

AGILE SOFTWARE CORP
Form 10-K/A
June 17, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-K/A

Amendment No. 1 to Form 10-K

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

For the fiscal year ended April 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 000-27071

AGILE SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

77-0397905
(I.R.S. Employer
Identification No.)

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

(Address of principal executive office)

(408) 284-4000

(Registrant's telephone number, including area code)

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

None

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

Common Stock, \$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

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.

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

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The aggregate market value of Agile Software Corporation Common stock, \$0.001 par value, held by non-affiliates as of October 31, 2003 was \$393,005,768 based upon the last sales price reported for such date on the NASDAQ National Market on October 31, 2003. 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, 2003. 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, 2004 was 52,501,741.

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AGILE SOFTWARE CORPORATION

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The purpose of this amendment to Form 10-K for the fiscal year ended April 30, 2004 is to amend the consolidated financial statements as described below under Explanatory Note . The specific sections that have been amended are as follows: (i) Part II, Item 7, Management's Discussion & Analysis of Financial Condition and Results of Operations Liquidity & Capital Resources; (ii) Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk; (iii) Part II, Item 8, Financial Statements and Supplementary Data; (iv) Part II, Item 9A, Controls and Procedures; and (v) Part IV, Item 15, Exhibits, Financial Statement Schedules and Reports on Form 8-K to file new exhibits 23.1, 31.1, 31.2, 32.1 and 32.2.

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Explanatory Note

As a result of changes in industry practice related to auction rate securities and in order to comply with the requirements of applicable accounting literature, during the third quarter of fiscal 2005 we reclassified our investment in auction rate securities from cash and cash equivalents to short-term investments. This reclassification is discussed below in Note 1 The Company and Summary of Significant Accounting Policies: Reclassifications, to the notes to the consolidated financial statements. As a result of this reclassification, cash and cash equivalents was reduced, and short term investments was increased, by \$67.7 million at April 30, 2004 and by \$97.0 million at April 30, 2003, and corresponding changes were made in our consolidated statements of cash flows.

The consolidated financial statements included in this Form 10-K/A have been amended to reflect this reclassification for each period presented as applicable. This reclassification did not have an impact on our loss from operations or net loss for any period presented.

ITEM 7. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Liquidity and Capital Resources*****Overview***

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

	As of April 30,	
	2004	2003
Cash and cash equivalents	\$ 45,337	\$ 57,852
Short-term and long-term investments	192,884	199,115
	\$ 238,221	\$ 256,967

Our cash, cash equivalents, and investments are placed with high credit quality financial institutions, commercial companies and government agencies in order to limit the amount of credit exposure. Our liquidity could be negatively impacted by a decrease in demand for our products, which are subject to rapid technological changes, or a reduction of capital expenditures by our customers as a result of a downturn in the global economy, among other factors. As of April 30, 2004, our working capital was \$149.8 million and our days sales outstanding (DSO) was 67 days.

Cash Flows

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Net cash used in operating activities	\$ (16,572)	\$ (23,218)	\$ (14,185)
Net cash used in investing activities	(4,017)	(45,417)	(9,288)
Net cash provided by financing activities	9,239	3,113	6,930

Cash used in operating activities during fiscal 2004 was primarily due to our net loss for the period of \$24.1 million, adjusted for non-cash items of \$16.4 million, and a net decrease of approximately \$8.9 million in working capital. Non-cash items include acquired IPR&D, provision for doubtful accounts, depreciation and amortization, stock compensation, loss on foreign currency translation, and the non-cash portion of restructuring and other charges. The net decrease in working capital primarily consisted of increases in accounts receivable (as a result of increased revenues) and payments of accounts payable, accrued expenses and other liabilities (primarily related to assumed liabilities related to the acquisitions, accrued restructuring costs and bonuses). Cash used in operating activities during fiscal 2003 was primarily due to our net loss for the period of \$ 36.1 million, adjusted for non-cash items of \$17.6 million, and a net decrease of approximately \$4.7 million in working capital. Non-cash items include acquired IPR&D, provision for doubtful accounts, depreciation and amortization, stock compensation, impairment of investments and the non-cash portion of restructuring and other charges. The net decrease in working capital primarily consisted of increases in accounts receivable and decreases in accounts payable, offset by increases in deferred revenue (as a result of increased maintenance renewals).

Cash used in investing activities during fiscal 2004 resulted from \$6.8 million of purchases of property and equipment, primarily related to the build-out of our new corporate headquarters in San Jose, California, and \$3.1 million of net cash paid in business combinations, offset by \$5.8 million of net maturities of short-term and long-term investments. Cash used in investing activities during fiscal 2003 resulted from \$36.9 million of net purchases of short-term investments, \$4.2 million of purchases of property and equipment, primarily for computer hardware and software and furniture and fixtures, and \$4.3 million of net cash paid in business combinations.

Cash provided by financing activities in fiscal 2004 and 2003 were primarily due to the issuance of Common Stock associated with the exercise of stock options and our employee stock purchase plan totaling \$9.9 million and \$3.1 million, respectively. During fiscal 2004, cash provided from financing activities was offset slightly by the settlement of certain capital lease obligations acquired totaling \$718,000.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

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

Interest Rate Risk

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

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

	Maturing within	Maturing between	Thereafter	Total
	12 months	1 and 2 years		
Cash equivalents	\$ 2,950	\$	\$	\$ 2,950
<i>Weighted average interest rate</i>	<i>2.00%</i>	<i>%</i>	<i>%</i>	<i>2.00%</i>
Investments	\$ 124,495	\$ 68,389	\$	\$ 192,884
<i>Weighted average interest rate</i>	<i>1.20%</i>	<i>2.00%</i>	<i>%</i>	<i>1.48%</i>
Total investment securities	\$ 127,445	\$ 68,389	\$	\$ 195,834

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders Of Agile

Software Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Agile Software Corporation and its subsidiaries at April 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, effective May 1, 2002, the Company changed its method of accounting for goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ PRICEWATERHOUSECOOPERS LLP

July 9, 2004, except for paragraphs appearing under
Reclassifications in Note 1, as to which the date is June
16, 2005

San Jose, California

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

	April 30,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,337	\$ 57,852
Short-term investments	124,495	199,115
Accounts receivable, net of allowance for doubtful accounts of \$1,512 and \$1,158, respectively	19,998	12,061
Other current assets	5,356	6,295
	<u>195,186</u>	<u>275,323</u>
Total current assets	195,186	275,323
Long-term investments	68,389	
Property and equipment, net	8,696	7,389
Goodwill	34,724	5,150
Intangible assets, net	5,456	1,080
Other assets	2,186	2,008
	<u>314,637</u>	<u>290,950</u>
Total assets	\$ 314,637	\$ 290,950
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,773	\$ 3,230
Accrued expenses and other current liabilities	20,508	13,632
Deferred revenue	20,104	15,280
	<u>45,385</u>	<u>32,142</u>
Total current liabilities	45,385	32,142
Accrued restructuring, non-current	2,376	2,562
Other non-current liabilities	5,382	
	<u>53,143</u>	<u>34,704</u>
Total liabilities	53,143	34,704
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred Stock, \$.001 par value; 10,000 shares authorized; no shares issued or outstanding		
Common Stock, \$.001 par value; 200,000 shares authorized, 52,413 and 49,148 shares issued and outstanding as of April 30, 2004 and 2003, respectively	52	49
Additional paid-in capital	544,927	516,056
Notes receivable from stockholders	(83)	(186)
Unearned stock compensation	(1,139)	(2,030)
Accumulated other comprehensive income (loss)	(432)	93
Accumulated deficit	(281,831)	(257,736)
	<u>261,494</u>	<u>256,246</u>
Total stockholders' equity	261,494	256,246

