 30, 2004			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash, cash equivalents and short-term investments:				
Government debt securities	\$ 97,424	\$ 18	\$ (55)	\$ 97,387
Corporate debt securities	30,083		(25)	30,058

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Total available for sale securities	127,507	18	(80)	127,445
Cash and money market funds	42,387			42,387
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 169,894</b>	<b>\$ 18</b>	<b>\$ (80)</b>	<b>\$ 169,832</b>
<b>Long-term investments:</b>				
Government debt securities	\$ 37,631	\$ 11	\$ (145)	\$ 37,497
Corporate debt securities	30,994	17	(119)	30,892
<b>Total long-term investments</b>	<b>\$ 68,625</b>	<b>\$ 28</b>	<b>\$ (264)</b>	<b>\$ 68,389</b>
<b>Total cash, cash equivalents, short- and long-term investments</b>	<b>\$ 238,519</b>	<b>\$ 46</b>	<b>\$ (344)</b>	<b>\$ 238,221</b>

At April 30, 2005 and 2004, all marketable debt securities had scheduled maturities of less than two years. At April 30, 2005 and 2004, marketable debt securities totaling \$58.5 million and \$3.0 million, respectively, had maturities of less than three months from the date of purchase, and are classified as cash equivalents. Realized gains or losses from the sale of marketable debt securities were immaterial during fiscal year 2005, 2004 and 2003.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5 OTHER ASSETS:**

Other assets include prepaid software license fees paid to third party software developers for technology integrated into our products, which amounted to \$529,000 and \$402,000 as of April 30, 2005 and 2004, respectively. We evaluate the future realization of such costs quarterly and charge to operations any amounts that we deem unlikely to be fully realized through future sales. Such prepaid software license fees are classified as current and noncurrent assets based upon the shorter of estimated product life or length of contract.

During fiscal 2004 and 2003, we determined that the carrying value of certain prepaid software license fees exceeded their net realizable value as a result of a revised forecast of future revenues prepared during the respective period showing lower than anticipated sales for the products in which third-party licensed software was embedded, and accordingly, we recorded charges related to the write-down of prepaid software license fees of \$471,000 and \$2.7 million for fiscal 2004 and 2003, respectively. These charges are included in the statement of operations under cost of revenues to reflect the write-down of the prepaid software license fees to its estimated net realizable value.

**NOTE 6 BUSINESS COMBINATIONS:**

During fiscal 2005, we acquired Cimmetry Systems, Inc ( Cimmetry ). During fiscal 2004, we acquired TRADEC, Inc. ( Tradec ) and Eigner US Inc. ( Eigner ). Each transaction was accounted for under the purchase method of accounting and, accordingly, the results of operations of each acquisition are included in the accompanying consolidated statements of operations since the acquisition date. Pro forma results of operations have not been presented because the effects were not material to our overall results.

The net tangible assets acquired and liabilities assumed in each acquisition, as discussed further below, were recorded at their fair values, which approximated their carrying amounts at the respective acquisition dates. We determined the valuation of the identifiable intangible assets using future revenue assumptions and a valuation analysis from an independent appraiser. The amounts allocated to the identifiable intangible assets were determined through established valuation techniques accepted in the technology and software industries. In calculating the value of the acquired in-process research and development ( IPR&D ), we gave consideration to relevant market size and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by us and our competitors, individual product sales cycles, and the estimated lives of each of the products derived from the underlying technology. The value of the acquired IPR&D reflects the relative value and contribution of the acquired research and development. Consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the expected cost to complete the project in determining the value assigned to the acquired IPR&D. The projects have been subsequently completed within our estimates. The amounts allocated to the acquired IPR&D were immediately expensed in the period the acquisition was completed because the projects associated with the IPR&D efforts had not yet reached technological feasibility and no future alternative uses existed for the technology. Research and development costs to bring the products acquired to technological feasibility are not expected to be significant. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing the other identifiable intangible assets. Key assumptions included discount factors ranging from 20% to 23% for Cimmetry and 19% to 31% for Eigner and Tradec, and estimates of revenue growth, maintenance renewal rates, cost of sales, operating expenses and taxes. The purchase price in excess of the identified tangible and intangible assets was allocated to goodwill.



**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Cimmetry***

On February 3, 2005, we acquired substantially all of the assets and assumption of certain liabilities of Cimmetry Systems, Inc. ( Cimmetry ), a privately held company. Cimmetry is a leading provider of visualization and collaboration solutions. Through the acquisition of Cimmetry we acquired visual collaboration software that has become an increasingly important element of PLM solutions.

Under the terms of the acquisition, we paid approximately \$44.0 million in cash. We funded the consideration from our current investments. We have been partnering with Cimmetry for a number of years to solve critical viewing and collaboration issues, and prior to the acquisition, we integrated the Cimmetry software into our products under a license from Cimmetry.

The aggregate purchase price for the Cimmetry acquisition has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition see table below.

***Tradec***

On September 30, 2003, we acquired all of the outstanding capital stock of Tradec, which develops cost management software solutions that enable manufacturing companies to reduce direct material costs, increase productivity and improve supplier performance. The acquisition enhances our current cost management offering by leveraging Tradec s domain expertise for addressing key aspects of direct materials cost and performance management. We will be able to deliver increased analytics capabilities and supplier collaboration for our customers to drive product profitability. The financial terms of the transaction were not material to our financial statements.

***Eigner***

On August 11, 2003, we acquired all of the outstanding capital stock of Eigner, a provider of complementary product lifecycle management solutions. The acquisition of Eigner allows us to have a stronger presence in the automotive supply chain, industrial equipment, aerospace, and defense industries, as well as in certain geographic markets.

The total purchase price of \$19.3 million consisted of \$2.8 million in cash, the issuance of 1.8 million shares of Agile Common Stock valued at \$15.6 million, and \$894,000 in direct transaction costs. The value of the share consideration was based upon the average of the closing market prices of Agile Common Stock on the three trading days before and after the announcement of the acquisition on August 5, 2003, which was \$8.71.

