

AGILE SOFTWARE CORP
Form 10-K
July 28, 2003
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-K

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

For the fiscal year ended April 30, 2003

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

77-0397905
(I.R.S. Employer

incorporation or organization)

Identification No.)

One Almaden Boulevard, San Jose, California 95113-2253

(Address of principal executive office)

(408) 975-3900

(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, \$0.001 par value

(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 such filing requirements for the past 90 days. Yes ☒ No ☐

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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 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. ☒ x

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 ☒ x

The aggregate market value of Agile Software Corporation Common stock, \$0.001 par value, held by non-affiliates as of October 31, 2002 was \$193,928,493 based upon the last sales price reported for such date on the Nasdaq National Market on October 31, 2002. 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, 2002. 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, 2003 was 49,399,335.

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 Annual Meeting of Stockholders to be held on October 9, 2003, 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.

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AGILE SOFTWARE CORPORATION

FORM 10-K

APRIL 30, 2003

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results to differ materially from those implied by the forward-looking statements. We use words such as may, will, should, expects, estimates, predicts, potential, strategy, believes, anticipates, plan, or similar expressions to identify these forward looking statements. We have based these statements on our current expectations and projections about future events. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons including those discussed in Risk Factors and elsewhere in this Annual Report.

Agile Software Corporation, incorporated on March 13, 1995 under the laws of California and reincorporated on June 22, 1999 under the laws of Delaware, is hereinafter sometimes referred to as the Registrant, the Company, Agile, we, and us. Our fiscal year ends on April 30 of each year. Our trademarks include Agile, Agile Software, Agile Product Collaboration, Agile Engineering, Agile Program Execution, Agile Product Cost Management, Agile Product Service & Improvement, Agile Product Interchange and our Agile logo.

Overview

Agile helps companies to maximize profits, accelerate innovation, collaborate with partners, and leverage intellectual property throughout the product lifecycle. With a broad suite of Product Lifecycle Management (PLM) solutions, time-to-value focused implementations, and a unique Guaranteed Business ResultsSM program, Agile helps companies get the most from their products. Since 1996, when we shipped our first product, we have licensed products to over 850 customers worldwide in the following sectors: high technology, contract design and manufacturing, life sciences, consumer products, industrial products, aerospace and defense, and automotive. Our current customers in these markets include, among others, B/E Aerospace, Dell Computer, Flextronics International, Gateway, GE Medical, Hitachi, InFocus, International Paper, Juniper Networks, Lucent, Metaldyne, Nvidia, Playtex, Philips, and Precor.

Industry Background

The competitive environment for companies engaged in the manufacture and supply of products has continued to intensify dramatically and expand globally. This trend has been driven principally by productivity improvements arising from advances in technology and growing customer expectations for feature-rich products delivered quickly and at competitive prices. To remain competitive, companies are adopting new strategies to address these challenges.

Across most manufacturing industries, companies continue to shift to more horizontal models for manufacturing their products. Companies are relying much more on suppliers to deliver manufactured components, assemblies or even finished products for end users compared to previous practices where manufacturers controlled most phases of the manufacturing process from raw materials to finished goods.

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By outsourcing production, companies have created supply chains that are more efficient, dynamic and flexible than manufacturing operations that control all phases of the manufacturing process internally. Use of the outsourced supply chain has afforded companies the flexibility to choose top suppliers and partners to make each link in the supply chain more innovative, cost effective and productive. As companies operate on a global basis, supply chains can span multiple continents, tying suppliers in one part of the world with a plant in another to serve customers in a third location. The end result is that companies can bring their products to market more efficiently while at the same time achieving higher levels of customer satisfaction.

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Managing the Product Record

At the core of the Agile PLM solution suite is the product record, the rich complex set of information that uniquely defines all aspects of a product at each stage in its lifecycle. The product record includes all the information required by a company, its supply network, and its customers to design, source, buy, build, sell, service and dispose of products. To maximize profitability, companies require clear visibility into the product record with secure, timely control of product record changes throughout the product lifecycle.

A critical aspect of managing the product record across multiple supply chain partners is finding effective ways to store, access, and share information within the enterprise and across the extended design and supply network at each stage of the product lifecycle. Sourcing direct materials used in the production process from a multitude of sources (internal and external) across the globe adds significant complexity to the product record. Different stages of the production process generate many complex types of data that need to be shared across the supply chain to meet margin, quality and schedule criteria.

New Product Development. During the product design stage, a company must communicate large amounts of data internally as well as to supply chain partners and customers. The company begins by designating the content of the finished product with a list of parts known as the bills of material. The parts on this list can be divided into two classes: buy or make. For the buy components, sometimes referred to as off-the-shelf components, specifications for each part must be determined and information must be collected and analyzed to determine if the available components meet the required specifications. Once components have been selected, the components, identified by their manufacturers, are incorporated into the approved manufacturers list. For customized, or make components, other data are created, including: assembly drawings, detailing precisely how the component should be fabricated; work instructions, which guide the manual assembly process; machine instructions, to drive automated manufacturing and assembly equipment; art work, for processes such as printed circuit board fabrication; schematics, for describing electronic components and assemblies; and test instructions, which enable the suppliers and original equipment manufacturers to test for conformity to the manufacturer's specifications.

Direct Materials Sourcing. As companies source direct materials, critical decisions are made that will impact the supply chain, and ultimately the cost, availability, profitability and market success of the product. Decisions made about competing suppliers to supply materials and at what price have a dramatic impact on these factors. During new product introduction, companies must disseminate vast amounts of product information to suppliers and then analyze and negotiate supplier responses effectively. Companies also want to aggregate demand for direct materials across the enterprise, enabling them to use volume purchasing and secure better contract terms. Companies must also aggressively manage materials costs on an ongoing basis to maximize profits and ensure continuity of supply and overall product quality.

New Product Introduction. Prior to commencing volume production, the data created during the product design stage must be communicated to all relevant parties in the supply chain. One of the complexities of the outsourced supply chain model is that trading partners often have multiple discrete roles, including sourcing parts, fabrication, assembling components, testing and delivery. In addition, the manufacture of even a relatively simple product can involve procurement from hundreds of suppliers. Ensuring that accurate product information is disseminated promptly and to all of the appropriate supply chain constituents is one of the most difficult challenges facing a company. Further, suppliers may often discover constraints and/or opportunities for improvements during the prototyping and pilot production phases this often prompts a flurry of product changes requiring fast, iterative collaboration among supply chain partners to reduce costs and to avoid delays and excessive start-up or inventory costs.

Volume Production and Product Changes. Product specifications frequently change even during volume production. Changes can occur due to a number of reasons, including:

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Changes in design in response to customer requests or market conditions;

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Changes required to address a defect in the design or to improve the manufacturing process; and

Changes due to fluctuations in the cost, availability, or quality of materials and supplied parts.

The communication of information regarding product changes is a dynamic loop in which members of the supply chain must respond to market-dictated demands while also reacting to information shared among supply chain partners. Executing a design change through the manufacturing process expeditiously and effectively is difficult, due to the complexity of the information and the number of companies and people who must collaborate on and then approve a change. A design change requires a company to create an engineering change order; develop the specifications required by the engineering change order; secure the necessary approvals to effect the change; and communicate the change to the participants in the supply chain.

This problem is especially critical for companies operating in markets where products change frequently. For example, the requirements of a personal computer manufacturer that builds products to order may change each day as information regarding orders is received from customers or its sales force.

To address these challenges, many companies have implemented software systems that govern supply chain management, electronic data interchange, product data management and enterprise resource planning. However, many of these products were not designed to connect multiple companies participating in collaborative business processes, and therefore fail to address the full spectrum of supply chain collaboration requirements. For example, electronic data interchange, a system that facilitates interconnection and exchange of data, is expensive to install and maintain and is typically only used to communicate relatively simple transaction information such as purchase orders and shipping information. Other methods of communication and collaboration within the supply chain, including phone, paper-based solutions such as courier or fax, or e-mail or web page sources, are not linked in real-time and are slow, incomplete, often inaccurate and do not have the necessary functionality to support, review, markup and approve processes.