Total liabilities and stockholders' equity	<u>\$ 314,637</u>	<u>\$ 290,950</u>
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Revenues:			
License	\$ 36,293	\$ 30,699	\$ 45,141
Service	60,012	39,810	32,630
Total revenues	96,305	70,509	77,771
Cost of revenues:			
License	3,694	2,790	3,107
Service	28,993	18,151	13,921
Stock compensation (recovery)	240	37	(47)
Acquisition-related compensation	595		
Amortization of intangible assets	709		
Total cost of revenues	34,231	20,978	16,981
Gross margin	62,074	49,531	60,790
Operating expenses:			
Sales and marketing:			
Other sales and marketing	38,302	41,840	56,318
Stock compensation	3,158	2,227	220
Research and development:			
Other research and development	23,147	26,357	33,491
Stock compensation (recovery)	206	232	(189)
General and administrative:			
Other general and administrative	8,954	6,927	7,386
Stock compensation	678	136	298
Acquisition-related compensation	1,091		
Amortization of intangible assets	2,092		756
Acquired in-process research and development	500	400	
Merger-related benefit			(835)
Restructuring and other charges	9,201	7,836	6,257
Total operating expenses	87,329	85,955	103,702
Loss from operations	(25,255)	(36,424)	(42,912)
Other income (expense):			
Interest and other income, net	3,093	4,900	10,158
Loss from foreign currency translation	(639)		
Impairment of investments		(3,673)	(1,446)

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Loss before provision for income taxes	(22,801)	(35,197)	(34,200)
Provision for income taxes	1,294	934	343
Net loss	\$ (24,095)	\$ (36,131)	\$ (34,543)
Net loss per share:			
Basic and diluted	\$ (0.48)	\$ (0.75)	\$ (0.73)
Weighted average shares	50,191	48,495	47,451

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

Table of Contents**AGILE SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****(In thousands)**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Notes Receivable From Stockholders</u>	<u>Unearned Stock Compensation</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total</u>	<u>Comprehensive Loss</u>
	<u>Shares</u>	<u>Amount</u>							
Balance at April 30, 2001	47,508	\$ 48	\$ 510,433	\$ (628)	\$ (9,368)	\$ 217	\$ (187,062)	\$ 313,640	\$ (124,589)
Repurchases of unvested Common Stock	(239)		(367)	33				(334)	
Issuance of Common Stock on exercise of options	865		4,305					4,305	
Issuance of Common Stock under Employee Stock Purchase Plan	307		2,613					2,613	
Unrealized loss on investments						(125)		(125)	(125)
Repayment of notes receivable from stockholders				346				346	
Unearned stock compensation			(5,082)		5,082				
Amortization of unearned stock compensation					282			282	
Restructuring and other charges			447					447	
Net loss							(34,543)	(34,543)	(34,543)
Balance at April 30, 2002	48,441	48	512,349	(249)	(4,004)	92	(221,605)	286,631	\$ (34,668)
Repurchases of unvested Common Stock	(36)		(58)	24				(34)	
Issuance of Common Stock on exercise of options	276		1,223					1,223	
Issuance of Common Stock under Employee Stock Purchase Plan	333	1	1,884					1,885	
Issuance of Restricted Stock	134								
Unrealized gain on investments						1		1	1

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Repayment of notes receivable from stockholders				39				39	
Unearned stock compensation		658		(658)					
Amortization of unearned stock compensation				2,632				2,632	
Net loss							(36,131)	(36,131)	(36,131)
Balance at April 30, 2003	49,148	49	516,056	(186)	(2,030)	93	(257,736)	256,246	\$ (36,130)
Repurchases of unvested Common Stock	(8)		(5)					(5)	
Issuance of Common Stock on exercise of options	1,215	1	8,087					8,088	
Issuance of Common Stock under Employee Stock Purchase Plan	263		1,766					1,766	
Unrealized loss on investments						(391)		(391)	(391)
Foreign currency translation adjustment						(134)		(134)	(134)
Repayment of notes receivable from stockholders				103				103	
Unearned stock compensation			3,391	(3,391)					
Amortization of unearned stock compensation				4,282				4,282	
Issuance of Common Stock in acquisition	1,795	2	15,632					15,634	
Net loss							(24,095)	(24,095)	(24,095)
Balance at April 30, 2004	52,413	\$ 52	\$ 544,927	\$ (83)	\$ (1,139)	\$ (432)	\$ (281,831)	\$ 261,494	\$ (24,620)

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

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Cash flows from operating activities:			
Net loss	\$ (24,095)	\$ (36,131)	\$ (34,543)
Adjustments to reconcile net loss to net cash used in operating activities:			
Acquired in-process research and development	500	400	
Provision for doubtful accounts	550	200	399
Depreciation and amortization	8,401	7,546	10,212
Stock compensation	4,282	2,632	282
Loss from foreign currency translation	639		
Impairment of investments		3,673	1,446
Non-cash portion of restructuring and other charges	2,043	3,179	3,546
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(5,800)	(5,718)	15,689
Other assets, current and non-current	1,963	(401)	(2,117)
Accounts payable	(4,273)	(2,207)	(5,859)
Accrued expenses and other liabilities, current and non-current	(1,062)	1,529	2,102
Deferred revenue	280	2,080	(5,342)
Net cash used in operating activities	<u>(16,572)</u>	<u>(23,218)</u>	<u>(14,185)</u>
Cash flows from investing activities:			
Purchases of investments	(290,136)	250,949	(310,471)
Proceeds from maturities of investments	295,976	214,010	308,779
Cash paid in business combinations, net of cash acquired	(3,106)	(4,314)	
Acquisition of property and equipment	(6,751)	(4,164)	(7,596)
Net cash used in investing activities	<u>(4,017)</u>	<u>(45,417)</u>	<u>(9,288)</u>
Cash flows from financing activities:			
Payment of acquired capital lease obligations	(718)		
Proceeds from issuance of Common Stock, net of repurchases	9,854	3,074	6,584
Repayment of notes receivable from stockholders	103	39	346
Net cash provided by financing activities	<u>9,239</u>	<u>3,113</u>	<u>6,930</u>
Effect of exchange rate changes on cash	<u>(1,165)</u>		
Net increase (decrease) in cash and cash equivalents	<u>(12,515)</u>	<u>(65,522)</u>	<u>(16,543)</u>
Cash and cash equivalents at beginning of period	<u>57,852</u>	<u>123,374</u>	<u>139,917</u>
Cash and cash equivalents at end of period	<u>\$ 45,337</u>	<u>\$ 57,852</u>	<u>\$ 123,374</u>

	<u> </u>	<u> </u>	<u> </u>
Supplementary disclosure of cash flows information			
Cash paid during the period for taxes	\$ 1,209	\$ 945	\$ 382
	<u> </u>	<u> </u>	<u> </u>
Non-cash investing activities:			
Common Stock issued in business combination	\$ 15,634	\$	\$
	<u> </u>	<u> </u>	<u> </u>

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

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company

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

Principles of consolidation and basis of presentation

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

Reclassifications

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

In addition, Agile has reclassified its auction rate securities previously classified as cash equivalents, as short-term investments in the accompanying Consolidated Balance Sheets. The Company had historically classified these instruments as cash equivalents if the period between interest rate resets was 90 days or less, which was based on our ability to either liquidate our holdings or roll our investment over to the next reset period. As a result of this reclassification, cash and cash equivalents was reduced, and short term investments was increased, by \$67.7 million at April 30, 2004 and by \$97.0 million at April 30, 2003, and corresponding changes were made in our consolidated statements of cash flows. This reclassification has no impact on our net loss or net loss per share for any period presented.