In connection with the acquisition of Eigner, we paid approximately \$1.5 million in hiring bonuses to certain persons who were employees of Eigner at the date of the acquisition. We also implemented a plan to terminate approximately 10% of the combined company workforce, for a total of 63 employees, to eliminate duplicative activities and reduce the cost structure of the combined company. The terminations included 30 Eigner employees and 33 Agile employees, and were made across all business functions and geographic regions. Net of these terminations, our overall headcount increased by 89 employees, across all business functions, as a result of the Eigner acquisition. The estimated cost for related severance, benefits, payroll taxes and other associated costs totaled \$3.3 million, of which \$2.2 million was related to the termination of the Eigner employees and \$1.1 was related to the termination of the Agile employees. As of October 31, 2003, all employees identified in the plan had been notified. Both the hiring bonuses and the severance related costs for the Eigner employees, totaling \$3.7 million, were accrued for at the time of the acquisition and have been

Table of Contents

## AGILE SOFTWARE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognized as a liability assumed in the business combination. The severance related costs for the Agile employees of \$1.1 million were included in restructuring charge during the second quarter of fiscal 2004 (see Note 8 Restructuring Charges for additional information). The Eigner and Agile employee termination obligations have been fully paid as of April 30, 2004.

In addition, we agreed to pay approximately \$1.7 million in retention bonuses to certain persons who were employees of Eigner at the date of the acquisition and remain employees of Agile for six months. These bonuses were paid in February 2004 and were recorded as acquisition-related compensation in fiscal 2004.

The aggregate purchase price for the Cimmetry and Eigner acquisition has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition as follows (in thousands)

	<u>Cimmetry</u>	<u>Eigner</u>	<u>Total</u>
Tangible assets acquired:			
Cash and cash equivalents	\$	\$ 3,015	\$ 3,015
Accounts receivable	3,283	2,478	5,761
Property and equipment	135	1,361	1,496
Other assets	140	2,098	2,238
Liabilities assumed:			
Accounts payable	(353)	(5,670)	(6,023)
Accrued expenses and other liabilities	(1,087)	(12,590)	(13,677)
Deferred revenue	(1,524)	(3,956)	(5,480)
Identifiable intangible assets acquired:			
In-process research and development	1,700	500	2,200
Other identifiable intangible assets:			
Developed technology	6,600	1,300	7,900
Customer relationships	2,700	4,000	6,700
Trademark	1,200		1,200
Non-compete agreements	80	1,200	1,280
Goodwill	31,173	25,549	56,722
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 44,047	\$ 19,285	\$ 63,332
	<u>          </u>	<u>          </u>	<u>          </u>

## NOTE 7 GOODWILL AND INTANGIBLE ASSETS

The changes in carrying amount of goodwill during fiscal 2005 are as follows (in thousands):



Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Balance as of April 30, 2004	\$ 34,724
Earnout payments (1)	761
Goodwill related to Cimmetry (2)	31,173
	<hr/>
Balance as of April 30, 2005	\$ 66,658
	<hr/>

- 
- (1) Earnout payments represent payments made during fiscal year 2005 to the former ProductFactory stockholders related to the acquisition of ProductFactory, Inc. by the Company completed on March 27, 2003. Included in such payment was the final payment
- (2) See Note 6 Business Combinations for additional information.

**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is no longer subject to amortization. Rather, we evaluate goodwill for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable.

As at April 30, 2005, \$31.2 million of goodwill is deductible for tax purpose.

**Intangible Assets**

The components of acquired identifiable intangible assets are as follows (in thousands):

	As of April 30, 2005			As of April 30, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets:						
Developed technologies	\$ 9,200	\$ (1,965)	7,235	\$ 2,600	\$ (720)	\$ 1,880
Customer relationships	7,182	(2,892)	4,290	4,482	(1,239)	3,243
Trademark	1,200	(60)	1,140			
Non-compete agreements	1,280	(1,210)	70	1,200	(867)	333
	<u>\$ 18,862</u>	<u>\$ (6,127)</u>	<u>\$ 12,735</u>	<u>\$ 8,282</u>	<u>\$ (2,826)</u>	<u>\$ 5,456</u>

All of our acquired identifiable intangible assets are subject to amortization and have approximate original estimated useful lives as follows: Developed technologies three to five years; Customer relationships three years; Trademark five years; Non-compete agreements one year. No significant residual value is estimated for the intangible assets.

As of April 30, 2005, the estimated future amortization expense for acquired identifiable intangible assets is as follows (in thousands):

Fiscal Years:	
2006	\$ 5,508
2007	4,137

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

2008	2,670
2009	240
2010	180
	<hr/>
	\$ 12,735
	<hr/>

**NOTE 8 RESTRUCTURING CHARGES:**

From time to time, management has initiated various restructurings of our operations and facilities. These restructurings have been taken primarily in response to redundant or excess capacity brought about by acquisitions and/or significant changes in economic conditions and market demand. During the second quarter of fiscal 2003, we recorded restructuring charge of \$5.2 million (the 2003 Restructuring ). The 2003 Restructuring consisted primarily of the consolidation of excess facilities and abandonment of certain assets in connection with the consolidation of excess facilities. As of April 30, 2005, \$937,000 of the 2003 Restructuring obligations remained, which represents costs related to excess facilities.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the second quarter of fiscal 2004, we recorded restructuring charges of \$8.7 million (the 2004 Restructuring ) as follows:

In connection with our move to our new headquarters in San Jose, California, during the second quarter of fiscal 2004, we recorded a restructuring charge of \$7.5 million, which was comprised of (i) \$5.5 million related to the fair value of the remainder of our outstanding lease commitments for properties that we vacated in September 2003, net of the fair value of estimated sublease income and net of deferred rent of \$581,000 related to the vacated properties, and (ii) \$2.0 million related to the abandonment of certain long-lived assets, including leasehold improvements, furniture and fixtures, and computer equipment.

