AGILE SOFTWARE CORP
Form 10-Q
March 14, 2003
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2003

OR

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

For the transition period from ____________ to ____________

000-27071

(Commission File Number)

AGILE SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**77-0397905**
(State of incorporation)	**(IRS Employer Identification Number)**

One Almaden Boulevard, San Jose, Ca 95113-2253

(Address of principal executive offices, including ZIP code)

(408) 975-3900

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

The number of shares outstanding of the Registrant s Common Stock as of January 31, 2003 was 48,906,464.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AGILE SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	January 31, 2003	April 30, 2002(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 149,460	$ 123,374
Short-term investments	112,307	162,175
Accounts receivable, net of allowance for doubtful accounts of $1,078 and $1,112 as of January 31, 2003 and April 30, 2002, respectively	8,813	6,538
Other current assets	8,082	8,052
Total current assets	278,662	300,139
Property and equipment, net	8,406	10,887
Other assets	3,978	8,038
	$ 291,046	$ 319,064
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,614	$ 5,113
Accrued expenses and other liabilities	14,211	14,120
Deferred revenue	13,597	13,200
Total current liabilities	30,422	32,433
Accrued restructuring, non-current	2,987	
	33,409	32,433
Stockholders equity:		
Common Stock	49	48
Additional paid-in capital	515,172	512,349

Notes receivable from stockholders	(218)	(249)
Unearned stock compensation	(2,814)	(4,004)
Accumulated other comprehensive income	142	92
Accumulated deficit	(254,694)	(221,605)
Total stockholders equity	257,637	286,631
	$ 291,046	$ 319,064

(1) The April 30, 2002 consolidated balance sheet information has been derived from the audited financial statements at that date.

See accompanying notes to these condensed consolidated financial statements.

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AGILE SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	**2002**	**2003**	**2002**
Revenues:				
License	$ 7,324	$ 9,914	$ 21,792	$ 38,984
Professional services and maintenance	10,554	8,133	29,613	23,596
Total revenues	17,878	18,047	51,405	62,580
Cost of revenues:				
License	605	871	1,904	2,523
Professional services and maintenance	4,415	3,182	13,787	10,518
Stock compensation (recovery)	9	(63)	37	(51)
Total cost of revenues	5,029	3,990	15,728	12,990
Gross profit	12,849	14,057	35,677	49,590
Operating expenses:				
Sales and marketing:				
Other sales and marketing	9,752	12,852	32,141	42,208
Stock compensation (recovery)	751	(442)	1,683	24
Research and development:				
Other research and development	5,613	8,691	20,777	25,007
Stock compensation (recovery)	51	(266)	175	(199)
General and administrative:				
Other general and administrative	1,825	1,375	5,203	5,425
Stock compensation (recovery)	27	95	101	(197)
Acquired in-process technology	300		300	
Amortization of goodwill and other intangible assets		189		567
Merger related benefit				(835)
Restructuring and other charges			7,836	
Total operating expenses	18,319	22,494	68,216	72,000
Loss from operations	(5,470)	(8,437)	(32,539)	(22,410)
Interest and other income, net	1,196	2,213	3,863	8,280
Impairment of equity investments	(1,113)		(3,673)	(1,446)

Loss before income taxes	(5,387)	(6,224)	(32,349)	(15,576)
Provision for income taxes	301	86	740	243
Net loss	$ (5,688)	$ (6,310)	$ (33,089)	$ (15,819)
Net loss per share:				
Basic and diluted	$ (0.12)	$ (0.13)	$ (0.68)	$ (0.33)
Weighted average shares	48,591	47,664	48,383	47,270

See accompanying notes to these condensed consolidated financial statements.

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AGILE SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended January 31,	
	2003	**2002**
Cash flows from operating activities:		
Net loss	$ (33,089)	$ (15,819)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	100	399
Depreciation and amortization	5,982	7,661
Amortization of stock compensation (recovery)	1,996	(423)
Acquired in-process technology	300	
Impairment of equity investments	3,673	1,446
Restructuring and other charges	7,836	
Changes in operating assets and liabilities net of effect of business combination:		
Accounts receivable, net	(2,370)	8,644
Other assets, current and non-current	(766)	(1,757)
Accounts payable	(2,526)	(7,681)
Accrued expenses and other liabilities	(1,979)	(885)
Deferred revenue	397	(5,781)
Net cash used in operating activities	(20,446)	(14,196)
Cash flows from investing activities:		
Purchases of investments	(127,537)	(267,515)
Proceeds from maturities and sales of investments	177,455	250,587
Purchases of privately-held investments		(150)
Cash paid in business combination, net of cash acquired	(1,783)	
Acquisition of property and equipment	(3,652)	(6,177)
Net cash provided by (used in) investing activities	44,483	(23,255)
Cash flows from financing activities:		
Repayment of capital lease obligations		(393)
Proceeds from issuance of common stock, net of repurchases	2,018	4,854
Repayment of notes receivable from stockholders	31	356
Net cash provided by financing activities	2,049	4,817
Net decrease in cash and cash equivalents	26,086	(32,634)