These securities are classified as available-for-sale pursuant to Statement of Accounting Standards No. 115. Furthermore, we classified these securities as short-term because (i) we acquired and held these securities with the intent to liquidate them as the need for working capital arose in the ordinary course of business; (ii) we are able to either liquidate our holdings or roll our investment over to the next reset period at each

interest rate reset interval, usually every 7, 28 or 25 days. In addition, as a result of the ability to sell the securities as part of the auction process at short, predetermined intervals, they are priced and traded in the financial markets as short term instruments.

Use of estimates

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

Cash, cash equivalents and marketable securities

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

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Concentrations of credit risk

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

For fiscal 2004, 2003 and 2002, no customers accounted for more than 10% of total revenues. At April 30, 2004, no customers accounted for more than 10% of net accounts receivable. At April 30, 2003, one customer represented approximately 22% of net accounts receivable.

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

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

Fair value of financial instruments

Our financial instruments, including cash, cash equivalents, marketable securities, accounts receivable, accounts payable, and notes payable are carried at cost, which approximates their fair value because of the short-term maturity of these instruments.

Prepaid software license fees

Prepaid software license fees are paid to third party software developers under development arrangements for technology integrated into or sold with our products. We amortize the prepaid license fees to cost of revenues based either upon the actual number of units of the related product

that we ship or net revenue earned on the related product, over the period of the agreement with the third party developer or the expected life of the software product, depending upon the terms of the respective development contract. We evaluate the future realization of such costs quarterly and charge to operations any amounts that we deem unlikely to be fully realized through future sales of the related software product, or changes in our planned use of the technology. Such costs are classified as current and noncurrent assets based upon estimated product release date.

Property and equipment

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

Advertising expense

We expense the costs of producing advertisements at the time production occurs, and expense the cost of communicating advertising in the period during which the advertising space or airtime is used. Advertising is included in sales and marketing expense and totaled \$274,000, \$345,000 and \$288,000, for fiscal 2004, 2003 and 2002, respectively.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Software development costs

Development costs for software to be sold or otherwise marketed are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life, or in the ratio of current revenues to total projected product revenues, whichever is greater. To date, the period between achieving technological feasibility, which we have defined as the establishment of a working model, which typically occurs when the beta testing commences, and the general availability of such software has been short and software development costs qualifying for capitalization have been insignificant. Accordingly, we have not capitalized any software development costs.

Goodwill and intangible assets

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

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

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

Revenue recognition

We recognize revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9 Software Revenue Recognition with Respect to Certain Agreements. 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 receivable 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.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 support), software products, and in some cases, other professional service. 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.

Deferred revenue includes 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.

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

Comprehensive loss

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

Stock compensation

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

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

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

Fair value disclosures

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

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

	Stock Option Plans			Stock Purchase Plan		
	Fiscal Year Ended April 30,			Fiscal Year Ended April 30,		
	2004	2003	2002	2004	2003	2002
Dividend yield						
Expected volatility	54%	84%	98%	48%	84%	98%
Average risk-free interest rate	3.79%	2.85%	4.50%	1.21%	1.15%	1.91%
Expected life (in years)	5	5	5	0.5	0.5	0.5

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of assumptions, including the expected stock price volatility. We use volatility rates based upon our historical volatility rates. Based upon the above assumptions, the weighted average fair value per share of options granted under the stock option plans during fiscal 2004, 2003 and 2002 was \$5.16, \$5.17 and \$8.82, respectively. The weighted average fair value per share of shares subject to purchase under the employee stock purchase plan during fiscal 2004, 2003 and 2002 was \$2.60, \$3.01 and \$5.31, respectively.

Had we recognized compensation expense using the fair value method as prescribed under the provisions of SFAS No. 123, our net loss would have been increased to the pro forma amounts below for fiscal 2004, 2003 and 2002, respectively (in thousands, except per share amounts):

	Fiscal Year Ended April 30,		
	2004	2003	2002
Net loss as reported	\$ (24,095)	\$ (36,131)	\$ (34,543)
Add: Stock-based compensation included in reported net loss	4,282	2,632	282
Less: Stock-based employee compensation under SFAS No. 123	(25,736)	(32,199)	(12,324)
Pro forma net loss	<u>\$ (45,549)</u>	<u>\$ (65,698)</u>	<u>\$ (46,585)</u>
Net loss per basic and diluted share as reported	<u>\$ (0.48)</u>	<u>\$ (0.75)</u>	<u>\$ (0.73)</u>
Pro forma net loss per basic and diluted share	<u>\$ (0.91)</u>	<u>\$ (1.35)</u>	<u>\$ (0.98)</u>

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income taxes

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

Foreign currency translation

For foreign operations where the local currency is the functional currency, assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Income and expense items are translated at average rates of exchange prevailing during each period. Translation adjustments are accumulated in other comprehensive income as a component of stockholders' equity.

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

Segment information

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

Recent Accounting Pronouncements

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In November 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor to recognize a liability for obligations it has undertaken in relation to the issuance of a guarantee. It requires that the liability be recorded at fair value on the date that the guarantee is issued. It also requires a guarantor to provide additional disclosures regarding guarantees, including the nature of the guarantee, the maximum potential amount of future payments under the guarantee, the carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, and the nature and extent of any recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. The disclosure requirements under FIN 45 are effective for the interim and annual periods ending after December 15, 2002. The recognition and measurement provisions under FIN 45 are effective for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact upon our financial position, cash flows or results of operations.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51*. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004. We do not believe that the adoption of this standard will have a material effect on our financial position or results of operations.

In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends SFAS 133 for certain decisions made by the FASB Derivatives Implementation Group. In particular, SFAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FIN 45, and (4) amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. In addition, most provisions of SFAS 149 are to be applied prospectively. We do not expect the adoption of SFAS 149 to have a material impact upon our financial position, cash flows or results of operations.

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

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We do not expect the adoption of SFAS 150 to have a material impact upon our financial position, cash flows or results of operations.

NOTE 2 NET LOSS PER SHARE

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

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Numerator:			
Net loss	\$ (24,095)	\$ (36,131)	\$ (34,543)
Denominator:			
Weighted average shares	50,293	48,719	47,998
Weighted average unvested shares of restricted Common Stock subject to repurchase	(102)	(224)	(547)
Denominator for basic and diluted calculation	50,191	48,495	47,451
Net loss per share:			
Basic and diluted	\$ (0.48)	\$ (0.75)	\$ (0.73)

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

	As of April 30,		
	2004	2003	2002
Warrant to purchase Common Stock		50	50
Unvested Common Stock subject to repurchase	42	189	336
Options to purchase Common Stock	18,096	15,135	12,010
Total shares excluded	18,138	15,374	12,396

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BALANCE SHEET COMPONENTS:

Property and equipment comprise the following (in thousands):

	As of April 30,	
	2004	2003
Land and building	\$ 1,095	\$
Computer hardware and software	21,986	24,376
Furniture and equipment	2,996	4,477
Leasehold improvements	3,536	2,922
	<u>29,613</u>	<u>31,775</u>
Less: Accumulated depreciation and amortization	(20,917)	(24,386)
	<u>\$ 8,696</u>	<u>\$ 7,389</u>

Depreciation and amortization of property and equipment totaled \$5.1 million, \$7.5 million and \$9.5 million for fiscal 2004, 2003 and 2002, respectively.