As product lifecycles continue to shrink, managing product development, sourcing, launch and volume manufacturing across dispersed supply networks is critical to a company's profitability and competitiveness. A company that can disseminate information quickly and accurately to the appropriate supply chain partners can reduce costs and gain competitive advantage. For example, through collaboration with its supply chain partners, a company may learn that a component is not readily available due to lack of supply or that a new component is available which could substantially reduce costs or improve manufacturing quality. Instead of continuing to rely on the originally selected component, the company may incorporate another component in the product design and notify partners before these components are incorporated into new products. By doing so, the company has the opportunity to increase revenues by maintaining product availability or increase profits by taking advantage of lower cost components more quickly.

As companies continue to outsource more and more functions, the challenges around delivering product to market on time and profitably, continue to multiply. Many companies now outsource their service and repair obligations, creating yet another set of companies and business processes that require immediate access to the latest product information, as well as the capability to get defect information back to the designers as quickly as possible for correction.

Another key outsourcing trend is the Original Design Manufacturer or ODM model. In this model, a supply chain partner not only builds the products, they actually design it to the customer's specifications. For example, Dell Computer works with companies like Quanta and Lexmark who design and build notebook computers and printers respectively for Dell, putting the Dell logo on a product they created. This type of outsourcing requires intimate collaboration and communication to the very earliest stages of the product lifecycle.

The Agile PLM Solution

Agile provides an integrated suite of software applications to manage the product record in a product supply chain, and the business processes that contribute to and utilize the product record. The product record consists of

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information that defines a company's product throughout the entire lifecycle from design through manufacture, supply and delivery, such as bills of material, component information, drawings, specifications, manufacturing instructions, component cost and availability information, quality data, and service instructions. The Agile PLM solution leverages this single product record to help companies develop, source, produce, supply, improve and service products.

Agile Product Collaboration

Agile Product Collaboration provides various organizations within an enterprise, visibility, collaboration and management of product record information, throughout the product lifecycle and their extended supply chain and their customers. With Agile Product Collaboration, customers benefit from the following product capabilities:

Each constituent in the product supply chain has secure access to critical product information, including bills of material, product attributes, manufacturers, configurations, design specifications, documentation, models, work instructions, and revisions, with each supply chain partner able to easily initiate and approve design, manufacturing, customer, and supplier-driven changes.

By enabling a single comprehensive product record, tightly linked to change management and supplier collaboration processes, all internal functions and members of the extended supply network can work from and collaborate with the latest product information, which enables customers to speed new product introduction, reduce product cost, improve quality, reduce scrap and rework costs, reduce excess inventory, and improve operational efficiency.

Agile Engineering

Agile Engineering addresses the specific requirements of the engineering organization. Agile Engineering enhances effective management of design and development processes and tightly integrates them with downstream business processes, enabling customers to improve time-to-market and rapid innovation of new products, and reducing product development costs.

Agile Engineering provides a broad range of capabilities to ensure that engineering tools and processes are fully integrated with the product record throughout the product lifecycle, including the following capabilities:

Core Agile product definition, change collaboration, and intellectual property management capabilities, which enable companies to define and collaborate on new and changing product information both internally and across the global supply network.

Agile Engineering is a real-time, interactive design collaboration environment that enables manufacturers to lower product development costs and accelerate innovation by collaborating early and often with supply chain partners.

Comprehensive program management capabilities aid development of new products on schedule and on budget and provide visibility to the status of new product development, both internally and across extended supplier networks.

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Broad CAD integration capabilities enable designers and engineers to work with the enterprise product record directly from within native engineering design applications, including unique design publication capabilities that allow rapid, effective engineering-to-manufacturing transitions.

The early lifecycle decision support environment included in Agile Engineering enables engineers and designers to define products to meet specific customer requirements, in accordance with enterprise sourcing, cost, quality, manufacturing, and environmental strategies established by the customer.

Agile Program Execution

Agile Program Execution enables companies to successfully deliver new and improved products by providing critical program management capabilities. By having a centralized view of programs and products,

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companies can use Agile Program Execution to create program schedules, define deliverables and owners, and link product information to different phases of the program. Throughout the lifecycle of a program, team members and individuals can update program status, raise and resolve issues, generate action items, and track program costs. Companies are able to assess the strategic and quantifiable impact of all programs in their portfolio. Agile Program Execution provides the following capabilities:

Full breadth of solutions to align resources and deliverables to an optimized product portfolio, resulting in higher product revenues.

Tight integration of product and program information that streamlines business processes across the product lifecycle process, resulting in lower program costs and improved resource productivity.

Built-in best practices and metrics for program management to ensure program success, resulting in more on-time launches and customer commitments.

Agile Product Cost Management

Agile Product Cost Management addresses the high-value, complex sourcing processes critical during new product introduction, including the management of manufacturing and design partners. Agile Product Cost Management enables customers to maximize product profitability by improving the purchasing organization's visibility into product cost structure, and to implement strategic sourcing strategies across the supply chain and throughout the product lifecycle. The capabilities provided by Agile Product Cost Management include:

Companies are able to establish a global supply network concurrently with the design of the product, thereby reducing costs.

Agile Product Cost Management enables co-sourcing processes, synchronizes purchasing and sourcing strategies internally and across the supply chain. Users then measure target cost and margin goals against real-time pricing changes to track product margins and profits throughout the product lifecycle.

Agile Product Service & Improvement

Agile Product Service & Improvement allows improved product quality and customer satisfaction by tightly integrating customer, product, quality and regulatory information. Agile Product Service & Improvement provides key capabilities for managing enterprise-quality processes, such as the following:

Managing customer requirements, product quality issues, and regulatory requirements, results in higher customer satisfaction and lower product quality costs.

Tight integration of customer, product and quality information streamlines quality processes, resulting in improved quality, lower service costs and higher customer satisfaction.

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Advanced capabilities for mapping, tracking, and auditing quality and materials issues enhances compliance with regulatory requirements, such as Federal Drug Administration regulations and ISO standards.

Standard operational analysis reports, custom reporting capability, and enhanced analysis on all Product Service & Improvement data are included, which provide additional support when making critical decisions during the product lifecycle.

Agile Product Interchange

Agile Product Interchange enables customers to synchronize and share enterprise product record information with design and manufacturing partners, enhancing communication and collaborative processes across the product lifecycle. Agile Product Interchange links component product record data with various sources of supplier information to quickly interpret and correct inaccurate product content, while merging product data

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across inconsistent data formats to create a usable product record. Key capabilities of Agile Product Interchange are the following:

Improved accuracy in identifying new components enabling the selection of lower cost and risk components.

Automated translation, validation and mapping of bills of materials to approved manufacturer lists, enabling improved operational efficiencies.

Integrated access to real-time component risk and lifecycle information, synchronized with customer product records.

Aggregate component demand to increase the use of preferred suppliers.

Benefits Provided by the Agile PLM Solution

The Agile PLM solution delivers the following benefits to customers and their supply chain partners:

Increased Responsiveness. With the help of our solutions, companies can respond more rapidly to changes in customer requirements, competitive challenges and supplier constraints throughout the product lifecycle. The ability to effect change even during volume production enables Agile PLM users to adjust production strategies, and produce what they can sell, rather than sell what they can produce. Agile's PLM solutions can also enhance the ability of companies to increase their revenue by being first to market with the right products.

Reduced Costs From Obsolete Inventory and Scraps. Agile's solutions are designed to help companies rapidly and accurately communicate planned product changes internally and with supply chain partners. This eliminates errors due to miscommunication within the supply chain, and can reduce the instances of materials being ordered that turn into obsolete inventory or products being built incorrectly that must then be reworked or scrapped.

Rapid Return on Investment. Because the Agile PLM solution is comprised of software applications based on existing industry standards that do not require custom software development, our solutions can be implemented in less time than required to implement traditional enterprise software applications which require extensive customization.