Cash and cash equivalents at beginning of period	123,374	139,917
Cash and cash equivalents at end of period	$ 149,460	$ 107,283
Non-cash investing and financing activities:		
Additions (reductions) in unearned stock compensation	$ 806	$ (4,569)

See accompanying notes to these condensed consolidated financial statements.

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AGILE SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Agile Software Corporation and its subsidiaries (Agile or the Company) have been prepared by us and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending April 30, 2003. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with the Securities and Exchange Commission s rules and regulations. These unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2002, included in our Annual Report on Form 10-K filed on July 26, 2002 with the Securities and Exchange Commission.

Certain reclassifications have been made to prior year balances in order to conform to the current period presentation. These classifications had no impact on previously reported net loss or cash flows.

2. Concentrations of Credit Risk and Significant Customers

The following table shows the percentage of total revenue and accounts receivable generated by each of the three customers who accounted for more than 10% of our total revenue during the stated period:

	% of Total Revenues				% of Accounts Receivable as of	
	Three Months Ended January 31,		Nine Months Ended January 31,		January 31,	April 30,
	2003	2002	2003	2002	2003	2002
Customer A	16%				14%	
Customer B	10%		11%		11%	
Customer C		11%				

3. Revenue Recognition

We recognize revenues in accordance with SOP 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions.

We derive revenues from the license of software products under software license agreements and from the delivery of professional services and maintenance services. When contracts contain multiple elements, and vendor-specific objective evidence of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the residual method prescribed by SOP 98-9. Multiple element arrangements generally include post-contract customer support (PCS or maintenance), software products, and in some cases, services. Vendor-specific objective evidence of fair value is generally determined by sales of the individual element or service to other customers, or with respect to PCS, through a renewal rate specified in the related arrangement or by sales of the element when sold separately.

License revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectibility is probable, and delivery of the software products have occurred. In addition, if the arrangement provides terms for customer acceptance of the software product, recognition of the revenue is deferred until expiration of the acceptance period. In the event we grant our customers the right to specified upgrades, recognition of the license revenue is deferred until delivery of the specified upgrade. If vendor-specific objective evidence of fair value exists for the specified upgrade, then an amount equal to this fair value is deferred. If vendor-specific objective evidence of fair value does not exist, then recognition of the entire license fee is deferred until the delivery of the specified upgrade. In instances where vendor obligations remain, recognition of revenues is deferred until the obligation has been satisfied.

Revenues from professional services consist of consulting services and training. Consulting services are not considered essential to the functionality of the other elements of the arrangement and are accounted for as a separate element. Consulting services are recognized as the services are performed for time and materials contracts or upon achievement of stated milestones

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on fixed price contracts. A provision for estimated losses on fixed-price consulting services contracts is recognized in the period in which the loss becomes known. Training revenues are recognized as the services are performed.

Maintenance revenues are recognized ratably over the term of the maintenance contract, which is generally twelve months. Maintenance contracts include the right to unspecified upgrades on a when-and-if available basis, and ongoing support.

4. Net Loss Per Share

Basic net loss per share is computed by dividing the net loss attributable to holders of common stock for the period by the weighted average number of shares of common stock outstanding during the period, less unvested restricted common stock. 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 on net loss per share is anti-dilutive. Potential shares of common stock consist of unvested restricted common stock, incremental common shares issuable upon the exercise of stock options and a warrant.