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

	As of April 30,	
	2004	2003
Accrued employee costs	\$ 6,114	\$ 6,465
Accrued royalties and adverse purchase commitment	3,392	254
Accrued professional and related fees	1,517	1,947
Accrued restructuring and severances, current	5,486	1,689
Taxes payable	2,079	585
Other	1,920	2,692
	<u>\$ 20,508</u>	<u>\$ 13,632</u>

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

	<u>As of April 30,</u>	
	<u>2004</u>	<u>2003</u>
Adverse purchase commitment, non-current	\$ 4,671	\$
Mortgage loan	711	—
	<u>\$ 5,382</u>	<u>\$</u>

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

Mortgage loan is payable in equal quarterly installments of approximately \$8,000 plus variable interest rate, which was 3.5% at April 30, 2004, until year 2027, and is collateralized by our land and building located at Egerkingen, Switzerland.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 CASH, CASH EQUIVALENTS AND INVESTMENTS:

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

	<u>As of April 30, 2004</u>			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Cash, cash equivalents and short-term investments:				
Government debt securities	\$ 97,424	\$ 18	\$ (55)	\$ 97,387
Corporate debt securities	30,083		(25)	30,058
	<u>127,507</u>	<u>18</u>	<u>(80)</u>	<u>127,445</u>
Total available for sale securities				
Cash and money market funds	42,387			42,387
	<u>169,894</u>	<u>18</u>	<u>(80)</u>	<u>169,832</u>
Total cash, cash equivalents and short-term investments				
Long-term investments:				
Government debt securities	\$ 37,631	\$ 11	\$ (145)	\$ 37,497
Corporate debt securities	30,994	17	(119)	30,892
	<u>68,625</u>	<u>28</u>	<u>(264)</u>	<u>68,389</u>
Total long-term investments				
	<u>238,519</u>	<u>46</u>	<u>(344)</u>	<u>238,221</u>
Total cash, cash equivalents, short-and long-term investments				
<u>As of April 30, 2003</u>				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash, cash equivalents and short-term investments:				
Government debt securities	\$ 138,631	\$ 65	\$	\$ 138,696
Corporate debt securities	52,873	32		52,905
Foreign debt securities	7,518	1	(5)	7,514
	<u>199,022</u>	<u>98</u>	<u>(5)</u>	<u>199,115</u>
Total available for sale securities				
Cash and money market funds	57,852			57,852

Total cash, cash equivalents and short-term investments	\$ 256,874	\$ 98	\$ (5)	\$ 256,967
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At April 30, 2004 and 2003, all marketable debt securities had scheduled maturities of less than two years. Realized gains or losses from the sale of marketable debt securities were immaterial during fiscal year 2004, 2003 and 2002.

NOTE 5 OTHER ASSETS:

Other assets include investments in equity instruments of privately held companies, which amounted to zero as of April 30, 2004 and 2003. These investments, accounted for using the cost method and consisting primarily of investments in Preferred Stock, are reviewed each reporting period for declines considered other-than-temporary, and, if appropriate, written down to their estimated fair value.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal 2003 and 2002, we determined that such investments had incurred a decline in value that was other-than-temporary 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 and \$1.4 million in fiscal 2003 and 2002, respectively. At April 30, 2004, the carrying value of our private equity investments was zero.

Other assets also include prepaid software license fees paid to third party software developers for technology integrated into our products, which amounted to \$402,000 and \$1.6 million as of April 30, 2004 and 2003, respectively. We evaluate the future realization of such costs quarterly and charge to operations any amounts that we deem unlikely to be fully realized through future sales. Such prepaid software license fees are classified as current and noncurrent assets based upon the shorter of estimated product life or length of contract.

During fiscal 2004, 2003 and 2002, we determined that the carrying value of certain prepaid software license fees exceeded their net realizable value as a result of a revised forecast of future revenues prepared during the respective period showing lower than anticipated sales for the products in which third-party licensed software was embedded, and accordingly, we recorded charges related to the write-down of prepaid software license fees of \$471,000, \$2.7 million and \$1.7 million for fiscal 2004, 2003 and 2002, respectively. These charges are included in the statement of operations under restructuring and other charges to reflect the write-down of the prepaid software license fees to its estimated net realizable value.

NOTE 6 BUSINESS COMBINATIONS:

During fiscal 2004, we acquired TRADEC, Inc. (TradeC) and Eigner US Inc. (Eigner). During fiscal 2003, we acquired ProductFactory, Inc. (ProductFactory) and oneREV, Inc. (oneREV). Each transaction was accounted for under the purchase method of accounting and, accordingly, the results of operations of each acquisition are included in the accompanying consolidated statements of operations since the acquisition date.

The net tangible assets acquired and liabilities assumed in each acquisition, as discussed further below, were recorded at their fair values, which approximated their carrying amounts at the respective acquisition dates. We determined the valuation of the identifiable intangible assets using future revenue assumptions and a valuation analysis from an independent appraiser. The amounts allocated to the identifiable intangible assets were determined through established valuation techniques accepted in the technology and software industries. In calculating the value of the acquired in-process research and development (IPR&D), the independent appraiser gave consideration to relevant market size and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by us and our competitors, individual product sales cycles, and the estimated lives of each of the products derived from the underlying technology. The value of the acquired IPR&D reflects the relative value and contribution of the acquired research and development. Consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the expected cost to complete the project in determining the value assigned to the acquired IPR&D. The projects have been subsequently completed within our estimates. The amounts allocated to the acquired IPR&D were immediately expensed in the period the acquisition was completed because the projects associated with the IPR&D efforts had not yet reached technological feasibility and no future alternative uses existed for the technology. Research and development costs to bring the products acquired to technological feasibility are not expected to be significant. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing the other identifiable intangible assets. Key assumptions included discount factors ranging from 19% to 31% for Eigner and TradeC and 30% to 36% for ProductFactory and oneREV, and estimates of revenue growth, maintenance renewal rates, cost of sales, operating expenses

and taxes. The purchase price in excess of the identified tangible and intangible assets was allocated to goodwill.

Tradec

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

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

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

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

In connection with the acquisition of Eigner, we paid approximately \$1.5 million in hiring bonuses to certain persons who were employees of Eigner at the date of the acquisition. We also implemented a plan to terminate approximately 10% of the combined company workforce, for a total of 63 employees, to eliminate duplicative activities and reduce the cost structure of the combined company. The terminations included 30 Eigner employees and 33 Agile employees, and were made across all business functions and geographic regions. Net of these terminations, our overall headcount increased by 89 employees, across all business functions, as a result of the Eigner acquisition. The estimated cost for related severance, benefits, payroll taxes and other associated costs totaled \$3.3 million, of which \$2.2 million was related to the termination of the Eigner employees and \$1.1 was related to the termination of the Agile employees. As of October 31, 2003, all employees identified in the plan had been notified. Both the hiring bonuses and the severance related costs for the Eigner employees, totaling \$3.7 million, were accrued for at the time of the acquisition and have been recognized as a liability assumed in the business combination. The severance related costs for the Agile employees of \$1.1 million were included in restructuring and other charges during the second quarter of fiscal 2004 (see Note 8 Restructuring and Other Charges for additional information). The Eigner and Agile employee termination obligations have been fully paid as of April 30, 2004.