In connection with our acquisition of Eigner during the second quarter of fiscal 2004, we recorded an additional restructuring charge of \$1.2 million, primarily related to the severance, benefits, payroll taxes and other associated costs of the termination of 33 Agile employees (see Note 6 Business Combination Eigner ).

As of April 30, 2005, \$1.3 million of the 2004 Restructuring obligations remained, which represents costs related to excess facilities.

In the first quarter of fiscal 2005, we announced a further restructuring involving termination of employment of approximately 15% of our employees worldwide and consolidation of our Chinese development centers into a single location (the 2005 Restructuring ). In connection with the 2005 restructuring, we recorded a restructuring charge of \$2.1 million. As of April 30 2005, \$420,000 of the 2005 Restructuring obligations remained, which represents costs related to severance.

We review the assumptions used in estimating our restructuring charges, principally sublease income expectations for excess facilities and employee termination expenses, quarterly. Based upon this review, we did not make any adjustments to our prior restructuring estimates and assumptions during the quarter ended April 30, 2005. Furthermore, we currently do not expect our existing restructuring estimates and assumptions to change materially.

**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Summary of Restructuring Obligations**

The significant activity within and components of the restructuring charges as of April 30, 2005, 2004 and 2003 are as follows (in thousands):

	<b>Employee Termination Costs</b>	<b>Facility- Related Costs</b>	<b>Asset Abandonment Costs</b>	<b>Other Charges</b>	<b>Total</b>
Restructuring obligations at April 30, 2002 (1)	\$ 1,982	\$ 729	\$	\$	\$ 2,711
2003 Restructuring charges (1)		4,657	485	14	5,156
Cash payments	(1,982)	(1,135)			(3,117)
Non-cash charges			(485)	(14)	(499)
Restructuring obligations at April 30, 2003	\$	\$ 4,251	\$	\$	\$ 4,251
2004 Restructuring charges (2)	1,092	5,485	2,001	152	8,730
Cash payments	(1,092)	(3,731)			(4,823)
Non-cash charges		581	(2,001)	(152)	(1,572)
Restructuring obligations at April 30, 2004	\$	\$ 6,586	\$	\$	\$ 6,586
2005 Restructuring charges (2)	1,643	366	10	113	2,132
Cash payments	(1,132)	(4,838)		(84)	(6,054)
Non-cash charges	(91)	91	(10)	(29)	(39)
Restructuring obligations at April 30, 2005 (3)	\$ 420	\$ 2,205	\$	\$	\$ 2,625
Accrued restructuring current					\$ 2,010
Accrued restructuring non current					615
					\$ 2,625

- (1) The 2002 Restructuring and 2003 Restructuring and related obligations through April 30, 2003 were recorded in an amount equal to the gross value of the obligation without consideration to the net present value of such obligations, in accordance with EITF No. 94-3 and EITF No. 88-10.
- (2) The 2004 and 2005 Restructuring charges and related obligations were recorded at fair value, after giving effect to the fair value of the related obligations, in accordance with SFAS No. 146.
- (3) The remaining employee termination obligations are expected to be paid through the quarter ending January 31, 2006. The remaining facility-related obligations are expected to be paid through the quarter ending January 31, 2008, with the majority expected to be fully paid by August 2005.



Table of Contents

## AGILE SOFTWARE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9 INCOME TAXES:

The provision for income taxes composed of the following (in thousands):

	Fiscal Year Ended April 30,		
	2005	2004	2003
	_____	_____	_____
Current			
Federal	\$	\$	\$
State		80	32
Foreign	484	1,214	902
	_____	_____	_____
	484	1,294	934
Deferred			
Federal	100		
State	10		
Foreign	120		
	_____	_____	_____
	230		
	_____	_____	_____
Provision for income taxes	\$ 714	\$ 1,294	\$ 934
	_____	_____	_____

The components of our profit (loss) before income tax are as follows (in thousands):

	Fiscal Year Ended April 30,		
	2005	2004	2003
	_____	_____	_____
Domestic	\$ (5,288)	\$ (28,555)	\$ (34,760)
Foreign	(1,192)	5,754	(437)
	_____	_____	_____
	(6,480)	(22,801)	(35,197)
	_____	_____	_____

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

The reconciliation between the amount of income tax benefit determined by applying the applicable U.S. statutory income tax rate of 34% to pre-tax loss and the actual income tax is as follows:

	<b>Fiscal Year Ended April 30,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Federal statutory rate	(34)%	(34)%	(34)%
Deferred tax assets not benefited	33	43	34
Foreign tax rate differential	12	(3)	3
	11%	6%	3%



**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of our deferred tax assets/liabilities are as follows (in thousands):

	<b>As of April 30,</b>	
	<b>2005</b>	<b>2004</b>
Deferred tax assets:		
Depreciation and amortization	\$ 776	\$ 3,447
Reserves and accruals	7,827	13,080
Credit carryforwards	9,743	8,329
Net operating loss carryforwards	99,263	99,781
	<hr/>	<hr/>
Total deferred tax asset	117,609	124,637
Less: Valuation allowance	(117,609)	(124,637)
Deferred tax liabilities:		
Goodwill	(230)	
	<hr/>	<hr/>
Net deferred tax liabilities	\$ (230)	\$
	<hr/>	<hr/>

For financial reporting purposes, we have incurred a loss in each period since our inception. Based on the available objective evidence, including our history of losses, we believe it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, we provided for a full valuation allowance against our net deferred tax assets at April 30, 2005 and 2004.