Lower Costs of Goods Sold. The Agile PLM suite enables companies to manage effectively their product costs and to aggregate demand for direct materials across the enterprise, a powerful tool for reducing product costs. Companies are able to collaborate with and forward complex direct materials sourcing information to many suppliers, as well as analyze large amounts of data to minimize ongoing product costs.

The Agile Strategy

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Agile fulfills its mission by executing six strategies:

Customer Success Focused Agile's top corporate objective is 100% referenceable customers. Studies by AMR Research and others confirm Agile's commitment and success towards meeting this objective. Every aspect of our operations is focused on making sure the customer is successful in deploying our solutions in a manner that results in measurable financial benefits and improvements to their operations.

Solutions Focused Agile offerings are squarely focused on the business problems customers are trying to solve by providing robust automation of the associated business processes, with best practices built in. Rather than focus on delivering technology we focus on delivering solutions that measurably improve our customers' business results and their financial performance.

Rapid Time To Benefit Agile invests heavily in product design and development, and implementation methodologies, that are specifically aimed at creating products and services which can be rapidly deployed in

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even the largest and most complex situations. Many of Agile's customers have implemented their solutions in 90 to 120 days.

Broad End-to-End Solution Agile is committed to delivering solutions for all phases of the product lifecycle. This provides customers with a single PLM investment decision, centered on a robust technology platform for managing the product record, and all the associated business processes throughout the product lifecycle.

Guaranteed Business Results Under this unique program, purchases are tied to results. Customers demand low risk, high impact, and cost effective solutions. The Guaranteed Business Results program allows them to mitigate project risk by tying purchases to the achievement of business results based on metrics agreed to up front. This program demonstrates Agile's commitment to solving our customer's critical business problems by sharing risks and aligning our interests in succeeding.

Focused Acquisition Agile has and expects to continue to use its strong balance sheet selectively to more rapidly expand its product footprint and its customer base through acquisition. The current economic environment presents, from time to time, compelling opportunities to acquire IP and/or customers at lower costs than we can develop them internally. We will continue to evaluate these opportunities as part of our strategy.

The Agile PLM Platform

The Agile PLM solution is supported by a robust technology infrastructure that ensures that the applications are scalable, reliable and extensible. The n-tier, standards-based architecture of the Agile platform uses J2EE, XML and web-based technologies to manage the product record across Agile's solutions, and integrates that information with other applications within the customer enterprise. The Agile business platform consists of the following main components:

User Interface framework;

Agile Integration Framework;

Agile analytics framework; and

Common services and tools.

Product Technology and Architecture

The Agile PLM Solution is designed upon open systems and is based on software industry standards for scalable Internet applications. The result is a low cost, low maintenance enterprise business application suite that minimizes the need for complex custom or in-house software development. Agile solutions are built on an Internet-based architecture:

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At the core of our architecture are the application servers, which currently utilize BEA WebLogic on Microsoft Windows and Sun Solaris. The application server is the intermediary between the HTML, Java and Windows applications and the database, providing the necessary business logic and security for validation of the data.

The Internet client applications are HTML and Java-based and can run on versions of Microsoft Internet Explorer and Netscape Navigator. There is also a Windows application for users who prefer a Windows user interface rather than a web browser interface. Operating systems supported include Windows 98, Windows NT, Windows 2000 and Sun Solaris. We follow the Microsoft standards for the Windows clients, and Internet standards for the Java application running within Microsoft Internet Explorer and Netscape Communicator. Our products can be integrated with more than 15 enterprise resource planning systems including, among others, Oracle Applications, PeopleSoft, J.D. Edwards and SAP.

The database includes the Oracle database server and the Agile Internet File Server.

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The solutions are enabled for both single-byte and double-byte localization, and have been localized for Chinese, French and Japanese languages. We intend to provide localization for additional languages 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.

Product Development

Our product development objectives are to:

Be innovative in developing solutions to remove complexity from supply chain collaboration;

Develop solutions that require little custom code, contain reusable components and are easy to use, implement, maintain, and upgrade; and

Adopt industry standard technologies.

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 emerging technologies that enable us to develop additional features.

We introduced our first product, Agile Configurator version 1.0, in June, 1996 and have subsequently released 16 Product Collaboration revisions, five Product Cost Management revisions, two Product Service and Improvement revisions, and more recently, Agile Program Execution and Agile Engineering.

Over the course of our product development, our product has evolved from a 2-tiered client-server database application to a multi-tiered enterprise-caliber application supporting HTML, Windows and Java clients. Our product development activities are focused on broadening the scalability and functionality of our solutions that are built on the Agile PLM platform. We are continuing to develop and release application interfaces to allow customers to more easily integrate our solutions with other systems.

We maintain global development operations and have development centers in San Jose, California, Bangalore, India, and Hong Kong and Suzhou, China. During fiscal 2003 we shifted some of our development personnel to our Bangalore, Hong Kong and Suzhou locations to leverage cost efficiencies.

Our research and development expenses, excluding stock compensation expense, were \$26.4 million, \$33.5 million and \$26.5 million for fiscal 2003, 2002 and 2001, respectively, and we expect to continue to invest significantly in research and development in the future.

We cannot guarantee that we will complete our existing and future development efforts within our anticipated schedule or that our new and enhanced products will have the features to make them successful. If work at our foreign development centers is disrupted, we may not be able to maintain research and development activities while decreasing operating expenses, as planned. We may experience difficulties that could delay or prevent the successful development, introduction or marketing of new or enhanced products. In addition, these new and enhanced products may not meet the requirements of the marketplace and achieve market acceptance. Also, in the case of acquiring new or complementary products or technologies, we might not be able to unify the

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heterogeneous platforms into a single one in a timely fashion resulting in delays in product releases. Furthermore, despite testing by us, our implementation partners and our customers, errors might be found in new products or in releases after shipment, resulting in product returns, loss of revenue or delay in market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs.

Customers

To date, we have licensed our products to over 850 customers. No customer accounted for more than ten percent of our total revenues for fiscal 2003, 2002 or 2001.

The following is a representative list of current customers in our targeted industry markets:

<u>High Technology</u>	<u>Contract Design and Manufacturing</u>	<u>Life Sciences</u>
Dell	Flextronics	GE Medical
Hitachi	Foxconn	GlaxoSmithKline
Lucent Technologies	Quanta	Hologic
Matsushita	Sanmina-SCI	Johnson & Johnson
Qualcomm	Sollectron	Medtronic
<u>Consumer Products</u>	<u>Industrial Products</u>	<u>Aerospace and Defense</u>
LeapFrog Enterprises	Ballard Power	Ball Aerospace
Microsoft XBox	ESCO	BE Aerospace
Playtex	Flow International	Boeing Service Company
Rock-Tenn	International Paper	Intertechnique
TiVo	Lennox	ViaSat
<u>Automotive</u>		
Alps Automotive		
Dana		
Harley Davidson/Buell		
Metaldyne		

Saturn Electronics

Sales and Marketing

We market and sell our products primarily through our direct sales force located at our headquarters in San Jose, California, and at regional and local sales offices in the United States, Japan, Taiwan and the United Kingdom. Our direct sales force consists of Account Executives focusing on targeted accounts. Solution Consultants and Business Consultants provide product and industry support. 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 manufacturing-related trade shows and host Agility, our annual user conference.

A critical 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

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currently have relationships with Deloitte Consulting, PRTM, BearingPoint, Hewlett Packard, Domain Systems, Inc., Sierra Atlantic and Strategic Information Group, Inc. for the implementation of our solutions.

Customer Care

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

Account Management. We offer account management services to a select group of our largest customers to help ensure the long-term mutual success of those relationships. The service facilitates communication of customer requirements and our solution offerings, identifies follow-on opportunities for us to provide additional products and services and manages the escalation and resolution of any support issues that may arise. Account Management also ensures the quality of all other services from us that the selected customers may be utilizing.

