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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended April 30, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 000-27071

AGILE SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**77-0397905**
(State or other jurisdiction of incorporation or organization)	**(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, Par Value $0.001

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

AGILE SOFTWARE CORPORATION

FORM 10-K

APRIL 30, 2005

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

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

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

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

Industry Background

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

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

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

Direct Materials Sourcing. As manufacturers outsource more and more of their production requirements, including in many cases engineering activities, to third-party suppliers, they no longer have direct control over the internal procedures used to design and build their products. To ensure high quality, cost effective and timely availability of products, product information and changes must be communicated effectively across a very complex, global supply chain.

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

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

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

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

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

The Agile PLM Solution

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

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

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

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

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

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

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

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

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

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

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

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

Agile Configuration Management. Agile Configuration Management extends core configuration management capabilities by providing configuration control linked to serial numbers that is integrated with the change identification and management process. Agile Configuration Management enables manufacturers of complex, heavily regulated or highly customizable products, such as Aerospace & Defense suppliers, to ensure that the product delivered meets the customer s exact specifications. It also ensures that each unique configuration can be tracked and identified.

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

The Agile PLM Platform

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

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

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

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

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

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

The Agile Strategy

Key elements in our strategy for achieving success are:

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

Table of Contents

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

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

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

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

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

Customers

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

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

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

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

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

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

Table of Contents

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

Electronics & High Technology	**Industrial Products**
Applied Materials, Inc.	Alps Automotive, Inc.
Broadcom Corporation	Ballard Power Systems
Brocade Communications System	Ball Aerospace & Technologies Corp
Celestica, Inc.	BE Aerospace Business Jet Division
Coherent, Inc.	BF Goodrich
Conexant Systems, Inc.	Boeing Service Company
Dell Computer Products	ESCO, Inc.
Dolby Laboratories, Inc.	Ferag AG
Eastman Kodak Company	Handtmann
Elcoteq Network Corporation	Harley Davidson/Buell Motorcycle Corporation
Emerson Electric Company	Hartzell Propeller
Flextronics International	Heidenhain
Foxconn (Hon Hai Precision Industry)	Intertechnique
Fujitsu Limited	Lockheed Martin Missile and Fire Control
Funai Electric Company Limited	Magna Steyr
Hitachi Corporation	Metaldyne, Inc.
IBM Corporation	Rheinmetall AG
Jabil Circuit, Inc.	Saturn Electronics and Engineering, Inc.
Jacobs Sverdrups	Shure Inc.
Juniper Networks, Inc.	Siemens A&D
Lucent Technologies	Thyssenkrupp AG
Marconi Corporation Plc	TRW Automotive
Microsoft Xbox	ZF

NEC Corporation

Network Appliance

Nintendo of America

Qualcomm Corporation

Quanta Computers

Sanmina-SCI Systems

Sharp

Siemens

Solectron Corporation

Symbol Technologies Inc.

Texas Instruments, Inc.

Varian Semiconductor

ViaSat, Inc.

Life Sciences

Draeger Medical AG and Co

GE Medical Systems

GlaxoSmithKline Plc.

Hill-Rom Company, Inc.

Hologic, Inc.

Intuitive Surgical Inc.

Invitrogen Corporation

Johnson & Johnson

Medtronic, Inc.

SonoSite, Inc.

Tyco Healthcare

Welch Allyn, Inc.

Others

Albertson s Inc.

Bayer Consumer Healthcare

International Paper Evergreen Packaging

LeapFrog Enterprises

Playtex, Inc.

Rock-Tenn Alliance Group

Table of Contents

Sales and Marketing

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

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

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

Customer Care

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

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

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

Training. We offer a variety of classes and related materials to train our customers on system administration, upgrades and new releases. These classes are also available as part of our Train the Trainer program. Training classes are offered at our headquarters in San Jose, California, at our development center in Karlsruhe, Germany, at customer sites, and at other locations. To improve access to our explanatory materials, we offer on-line documentation contained on the compact discs for our products and from our web site for all our products. We also offer on-line help for the majority of our products. Customers can purchase additional documentation via our web site.

Table of Contents

Product Development

Our product development objectives are to:

- Develop innovative solutions focused on streamlining the flow of information and work processes across product operations of the extended manufacturing enterprise and supply chain;
- Develop solutions that deliver the highest return on investment to our customers; and
- Utilize industry and technology standards where appropriate.