At April 30, 2005, we had approximately \$235.1 million of federal, \$91.2 million of California and \$41.7 million of foreign net operating loss, respectively. The foreign net operating loss carryforwards are subject to jurisdictional restrictions on their utilization. The net operating loss carryforwards will begin to expire in tax years 2011 and 2005 for federal and California purposes, respectively, if not utilized. Approximately \$80.8 million and \$52.9 million of the federal and state net operating loss carryforward, respectively, are attributable to acquisition related items that if and when the deferred tax asset is realized in future periods will first reduce the carrying value of goodwill, then other long lived intangible assets and then tax expense. In addition, \$57.9 million of federal net operating loss carryforwards are related to employee stock options, the benefit of which will be credited to equity when realized.

At April 30, 2005, we had federal and California research and development tax credit carryforwards of approximately \$4.3 million and \$3.0 million, respectively. These federal tax credit carryforwards begin to expire in tax year 2011, if not utilized. The California tax credit carryforwards do not expire.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Federal and state laws impose substantial restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an ownership change, as defined in Section 382 of the Internal Revenue Code. The Company has not yet determined whether an ownership change occurred. If there is an ownership change, utilization of the net operating loss and tax credit carryforwards could be significantly reduced.

Applicable U.S. income and non-U.S. withholding taxes have not been provided on undistributed earnings of approximately \$2.3 million from our foreign subsidiaries as such earnings are considered to be permanently invested in foreign operations. We are planning to evaluate the impact of the one-time favorable foreign earnings repatriation provision enacted as part of the American Jobs Creation Act of 2004. We may decide to repatriate some level of our foreign earnings in the future; however, until we complete our analysis we cannot reasonably estimate the amount and the tax effect of such repatriation.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10 STOCKHOLDERS EQUITY:**

**Preferred Stock**

We are authorized to issue 10.0 million shares of \$0.001 par value Preferred Stock. Our Board of Directors has the authority to issue the undesignated Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. At April 30, 2005 and 2004, there were no shares issued or outstanding.

***Rights Agreement***

During fiscal 2001, we adopted a Stockholder Rights Plan (the Rights Agreement). Pursuant to the Rights Agreement, rights were distributed at the rate of one right for each share of Common Stock owned by our stockholders of record on April 26, 2001. The rights expire on April 2, 2011 unless extended or earlier redeemed or exchanged by us.

Under the Rights Agreement, each right entitles the registered holder to purchase one one-thousandth of a share of our Series A Preferred stock at a price of \$120.00 per share. The rights will become exercisable only if a person or group acquires beneficial ownership of 15% or more of our Common Stock or commences a tender offer or exchange offer upon consummation of which such person or group would beneficially own 15% or more of our Common Stock.

***Unearned stock compensation***

We record unearned stock compensation when we issue restricted Common Stock or options to purchase Common Stock with exercise prices below fair value at the date of grant. Stock compensation is recognized as an expense over the applicable vesting period of the related options, generally three to five years, using the accelerated method of amortization. In addition, during fiscal 2004, we recorded \$2.5 million of stock compensation expense related to the modification of certain stock option grants for employees we terminated.

Stock compensation related to stock options granted to non-employees is recognized as an expense over the service period using the accelerated method of amortization. We are required to remeasure the fair value of these options at each reporting period prior to vesting and then finally at the vesting dates of these options. As a result, stock compensation for non-employees fluctuates with the movement in the fair value of our Common Stock.

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

During fiscal 2005, 2004 and 2003, we terminated employment of individuals for whom we had recorded unearned stock compensation and had recognized related expense. Upon termination, we record as a recovery within the statements of operations the difference between the actual expense recorded using the accelerated method and the expense that would have been recorded under the straight-line method if the option had vested. Accordingly, during fiscal 2005, 2004 and 2003, we reduced unearned stock compensation, which would have been amortized to future expense, by \$35,000, \$276,000 and \$924,000, respectively.

Amortization of employee and non-employee stock options, and recoveries due to cancellations were as follows (in thousands):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Amortization employees	\$ 951	\$ 4,339	\$ 2,512
Amortization non-employees	(4)	207	892
Recovery employees	(15)	(264)	(772)
	\$ 932	\$ 4,282	\$ 2,632

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Effective May 1, 2005, we adopted SFAS No. 123(R), Share-Based Payment. As a result, the calculation of employee stock compensation expenses and its related amortization will be significantly higher than the amount recorded in fiscal 2005. See Note 1 The Company and Summary of Significant Accounting Policies Recent Accounting Pronouncements and Note 15 Subsequent Events below.

**NOTE 11 EMPLOYEE BENEFIT PLANS:**

**401(k) plan**

Our employee savings and retirement plan is qualified under Section 401 of the Internal Revenue Code. Employees may elect to reduce their current compensation by up to the statutory prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plan. We previously provided 50% match to employee contributions up to \$1,500, but discontinued the matching in early fiscal 2004 before reinstating the matching again in January 2005. We currently provide a 25% match to employee contributions up to \$1,500. Our employees may elect to participate in our 401(k) plan. We made contributions to the 401(k) plan in fiscal 2005, 2004 and 2003 of \$234,000, \$124,000 and \$394,000, respectively.

**Stock Plans**

***1995 Stock option plan***

In May 1995, we adopted the 1995 Stock Option Plan (the 1995 Plan ), which, as amended, provides for the issuance of incentive and nonqualified stock options to our employees, directors and consultants. Under the 1995 Plan, 15.8 million shares have been authorized for issuance as of April 30, 2005. This reserve will be automatically increased on the first day of each fiscal year by the lesser of 1.0 million shares per year, or 5% of the number of shares of our Common Stock which were issued and outstanding on the last day of the preceding fiscal year or a number of shares determined by our Board of Directors. Options granted under the 1995 Plan are for periods not to exceed ten years. Options are exercisable upon grant and generally vest 25% or 20% at the end of the first year and at a rate of 1/36 or 1/48 per month thereafter such that they vest over four or five years, respectively. As of April 30, 2005, there were 941,000 shares available for issuance under the 1995 Plan.