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):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Numerator:				
Net loss	$ (5,688)	$ (6,310)	$ (33,089)	$ (15,819)
Denominator:				
Weighted average shares	48,786	48,100	48,614	47,878
Weighted average unvested shares of Common Stock subject to repurchase	(195)	(436)	(231)	(608)
Denominator for basic and diluted calculation	48,591	47,664	48,383	47,270
Net loss per share:				
Basic and diluted	$ (0.12)	$ (0.13)	$ (0.68)	$ (0.33)

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 January 31,

	2003	2002
Warrant to purchase Common Stock	50	50
Unvested Common Stock subject to repurchase	240	411
Options to purchase Common Stock	16,350	11,075
	16,640	11,536

In connection with the company s voluntary stock option exchange program (Note 11), on November 19, 2001, options to purchase approximately 4 million shares were cancelled. The number of options as of January 31, 2002 reflect these cancellations. On May 31, 2002, options to purchase approximately 2.5 million shares were granted to employees to replace the shares cancelled on November 19, 2001. The number of stock options as of January 31, 2003 reflect these replacement grants, plus additional stock options granted in the normal course of business.

5. Comprehensive Loss

Our comprehensive loss, which encompasses net loss and unrealized gains or losses on short-term investments classified as available-for-sale securities, is as follows:

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	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Net loss	$ (5,688)	$ (6,310)	$ (33,089)	$ (15,819)
Unrealized gains (loss) on available-for-sale securities	(230)	(436)	50	190
Comprehensive loss	$ (5,918)	$ (6,746)	$ (33,039)	$ (15,629)

6. Segment Information

We operate in a single business segment. Revenues from foreign customers were approximately 18% and 17% of total revenues during the three months ended January 31, 2003 and 2002, respectively, and approximately 23% and 14% of total revenues during the nine months ended January 31, 2003 and 2002, respectively. Our international revenues were derived primarily from sales to customers located in Japan, Europe and Asia Pacific. Revenues are attributed to geographic locations based upon the location of the customer.

7. Stock Compensation

Stock compensation expense is being recognized over the applicable vesting period of the options, generally five years, using the accelerated method of amortization prescribed by Financial Accounting Standards Board (FASB) Interpretation No. 28. If a stock option is 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 a recovery.

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 FASB Interpretation No. 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 vested portion of the option. As a result, the stock compensation expense fluctuates with the movement in the fair market value of our common stock.

During the three and nine months ended January 31, 2003 and 2002, respectively, we terminated employment of individuals for whom we had recorded deferred stock compensation and had recognized related expense on unvested options using an accelerated method. Accordingly, during the three months ended January 31, 2003 and 2002, we reduced unearned stock compensation, which would have been amortized to future expense, of $264,000 and $1.9 million, respectively. For the nine-month periods ended January 31, 2003 and 2002, we reduced unearned compensation expense by $809,000 and $3.9 million, respectively.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Amortization employees	$ 915	$ 711	$ 1,937	$ 2,542
Amortization non-employees	176	413	723	435
Recovery employees	(253)	(1,800)	(664)	(3,400)
Net amortization (recovery)	$ 838	$ (676)	$ 1,996	$ (423)

8. Short-term Investments

Our short-term investments are comprised of U.S., state, and municipal government obligations; corporate debt securities; and foreign debt securities. Investments with maturities of less than one year are considered short-term and are carried at fair value. All investments are held in the company s name and custodies with one major financial institution. The specific identification method is used to determine the cost of securities. At January 31, 2003 and April 30, 2002, all of our

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investments were classified as short-term and available for sale. Unrealized gains and losses on these investments are included in accumulated other comprehensive income. Realized gains and losses and declines in value considered to be other than temporary are included in interest and other expense.

9. Other Assets

Other assets include investments in equity instruments of privately held companies, which amounted to $3.5 million at April 30, 2002. These investments, accounted for using the cost method and consisting primarily of investments in a venture fund and preferred stock of a privately-held company, are reviewed each reporting period for declines considered other-than-temporary, and, if appropriate, written down to their estimated fair value.

During the nine months ended January 31, 2003 and 2002, we reduced the carrying amounts for these investments to their estimated fair value via charges to other income (expense). Those charges totaled $3.7 million and $1.4 million for the nine months ended January 31, 2003 and 2002, respectively. As of January 31, 2003, our balance of investments in equity instruments of privately-held companies had been written down to zero.

Other assets also include prepaid software license fees paid to third party software developers for technology integrated into our products or sold together with our products. These prepaid software license fees amounted to $3.0 million and $4.7 million as of January 31, 2003 and April 30, 2002, respectively. We evaluate the future realization of such costs quarterly and charges to operations any amounts that we deem unlikely to be fully realized through future sales of the related software products. Such prepaid software license fees are classified as current and noncurrent assets based upon estimated product release date.