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

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

Tangible assets acquired:	
Cash and cash equivalents	\$ 3,015
Accounts receivable	2,478
Property and equipment	1,361
Other assets	2,098

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Liabilities assumed:	
Accounts payable	(5,670)
Accrued expenses and other liabilities	(12,590)
Deferred revenue	(3,956)
Identifiable intangible assets acquired:	
In-process research and development	500
Other identifiable intangible assets:	
Existing technology	1,300
Customer relationships	4,000
Non-compete agreements	1,200
Goodwill	25,549
	<hr/>
Total	\$ 19,285
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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ProductFactory

On March 27, 2003, we acquired all of the outstanding capital stock of ProductFactory, a product development program and portfolio management company. The acquisition reinforces our investment and commitment to our Product Portfolio Management offering, Program Execution, giving customers accelerated time-to-market, reduced costs and improved quality across the product lifecycle. The initial purchase price of \$2.6 million consisted of \$2.5 million in cash and \$80,000 in direct transaction costs. Through April 30, 2004, an additional consideration of \$1.7 million has been paid as part of earn out provisions and were recorded as goodwill. Additional consideration of up to \$800,000 may be earned based upon future net revenue from sales of the product through no later than July 31, 2004. Of the initial purchase price and additional consideration, \$1.9 million was allocated to net liabilities assumed, including accounts payable and other liabilities, and notes payable, and the remainder was allocated to in-process technology (\$100,000), other identifiable intangible assets, consisting of developed technologies (\$400,000), and goodwill (\$5.7 million).

oneREV

On December 20, 2002, we acquired all of the outstanding capital stock of oneREV, a developer of supply chain management software and services. The acquisition provides us with important enabling technology, which benefits our customers by speeding the exchange of information between our product and external information sources. The total purchase price of \$1.9 million consisted of \$1.7 million in cash and \$197,000 in direct transaction costs. Of the total purchase price, \$82,000 was allocated to cash, accounts receivable, property and equipment, accounts payable and other liabilities, and notes payable, and the remainder was allocated to in-process technology (\$300,000), other identifiable intangible assets, consisting of developed technologies (\$700,000), and goodwill (\$840,000).

The amount of the purchase consideration was determined through arm's-length negotiation. An affiliate of Mohr Davidow Ventures, who originally invested \$7.2 million in oneREV and was the major stockholder, received \$1.3 million as its portion of the purchase consideration upon the acquisition of oneREV by us. In addition, an affiliate of Mohr Davidow Ventures was the holder of 2.7 million shares of Common Stock of Agile at the time of the transaction. Nancy Schoendorf, a general partner of Mohr Davidow Ventures, was a member of the Board of Directors of oneREV and is a member of the Board of Directors of Agile. Erik Straser, a general partner of Mohr Davidow Ventures, was a member of the Board of Directors of oneREV. Mr. Bryan D. Stolle, Chief Executive Officer and Chairman of the Board of Agile, originally invested \$100,000 in exchange for shares of Preferred Stock of oneREV, and was formerly a member of the Board of Directors of oneREV. Mr. Stolle received \$19,000 as his portion of the purchase consideration upon the acquisition of oneREV by Agile. Neither Ms. Schoendorf nor Mr. Stolle participated in negotiations concerning the amount of purchase consideration payable to oneREV stockholders.

Pro forma financial information

The following table presents the unaudited pro forma financial information for Tradec, Eigner, oneREV and us for fiscal 2004 and 2003, respectively, as if the acquisitions had occurred on May 1, 2002, after giving effect to certain purchase accounting adjustments (in thousands, except per share amounts):

	Fiscal Year Ended	
	April 30,	
	2004	2003
	(unaudited)	
Pro forma net revenue	\$ 104,094	\$ 98,910
Pro forma net loss	\$ (23,879)	\$ (50,285)
Pro forma net loss per basic and diluted share	\$ (0.47)	\$ (1.00)
Pro forma shares outstanding	50,691	50,424

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These results are presented for illustrative purposes only and are not necessarily indicative of the actual operating results or financial position that would have occurred if the transactions had been consummated on May 1, 2002.

Pro forma financial information giving effect to the acquisition of ProductFactory has not been presented since the pro forma financial information would not differ materially from our historical results.

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

The changes in carrying amount of goodwill during fiscal 2004 are as follows (in thousands):

Balance as of April 30, 2003	\$ 5,150
Earnout payments to the stockholders of acquired companies (1)	1,748
Goodwill related to acquisitions (2)	27,826
	<hr/>
Balance as of April 30, 2004	\$ 34,724
	<hr/>

- (1) During fiscal 2004, we paid \$1.7 million of additional consideration to the former ProductFactory stockholders.
(2) Goodwill related to our acquisition of Eigner and Tradec fiscal 2004. See Note 6 Business Combinations for additional information.

In connection with our adoption of SFAS No. 142 on May 1, 2002, we reassessed the useful lives and the classification of our identifiable intangible assets related to our acquisition of Digital Market, Inc. (DMI), which closed in November 1999. Based upon such assessment, we reclassified \$2.1 million of our other intangible assets, representing acquired workforce-in-place to goodwill and ceased amortization of such amounts. We had previously amortized \$1.7 million associated with these intangible assets through fiscal 2002.

The following table summarizes the adjusted results of operations had we applied the provisions of SFAS No. 142 in fiscal 2002 (in thousands, except per share amounts):

Fiscal Year Ended April 30,		
2004	2003	2002
<hr/>	<hr/>	<hr/>

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Net loss as reported	\$ (24,095)	\$ (36,131)	\$ (34,543)
Adjustment for amortization of workforce-in-place			700
Adjusted net loss	\$ (24,095)	\$ (36,131)	\$ (33,843)
Net loss per basic and diluted share as reported	\$ (0.48)	\$ (0.75)	\$ (0.73)
Adjustment for amortization of workforce-in-place			0.02
Adjusted net loss per basic and diluted share	\$ (0.48)	\$ (0.75)	\$ (0.71)
Shares used in per share calculation	50,191	48,495	47,451

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	As of April 30, 2004			As of April 30, 2003		
	Gross		Net	Gross		Net
	Carrying	Accumulated	Carrying	Carrying	Accumulated	Carrying
	Amount	Amortization	Amount	Amount	Amortization	Amount
Developed technologies	\$ 2,600	\$ (720)	\$ 1,880	\$ 1,190	\$ (110)	\$ 1,080
Customer relationships	4,482	(1,239)	3,243			
Non-compete agreements	1,200	(867)	333			
	\$ 8,282	\$ (2,826)	\$ 5,456	\$ 1,190	\$ (110)	\$ 1,080

All of our acquired identifiable intangible assets are subject to amortization and have approximate original estimated weighted-average useful lives as follows: Developed technologies four years; Customer relationships three years; Non-compete agreements one year. No significant residual value is estimated for the intangible assets. Aggregate amortization expense for intangible assets totaled \$2.8 million, \$54,000 and \$756,000 for fiscal 2004, 2003 and 2002, respectively.

As of April 30, 2004, the estimated future amortization expense of acquired intangible assets is as follows (in thousands):

Fiscal Years:	
2005	\$ 2,470
2006	2,138
2007	755
2008	93
	<u>\$ 5,456</u>

NOTE 8 RESTRUCTURING AND OTHER CHARGES:

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As a result of unfavorable global economic conditions and a reduction in information technology spending around the world throughout fiscal 2002, during the fourth quarter of fiscal 2002, we announced a worldwide restructuring program to reduce expenses to align our operations and cost structure with market conditions (the 2002 Restructuring). During the fourth quarter of fiscal 2002, we recorded restructuring and other charges of \$6.3 million related to the 2002 Restructuring, which consisted primarily of a reduction in personnel, the consolidation of excess facilities, abandonment of certain assets in connection with the consolidation of excess facilities, and a write-down of non-refundable prepaid software licenses. As of April 30, 2004, the amount remaining of the 2002 Restructuring obligations was \$153,000 which represents costs related to excess facilities.

Throughout the first half of fiscal 2003, we continued to evaluate the economic conditions and initiated a further restructuring of our operations (the 2003 Restructuring). During the second quarter of fiscal 2003, we recorded restructuring and other charges of \$7.8 million related to the 2003 Restructuring, which consisted primarily of the consolidation of excess facilities, abandonment of certain assets in connection with the consolidation of excess facilities, and a write-down of non-refundable prepaid software licenses. As of April 30, 2004, the amount remaining of the 2003 Restructuring obligations was \$2.4 million which represents costs related to excess facilities.