***Employee stock purchase plan***

In June 1999, our Board of Directors adopted the 1999 Employee Stock Purchase Plan (the Purchase Plan ), which became effective on the date of our initial public offering, and reserved 1.0 million shares of Common Stock for issuance thereunder. This reserve was automatically

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

increased to 2.0 million shares on May 1, 2000 and will increase each May 1 thereafter until and including May 1, 2009, by an amount equal to the lesser of 1.0 million shares per year, 2% of the number of shares of Common Stock which are issued and outstanding on the last day of the preceding fiscal year or a number of shares determined by our Board of Directors. Employees generally will be eligible to participate in the Purchase Plan if they are employed by us for more than 20 hours per week and more than five months in a fiscal year end. In general, the price at which the Common Stock is purchased under the Purchase Plan is 85% of the lesser of the fair market value of our Common Stock on the first day of the applicable offering period or on the purchase date. Employees generally may not purchase more than 2,000 shares in a six-month period or stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period.

Under the Purchase Plan, we issued 324,000 shares of Common Stock at an average price per share of \$6.14 in fiscal 2005, 263,000 shares at an average price per share \$6.70 in fiscal 2004 and 333,000 shares of Common Stock at an average price per share of \$5.65 in fiscal 2003. As of April 30, 2005, there were 4.3 million shares available for issuance under the Purchase Plan.

**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****2000 Nonstatutory stock option plan***

In February 2000, we adopted the 2000 Nonstatutory Stock Option Plan (the 2000 Plan), which provides for the issuance of nonqualified stock options to our employees and consultants. Under the 2000 Plan, 19.5 million shares of Common Stock have been authorized for issuance. Our Board of Directors, or a committee designated Board, determines the vesting schedule and term of each grant. As of April 30, 2005, there were 6.0 million shares available for issuance under the 2000 Plan.

***Acceleration of Stock Options***

On April 30, 2005, our Board of Directors approved the acceleration of the vesting of stock options held by employees and officers under its stock option plans with an exercise price of \$6.76 or higher. Options held by non-employee directors were excluded from the vesting acceleration. The closing price of the Company's common stock on April 28, 2005, the last trading day before approval of acceleration, was \$6.58. As a result, the accelerated options are immediately exercisable by employees without any employment-related restriction, but as a condition to the acceleration and to avoid any unintended personal benefits, we also imposed a holding period on shares underlying the accelerated options that will require all optionees to refrain from selling any shares acquired upon the exercise of the options until the date on which such shares would have vested under the options' original vesting terms.

The primary purpose of the accelerated vesting was to reduce future compensation expense associated with the accelerated stock options upon the planned adoption of FASB Statement No. 123R, Share-Based Payment, (SFAS 123R). The Company's Board of Directors believes, based on its consideration of this potential expense savings and the current intrinsic and perceived value of the accelerated stock options, that the acceleration is in the best interests of the Company and its shareholders. The Board of Directors further believes that the acceleration is consistent with possible changes to the Company's overall equity compensation approach, which are expected to include a reduced use of stock options.

The following table summarizes activity under all stock option plans (in thousands, except for per share amount):

	<b>Shares Available for Grant</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at April 30, 2002	8,612	12,010	\$ 13.68
Options authorized	6,000		
Options granted	(8,640)	8,640	6.68
Options exercised		(276)	4.43
Options canceled	5,239	(5,239)	12.60

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Unvested shares repurchased	29		
	<u>          </u>	<u>          </u>	
Balance at April 30, 2003	11,240	15,135	10.22
Options authorized	1,000		
Options granted	(6,229)	6,229	9.59
Options exercised		(1,215)	6.66
Options canceled	2,053	(2,053)	12.02
Unvested shares repurchased	2		
	<u>          </u>	<u>          </u>	
Balance at April 30, 2004	8,066	18,096	10.04
Options authorized	1,000		
Options granted	(5,957)	5,957	7.50
Options exercised		(848)	5.44
Options canceled	3,882	(3,882)	11.16
Unvested shares repurchased	2		
	<u>          </u>	<u>          </u>	
Balance at April 30, 2005	6,993	19,323	\$ 9.24
	<u>          </u>	<u>          </u>	



**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of April 30, 2005, none of the outstanding shares of Common Stock purchased under the stock option plans were subject to repurchase. Upon termination of employment, unvested shares previously purchased under the plans are subject to repurchase by us at a price equal to the exercise price.

The following table summarizes the information about stock options outstanding and exercisable as of April 30, 2005 (shares in thousands, except per share data):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
\$0.01-\$5.11	1,944	7.16	\$ 4.38	1,268	\$ 4.37
5.41- 6.40	1,948	7.31	6.17	999	6.15
6.43- 7.40	2,598	8.97	7.14	2,442	7.17
7.41- 7.57	2,175	9.24	7.54	2,050	7.54
7.58- 8.34	2,194	8.23	8.12	2,194	8.12
8.36- 9.42	2,097	8.27	9.23	2,017	9.24
9.50-10.31	3,061	6.85	9.99	3,003	10.00
10.39-12.10	1,943	8.16	11.01	1,943	11.01
12.41-51.38	1,263	5.32	21.73	1,263	21.73
64.00	100	4.78	64.00	100	64.00
<b>\$0.01-\$64.00</b>	<b>19,323</b>	<b>7.81</b>	<b>\$ 9.24</b>	<b>17,279</b>	<b>\$ 9.63</b>

**NOTE 12 COMMITMENTS AND CONTINGENCIES:****Lease Obligations**

We have entered into non-cancelable operating leases for office space with original terms up to 128 months. The terms of certain operating leases provide for rental payments on a graduated scale. We recognize expense on a straight-line basis over the lease period and have accrued for rent expense incurred but not paid. The future minimum lease payments under these leases at April 30, 2005 are as follows (in thousands):

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

<u>Fiscal Year</u>	<b>Future</b>		<b>Net</b>
	<b>Minimum</b>		<b>Future</b>
	<b>Lease</b>	<b>Less</b>	<b>Minimum</b>
	<b>Payments</b>	<b>Sublease</b>	<b>Lease</b>
		<b>Income</b>	<b>Payments</b>
2006	\$ 4,628	\$ 461	\$ 4,167
2007	2,454	41	2,413
2008	1,286	21	1,265
2009	1,213		1,213
2010	1,092		1,092
Thereafter	1,272		1,272
<b>Total minimum lease payments</b>	<b>\$ 11,945</b>	<b>\$ 523</b>	<b>\$ 11,422</b>

Lease obligations also include \$2.2 million of accrued excess facilities costs. We lease facilities under non-cancelable operating leases that expire through July 2011.

