AGILE SOFTWARE CORP
Form 10-Q
March 14, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 31, 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	**(I.R.S. Employer**
incorporation or organization)	**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)

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

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

The number of shares of common stock of the Registrant issued and outstanding as of January 31, 2005 was 53,277,519.

Table of Contents

AGILE SOFTWARE CORPORATION

FORM 10-Q

JANUARY 31, 2005

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AGILE SOFTWARE CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	January 31, 2005	April 30, 2004 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,321	$ 45,337
Short-term investments	106,755	124,495
Accounts receivable, net of allowance for doubtful accounts of $1,798 and $1,512 as of January 31, 2005 and April 30, 2004, respectively	23,146	19,998
Other current assets	7,173	5,356
Total current assets	227,395	195,186
Long-term investments, net	44,264	68,389
Property and equipment, net	8,734	8,696
Other assets	1,255	2,186
Intangible assets, net	3,520	5,456
Goodwill	35,485	34,724
Total assets	$ 320,653	$ 314,637
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,304	$ 4,773
Accrued expenses and other current liabilities	18,358	16,298
Accrued restructuring, current	3,209	4,210
Deferred revenue	21,942	20,104
Total current liabilities	49,813	45,385
Accrued restructuring, non-current	714	2,376
Other non-current liabilities	6,569	5,382
Total liabilities	57,096	53,143
Commitments and contingencies (Note 7)		
Stockholders equity:		
Common stock	53	52

Additional paid-in capital	550,515	544,927
Notes receivable from stockholders	(77)	(83)
Unearned stock compensation	(769)	(1,139)
Accumulated other comprehensive loss	(1,529)	(432)
Accumulated deficit	(284,636)	(281,831)
Total stockholders equity	263,557	261,494
Total liabilities and stockholders equity	$ 320,653	$ 314,637

(1) Amounts as of April 30, 2004 have been derived from audited financial statements as of that date with certain reclassifications to conform to the current financial statements presentation (see Note 1- Summary of Significant Accounting Policies).

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

3

Table of Contents

AGILE SOFTWARE CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Revenues:				
License	$ 12,455	$ 9,527	$ 33,975	$ 25,154
Service	17,825	16,656	51,003	43,960
Total revenues	30,280	26,183	84,978	69,114
Cost of revenues:				
License	1,243	988	3,484	2,774
Service	8,424	8,461	23,863	21,014
Stock compensation	36	95	179	147
Acquisition-related compensation		339		595
Amortization of intangible assets	178	212	533	372
Impairment of prepaid software licenses				471
Total cost of revenues	9,881	10,095	28,059	25,373
Gross margin	20,399	16,088	56,919	43,741
Operating expenses:				
Sales and marketing:				
Other sales and marketing	11,956	9,828	33,170	27,499
Stock compensation	87	315	331	2,988
Research and development:				
Other research and development	5,649	6,038	16,471	17,214
Stock compensation	2	53	25	165
General and administrative:				
Other general and administrative	2,908	2,246	8,262	6,507
Stock compensation	34	101	157	592
Acquisition-related compensation		529		1,091
Amortization of intangible assets	357	679	1,403	1,435
Acquired in-process research and development				500
Restructuring and other charges			2,132	8,730
Total operating expenses	20,993	19,789	61,951	66,721
Loss from operations	(594)	(3,701)	(5,032)	(22,980)
Other income:				
Interest and other income, net	1,169	754	3,047	2,347
Loss from foreign currency translation		(743)		(743)
Income (loss) before provision for income taxes	575	(3,690)	(1,985)	(21,376)

Provision for income taxes	285	348	820	1,008
Net income (loss)	$ 290	$ (4,038)	$ (2,805)	$ (22,384)
Net income (loss) per share:				
Basic and diluted	$ 0.01	$ (0.08)	$ (0.05)	$ (0.45)
Weighted average shares				
Basic	53,058	51,947	52,732	50,139
Diluted	54,840	51,947	52,732	50,139