During the three months ended October 31, 2002, we determined that the carrying value of certain prepaid software license fees exceeded their net realizable value. The determination was based upon a revised forecast of future revenues prepared during the quarter showing lower than anticipated sales for the products in which the third party licensed software was embedded. Accordingly, a charge of approximately $2.7 million was included in the statement of operations under restructuring and other charges for the three months ended October 31, 2002 to reflect the write-down of the prepaid license fees to their estimated net realizable value.

10. Restructuring

During the three months ended April 30, 2002, we restructured our operations in order to reduce expenses and align our operations and cost structure with existing market conditions. The actions taken included a reduction of approximately 15% of worldwide headcount, or 75 employees, across all functions. The restructuring charge incurred as a result of the actions taken included facility and lease costs related to the closure of certain excess facilities and activities that we exited.

During the three months ended October 31, 2002, we recorded a restructuring charge of $7.8 million, which consisted of $4.6 million for the consolidation of excess leased space, $485,000 related to the write-down of excess fixed assets, and $2.7 million of charges related to the write down of additional prepaid software license fees used in our products.

The significant activity within and components of the restructuring and other charges as of January 31, 2003 are as follows (in thousands):

	Accrual at April 30, 2002	Restructuring Charge Nine Months Ended January 31, 2003	Non-cash Charges	Cash Payments	Accrual at January 31, 2003
Workforce reductions	$ 1,982	$	$	$ (1,982)	$
Facilities costs	729	4,657		(621)	4,765
Equipment and other asset write-offs		485	(485)		
Subtotal	2,711	5,142	(485)	(2,603)	4,765
Other charges Prepaid license fees		2,694	(2,694)		
Total	$ 2,711	$ 7,836	$ (3,179)	$ (2,603)	$ 4,765
Included in accrued expenses and other liabilities					$ 1,778
Included in accrued restructuring, non-current					2,987
					$ 4,765

The remaining cash payments relating to facilities and leases are expected to be paid through March 2007.

Facilities costs of approximately $4.7 million that were included in the restructuring charge above generally represent lease commitment costs for office space that we no longer occupy. Also included in the restructuring charge during the three months ended October 31, 2002 is a reduction of estimated sublease income related to excess facilities identified in the three months ended April 30, 2002, due to further deterioration of the real estate market in the San Jose area.

Equipment and other write-offs of $485,000 related principally to write-off of excess fixed assets resulting from the restructuring plan.

Other charges of $2.7 million related to the impairment of certain prepaid software license fees for which we determined that the carrying value of the non-refundable prepaid license fees exceeded its net realizable value as a result of revised forecasts of future revenues showing lower than anticipated sales for the products in which the third party licensed software was embedded.

11. Option Exchange Program

On October 18, 2001, we announced a voluntary stock option exchange program for our employees. Under the program, our option holders had the opportunity to cancel outstanding options with an exercise price in excess of $15.00 per share in exchange for new options to be granted at a future date that was at least six months and one day after the date of cancellation, which was November 19, 2001. The number of shares of common stock subject to the new options was equal to 75% of the number subject to the exchanged options. Under the exchange program, options to purchase 4.0 million shares of our common stock were tendered by employees and cancelled. On May 31, 2002, we issued options to purchase approximately 2.5 million shares of common stock to replace the tendered options. In addition, a certain number of employees terminated their employment in the intervening six months, and were not granted replacement options. The exercise price of each replacement option is $8.34 per share, which was the fair market value of our common stock on May 31, 2002, represented by the closing sale price on such date on the Nasdaq National Market. The replacement options have terms and conditions that are substantially the same as those of the canceled options. The exchange program did not result in any additional compensation charges or variable plan accounting. Members of our Board of Directors did not participate in this program.

12. 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 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 our 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 our 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.

We are 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 us, 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 us 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 their 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

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granted with prejudice as to the individual defendants. We believe that the allegations against the Agile Defendants in the litigation are without merit, and intend to defend them vigorously.

We are also subject to various other claims and legal actions arising in the ordinary course of business. In the opinion of management, 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.

13. Acquisition

On December 20, 2002, we acquired oneREV, Inc., a Delaware privately held corporation (oneREV) in a transaction accounted for as a purchase business combination. Purchase consideration was $1.7 million in cash in exchange for all of the outstanding shares of capital stock of oneREV. In addition, we incurred $196,500 in acquisition expenses, including legal fees and other direct transaction costs resulting in an adjusted aggregate purchase price of $1.9 million.