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Rent expense under non-cancelable operating leases was approximately \$2.6 million for fiscal 2005, \$8.7 million, net of sublease rental income of \$166,000, for fiscal 2004, \$4.6 million, net of sublease rental income of \$697,000, for fiscal 2003.

**Indemnification obligations**

Our software license agreements typically provide for indemnification of customers for intellectual property infringement claims. To date, no such claims have been filed against us. We also warrant to customers that software products operate substantially in accordance with specifications. Historically, minimal costs have been incurred related to product warranties, and as such no accruals for warranty costs have been made. In addition, we are obligated to indemnify our officers and directors under the terms of indemnity agreements entered into with them, as well as pursuant to our certificate of incorporation, bylaws, and applicable Delaware law.

**Litigation**

On or around October 25, 2001, a class action lawsuit was filed on behalf of holders of Agile securities in the Southern District of New York against Agile Software Corporation, Bryan D. Stolle and Thomas P. Shanahan (collectively the Agile Defendants ) and others including underwriters Morgan Stanley and Deutsche Bank Securities. The case is now captioned *In re Agile Software, Inc. Initial Public Offering Securities Litigation*, 01 CIV 9413 (SAS), related to *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS).

On or about April 19, 2002, plaintiffs electronically served an amended complaint. The amended complaint is brought purportedly on behalf of all persons who purchased the Company's common stock from August 19, 1999 through December 6, 2000. It names as defendants the Agile Defendants; and several investment banking firms that served as underwriters of the Company's initial public offering and secondary offering. The complaint alleges liability under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement for the offerings did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offerings in exchange for excess commissions paid to the underwriters; and (2) the underwriters had arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The amended complaint also alleges that false analyst reports were issued. No specific damages are claimed.

The Company is aware that similar allegations have been made in other lawsuits filed in the Southern District of New York challenging over 300 other initial public offerings and secondary offerings conducted in 1999 and 2000. Those cases have been consolidated for pretrial purposes before the Honorable Judge Shira A. Scheindlin. On July 15, 2002, the Agile Defendants (as well as all other issuer defendants) filed a motion to dismiss the complaint. On February 19, 2003, the Court ruled on the motions to dismiss. The Court denied the motions to dismiss claims under the Securities Act of 1933 in all but 10 of the cases. In the case involving the Company, these claims were dismissed as to the initial public offering, but not the secondary offering. The Court denied the motion to dismiss the claim under Section 10(a) of the Securities Exchange Act of 1934 against the Company and 184 other issuer defendants, on the basis that the amended complaints in these cases alleged that the respective issuers had acquired companies or conducted follow-on offerings after the initial public offerings. As a consequence, the Court denied the motion to dismiss the Section 20(a) claims against the individual defendants. The motion to dismiss the Section 10(a) claims was granted with

prejudice as to the individual defendants.

The Company has decided to accept a settlement proposal presented to all issuer defendants. In this settlement, plaintiffs will dismiss and release all claims against the Agile Defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO

**Table of Contents**

**AGILE SOFTWARE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

cases, and for the assignment or surrender of control of certain claims the Company may have against the underwriters. The Agile Defendants will not be required to make any cash payments in the settlement, unless the *pro rata* amount paid by the insurers in the settlement exceeds the limits of the insurance coverage, a circumstance which the Company does not believe will occur. The settlement will require approval of the Court, which cannot be assured, after class members are given the opportunity to object to the settlement.

On February 15, 2005, the Court issued an order providing preliminary approval of the settlement except insofar as the settlement would have cut off contractual indemnification claims that underwriters may have against securities issuers, such as the Company. The Court has set a hearing date of January 9, 2006, to consider final approval of the settlement.

We are also subject to various other claims and legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on our business, financial condition or results of operations.

**Other commitment**

In connection with our acquisition of Eigner, we assumed a commitment to purchase consulting services from a vendor to Eigner, which provides for quarterly payments through fiscal 2007 totaling approximately \$713,000.

**NOTE 13 SEGMENT AND GEOGRAPHIC INFORMATION:**

We have one operating segment, product lifecycle management solutions. We market our products in the United States and in foreign countries through our direct sales force and indirect distribution channels.

The following geographic information is presented for fiscal 2005, 2004 and 2003 (in thousands):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenues:			

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

North America	\$ 80,380	\$ 60,327	\$ 52,742
Europe	29,388	24,167	6,307
Asia-Pacific	7,219	11,811	11,460
	<u>116,987</u>	<u>96,305</u>	<u>70,509</u>

No single customer has accounted for 10% or more of total revenues in fiscal 2005, 2004 or 2003.