During the second quarter of fiscal 2004, we recorded total restructuring and other charges of \$9.2 million (the 2004 Restructuring) as follows:

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

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In connection with our acquisition of Eigner during the second quarter of fiscal 2004, we recorded additional restructuring and other charges of \$1.7 million. As discussed in Note 6 Business Combinations under Eigner, we terminated 33 Agile employees, across all business functions and geographic regions and recorded a restructuring and other charge of \$1.1 million for the related severance, benefits, payroll taxes and other associated costs. We recorded an additional \$623,000 of other charges related to the write-down of certain other assets, including a \$471,000 impairment of non-refundable prepaid software license fees for which we determined that the carrying value exceeded its net realizable value as a result of our decision to discontinue selling the products in which the third party licensed software was embedded, due to a comparable product acquired from Eigner.

As of April 30, 2004, the amount remaining of the 2004 Restructuring obligations was \$4.0 million, which represents costs related to excess facilities.

Our restructuring estimates will be reviewed and revised quarterly and may result in an increase to restructuring and other charges.

Summary of Restructuring Obligations

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

	Employee		Asset		
	Termination	Facility-	Abandonment	Other Charges	Total
	Costs	Related Costs	Costs		
Restructuring obligations at April 30, 2001	\$	\$	\$	\$	\$
2002 Restructuring charges (1)	2,429	729	902	2,197	6,257
Cash payments					
Non-cash charges	(447)		(902)	(2,197)	(3,546)
Restructuring obligations at April 30, 2002 (1)	\$ 1,982	\$ 729	\$	\$	\$ 2,711
2003 Restructuring charges (1)		4,657	485	2,694	7,836
Cash payments	(1,982)	(1,135)			(3,117)
Non-cash charges			(485)	(2,694)	(3,179)

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Restructuring obligations at April 30, 2003 (1)	\$	\$ 4,251	\$	\$	\$ 4,251
2004 Restructuring charges (2)		1,092		5,485	2,001
Cash payments		(1,092)		(3,731)	(4,823)
Non-cash charges				581	(2,001)
				(623)	(2,043)
Restructuring obligations at April 30, 2004 (3)	\$	\$ 6,586	\$	\$	\$ 6,586
Included in accrued expenses and other current liabilities					\$ 4,210
Included in accrued restructuring, non-current					2,376
					\$ 6,586

(1) The 2002 Restructuring and 2003 Restructuring and related obligations through April 30, 2003 were recorded in an amount equal to the gross value of the obligation without consideration to the net present value of such obligations, in accordance with EITF No. 94-3 and EITF No. 88-10.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (2) The 2004 Restructuring charges and related obligations were recorded at fair value, after giving effect to the fair value of the related obligations, in accordance with SFAS No. 146.
- (3) The remaining facility-related obligations are expected to be paid through November 2007.

NOTE 9 INCOME TAXES:

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Current			
Federal	\$	\$	\$
State	80	32	114
Foreign	1,214	902	229
	1,294	934	343
Deferred			
Federal			
State			
Foreign			
Net deferred tax assets	\$ 1,294	\$ 934	\$ 343

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Domestic	\$ (28,555)	\$ (34,760)	\$ (34,546)
Foreign	5,754	(437)	346
	(22,801)	(35,197)	(34,200)

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Federal statutory rate	(34)%	(34)%	(34)%
State tax, net of federal impact	(7)	(7)	(13)
Acquisition and related amortization	3	1	1
Nondeductible stock compensation	6	3	
Tax credit carryforwards generated	(1)	(1)	(2)
Write-off of acquisition related assets and impairments		4	1
Deferred tax assets not benefited	39	37	47
	6%	3%	%

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

	<u>As of April 30,</u>	
	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Depreciation and amortization	\$ 3,447	\$ 1,483
Reserves and accruals	13,080	11,155
Credit carryforwards	8,329	6,203
Net operating loss carryforwards	99,781	53,881
	<u>124,637</u>	<u>72,722</u>
Total deferred tax asset	124,637	72,722
Less: valuation allowance	(124,637)	(72,722)
	<u>\$</u>	<u>\$</u>
Net deferred tax assets	<u>\$</u>	<u>\$</u>

For financial reporting purposes, we have incurred a loss in each period since its inception. Based on the available objective evidence, including our history of losses, we believe it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, we provided for a full valuation allowance against our net deferred tax assets at April 30, 2004 and 2003.

At April 30, 2004, we had approximately \$223.2 million of federal, \$128.9 million of state and \$41.4 million of foreign net operating loss, respectively. The foreign net operating loss carryforwards are subject to jurisdictional restrictions on their utilization. The net operating loss carryforwards will begin to expire in 2011 and 2004 for federal and California purposes, respectively, if not utilized. The state of California has temporarily suspended the ability to utilize California net operating losses for the 2003 tax year. Included in the net operating loss is \$58.0 million of federal and \$47.4 million of state net operating loss carryforwards relating to employee stock options, the benefit of which will be credited to equity when realized.

At April 30, 2004, we had federal and California research and experimentation tax credit carryforwards of approximately \$4.4 million and \$4.1 million, respectively. These federal tax credit carryforwards begin to expire in tax year 2011, if not utilized. The California tax credit carryforwards do not expire.

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

NOTE 10 STOCKHOLDERS EQUITY:

Preferred Stock

We are authorized to issue 10.0 million shares of \$0.001 par value Preferred Stock. Our Board of Directors has the authority to issue the undesignated Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. At April 30, 2004 and 2003, there were no shares issued or outstanding.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rights Agreement

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

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

Restricted stock

We have previously granted stock to certain founders and employees under a restricted stock plan. This plan was terminated in June 1999. Through June 1999, we had sold 4.5 million shares of Common Stock to such founders and employees that were subject to certain repurchase rights by us. We have a right of first offer in connection with any proposed sale or transfer of these shares and have the right to repurchase these shares at the original issue price. Our right of first offer and right to repurchase such shares declines on a percentage basis, usually over four years, based on the length of the employees' continual employment with us. At April 30, 2004, there were no shares of founders and employees restricted stock outstanding.

Certain of these and other shares were issued in exchange for notes receivable, which are full recourse and additionally collateralized by the underlying shares of Common Stock. These notes receivable are payable on various dates through April 2005 and bear interest at rates ranging from 4.5% to 7.4%. These notes receivable have been included as a component of stockholders' equity.

In January 2003, we issued 134,000 shares of Common Stock to certain employees under restricted stock agreements. These restrictions lapse over two years, based upon the employees' continual employment with us. In the event an employee terminates prior to the restrictions lapsing, we have the right to repurchase any unvested shares at the original issue price of \$0.001 per share. At April 30, 2004, there were 120,000 shares outstanding under the restricted stock agreements, of which 35,000 shares were subject to repurchase.

Warrant

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In September 2000, in connection with a marketing alliance with a business partner, we issued a warrant to purchase 50,000 shares of our Common Stock at an exercise price of \$67.05 per share, the fair value of our Common Stock on the date of the agreement. We recorded a charge of \$2.0 million representing the fair value of the warrant, estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free rate of 5.75%, expected life of 3 years, expected dividend rate of 0%, and volatility of 80%. Such amount is presented as a reduction of stockholders' equity and is being amortized to expense over the three-year life of the marketing alliance.

The warrant was granted on a non-contingent basis and vested immediately. The warrant is not subject to repurchase, nor does it require substantial performance for the third party to exercise. The marketing alliance is a three-year non-exclusive cooperative agreement, which is designed to enhance the third party's and our potential revenues in their respective areas, and credibility in collaborative manufacturing commerce without constraining each other's business. The third party and we will be responsible for their own cost and expenses in performing joint marketing and sales activities.

The warrant expired on September 4, 2003.