The total acquisition price of $1.9 million was allocated to the assets acquired, including tangible and intangible assets, and liabilities assumed based upon the fair value of such assets and liabilities on the date of the acquisition. The total purchase price of the acquisition has been allocated to assets and liabilities based on management s estimates of their fair value and an independent appraisal of certain intangible assets, with the excess costs over the net assets acquired allocated to goodwill. The aggregate purchase price was allocated as follows (in thousands):

Net tangible assets	$ 82
In-process technology	300
Existing technology	700
Goodwill	840
	$ 1,922

The net tangible assets consist primarily of cash, accounts receivable, property and equipment, accounts payable and other liabilities, and notes payable. The valuation of the intangible assets has been determined using management s assumptions as to future revenue and a valuation report from an independent appraiser. The amount allocated to in-process technology was determined through established valuation techniques in the technology and software industries and were expensed upon acquisition because no future alternative uses existed for the technology. Research and development costs to bring the products acquired from oneREV to technological feasibility are not expected to be significant. The amount allocated to existing technology is being amortized over the estimated useful life of five years. The purchase price in excess of identified tangible and intangible assets is allocated to goodwill.

The amount of the purchase consideration was determined through arm s-length negotiation. An affiliate of Mohr Davidow Ventures originally invested approximately $7,245,000 in oneREV as the major stockholder of oneREV, and received $1,335,937.40 as its portion of the purchase consideration upon the acquisition of oneREV by Agile, fifteen percent of which will be held in escrow for 180 days to satisfy any claims that Agile may have against oneREV for breach of representations and warranties made under the agreement. In addition, an affiliate of Mohr Davidow Ventures is the holder of 2,713,498 shares of common stock of Agile. Nancy Schoendorf, a general partner of Mohr Davidow Ventures, was a member of the Board of Directors of oneREV and is a member of the Board of Directors of Agile. Erik Straser, a general partner of Mohr Davidow Ventures, was a member of the board of directors of oneREV. Mr. Bryan D. Stolle, Chief Executive Officer and Chairman of the Board of Agile, originally invested approximately $100,000 in exchange for shares of preferred stock of oneREV, and was

formerly a member of the Board of Directors of oneREV. Mr. Stolle received $18,749.98 as his portion of the purchase consideration upon the acquisition of oneREV by Agile, fifteen percent of which will be held in escrow for 180 days to satisfy any claims that Agile may have against oneREV of breach of representations and warranties made under the Agreement. Neither Ms. Schoendorf nor Mr. Stolle participated in negotiations concerning the amount of purchase consideration payable to oneREV stockholders.

Pro forma results (unaudited)

The following table presents the unaudited pro forma condensed consolidated results of operations of the Company for the three and nine months ended January 31, 2003 and 2002, combined with the results of operations of oneREV for the three and nine months ended January 31, 2003 and 2002. The unaudited pro forma condensed consolidated results of operations gives effect to this acquisition as if it had occurred at the beginning of each period (in thousands, except per share amounts):

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	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Pro forma net revenue	$ 17,915	$ 18,047	$ 51,477	$ 62,583
Pro forma net loss	$ (6,785)	$ (8,021)	$ (36,634)	$ (19,950)
Pro forma net loss per share	$ (0.14)	$ (0.17)	$ (0.76)	$ (0.42)
Pro forma shares outstanding	48,613	47,697	48,412	47,303

These results are presented for illustrative purposes only and are not necessarily indicative of the actual operating results or financial position that would have occurred if the transaction had been consummated at the beginning of each period.

14. Goodwill and Intangible Assets

Effective May 1, 2002, we adopted Statement of Financial Accounting Standard (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, our ability to amortize goodwill ceased effective May 1, 2002 and recorded goodwill will be tested for impairment as of April 30, 2003 by comparing the fair value of Agile Software Corporation, as determined by its implied market capitalization, to its consolidated carrying value including recorded goodwill. An impairment test is required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Accordingly, on an ongoing basis (absent any impairment indicators), we expect to perform our impairment testing during the three months ended April 30 of each year, which is the fourth quarter of our fiscal year.