Solution Delivery. We offer services, on a fixed-price or time and materials basis, to assist in implementation planning, product installation, implementation assistance, legacy data loading and effectiveness audits. To facilitate and enhance the integration of our products, we have both developed internal capabilities and expertise and entered into alliances to enable integration of our products with existing design, manufacturing, finance and supply chain systems. This 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 on an annual or multi-year basis. 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, our consulting and implementation partners provide customer support and maintenance in some instances. Revenues associated with maintenance contracts are recognized ratably over the term of the maintenance contract, which is generally 12 months.

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 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.

Hosting. We offer optional hosting services for those customers who prefer to have us manage the infrastructure associated with our solutions. We utilize third parties for server co-location and network services. Customers who purchase hosting services usually make a one to three year commitment at the time of purchase and may renew for additional terms. The terms of the hosting service generally do not effect the terms of our software license agreement, and our software is generally offered on a perpetual license basis.

Competition

The market for PLM solutions is fragmented, rapidly changing and consolidating, and becoming increasingly competitive. We expect competition to persist and intensify, 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.

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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.

Although we believe that we currently compete favorably as to each of these factors, the market for our solutions is still emerging and changing rapidly. In particular, we believe that we offer a suite of solutions that offers collaborative and interactive capabilities that many of our competitors do not effectively provide. However, we encounter competition with respect to different aspects of our solutions from a variety of vendors. We currently face three primary sources of competition:

In-house development efforts by potential customers or partners;

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

Vendors of enterprise software who seek to extend the functionality of their products, such as Oracle Corporation and SAP A.G.

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. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products.

There are many factors that may increase competition in the PLM solutions market, including (i) entry of new competitors; (ii) alliances among existing competitors; (iii) alliances between our competitors and systems integrators; (iv) consolidation in the PLM software industry; and (v) technological changes that necessitate changes in the solution capabilities. Increased competition may result in price reductions, reduced gross margins or loss of market share, any of which could materially and adversely affect our financial condition or results of operations. We may not be able to compete successfully against current or future competitors.

Proprietary Rights

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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, and have one issued patent and 14 pending patent applications in the United States and 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, and we expect that it will become more difficult to monitor the use of our products if we increase our international presence.

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We utilize database management software from Oracle. Our customers can purchase this software directly from Oracle or from us. In addition, we integrate third-party software into our products from BEA for application server technology, Actuate for reporting capability, Centric for CAD system integration, Cimmetry Systems for document viewing and Cognos for analytics. This 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 of electronic commerce solutions will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in industry segments overlaps. 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, 2003, we had a total of 434 employees. Of this total, 191 were in engineering, 128 were in sales and marketing, 71 were in professional services, including technical support and customer training, and 44 were in IT, finance and administration. We also retain independent contractors to support activities such as our professional services and product development. None of our employees are represented by a collective bargaining unit, 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 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.

ITEM 2. PROPERTIES

Our headquarters are currently located in downtown San Jose, California, where we lease approximately 127,000 square feet of commercial office space under leases expiring in 2005. As of April 30, 2003, we occupied approximately 72,000 square feet, and sublet approximately 44,000 square feet to various tenants on short-term subleases. We also lease offices for sales and service personnel in eight locations in the United States as well as in London, United Kingdom, Tokyo, Japan and Taipei, Taiwan. We also lease office space for our development centers in Bangalore, India, Hong Kong and Suzhou, China and Scotts Valley, California.

In May 2003, as part of our effort to reduce our long-term occupancy costs, we entered into a non-cancelable operating sublease for approximately 82,000 square feet of commercial office space in San Jose, California, where we will be relocating our headquarters during the

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second quarter of fiscal 2004. This sublease expires in July 2011. In connection with the move, we anticipate recording a restructuring charge of approximately \$7 million to \$9 million during the second quarter of fiscal 2004 primarily related to the remainder of our outstanding lease commitments for properties that we will be vacating. We are in the process of

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subleasing our excess space at our current headquarters. For further discussion of the San Jose lease, see Note 14 Subsequent Events to our consolidated financial statements.

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 (collectively the Agile Defendants) and several investment banking firms that served as underwriters of our initial public offering and secondary offering. 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). The operative amended complaint is brought purportedly on behalf of all persons who purchased our Common Stock from August 19, 1999 through December 6, 2000. It 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.

Similar allegations were made in other lawsuits challenging over 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes. On February 19, 2003, the Court ruled on all defendants' 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) against us and 184 other issuer defendants, on the basis that the 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 Court dismissed the Section 10(a) claims against the individual defendants with prejudice.

We have 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 certain claims we 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 amount of the insurance coverage, a circumstance which we do not believe will occur. The settlement will require approval of an unspecified percentage of issuers by July 31, 2003. The settlement also will require approval of the Court, which cannot be assured, after class members are given the opportunity to object to the settlement or opt out 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.

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 2003.

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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 highest and lowest sale prices for our stock for the periods set forth, as reported by the Nasdaq National Market System.

	High	Low
Fiscal 2003:		
Quarter Ended April 30, 2003	\$ 7.73	\$ 5.70
Quarter Ended January 31, 2003	\$ 9.95	\$ 6.00
Quarter Ended October 31, 2002	\$ 8.08	\$ 4.97
Quarter Ended July 31, 2002	\$ 9.25	\$ 5.26
Fiscal 2002:		
Quarter Ended April 30, 2002	\$ 14.59	\$ 8.52
Quarter Ended January 31, 2002	\$ 18.75	\$ 9.13
Quarter Ended October 31, 2001	\$ 12.70	\$ 7.05
Quarter Ended July 31, 2001	\$ 24.95	\$ 11.70

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. At June 30, 2003, there were 279 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, 2003 was \$9.64.

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The selected consolidated statement of operations data set forth below for the fiscal years ended April 30, 2003, 2002 and 2001 and the selected consolidated balance sheet data as of April 30, 2003 and 2002 are derived from our consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, independent auditors, and are included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for the fiscal years ended April 30, 2000 and 1999 and the selected consolidated balance sheet data as of April 30, 2001, 2000, and 1999 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Years Ended April 30,				
	2003	2002	2001	2000	1999
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues:					
License	\$ 30,699	\$ 45,141	\$ 64,978	\$ 21,463	\$ 10,859
Professional services and maintenance	39,810	32,630	22,081	10,735	5,948
Total revenues	70,509	77,771	87,059	32,198	16,807
Cost of revenues:					
License	2,790	3,107	3,830	1,451	819
Professional services and maintenance	18,151	13,921	11,861	6,228	5,166
Stock compensation (recovery)	37	(47)	663	562	162
Total cost of revenues	20,978	16,981	16,354	8,241	6,147
Gross margin	49,531	60,790	70,705	23,957	10,660
Operating expenses:					
Sales and marketing:					
Other sales and marketing	41,840	56,318	61,951	26,657	13,495
Stock compensation	2,227	220	7,294	5,820	457
Research and development:					
Other research and development	26,357	33,491	26,451	9,411	4,742
Stock compensation (recovery)	232	(189)	4,346	3,281	858
General and administrative:					
Other general and administrative	6,927	7,386	6,255	3,411	1,938
Stock compensation	136	298	3,749	2,182	776
Amortization of goodwill and other intangible assets		756	35,974	14,911	
Acquired in-process technology	400			1,300	
Impairment of goodwill and other intangible assets			55,224		
Merger related expenses (recovery)		(835)	4,985		
Restructuring and other charges	7,836	6,257			
Total operating expenses	85,955	103,702	206,229	66,973	22,266
Loss from operations	(36,424)	(42,912)	(135,524)	(43,016)	(11,606)

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Other income (expense):

Interest and other income, net	4,900	10,158	18,749	7,823	178
Impairment of investments	(3,673)	(1,446)	(8,561)		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss before provision for income taxes	(35,197)	(34,200)	(125,336)	(35,193)	(11,428)
Provision for income taxes	934	343			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss	<u>\$ (36,131)</u>	<u>\$ (34,543)</u>	<u>\$ (125,336)</u>	<u>\$ (35,193)</u>	<u>\$ (11,428)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss per share:					
Basic and diluted	\$ (0.75)	\$ (0.73)	\$ (2.74)	\$ (1.14)	\$ (1.94)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average shares(1)	48,495	47,451	45,703	30,967	5,904
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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	Fiscal Years Ended April 30,				
	2003	2002	2001	2000	1999
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 256,967	\$ 285,549	\$ 300,525	\$ 299,875	\$ 10,003
Working capital	243,181	267,706	293,705	294,251	4,174
Total assets	290,950	319,064	355,191	430,801	17,948
Long-term obligations(2)	39	39	134	1,015	3,224
Stockholders' equity	256,246	286,631	313,640	412,646	3,291

(1) Reflects the two-for-one stock split effective March 2000.