Unearned stock compensation

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

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

During fiscal 2004, 2003 and 2002, we terminated employment of individuals for whom we had recorded unearned stock compensation and had recognized related expense. Upon termination, we record as a recovery within the statements of operations the difference between the actual expense recorded using the accelerated method and the expense that would have been recorded under the straight-line method. Accordingly, during fiscal 2004, 2003 and 2002, we reduced unearned stock compensation, which would have been amortized to future expense, by \$276,000, \$924,000 and \$4.2 million, respectively.

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

	Fiscal Year Ended April 30,		
	2004	2003	2002
Amortization employees	\$ 4,339	\$ 2,512	\$ 3,198
Amortization non-employees	207	892	760
Recovery employees	(264)	(772)	(3,676)
Total stock compensation	\$ 4,282	\$ 2,632	\$ 282

NOTE 11 EMPLOYEE BENEFIT PLANS:**401(k) plan**

Our employee savings and retirement plan is qualified under Section 401 of the Internal Revenue Code. Employees may elect to reduce their current compensation by up to the statutory prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plan. We provided a 50% match to employee contributions up to \$1,500 and discontinued this matching contribution in early fiscal 2004. Our employees may elect to participate in our 401(k) plan. We made contributions to the 401(k) plan in fiscal 2004, 2003 and 2002 of \$124,000, \$394,000 and \$610,000, respectively.

Stock Plans

1995 Stock option plan

In May 1995, we adopted the 1995 Stock Option Plan (the 1995 Plan), which, as amended, provides for the issuance of incentive and nonqualified stock options to our employees, directors and consultants. Under the 1995 Plan, 14.8 million shares have been authorized for issuance as of April 30, 2004. This reserve will be automatically increased on the first day of each fiscal year by the lesser of 1.0 million shares per year, or 5% of the number of shares of our Common Stock which were issued and outstanding on the last day of the preceding fiscal year or a number of shares determined by our Board of Directors. Options granted under the 1995 Plan are for periods not to exceed ten years and options must be issued at prices not less than 100% and 85%, for incentive and nonqualified stock options, respectively, of the estimated fair value of the stock on the date of grant. Options granted to stockholders who own greater than 10% of the outstanding stock are for periods not to exceed five years, and must be issued at prices not less than 110% of the estimated fair value of the stock on the date of grant. Options are exercisable upon grant and generally vest 25% or 20% at the end of the first year and at a rate of 1/36 or 1/48 per month thereafter such that they vest over four or five years, respectively. As of April 30, 2004, there were 909,000 shares available for issuance under the 1995 Plan.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee stock purchase plan

In June 1999, our Board of Directors adopted the 1999 Employee Stock Purchase Plan (the Purchase Plan), which became effective on the date of our initial public offering, and reserved 1.0 million shares of Common Stock for issuance thereunder. This reserve was automatically increased to 2.0 million shares on May 1, 2000 and will increase each May 1 thereafter until and including May 1, 2009, by an amount equal to the lesser of 1.0 million shares per year, 2% of the number of shares of Common Stock which are issued and outstanding on the last day of the preceding fiscal year or a number of shares determined by our Board of Directors. Employees generally will be eligible to participate in the Purchase Plan if they are employed by us for more than 20 hours per week and more than five months in a fiscal year end. In general, the price at which the Common Stock is purchased under the Purchase Plan is 85% of the lesser of the fair market value of our Common Stock on the first day of the applicable offering period or on the purchase date. Employees generally may not purchase more than 2,000 shares in a six-month period or stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period.

Under the Purchase Plan, we issued 263,000 shares of Common Stock at an average price per share of \$6.70 in fiscal 2004, 333,000 shares of Common Stock at an average price per share of \$5.65 in fiscal 2003, and 307,000 shares at an average price per share of \$8.50 in fiscal 2002. As of April 30, 2004, there were 3.6 million shares available for issuance under the Purchase Plan.

2000 Nonstatutory stock option plan

In February 2000, we adopted the 2000 Nonstatutory Stock Option Plan (the 2000 Plan), which provides for the issuance of nonqualified stock options to our employees and consultants. Under the 2000 Plan, 19.5 million shares of Common Stock have been authorized for issuance. Options granted under the 2000 Plan must be issued at prices not less than 85% of the estimated fair value of our Common Stock on the date of grant. Our Board of Directors, or a committee designated Board, determines the vesting schedule and term of each grant. As of April 30, 2004, there were 7.1 million shares available for issuance under the 2000 Plan.

Option exchange program

On October 18, 2001, we announced a voluntary stock option exchange program for our employees. Under the program, our option holders had the opportunity to cancel outstanding options with an exercise price in excess of \$15.00 per share in exchange for new options granted on May 31, 2002. The new options granted under the program were for approximately 2.5 million shares of Common Stock at an exercise price of \$8.34 per share, which was the fair market value of the our Common Stock on May 31, 2002, based upon the closing sales price of our Common Stock on the NASDAQ National Market on that date. Under the exchange program 4.0 million shares of our Common Stock were tendered and cancelled. The replacement options have terms and conditions that are substantially the same as those of the canceled options. The exchange program did not result in any additional compensation charges or variable plan accounting. Members of our Board of Directors did not participate in this program.

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

	Shares Available for Grant	Number Outstanding	Weighted Average Exercise Price
Balance at April 30, 2001	4,329	15,919	\$ 26.13
Options authorized	1,000		
Options granted	(5,384)	5,384	10.30
Options exercised		(865)	4.98
Options canceled	8,428	(8,428)	35.84
Unvested shares repurchased	239		
<hr/>			
Balance at April 30, 2002 (2,830 shares exercisable at weighted average exercise price of \$17.28 per share)	8,612	12,010	13.68
Options authorized	6,000		
Options granted	(8,640)	8,640	6.68
Options exercised		(276)	4.43
Options canceled	5,239	(5,239)	12.60
Unvested shares repurchased	29		
<hr/>			
Balance at April 30, 2003 (5,825 shares exercisable at weighted average exercise price of \$12.76 per share)	11,240	15,135	10.22
Options authorized	1,000		
Options granted	(6,229)	6,229	9.59
Options exercised		(1,215)	6.66
Options canceled	2,053	(2,053)	12.02
Unvested shares repurchased	2		
<hr/>			
Balance at April 30, 2004 (7,916 shares exercisable at weighted average exercise price of \$11.53 per share)	8,066	18,096	\$ 10.04

As of April 30, 2004, 8,000 outstanding shares of Common Stock purchased under the stock option plans were subject to repurchase at a weighted average purchase price of \$2.35 per share. Upon termination of employment, unvested shares previously purchased under the plans are subject to repurchase by us at a price equal to the exercise price.

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

The following table summarizes the information about stock options outstanding and exercisable as of April 30, 2004 (shares in thousands, except per share data):

Range of Exercise Prices	Options Outstanding			Options Vested and Exercisable	
	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
\$ 0.01 - \$5.11	2,255	7.54	\$ 4.36	1,203	\$ 4.40
5.41 - 6.25	2,171	8.24	6.09	772	6.07
6.32 - 8.34	3,041	8.51	7.55	1,279	8.01
8.41 - 9.30	803	8.87	8.92	246	9.12
9.42 - 9.42	2,017	9.31	9.42	339	9.42
9.50 - 9.98	1,964	8.46	9.73	700	9.72
10.00-10.44	1,979	7.40	10.33	1,515	10.31
10.52-12.09	1,859	9.08	11.12	239	11.36
12.10-35.25	1,831	6.29	21.04	1,476	21.18
36.63-64.00	176	4.33	61.55	147	62.51
\$ 0.01-\$64.00	18,096	8.13	\$ 10.04	7,916	\$ 11.53

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

We have entered into non-cancelable operating leases for office space with original terms up to 128 months. The terms of certain operating leases provide for rental payments on a graduated scale. We recognize expense on a straight-line basis over the lease period and have accrued for rent expense incurred but not paid. The future minimum lease payments under these leases at April 30, 2004 are as follows (in thousands):

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Fiscal Year	Future Minimum Lease Payments	Less Sublease Income	Net Future Minimum Lease Payments
2005	\$ 7,918	\$ 1,114	\$ 6,804
2006	3,887	327	3,560
2007	1,759		1,759
2008	1,170		1,170
2009	1,200		1,200
Thereafter	2,438		2,438
Total minimum lease payments	\$ 18,372	\$ 1,441	\$ 16,931

In connection with our move to our new headquarters in San Jose, California, during the second quarter of fiscal 2004, we recorded restructuring and other charges of \$7.5 million, of which \$5.5 million related to the fair value of the remainder of our outstanding lease commitments for properties that we vacated in September 2003, net of the fair value of estimated sublease income, and net of deferred rent of \$581,000 related to the vacated properties. The fair value of the remainder of the outstanding lease commitments and the related estimated sublease income are included in the above table.