The following table presents our long-lived assets by geographic location, as of the balance sheet dates (in thousands):

	Fiscal Year Ended April 30,	
	2005	2004
Long-lived assets:		
North America	\$ 8,335	\$ 8,640
Europe	1,401	1,284
Asia-Pacific	331	310
	<u>\$ 10,067</u>	<u>\$ 10,234</u>

**Table of Contents****AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 14 UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL DATA:**

	Quarter				Fiscal Year
	First	Second	Third	Fourth	
<b>Fiscal 2005:</b>					
Total revenues	\$ 26,481	\$ 28,217	\$ 30,280	\$ 32,009	\$ 116,987
Gross margin	17,657	18,863	20,399	\$ 20,691	77,610
Net income (loss) (1)	(3,003)	(92)	290	\$ (4,389)	(7,194)
Net income (loss) per basic and diluted share (1)	\$ (0.06)	\$ (0.00)	\$ 0.01	\$ (0.08)	\$ (0.14)
<b>Fiscal 2004:</b>					
Total revenues	\$ 18,263	\$ 24,668	\$ 26,183	\$ 27,191	\$ 96,305
Gross margin	12,694	14,959	16,088	17,862	61,603
Net loss (2)	(2,675)	(15,671)	(4,038)	(1,711)	(24,095)
Net loss per basic and diluted share (2)	\$ (0.05)	\$ (0.31)	\$ (0.08)	\$ (0.04)	\$ (0.48)

(1) Net loss and net loss per basic and diluted share in the first quarter of fiscal 2005 includes \$2.1 million of restructuring charge.

(2) Net loss and net loss per basic and diluted share in the second quarter of fiscal 2004 includes \$8.7 million of restructuring charge.

**NOTE 15 SUBSEQUENT EVENTS**

In December 2004 FASB issued SFAS 123R as a revision of FAS No. 123, as amended, Accounting for Stock-Based Compensation. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, generally eliminating the ability to use the intrinsic value method of accounting for employee stock compensation. Agile adopted SFAS 123R effective May 1, 2005. As a result, commencing with its financial reports for the period ending July 31, 2005, Agile will be required to recognize compensation expense for share-based payments made to service providers based on the fair value as of the date of grant. For Agile, the provisions of SFAS 123R would not have become effective until May 1, 2006, but for its election to adopt the statement earlier. FASB generally encourages early adoption.

In July 2005, Agile extended an offering to exchange outstanding options with an exercise price of \$6.76 per share or greater for new options with an exercise price of \$0.001. The exchange ratio in the offer is one new option share for each three old option shares tendered for exchange. Participation in the offer is voluntary, and was limited to current employees. Non-employee members of the board of directors were not eligible to participate. As of June 30, 2005, there were options to purchase 19,458,000 shares outstanding, of which options to purchase 13,939,052 shares were eligible for exchange in the exchange offer. For financial accounting purposes, Agile will record a compensation expense of up to approximately \$5 million in connection with the exchange, assuming all eligible options are exchanged. The actual number of new options that will be issued, and the actual accounting charge, will depend upon the participation rate in the exchange offer.





**Table of Contents****Schedule II Consolidated Valuation and Qualifying Accounts**

	<b>Balance at Beginning of Period</b>	<b>Provision</b>	<b>Deduction</b>	<b>Balance at End of Period</b>
(in thousands)				
For the Year Ended April 30, 2003				
Allowance for doubtful accounts	1,112	200	154	1,158
Allowance for deferred tax assets	55,723	16,999		72,722
	<u>56,835</u>	<u>17,199</u>	<u>154</u>	<u>73,880</u>
For the Year Ended April 30, 2004				
Allowance for doubtful accounts	1,158	550	196	1,512
Allowance for deferred tax assets	72,722	51,915		124,637
	<u>\$ 73,880</u>	<u>\$ 52,465</u>	<u>\$ 196</u>	<u>\$ 126,149</u>
For the Year Ended April 30, 2005				
Allowance for doubtful accounts	1,512	586	206	1,892
Allowance for deferred tax assets	124,637		7,028	117,609
	<u>\$ 126,149</u>	<u>\$ 586</u>	<u>\$ 7,234</u>	<u>\$ 119,501</u>

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

None

**ITEM 9A. CONTROLS AND PROCEDURES****Limitations on the Effectiveness of Controls**

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. 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, within a company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

due to error or fraud may occur and not be detected. Notwithstanding these limitations, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Our CEO and CFO have concluded that our controls and procedures are, in fact, effective at the reasonable assurance level.

## **Table of Contents**

### **Conclusions Regarding Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, as of April 30, 2005, concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in this report was recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms for this report.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is designed 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.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of April 30, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of April 30, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

### **Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during the fourth quarter of fiscal 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART III**

Certain information required by Part III is omitted from this annual report as we will file a definitive Proxy Statement for our 2005 Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of fiscal year covered by this Report, and certain information included in the Proxy Statement is incorporated herein by reference.

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF AGILE SOFTWARE CORPORATION**

See the information set forth in the section entitled "Proposal No. 1 Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in Agile's Proxy Statement for the 2005 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of Agile's fiscal year ended April 30, 2005 (the "2005 Proxy Statement"), which is incorporated herein by reference.

*Code of Business Conduct and Ethics*

We have adopted the Agile Software Corporation Code of Business Conduct and Ethics, a code of ethics with which every person who works for us is expected to comply. The Code of Business Conduct and Ethics is publicly available on our website under Investor Information at <http://www.agile.com/corporate/codeofconduct.asp>

If any substantive amendments are made to the Code of Business Conduct and Ethics, or we grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of the amendment or waiver on our website or in a report on Form 8-K, as required by applicable laws.

**ITEM 11. EXECUTIVE COMPENSATION**

See the information set forth in the section entitled "Equity Compensation and Other Matters" in the 2005 Proxy Statement, which is incorporated herein by reference.

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

See the information set forth in the section entitled "Stock Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the 2005 Proxy Statement, which is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

See the information set forth in the section entitled "Certain Relationships and Related Transactions" in the 2005 Proxy Statement, which is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

See the information set forth in the section entitled "Proposal 2 Ratification of Appointment of Registered Independent Public Accounting Firm" in the 2005 Proxy Statement, which is incorporated herein by reference.

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements

See Item 8 of this Form 10-K.

(b). Exhibits

The following are filed as part of, or incorporated by reference into, this Form 10-K.