(2) As of April 30, 2003, 2002 and 2001, long term debt of \$39,000, \$39,000 and \$134,000, respectively, have been classified in the related balance sheet as current.

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

The information in this discussion contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). 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, be anticipates, plans, expects, intends, and similar expressions are intended to identify 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 a discrepancy include, but are not limited to, those discussed below, as well as in the Risk Factors section included 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.

Overview

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. Since 1996, when Agile shipped its first product, we have licensed products to over 850 customers worldwide in the following sectors: high technology, contract design and manufacturing, life sciences, consumer products, industrial products, aerospace and defense, and automotive. Our current customers in these markets include, among others, B/E Aerospace, Dell Computer, Flextronics International, Gateway, GE Medical, Hitachi, InFocus, International Paper, Juniper Networks, Lucent, Metaldyne, Nvidia, Playtex, Philips, and Precor.

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 25% and 14% of total revenues during fiscal 2003 and 2002, respectively. Revenues from customers located outside of North America were less than 10% of total revenues for fiscal 2001. The increase in revenue from customers located outside of North America 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 subsequently 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.

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 \$36.1 million, \$34.5 million and \$125.3 million in fiscal 2003, 2002 and 2001, respectively. We had an accumulated deficit of approximately \$257.7 million as of April 30, 2003. We expect to continue to incur significant sales and marketing, research and development, general and

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administrative 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.

During the second quarter of fiscal 2003, 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. In connection with the relocation of our headquarters to new facilities in San Jose, California during fiscal 2004, we anticipate recording a restructuring charge of approximately \$7 million to \$9 million during the second quarter of fiscal 2004 primarily related to the remainder of our outstanding lease commitments for properties that we will be vacating.

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. 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, and stock options and warrants, which are described below. In addition, please refer to Note 1 of our consolidated financial statements for further discussion of our significant accounting policies.

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 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. For example, the current economic slowdown has resulted in reduced information technology spending that has caused customers to delay purchasing decisions. Accordingly, it has been more difficult and has taken longer to close contracts with customers, the size of the transactions have decreased, and many of our license contracts are signed in the last weeks of the quarter, making it difficult for us to forecast revenues for the quarter. These factors have resulted in difficulty adjusting spending to respond to variations in revenue growth during the quarter, all of which has adversely affected our business, financial condition and results of operations.

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Revenue Recognition

We recognize revenue in accordance with Statement of Position, or SOP 97-2, Software Revenue Recognition, as amended. We recognize license revenues 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 an acceptance period) if the terms of the contract include an acceptance requirement. 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.

We consider a non-cancelable agreement signed by the customer and us to be evidence of an arrangement. 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. Our typical end user license agreements do not contain acceptance clauses. We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment. If the fee is not fixed or determinable, we recognize revenue as the amounts become due and payable. 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.

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. Our determination of fair value of each element in multi-element arrangements is based on vendor-specific objective evidence, which is generally 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 training and implementation services. 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.

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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 and a sales return allowance 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 customers 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.

Investments

We have in the past invested in equity instruments of privately held companies for business and strategic purposes. These investments are included in other non-current assets and are accounted for under the cost method when our ownership percentage is less than 20% and we do not have the ability to exercise significant influence over operations. For these investments, we regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. We identify and record impairment losses when events and circumstances indicate that the carrying value of the investment has experienced a decline in value that is other-than-temporary. To make this determination, we review the historical and projected financial performance, expected cash needs and recent funding events of the issuer. Other-than-temporary impairments are recognized if (i) the market value of the investment is below its current carrying value for an extended period; (ii) the issuer has experienced significant financial difficulties; or (iii) the issuer has experienced significant problems in raising capital to continue operations, among other factors.

During fiscal 2003, 2002 and 2001, we determined that such investments had incurred a decline in value that was other-than-temporary based upon specific triggering events and, accordingly, we reduced the carrying amounts of these investments to their estimated fair value by a charge to other income (expense) of \$3.7 million, \$1.4 million, and \$8.6 million in fiscal 2003, 2002 and 2001, respectively. At April 30, 2003, the carrying value of our private equity investments has been written down to zero.

Prepaid Software License Fees

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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

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software product, depending upon the terms of the respective development contract. 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 of the related software product, or changes in our planned use of the technology. Such costs are classified as current and non-current assets based upon estimated product release date. We have recorded impairment charges for these prepaid software license fees in the past and to the extent that events or circumstances cause our assumptions concerning future sales of the related software product to change, additional charges may be required which could be material.

During the second quarter of fiscal 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 quarter showing lower than anticipated sales for the products in which the third party licensed software was embedded, and accordingly, we recorded \$2.7 million of charges related to the write-down of prepaid software licenses fees. See Note 8 Restructuring and Other Charges to our consolidated financial statements.

Restructuring Reserves

In each of the fourth quarter of fiscal 2002 and the second quarter of fiscal 2003, we announced worldwide restructurings and established reserves for severance and other associated costs incurred as a result of our reduction in personnel and against outstanding future estimated lease commitments for properties that we vacated. In determining the portion of the restructuring charge related to excess facilities, we were required to estimate future sublease income, future net operating expenses of the facilities, and brokerage commissions, among other expenses, as well as continued rent, and utilities costs. We based our estimates of sublease income, in part, on the opinions of independent real estate experts, current market conditions and rental rates, an assessment of the time period over which reasonable estimates could be made, the status of negotiations with potential subtenants, and the location of the facility, among other factors. These estimates will be reviewed and revised quarterly and may vary significantly, depending in part on factors that may be beyond our control. These estimates will depend on our success in negotiating with lessors, the time periods required to locate and contract suitable subleases, and the market rates at the time of such subleases. Adjustments to the restructuring expense will be required if actual lease exit costs or sublease income differ from amounts currently expected, and could result in an increase to restructuring expense should we not be able to lease the properties in a reasonable period or at a rate significantly different than estimated.

Stock Options and Warrants

In connection with certain employee and consultant stock option grants, we have recorded unearned stock compensation totaling \$36.0 million through April 30, 2003, of which \$2.0 million remains to be amortized. For employees, unearned stock compensation represents the difference between the exercise price of the option and the fair value of our Common Stock on the date of grant and is reported as unearned stock compensation, a component of stockholders' equity. Unearned stock compensation is amortized through charges to operations over the vesting period of the options, which is generally five years, using the accelerated method of amortization as described in Financial Accounting Standards Board Interpretation No., or FIN 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans. Stock compensation expense, less recoveries, for employees and consultants was \$2.6 million, \$282,000 and \$16.1 million for fiscal 2003, 2002, and 2001, 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 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. Amortization of stock compensation for non-employees was \$892,000, \$760,000 and \$3.6 million for fiscal 2003, 2002 and 2001, respectively.