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

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

Product Technology and Architecture

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

- Support for commercial component technologies including Oracle RDBMS and Oracle Application Server, BEA WebLogic Application Server, and IBM Websphere Portal Server;
- End user client access via HTML through Microsoft Internet Explorer or Netscape Navigator, a Java client or a Windows client;
- Integration with other systems of record in use by manufacturing enterprises such as MRP, ERP, and CRM as well as custom and internally developed business applications. Common commercial solutions that can be integrated with Agile PLM include SAP, Oracle Applications, J.D. Edwards, and Peoplesoft.

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

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

Competition

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

Table of Contents

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

Principally we compete with the following:

- In-house and out-sourced custom development efforts by potential customers;
- Vendors of engineering information management software, such as Dassault Systems S.A., UGS, MatrixOne, Inc., and Parametric Technology Corporation;
- Vendors offering related enterprise software (e.g. ERP) who seek to extend the functionality of their products, such as Oracle Corporation and SAP;
- Vendors of visualization software;
- Niche and new-to-the market vendors that provide partial PLM solutions such as IDE and Arena Systems; and
- Vendors that are focused in regional markets.

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

- Our research and development and marketing resources are focused on delivering PLM solutions that solve very specific business problems for our customers in the industries we serve;
- Our sales and services organizations are focused on assisting customers to achieve demonstrable and meaningful benefits from our solutions; and
- We provide cost-effective solutions designed to provide rapid time to benefit and substantial value for our customers over the lifetime of deployment.

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

- The performance, functionality, price, reliability and speed of implementation of our solutions;
- The timing and market acceptance of new products and product enhancements to our solutions;

The quality of our customer service; and

The effectiveness of our sales and marketing efforts.

Proprietary Rights

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

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

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

Employees

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

Available Information

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

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

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

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

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

Table of Contents

PART II

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

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

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

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

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

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

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

13

Table of Contents

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

14

Table of Contents

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

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

Business Overview

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

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

Increased Product Breadth

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

Expanded Industry Focus

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

- Electronics and high technology;

Industrial products;

Life sciences; and

Others.

Table of Contents

Acquisitions

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

- *oneRev, Inc. (oneRev)*, acquired in December 2002;
- *ProductFactory, Inc. (ProductFactory)*, acquired in March 2003;
- *Eigner US Inc. (Eigner)*, acquired in August 2003;
- *TRADEC, Inc. (TRADEC)*, acquired in September 2003; and
- *Cimmetry Systems, Inc. (Cimmetry)*, acquired in February 2005.

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

Restructurings

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

- In fiscal 2003, we evaluated the economic conditions and initiated a restructuring of our operations. During the second quarter of fiscal 2003, we recorded a restructuring charge of $5.2 million, primarily related to the consolidation of additional excess facilities and the abandonment of additional property and equipment;
- During the second quarter of fiscal 2004, in connection with our move to our new headquarters in San Jose, California, we recorded a restructuring charge of $7.5 million, primarily related to our outstanding lease commitments for properties that we vacated in September 2003 and the abandonment of certain long-lived assets;
- During the second quarter of fiscal 2004, in connection with our acquisition of Eigner, we recorded an additional restructuring charge of $1.2 million primarily related to the termination of 33 employees, to eliminate duplicative activities and reduce the cost structure of the combined company; and

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

Overview of Our Results

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

Table of Contents

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

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

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

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

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

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

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

Use of Estimates and Critical Accounting Policies

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

We have identified the policies below as critical to our business operations and understanding of our financial condition and results of operations. A critical accounting policy is one that is both material to the presentation of our financial statements and requires us to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. These policies may require us to make assumptions about matters that are highly uncertain at the time of the estimate, and different estimates that we could have used, or changes in the estimate that are reasonably likely to occur, may have a material impact on our financial condition or results of operations.

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

Revenue Recognition

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

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

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

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

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

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

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

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

Allowance for Doubtful Accounts and Sales Returns

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

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

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

Stock Options

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

Table of Contents

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

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

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

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

Business Combinations and Acquired Intangible Assets

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

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

20

Table of Contents

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

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

Accounting for income taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance.

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

Table of Contents

Results of Operations

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

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

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

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

Revenues

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

Table of Contents

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

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

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

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

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

License Revenue

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

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

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

Table of Contents

Service Revenue

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

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

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

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

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

Cost of Revenues

Cost of License Revenue

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

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

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

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

Cost of Service Revenue

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

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

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

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

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

Impairment of Prepaid Software Licenses

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

Operating Expenses

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

Table of Contents

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

Sales and Marketing

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

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

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

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

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

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

Research and Development

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

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

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

Table of Contents

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

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

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

General and Administrative

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

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

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

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

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

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

Table of Contents

Stock Compensation (Recovery)