- 3.1 Certificate of Incorporation of Agile Software Corporation, as amended to date (1)
- 3.2 Certificate of Elimination and Certificate of Amendment (1)
- 3.3 Amended and Restated Bylaws of Agile Software Corporation (2)
- 4.1 Specimen Common Stock Certificate (1)
- 4.2 Form of Rights Agreement between Agile Software Corporation and Fleet National Bank, as Rights Agent (including as Exhibit A the form of Certificate of Designation, Preferences and Rights of the Terms of the Series A Preferred Stock, as Exhibit B the form of Right Certificate, and as Exhibit C the Summary of Terms of Rights Agreement) (2)
- 10.1\* Amended and Restated 1995 Stock Option Plan (1)
- 10.2\* 1999 Employee Stock Purchase Plan (1)
- 10.3\* 2000 Nonstatutory Stock Option Plan (3)
- 10.4\* Form of Option Agreement and Related Restricted Stock Agreement
- 10.5\* Form of Indemnity Agreement between Agile Software Corporation and its directors and officers (1)
- 10.6\* Executive Retention and Severance Plan adopted by the Company on October 17, 2002 and entered into with its executive officers and certain key employees, together with forms of Participation Agreement and Release of Claims Agreement (4)
- 10.7 Sublease dated May 9, 2003 made by and between Nortel Networks Inc. (as successor in interest to Alteon Web Systems), as sub landlord, and Agile Software Corporation as subtenant (5)
- 21.1 Material Subsidiaries of Registrant
- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
- 24.1 Power of Attorney included on the signature page
- 31.1 Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2

## Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

- (1) Incorporated by reference to Agile s Registration Statement on Form S-1 (Reg. No. 333-81387), declared effective on August 19, 1999.
- (2) Incorporated by reference to Agile s Current Report on Form 8-K (file No. 000-27071), filed on April 26, 2001.
- (3) Incorporated by reference to Agile s Form SC TO-I, filed on October 18, 2001.

**Table of Contents**

- (4) Incorporated by reference to Agile's Quarterly Report on Form 10-Q (file No. 000-27071), filed on December 13, 2002.
- (5) Incorporated by reference to Agile's Annual Report on Form 10-K (file No. 000-27071), filed on July 28, 2003.
  - \* Management contract or compensatory plan.

(c) Financial Statement Schedules

Schedule II Consolidated Valuation and Qualifying Accounts.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is included in the Financial Statements or notes thereto.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirement of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

AGILE SOFTWARE CORPORATION

By:                     /s/ BRYAN D. STOLLE

**Bryan D. Stolle**

**Chief Executive Officer**

Date: July 13, 2005

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below hereby constitutes and appoints Bryan D. Stolle and Carolyn V. Aver, each of them acting individually, as his or her attorney-in-fact, each with the full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming our signatures as they may be signed by our said attorney-in-fact and any and all amendments to this Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below 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/ BRYAN D. STOLLE</u>	Chairman of the Board,	July 13, 2005
<b>Bryan D. Stolle</b>	Chief Executive Officer, and Director (Principal Executive Officer)	
<u>                    /s/ CAROLYN V. AVER</u>	Executive Vice President and Chief Financial Officer, (Principal Financial and Accounting Officer)	July 13, 2005
<b>Carolyn V. Aver</b>		
<u>                    /s/ KLAUS-DIETER LAIDIG</u>	Director	July 4, 2005
<b>Klaus-Dieter Laidig</b>		

Edgar Filing: AGILE SOFTWARE CORP - Form 10-K

<i>/s/</i> RON E. F. CODD	Director	July 13, 2005
<hr/>		
<b>Ron E. F. Codd</b>		
<i>/s/</i> NANCY J. SCHOENDORF	Director	July 9, 2005
<hr/>		
<b>Nancy J. Schoendorf</b>		
<i>/s/</i> PAUL WAHL	Director	July 13, 2005
<hr/>		
<b>Paul Wahl</b>		
<hr/>		
	Director	
<b>Gareth Chang</b>		

**Table of Contents**

**EXHIBIT INDEX**

3.1 Certificate of Incorporation of Agile Software Corporation, as amended to date. (1)

3.2 Certificate of Elimination and Certificate of Amendment. (1)

3.3 Amended and Restated Bylaws of Agile Software Corporation. (2)

4.1 Specimen Common Stock Certificate. (1)

4.2 Form of Rights Agreement between Agile Software Corporation and Fleet National Bank, as Rights Agent (including as Exhibit A the form of Certificate of Designation, Preferences and Rights of the Terms of the Series A Preferred Stock, as Exhibit B the form of Right Certificate, and as Exhibit C the Summary of Terms of Rights Agreement). (2)

10.1\* Amended and Restated 1995 Stock Option Plan (1)

10.2\* 1999 Employee Stock Purchase Plan (1)

10.3\* 2000 Nonstatutory Stock Option Plan (3)

10.4\* Form of Option Agreement and Related Restricted Stock Agreement

10.5\* Form of Indemnity Agreement between Agile Software Corporation and its directors and officers (1)

10.6\* Executive Retention and Severance Plan adopted by the Company on October 17, 2002 and entered into with its executive officers and certain key employees, together with forms of Participation Agreement and Release of Claims Agreement (4)

10.7 Sublease dated May 9, 2003 made by and between Nortel Networks Inc. (as successor in interest to Alteon Web Systems), as sub landlord, and Agile Software Corporation as subtenant (5)

21.1 Material Subsidiaries of Registrant

23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.

24.1 Power of Attorney included on the signature page

31.1 Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

(1) Incorporated by reference to Agile s Registration Statement on Form S-1 (Reg. No. 333-81387), declared effective on August 19, 1999.

(2) Incorporated by reference to Agile s Current Report on Form 8-K (file No. 000-27071), filed on April 26, 2001.

(3) Incorporated by reference to Agile s Form SC TO-I filed on October 18, 2001.

(4) Incorporated by reference to Agile s Quarterly Report on Form 10-Q (file No. 000-27071), filed on December 13, 2002.

(5) Incorporated by reference to Agile s Annual Report on Form 10-K (file No. 000-27071), filed on July 28, 2003.

\* Management contract or compensatory plan.