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AGILE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rent expense under non-cancelable operating leases was approximately \$8.8 million, net of sublease rental income of \$166,000, for fiscal 2004, \$4.6 million, net of sublease rental income of \$697,000, for fiscal 2003, and \$6.4 million, net of sublease rental income of \$685,000, for fiscal 2002.

Indemnification obligations

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

Litigation

On or around October 25, 2001, a class action lawsuit was filed 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 and all defendants moved to dismiss. On February 19, 2003, the Court dismissed the claims under the Securities Act of 1933 with respect to our initial public offering, but not the secondary offering. The Court denied the motion to dismiss the Section 10(a) claim against us, but granted the motion as to the individual defendants.

We have accepted 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 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.

Other commitment

In connection with our acquisition of Eigner, we assumed a commitment to purchase consulting services from a vendor to Eigner, which provides for quarterly payments through fiscal 2007 totaling approximately \$1.3 million.

NOTE 13 SEGMENT AND GEOGRAPHIC INFORMATION:

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

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

The following geographic information is presented for fiscal 2004, 2003 and 2002 (in thousands):

	Fiscal Year Ended April 30,		
	2004	2003	2002
Revenues:			
North America	\$ 60,327	\$ 52,742	\$ 67,226
Asia-Pacific	11,811	11,460	6,107
Europe	24,167	6,307	4,438
	\$ 96,305	\$ 70,509	\$ 77,771

No single customer has accounted for 10% or more of total revenues in fiscal 2004, 2003 or 2002.

NOTE 14 SUBSEQUENT EVENT (unaudited):

In May 2004, we announced a restructuring program as part of our cost-containment program. The program involves termination of employment of approximately 15% of our worldwide headcount or 77 personnel, consolidation of our facility in Tokyo, Japan and consolidation of our Chinese development centers by closing our development center in Hong Kong, China. We projected the total costs associated with this program to be ranging from \$2.0 to 3.0 million.

Table of Contents**AGILE SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 15 UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL DATA:**

	Quarter				Fiscal Year
	First	Second	Third	Fourth	
Fiscal 2004:					
Total revenues	\$ 18,263	\$ 24,668	\$ 26,183	\$ 27,191	\$ 96,305
Gross margin	12,694	15,430	16,088	17,862	62,074
Net loss (1)	(2,675)	(15,671)	(4,038)	(1,711)	(24,095)
Net loss per basic and diluted share (1)	\$ (0.05)	\$ (0.31)	\$ (0.08)	\$ (0.04)	\$ (0.48)
Fiscal 2003:					
Total revenues	\$ 16,024	\$ 17,503	\$ 17,878	\$ 19,104	\$ 70,509
Gross margin	10,687	12,141	12,849	13,854	49,531
Net loss (2)	(12,348)	(15,053)	(5,688)	(3,042)	(36,131)
Net loss per basic and diluted share (2)	\$ (0.26)	\$ (0.31)	\$ (0.12)	\$ (0.06)	\$ (0.75)

- (1) Net loss and net loss per basic and diluted share in the second quarter of fiscal 2004 includes \$7.8 million of restructuring and other charges.
- (2) Net loss and net loss per basic and diluted share in the first quarter of fiscal 2003 includes a \$2.6 million write down of long-term investments. Net loss and net loss per basic and diluted share in the second quarter of fiscal 2003 includes \$7.8 million of restructuring and other charges. Net loss and net loss per basic and diluted share in the third quarter of fiscal 2003 includes a \$1.1 million write down of long-term investments.

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

	Balance at Beginning of Period	Provision	Amounts Written Off	Balance at End of Period
(in thousands)				
For the Year Ended April 30, 2002				
Allowance for doubtful accounts	\$ 1,250	\$ 399	\$ 537	\$ 1,112
Allowance for deferred tax assets	42,751	12,972		55,723
	<u>44,001</u>	<u>13,371</u>	<u>537</u>	<u>56,835</u>
For the Year Ended April 30, 2003				
Allowance for doubtful accounts	1,112	200	154	1,158
Allowance for deferred tax assets	55,723	16,999		72,722
	<u>56,835</u>	<u>17,199</u>	<u>154</u>	<u>73,880</u>
For the Year Ended April 30, 2004				
Allowance for doubtful accounts	1,158	550	196	1,512
Allowance for deferred tax assets	72,722	35,143		107,865
	<u>\$ 73,880</u>	<u>\$ 35,693</u>	<u>\$ 196</u>	<u>\$ 109,377</u>

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* Based on our management's evaluation (with the participation of our chief executive officer and chief financial officer) as of the end of the period covered by this Annual Report on Form 10-K/A, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) are effective as of the end of the period covered by this Report to ensure that information required to be disclosed by us in reports that we file, or submit, under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

(b) *Changes in internal controls over financial reporting.* There was no change in our internal control over financial reporting during the fourth quarter of fiscal 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Reclassifications

We re-evaluated our disclosure controls and procedures in light of the factors that led us to make the reclassifications reflected in this Report. The decision to reclassify the auction rate securities was made during and in connection with, and came to our attention as part of, our normal disclosure control process as it relates to our quarterly period ended January 31, 2005. Each quarter, our disclosure committee reviews, among other items, comments received from the Staff of the Securities and Exchange Commission, newly released technical accounting literature, and other interpretive guidance applicable to our business. We also review disclosures made by others in our industry as an example of changes in practice. As a result of these reviews with respect to the fiscal quarter ended January 31, 2005, we noted that practice had changed relating to

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accounting for auction rate securities. After discussing these changes in practice, the technical literature, as well as comments we received from the Securities and Exchange Commission, with our audit committee, we determined that the reclassifications were appropriate with respect to the January 31, 2005 quarterly report. We have amended the annual financial statements included in this Form 10-K/A to present them on a comparable basis with our subsequent interim reports. We continue to believe our disclosure controls and procedures were effective at April 30, 2004.

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CEO and CFO Certifications

Attached, as Exhibits 31 and 32, are two separate forms of certifications of the CEO and the CFO. The certifications attached as Exhibits 31.1 and 31.2 are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certification). The information contained in this Item 4 relates to the Controls Evaluation referred to in the Section 302 Certifications, and should be read with the Section 302 Certifications for a more complete understanding of the topics presented.

Disclosure Controls and Internal Controls

Our management, including the CEO and CFO, has a responsibility for establishing and maintaining adequate disclosure and internal controls over our financial reporting. Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures that are designed with the objective of providing reasonable assurance that our transactions are properly authorized, our assets are safeguarded against unauthorized or improper use, and our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with GAAP.

Limitations on the Effectiveness of Controls

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

PART IV

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

(a) 3. Exhibits

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The following are filed as part of this Form 10-K/A.

- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

/S/ *

Director

Gareth Chang

*By: /S/ CAROLYN V. AVER

Attorney-in-Fact

June 16, 2005

Carolyn V. Aver

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