In connection with adopting SFAS No. 142, we also reassessed the useful lives and the classification of our identifiable intangible assets. Based upon this assessment, we reclassified $2.1 million of its intangible assets, representing acquired workforce, to goodwill and ceased amortization of such amounts. As of April 30, 2002, we had gross intangible assets of $2.2 million and related accumulated amortization of approximately $1.9 million. Prospectively, we will not record any amortization related to the intangible assets existing at April 30, 2002. Based on our initial impairment test, we determined that none of the recorded goodwill was impaired. Impairment adjustments recognized after adoption of SFAS No. 142, if any, are required to be recognized as operating expenses.

Actual results of operations for the three and nine months ended January 31, 2003 and 2002 and pro forma results of operations for the three and nine months ended January 31, 2003 and 2002, had we applied the provisions of SFAS No. 142 in those periods, are as follows (in thousands, except per share amounts):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Net loss as reported	$ (5,688)	$ (6,310)	$ (33,089)	$ (15,819)
Add: amortization of goodwill and acquired workforce		189		567
Pro forma net loss	$ (5,688)	$ (6,121)	$ (33,089)	$ (15,252)

Net loss per share as reported	$ (0.12)	$ (0.13)	$ (0.68)	$ (0.33)
Pro forma net loss per share	$ (0.12)	$ (0.13)	$ (0.68)	$ (0.32)

15. Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company for

all financial statements issued in fiscal 2003. The adoption of SFAS No. 144 did not have a material impact on its financial position or results of operations.

On July 29, 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses significant issues relating to the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities, and nullifies the guidance in Emerging Issues Task Force (EITF) Issue No. 94-3 (EITF 94-3), Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.) SFAS No. 146 requires that the initial liability for costs associated with exit and disposal activities be measured at fair value and prohibits the recognition of a liability based solely on an entity s commitment to a plan, which, in turn, nullifies EITF 94-3. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. Retroactive application of FAS 146 is prohibited and, accordingly, liabilities recognized prior to the initial application of FAS 146 should continue to be accounted for in accordance with EITF 94-3 or other applicable preexisting guidance.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires that a liability be recorded in the guarantor s balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity s product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company believes that the adoption of this standard will have no material impact on its financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair market value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additional, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15,2002. The interim disclosure requirements are effective for interim periods beginning after December 15, 2002. The Company believes that the adoption of this standard will have no material impact on its financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. This interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities that possess certain characteristics. The Interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. This Interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. We do not have any ownership in any variable interest entities as of January 31, 2003. We will apply the consolidation requirement of FIN 46 in future periods if we should own any interest in any variable interest entity.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this discussion contains 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. 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 inte

forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed in Other Factors Affecting Operating Results and Liquidity and Capital Resources below, as well as the section included in our Annual Report on Form 10-K filed on July 26, 2002 with the Securities and Exchange Commission entitled Other Factors Affecting Operating Results. The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto appearing elsewhere in this report.

Overview

We develop and market product lifecycle management solutions to help companies work internally and with their suppliers and customers to build better, more profitable products faster. We believe that our products reduce time-to-volume and cost of goods sold and improve customer responsiveness and product quality. Our solutions manage the system of record for a company s products and provide business applications for critical communication and collaboration about the product record among manufacturers, outsourced manufacturing providers, suppliers and customers. Our products help companies manage complex supply chains, as well as globally dispersed engineering, manufacturing, sales and distribution functions. We were founded in March 1995 and in June 1996 we began selling our first products and delivering related services. We currently license our products in the United States through our direct sales force, and in Japan, Europe and Asia-Pacific both through our direct sales force and distributors. International revenues have been growing as we have expanded our international sales force. Revenues from customers located outside of North America were approximately 18% of total revenues during the three months ended January 31, 2003 compared to 17% of total revenues during the three months ended January 31, 2002, and 23% of total revenues during the nine months ended January 31, 2003 compared to 14% of total revenues during the nine months ended January 31, 2002. The increase in revenue from foreign customers as a percentage of total revenues was due primarily to increases in sales to customers located in Japan, and to a lesser extent, Europe.

Customers who license our software products receive a license for our application servers, one or more user licenses, and adapters provided by third parties to connect with the customers other existing enterprise systems. Our customers generally purchase a limited number of user licenses at the time of the initial license of the software products and may purchase additional user licenses as needed. Customers may purchase implementation services from us. These professional services are provided on a fixed-price or time-and-materials basis and may also be provided by third-party consulting organizations. We also offer fee-based training services to our customers.