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,		
	2003	2002	2001
Revenues:			
License	44%	58%	75%
Professional services and maintenance	56	42	25
Total revenues	100	100	100
Cost of revenues:			
License	4	4	4
Professional services and maintenance	26	18	14
Stock compensation (recovery)			1
Total cost of revenues	30	22	19
Gross margin	70	78	81
Operating expenses:			
Sales and marketing:			
Other sales and marketing	59	72	71
Stock compensation	3		8
Research and development:			
Other research and development	37	43	31
Stock compensation (recovery)	1		5
General and administrative:			
Other general and administrative	10	9	7
Stock compensation			4
Amortization of goodwill and other intangible assets		1	41
Acquired in-process technology	1		
Impairment of goodwill and other intangible assets			64
Merger related expenses (recovery)		(1)	6
Restructuring and other charges	11	8	
Total operating expenses	122	132	237
Loss from operations	(52)	(54)	(156)
Other income (expense):			
Interest and other income, net	7	13	22
Impairment of investments	(5)	(2)	(10)
Loss before provision for income taxes	(50)	(43)	(144)
Provision for income taxes	1	1	
Net loss	(51)%	(44)%	(144)%

Comparison of Fiscal Years Ended April 30, 2003, 2002 and 2001

General Factors that Affected Our Operational and Financial Performance

Throughout much of fiscal 2003 and 2002, there were several factors that impacted our operational and financial performance, resulting in our year-over-year changes in revenues and expenses, on an absolute basis and as a percentage of revenues. These factors included: (i) the overall weakness of the global economy; (ii) continued reductions in corporate capital expenditures; (iii) geopolitical uncertainties, including the United States war with Iraq and continued threat of terrorist activities; (iv) increased competition; and (v) changes in corporate

Revenues

We had no customer that accounted for more than 10% of our total revenues in fiscal 2003, 2002 or 2001. Our international revenues were derived primarily from sales to customers in Japan, Europe and the Asia-Pacific region. Revenues from customers located outside of North America were approximately 25% and 14% of total revenues in fiscal 2003 and 2002, respectively. Revenues from customers located outside of North America were less than 10% of total revenues in fiscal 2001. The increase in revenues from sales to customers located outside of North America as a percentage of total revenues from fiscal 2002 to 2003 was primarily the result of increased sales to customers located in Japan, and to a lesser extent, Europe. The increase in revenues from sales to customers located outside of North America as a percentage of total revenues from fiscal 2001 to 2002 was primarily the result of increased sales to customers located in Europe and Japan.

License Revenues

[illegible]

Our license revenues comprise fees charged for the use of our products licensed under perpetual or term-based arrangements.

The decrease in license revenues in absolute dollars and as a percentage of total revenues from fiscal 2002 to 2003 and from fiscal 2001 to 2002 was due to a lower number of license sales transactions, offset by a slight increase in our average sales prices. The decrease in the number of license sales transactions size was largely the result of the economic slowdown and significant decline in information technology spending that has impacted our license sales during most of fiscal 2003 and 2002.

Throughout much of fiscal 2001, the global economy declined, with little recovery during fiscal 2002 or 2003. Corporate capital spending, and, in particular, information technology spending, decreased, impacting our financial performance and operations since our revenue growth depends in large part on the demand for information technology. As this economic slowdown and reduction in technology spending does not appear to have abated significantly, it may continue to impact our business for the near future and beyond.

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	prior fiscal year				prior fiscal year			
	\$	%			\$	%		
	(in thousands, except percent change)							
Cost of license revenues	\$ 2,790	\$ (317)	(10)%		\$ 3,107	\$ (723)	(19)%	\$ 3,830
As a percentage of license revenues	9%				7%			6%

Our cost of license revenues includes license fees due to third parties for integrated technology, the cost of manuals and product documentation, production media used to deliver our products and packaging costs.

The decrease in cost of license revenues in absolute dollars from fiscal 2002 to 2003 and from fiscal 2001 to 2002 was due primarily to our overall decrease in license revenues, resulting in a decrease in license fees paid to third parties on third-party software integrated into our products. The increase in cost of license revenues as a

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percentage of license revenues was due to a higher component of third party software embedded in our products releases during fiscal 2003 and 2002.

We expect cost of license revenues in absolute dollars to track with the increase or decrease in our overall license revenues. Although new and future versions of our product suite may include more embedded third party software than prior versions, we expect cost of license revenue as a percentage of license revenue to remain at current levels.

Cost of Professional Services and Maintenance Revenues

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
(in thousands, except percent change)							
Cost of professional services and maintenance revenues	\$ 18,151	\$ 4,230	30%	\$ 13,921	\$ 2,060	17%	\$ 11,861
As a percentage of professional services and maintenance revenues	46%			43%			54%

Our cost of professional services and maintenance revenues 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 our overhead expenses, including rent, information technology and other overhead expenses. In addition, cost of professional services and maintenance revenues includes support fees and upgrade fees paid to third parties for technology embedded in software upgrades provided to our installed customer base.

The increase in cost of professional services and maintenance revenues in absolute dollars from fiscal 2002 to 2003 and from fiscal 2001 to 2002 and as a percentage of professional services and maintenance revenues from fiscal 2002 to 2003 was primarily due to lower utilization per employee, higher costs of third parties contracted to provide implementation services, and to a lesser extent, higher fixed costs necessary to support our increased customer base. The decrease in cost of professional services and maintenance revenues as a percentage of professional services and maintenance revenues from fiscal 2001 to 2002 was primarily due to an increase in our mix of post contract customer support services as a percentage of total professional services and maintenance services provided during fiscal 2002 compared to fiscal 2001, as post contract customer support services typically provide us with higher gross margins.

We expect cost of professional services and maintenance revenues, on an absolute basis, to increase in fiscal 2004 due to the increased costs incurred by our account management teams, as we described above under Business Sales and Marketing.

Operating Expenses

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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 expenses categories, such as salaries, employee benefits, incentive compensation, bonuses, travel costs, telephone, communication, rent and allocated facilities costs 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***Sales and Marketing***

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
(in thousands, except percent change)							
Sales and marketing, excluding stock compensation	\$41,840	\$(14,478)	(26)%	\$56,318	\$(5,633)	(9)%	\$61,951
As a percentage of total revenues	59%			72%			71%

In addition to the common recurring expenditures mentioned above, our sales and marketing expenses include expenditures specific to the sales group, such as 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.

The decrease in sales and marketing expenses, excluding stock compensation, on an absolute basis and as a percentage of total revenues from fiscal 2002 to 2003 was primarily due to a decrease in personnel-related expenses resulting from our restructuring program announced in the fourth quarter of fiscal 2002, including a decrease in sales and marketing personnel, a decrease in sales commissions and other incentive compensation that resulted from a decrease in license revenues, a reduction in travel expenditures, and a reduction in our marketing programs.

The decrease in sales and marketing expenses, excluding stock compensation, on an absolute basis and as a percentage of total revenues from fiscal 2001 to 2002 was due to a decrease in sales commissions and other incentive compensation that resulted from a decrease in our license revenues, a reduction in travel expenditures as a result of the September 11, 2001 terrorist attacks against the United States, and a decrease in use of outside contractors on new marketing programs.

We expect sales and marketing expenses, excluding stock compensation, as a percentage of total revenues, to remain flat or continue to decrease over the near future as we continue to decrease our discretionary spending in an effort to reach profitability and realize the benefits of our prior restructuring activities. Should our revenues increase substantially, our sales and marketing expenses on an absolute basis will likely increase.

Research and Development

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
(in thousands, except percent change)							
	\$26,357	\$(7,134)	(21)%	\$33,491	\$7,040	27%	\$26,451

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Research and development, excluding stock compensation

As a percentage of total revenues	37%	43%	31%
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In addition to the common recurring expenditures mentioned above, our research and development expenses consists of costs associated with the development of new products, enhancements of existing products, and quality assurance procedures. To date, all software development costs in research and development have been expensed as incurred.

The decrease in research and development expenses, excluding stock compensation, on an absolute basis and as a percentage of total revenues from fiscal 2002 to 2003 was primarily a result of lower outside consulting

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and lower operating costs, including salaries and related expenses, resulting from our shift to new offshore development centers in India and China.

The increase in research and development expenses, excluding stock compensation, on an absolute basis and as a percentage of total revenues from fiscal 2001 to 2002 was due to the increase in the number of software developers, quality assurance personnel and outside contractors needed to support our product development, and the documentation and testing activities related to the development and release of the latest versions of our products released in fiscal 2002.