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

Table of Contents

AGILE SOFTWARE CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended January 31, 2005	Nine Months Ended January 31, 2004
Cash flows from operating activities:		
Net loss	$ (2,805)	$ (22,384)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Acquired in-process research and development		500
Provision for doubtful accounts	413	390
Depreciation and amortization	5,684	5,757
Stock compensation	692	3,892
Loss from foreign currency translation		743
Non-cash portion of restructuring and other charges	39	2,043
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(3,164)	(3,078)
Other assets, current and non-current	(1,209)	1,714
Accounts payable	1,254	(4,138)
Accrued expenses and other liabilities	(2,679)	2,702
Deferred revenue	3,020	(169)
Net cash provided by (used in) operating activities	1,245	(12,028)
Cash flows from investing activities:		
Purchases of investments	(92,071)	(152,201)
Proceeds from maturities of investments	133,350	186,805
Cash paid in business combinations, net of cash acquired	(761)	(2,543)
Acquisition of property and equipment	(3,188)	(6,247)
Net cash provided by investing activities	37,330	25,814
Cash flows from financing activities:		
Payment of acquired capital lease obligations		(718)
Proceeds from issuance of common stock, net of repurchases	5,265	7,933
Repayment of notes receivable from stockholders	6	103
Net cash provided by financing activities	5,271	7,318
Effect of exchange rate changes on cash	1,138	(422)
Net increase in cash and cash equivalents	44,984	20,682
Cash and cash equivalents at beginning of period	45,337	57,852
Cash and cash equivalents at end of period	$ 90,321	$ 78,534
Supplementary disclosure of cash flows information		

Cash paid during the period for taxes	$	368	$	688
Non-cash investing activities				
Common Stock issued in business combination	$		$	15,634

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

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Summary of Significant Accounting Policies:

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Agile Software Corporation and its subsidiaries (Agile) have been prepared by us and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with the Securities and Exchange Commission s rules and regulations. These unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2004, included in our Annual Report on Form 10-K filed on July 14, 2004 with the Securities and Exchange Commission.

Reclassification

Agile has reclassified its auction rate securities of $67.7 million, previously classified as cash equivalents, as short-term investments in the accompanying April 30, 2004 Unaudited Condensed Consolidated Balance Sheets, because even though these securities are issued and rated as long term bonds, they are priced and traded as short term instruments because of the liquidity provided through the interest rate resets occurring at predetermined intervals, usually every 7, 28 or 25 days. The Company had historically classified these instruments as cash equivalents if the period between interest rate resets was 90 days or less, which was based on our ability to either liquidate our holdings or roll our investment over to the next reset period. In addition, Purchases of investments and Proceeds from maturities of investments , included in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows for the period ended January 31, 2004 have been revised to include the purchase and sale of auction rate securities. This reclassification has no impact on our Unaudited Condensed Consolidated Statements of Operations.

Agile also reclassified a $471,000 impairment of non-refundable prepaid software licenses from restructuring charge to a separate component of cost of revenues in the accompanying Unaudited Condensed Consolidated Statement of Operations for the nine months ended January 31, 2004. This reclassification has no impact on our loss from operations and net loss.

Concentrations of credit risk and significant customers

In the three months ended January 31, 2005, one of our customers accounted for more than 10% of our total revenue. In the three months ended January 31, 2004 and nine months ended January 31, 2005 and 2004, none of our customers accounted for more than 10% of our total revenue. As of January 31, 2005, one of our customers accounted for more than 10% of our net accounts receivable. As of April 30, 2004, none of our customers accounted for more than 10% of our net accounts receivable.

Stock compensation

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

We account for stock-based compensation arrangements for non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force (EITF) No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. We calculate the fair value of options issued to non-employees under SFAS 123 using the Black-Scholes option pricing model and recognize the fair value as an expense over the applicable service period of the related options using the accelerated method of amortization. As of July 31, 2004, we have fully amortized the expense related the fair value of options issued to non-employees.

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Fair value disclosures

Under SFAS No. 123, we are required to provide pro forma information disclosing net income and earnings per share determined as if we had accounted for our stock-based compensation plans under the fair value method.

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

	Stock Option Plans			
	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	2004	2005	2004
Dividend yield				
Expected volatility	43%	54%	44%	66%
Average risk-free interest rate	3.75%	3.17%	3.61%	3.27%
Expected life (in years)	5	5	5	5

	Purchase Plan			
	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	2004	2005	2004
Dividend yield				
Expected volatility	38%	54%	40%	66%
Average risk-free interest rate	2.63%	1.01%	2.36%	1.02%
Expected life (in years)	.5	.5	.5	.5

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the use of assumptions, including the expected stock price volatility. We use volatility rates based upon our historical volatility rates. Based upon the above assumptions, the weighted average fair value per share of options granted under the stock option plans during the three months ended January 31, 2005 and 2004 was $4.20 and $5.01, respectively. The weighted average fair value per share of options granted under the stock option plans during the nine months ended January 31, 2005 and 2004 was $4.17 and $5.02, respectively. The weighted average fair value per share of shares subject to purchase under the employee stock purchase plan during the three months ended January 31, 2005 and 2004 was $1.99 and $3.02, respectively. The weighted average fair value per share of shares subject to purchase under the employee stock purchase plan during the nine months ended January 31, 2005 and 2004 was $2.31 and $2.75, respectively.