During the three months ended October 31, 2002, we recorded a restructuring charge of $7.8 million, which consisted of $4.6 million primarily for the consolidation of excess facilities, $485,000 to write down excess fixed assets, and $2.7 million to write down additional prepaid software license fees relating to third-party software used in our products. This was in addition to the restructuring charge of $6.3 million we recorded during the fourth quarter of fiscal 2002. As a result of this restructuring, our operating expenses have been reduced by more than $7 million per quarter.

We have incurred quarterly and annual losses in each of the years since we were formed and although we have reduced expenses in an effort to reach profitability, we expect to continue to incur quarterly and annual losses in the near term. We incurred losses of $5.7 million and $6.3 million in the three months ended January 31, 2003 and 2002, respectively. We had an accumulated deficit of approximately $254.7 million as of January 31, 2003. We expect to continue to incur significant sales and marketing, research and development, general and administrative expenses and stock compensation expenses, resulting in continued operating losses in the near term. Accordingly, in order to achieve profitability, we will need to increase our revenues or reduce our operating costs further.

Option Exchange Program

On October 18, 2001, we announced a voluntary stock option exchange program for our employees. Under the program, our option holders had the opportunity to cancel outstanding options with an exercise price in excess of $15.00 per share in exchange for new options to be granted at a future date that was at least six months and one day after the date of cancellation, which was November 19, 2001. The number of shares of common stock subject to the new options was equal to 75% of the number subject to the exchanged options. Under the exchange program, options for 4.0 million shares of our common stock were tendered by our employees and cancelled. On May 31, 2002, we issued options to purchase approximately 2.5 million shares of common stock to replace the tendered options. In addition, a certain number of employees

terminated their employment in the intervening six months, and were not granted replacement options. The exercise price of each replacement option is $8.34 per share, which was the fair market value of our common stock on May 31, 2002, represented by the closing sale price on such date on the NASDAQ National Market. The replacement options have terms and conditions that are substantially the same as those of the cancelled options. The exchange program did not result in any additional compensation charges or variable plan accounting. Members of our Board of Directors did not participate in this program.

Acquisition

On December 20, 2002, we acquired oneREV, Inc., a Delaware privately held corporation (oneREV) in a transaction accounted for as a purchase business combination. Purchase consideration was $1.7 million in cash in exchange for all of the outstanding shares of capital stock of oneREV. In addition, we incurred $196,500 in acquisition expenses, including legal fees and other direct transaction costs resulting in an adjusted aggregate purchase price of $1.9 million.

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The total acquisition price of $1.9 million was allocated to the assets acquired, including tangible and intangible assets, and liabilities assumed based upon the fair value of such assets and liabilities on the date of the acquisition. The total purchase cost of the acquisition has been allocated to assets and liabilities based on management s estimates of their fair value and an independent appraisal of certain intangible assets, with the excess costs over the net assets acquired allocated to goodwill. The aggregate purchase price was allocated as follows (in thousands):

Net tangible assets	$ 82
In-process technology	300
Existing technology	700
Goodwill	840
	$ 1,922

The net tangible assets consist primarily of cash, accounts receivable, property and equipment, accounts payable and other liabilities, and notes payable. The valuation of the intangible assets has been determined using management s assumptions as to future revenue and a valuation report from an independent appraiser. The amount allocated to in-process technology was determined through established valuation techniques in the technology and software industries and were expensed upon acquisition because no future alternative uses existed for the technology. Research and development costs to bring the products acquired from oneREV to technological feasibility are not expected to be significant. The amount allocated to existing technology is being amortized over the estimated useful life of five years. The purchase price in excess of identified tangible and intangible assets is allocated to goodwill.

The amount of the purchase consideration was determined through arm s-length negotiation. An affiliate of Mohr Davidow Ventures originally invested approximately $7,245,000 in oneREV as the major stockholder of oneREV, and received $1,335,937.40 as its portion of the purchase consideration upon the acquisition of oneREV by Agile, fifteen percent of which will be held in escrow for 180 days to satisfy any claims that Agile may have against oneREV for breach of representations and warranties made under the agreement. In addition, an affiliate of Mohr Davidow Ventures is the holder of 2,713,498 shares of common stock of Agile. Nancy Schoendorf, a general partner of Mohr Davidow Ventures, was a member of the Board of Directors of oneREV and is a member of the Board of Directors of Agile. Erik Straser, a general partner of Mohr Davidow Ventures, was a member of the board of directors of oneREV. Mr. Bryan D. Stolle, Chief Executive Officer and Chairman of the Board of Agile, originally invested approxim