We anticipate that research and development expenses, excluding stock compensation, on an absolute basis and as a percentage of total revenues over the near future will decrease in fiscal 2004 as we continue to devote resources to develop new products and enhancements of existing products, offset by the benefits received from our offshore development centers.

General and Administrative

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
	(in thousands, except percent change)						
General and administrative, excluding stock compensation	\$ 6,927	\$ (459)	(6)%	\$ 7,386	\$ 1,131	18%	\$ 6,255
As a percentage of total revenues	10%			9%			7%

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, and bad debt expense.

The decrease in general and administrative expenses, excluding stock compensation, in absolute dollars from fiscal 2002 to 2003 was primarily due to a decrease in IT infrastructure costs, lower bad debt expenses, lower compensation and outside consulting expenses, offset by a slight increase in professional services in response to meeting new and enhanced compliance and regulatory requirements.

The increase in general and administrative expenses, excluding stock compensation, in absolute dollars and as a percentage of total revenues from fiscal 2001 to 2002 was primarily due to hiring additional finance, legal and administrative personnel to support the growth of our business during that period.

We expect general and administrative expenses, excluding stock compensation, to increase on an absolute basis, and to remain at current levels as a percentage of total revenues over the near future, assuming total revenues increase.

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

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001	
(in thousands, except percent change)							
Stock compensation (recovery):							
Cost of revenues	\$ 37	\$ 84	(179)%	\$ (47)	\$ (710)	(107)%	\$ 663
Sales and marketing	2,227	2,007	912	220	(7,074)	(97)	7,294
Research and development	232	421	(223)	(189)	(4,535)	(104)	4,346
General and administrative	136	(162)	(54)	298	(3,451)	(92)	3,749
Total stock compensation	\$ 2,632	\$ 2,350	833%	\$ 282	\$ (15,770)	(98)%	\$ 16,052
As a percentage of total revenues	4%			0 %			18%

Total stock compensation expenses from fiscal 2002 to 2003 and from fiscal 2001 to 2002 include both the amortization of unearned employee stock compensation, and options issued to non-employees. In fiscal 2002, however, the expense was offset by credits associated with the impact of the reversal of accelerated amortization on cancelled options held by terminated employees during fiscal 2002, resulting in an overall lower total stock compensation expense.

Total stock compensation expenses decreased from fiscal 2001 to 2002 primarily because deferred stock compensation associated with options issued in connection with our acquisition of Digital Marketing, Inc. (DMI) in fiscal 2000 had been fully amortized by the end of the fiscal 2001 and no related amortization was recorded in fiscal 2002. Total stock compensation expense also decreased due to certain stock option cancellations in fiscal 2002 which resulted in the reversal of accelerated amortization of stock compensation recorded on such unvested and cancelled options in prior periods.

As of April 30, 2003, we had an aggregate of approximately \$2.0 million of deferred stock compensation remaining to be amortized.

Amortization of Goodwill and Other Intangible Assets

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001	
(in thousands, except percent change)							
Amortization of goodwill and other intangible assets	\$	\$(756)	(100)%	\$756	\$(35,218)	(98)%	\$35,974
As a percentage of total revenues				1%			41%

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. 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 associated with acquisitions is no longer amortized. Rather, goodwill is tested for impairment periodically at the reporting unit level at least annually and more frequently upon the happening of certain events. We have determined that we have only one reporting unit, specifically the license, implementation and support of our software applications. We test goodwill for impairment in a two-step process, by first determining if the carrying amount of our reporting unit exceeds the fair value of the reporting unit based on quoted market prices for our Common Stock, which would indicate that goodwill may be impaired. If we determine that goodwill may be impaired, we compare the implied fair value of the goodwill, as provided

Other intangible assets are comprised primarily of developed technologies acquired. Other intangible assets are amortized over time using the straight-line method over a weighted average period of approximately five years. We believe the straight-line method of amortization best represents the distribution of economic value of the identified intangible assets.

Amortization of goodwill and other intangible assets decreased from 2001 to 2002 primarily as a result of an impairment charge of \$55.2 million recorded in the fourth quarter of fiscal 2001 on the identifiable intangible assets and goodwill related to our acquisition of DMI, thereby decreasing the carrying value of the assets being amortized.

Acquired In-Process Technology

		Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year		
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
		(in thousands, except percent change)					
Acquired in-process technology	\$400	\$400	100%	\$	\$		\$
As a percentage of total revenues	1%						

During fiscal 2003, we recognized a total of \$400,000 of acquired in-process technology associated with our acquisitions of oneREV and ProductFactory in the third and fourth quarters of 2003, respectively. At the date of each acquisition, the projects associated with the acquired in-process technology efforts for each company had not yet reached technological feasibility and the acquired in-process technology had no alternative future uses. We used an independent third-party to calculate the amount allocated to acquired in-process technology. In calculating the value of the acquired in-process technology, the independent third party used established valuation techniques accepted in the technology and enterprise software industry. 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 in-process technology reflects the relative value and contribution of the acquired research and development. We gave consideration 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

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determining the value assigned to the acquired in-process technology. The projects have been subsequently completed within management's estimates. The amounts allocated to the acquired in-process technology were immediately expensed. There were no such write-offs in fiscal 2002 and 2001.

Table of Contents***Impairment of Goodwill and Other Intangibles Assets***

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
	(in thousands, except percent change)						
Impairment of goodwill and other intangible assets	\$	\$		\$	(55,224)	(100)%	\$55,224
As a percentage of total revenues							64%

During the fourth quarter of fiscal 2001, we performed an impairment assessment of the identifiable intangibles and goodwill recorded upon the acquisition of DMI. This assessment was performed primarily as a result of our decision in February 2001 to discontinue the further development of the products acquired in the DMI acquisition. As a result of the assessment, we recorded a \$55.2 million impairment charge reflecting the amount by which the carrying value of the assets exceeded the estimated future discounted cash flows. The charge was determined based upon the estimated discounted future cash flows from the specific products acquired using a discount rate of 25%. The assumptions supporting such cash flows and the discount rate were determined using our best estimates. No write down of goodwill or other intangible assets occurred during fiscal 2003 or 2002.

Merger Related Expenses (Recovery)

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001	
(in thousands, except percent change)							
Merger related expenses (recovery)	\$	\$835	(100)%	\$(835)	\$(5,820)	(117)%	\$4,985
As a percentage of total revenues			(1)%			6%	

During the fourth quarter of fiscal 2001, we accrued \$5.0 million for merger related expenses, consisting primarily of financial advisory and professional fees, which we estimated we would incur in connection with a proposed merger with Ariba, Inc., that was subsequently terminated during that quarter. The accrual was our best estimate of the obligation for such fees at that time.

During fiscal 2002, we had realized actual costs of \$4.2 million and had no remaining liability related to the terminated merger. Accordingly, we recorded a merger related recovery of \$835,000 in fiscal 2002.

Restructuring and Other Charges

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		Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year		
	<u>Fiscal 2003</u>	<u>\$</u>	<u>%</u>	<u>Fiscal 2002</u>	<u>\$</u>	<u>%</u>	<u>Fiscal 2001</u>
	(in thousands, except percent change)						
Restructuring and other charges	\$7,836	\$1,579	25%	\$6,257	\$6,257	100%	\$
As a percentage of total revenues	11%			8%			

As a result of unfavorable global economic conditions and a reduction in information technology spending around the world, during the fourth quarter of fiscal 2002, we announced a worldwide restructuring program to

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reduce expenses to align our operations and cost structure with market conditions. During the fourth quarter of fiscal 2002, we recorded \$6.3 million of restructuring charges associated with the worldwide restructuring plan. Our restructuring plan and associated costs consisted of \$2.4 million for severance benefits and other associated costs resulting from our reduction in personnel, which included \$447,000 in stock compensation charges, \$729,000 to downsize and close excess facilities, \$902,000 relating to write-down of leasehold improvements and prepaid software licenses resulting from discontinued projects, and \$2.2 million of other charges related to the impairment of certain other assets, including \$1.7 million of non-refundable prepaid software license fees for which we determined that the carrying value 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.

The restructuring plan resulted in the termination of employment of approximately 15% of our worldwide headcount or 75 personnel. The terminations were made across all business functions and geographic regions. Costs resulting from the restructuring included severance benefits, notice pay and out-placement services. All termination benefits were communicated to the affected employees on April 30, 2002.

The significant activity within and components of the restructuring and other charges as of and for fiscal 2002 are as follows (in thousands):

	Fiscal 2002		
	Total Charge	Non-cash Charges	Accrual at April 30, 2002
Workforce reductions	\$ 2,429	\$ (447)	\$ 1,982
Facilities costs	729		729
Equipment and other asset write-offs	902	(902)	
Subtotal	4,060	(1,349)	2,711
Other charges	2,197	(2,197)	
Total	\$ 6,257	\$ (3,546)	\$ 2,711

During the second quarter of fiscal 2003, we recorded an additional restructuring charge of \$7.8 million. Included in the restructuring charge are facilities costs of \$4.6 million, which generally represent lease commitment costs for office space that we no longer occupy. Also included in the restructuring charge was a reduction of estimated sublease income related to excess facilities identified during the fourth quarter of fiscal 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. The majority of the estimates we made in determining the restructuring charge related to the charge for excess facilities, and are therefore dependent on our success in negotiating with lessors, the time periods required to sublease the properties, and the market rates at the time of the subleases. These estimates will be reviewed and revised quarterly and may require us to record an increase to restructuring expense should we not be able to sublease the properties in the estimated time period, or should we sublease the properties at a rate significantly different than estimated.

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

	Fiscal 2003				
	Accrual at April 30, 2002	Total Charge	Non-cash Charges	Cash Payments	Accrual at April 30, 2003
Workforce reductions	\$ 1,982	\$	\$	\$ (1,982)	\$
Facilities costs	729	4,657		(1,135)	4,251
Equipment and other write-offs		485	(485)		
Subtotal	2,711	5,142	(485)	(3,117)	4,251
Other charges		2,694	(2,694)		
Total	\$ 2,711	\$ 7,836	\$ (3,179)	\$ (3,117)	\$ 4,251
Included in accrued expenses and other liabilities					\$ 1,689
Included in accrued restructuring, non-current					2,562
					\$ 4,251

As a result of our restructuring plans, we expect to realize annualized cost reductions of approximately \$12.0 million in salary and benefit costs and \$1.1 million in facility costs. The remaining cash payments relating to facilities and leases are expected to be paid through March 2007.

In May 2003, as part of our effort to reduce our long-term occupancy costs, we entered into a non-cancelable operating sublease for approximately 82,000 square feet of commercial office space in San Jose, California, where we will be relocating our headquarters during the second quarter of fiscal 2004. In connection with the move, we anticipate recording a restructuring charge of approximately \$7 million to \$9 million during the second quarter of fiscal 2004 primarily related to the remainder of our outstanding lease commitments for properties that we will be vacating. See Note 14 Subsequent Events to our consolidated financial statements.

Interest and Other Income (Expense), Net

		Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year		
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
							</

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

The decrease in interest and other income, net from fiscal 2002 to 2003 and from fiscal 2001 to 2002 was due principally to declining interest rates and lower average cash and investment balances.

Table of Contents***Impairment of Investments***

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
(in thousands, except percent change)							
Impairment of investments	\$3,673	\$2,227	154%	\$1,446	\$(7,115)	(83)%	\$8,561
As a percentage of total revenues	5%			2%			10%

During fiscal 2003, 2002 and 2001, 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, \$1.4 million and \$8.6 million during fiscal 2003, 2002 and 2001, respectively, to write down the investments to their estimated fair values. As of April 30, 2003, we had no investments in privately held companies.

Provision for Income Taxes

	Increase (decrease) compared to prior fiscal year			Increase (decrease) compared to prior fiscal year			
	Fiscal 2003	\$	%	Fiscal 2002	\$	%	Fiscal 2001
(in thousands, except percent change)							
Provision for income taxes	\$934	\$591	172%	\$343	\$343	100%	\$
As a percentage of total revenues	1%			1%			

The provision for income taxes for fiscal 2003 and 2002 was primarily attributable to taxes associated with our international subsidiaries during each of those periods. Other than the provision for foreign taxes in fiscal 2003 and 2002, no provision for income taxes has been recorded since our inception because we have incurred net losses in all periods. As of April 30, 2003, we had net operating loss carryforwards for federal income tax reporting purposes of approximately \$138.3 million that expire in various amounts beginning in fiscal 2011. We also had net operating loss carryforwards for state income tax reporting purposes of approximately \$75.1 million that expire in various amounts beginning in fiscal 2004. The U.S. tax laws contain provisions that limit the use in any future period of net operating loss and credit carryforwards upon the occurrence of certain events, including a significant change in ownership interests. We had deferred tax assets, including our net operating loss carryforwards and tax credits of approximately \$72.7 million as of April 30, 2003. We have recorded a valuation allowance for the full amount of the 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. See Note 9 Income Taxes to our consolidated financial statements.

Liquidity and Capital Resources

Overview

As of April 30, 2003, our principal source of liquidity consisted of cash, cash equivalents and short-term investments totaling \$257.0 million, compared to \$285.5 million as of April 30, 2002. Our working capital as of April 30, 2003 was \$243.2 million. 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. 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.

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As of April 30, 2003, our days sales outstanding (DSO) was 58 days. However, we believe that this is unusually low and is a result of our strong cash collections and high level of maintenance renewal revenues as a percentage of total revenues (which are generally prepaid) during the fourth quarter of fiscal 2003. We expect that our days sales outstanding will increase to our historical range of 65 to 75 days if our license revenues increase as a percentage of total revenues.

Cash Flows

Our operating activities used cash of \$23.2 million, \$14.2 million and \$3.4 million for fiscal 2003, 2002 and 2001, respectively. Cash used in operating activities during fiscal 2003 was primarily due to our net loss (less non-cash expenses, such as depreciation, amortization, impairment charges, and restructuring charges), and decreases in accounts payable and accrued expenses, offset by increases in deferred revenue and accounts receivable. Cash used in operating activities in fiscal 2002 was primarily attributable to our net loss for the year (less non-cash expenses) and decreases in accounts payable and deferred revenue, offset by a decrease in accounts receivable. Cash used in operating activities in fiscal 2001 was attributable to our net loss for the year (less non-cash expenses) and increases in accounts receivables, and to a lesser extent, by increases in other assets, partially offset by increases in accounts payable, accrued expenses and deferred revenue.

Our investing activities provided cash of \$51.6 million in fiscal 2003, and used net cash of \$9.3 million and \$8.9 million in fiscal 2002 and 2001, respectively. Cash provided from investing activities in fiscal 2003 resulted from net proceeds from the sale of short-term investments, offset by net purchases of property and equipment and net cash paid in business combinations. Cash used in investing activities in fiscal 2002 resulted from net purchases of short-term investments and purchases of property and equipment. Cash used in investing activities in fiscal 2001 resulted from purchases of privately held investments and purchases of property and equipment, partially offset by net proceeds from the sale of short-term investments. Purchases of property and equipment in fiscal 2003, 2002 and 2001 were approximately \$4.2 million, \$7.6 million and \$12.4 million, respectively and were primarily for computer hardware and software and furniture and fixtures.

Our financing activities provided cash of \$3.1 million, \$6.9 million and \$9.4 million in fiscal 2003, 2002 and 2001, respectively. Cash provided by financing activities in each period was primarily due to the issuance of Common Stock associated with the exercise of stock options.

Contractual Obligations and Commitments

Our contractual obligations and commitments consist of operating leases for facilities. Our future fixed commitments consisted of the following as of April 30, 2003 (in thousands):

	Payments Due by Period				
	Total Amounts Committed	Less than 1 year	1 3 years	4 5 years	Over 5 years
Contractual Obligations					
Operating leases	\$ 13,333	\$ 5,607	\$ 7,268	\$ 458	\$