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Had we recognized the fair value of our options issued under our stock-based compensation plans under the provisions of SFAS No. 123, our net loss would have been increased to the pro forma amounts below for the three and nine months ended January 31, 2005 and 2004, respectively (in thousands, except per share amounts):

	Three Months Ended January 31,	
	2005	**2004**
Net income (loss) as reported	$ 290	$ (4,038)
Add: Employee stock-based compensation included in reported net loss	159	563
Less: Employee stock-based compensation under SFAS No. 123	(5,446)	(7,529)
Pro forma net loss	$ (4,997)	$ (11,004)
Net income (loss) per share as reported, basic and diluted	$ 0.01	$ (0.08)
Pro forma net loss per share, basic and diluted	$ (0.09)	$ (0.21)

	Nine Months Ended January 31,	
	2005	**2004**
Net loss as reported	$ (2,805)	$ (22,384)
Add: Employee stock-based compensation included in reported net loss	696	3,676
Less: Employee stock-based compensation under SFAS No. 123	(16,403)	(19,755)
Pro forma net loss	$ (18,512)	$ (38,463)
Net loss per share as reported, basic and diluted	$ (0.05)	$ (0.45)
Pro forma net loss per share, basic and diluted	$ (0.35)	$ (0.77)

Unearned stock compensation

In accordance to APB No. 25, we record unearned stock compensation when we issue restricted common stock or options to purchase common stock with exercise prices below fair value on the date of grant. Stock compensation is recognized as an expense over the applicable vesting period of the related options, generally five years.

We remeasure the fair value of options issued to non-employees at each reporting period prior to vesting and then finally at the vesting dates of these options. As a result, stock compensation for non-employees fluctuates with the movement in the fair value of our common stock.

During the three and nine months ended January 31, 2005 and 2004, we terminated employment of individuals for whom we had recorded unearned stock compensation and had recognized related expense on an accelerated basis. Upon termination, we recorded as a recovery within the statements of operations the difference between the actual expenses recorded using the accelerated method and the expense that would have been recorded under the straight-line method. Additionally, during the three months ended January 31, 2005 and 2004, the termination of these individuals reduced unearned stock compensation, which would have been amortized to future expense, by $2,000 and $4,000, respectively. During the nine months ended January 31, 2005 and 2004, we reduced unearned stock compensation, which would have been amortized to future expense, by $44,000 and $272,000, respectively.

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Amortization - employees	$ 161	$ 564	$ 703	$ 3,937
Amortization - non-employees		1	(4)	216
Recovery - employees	(2)	(1)	(7)	(261)
Total stock compensation	$ 159	$ 564	$ 692	$ 3,892

Note 2 Net Loss Per Share:

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period. Except for the three months ended January 31, 2005, diluted net loss per share is the same as basic net loss per share because the calculation of diluted net loss per share excludes potential dilutive shares of common stock since their effect is anti-dilutive. Potentially dilutive shares of common stock consist of unvested restricted common stock and shares of common stock issuable upon the exercise of outstanding stock options and warrants.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Numerator:				
Net loss	$ 290	$ (4,038)	$ (2,805)	$ (22,384)
Denominator (basic):				
Weighted average shares	53,058	52,010	52,738	50,261
Weighted average unvested shares of restricted common stock subject to repurchase		(63)	(6)	(122)

Denominator for basic calculation	53,058	51,947	52,732	50,139
Denominator (diluted):				
Weighted average shares	53,058	52,010	52,738	50,261
Weighted average unvested shares of restricted common stock subject to repurchase		(63)	(6)	(122)
Dilutive effect of employee stock options	1,782			
Denominator for diluted calculation	54,840	51,947	52,732	50,139
Net loss per share:				
Basic and diluted	$ 0.01	$ (0.08)	$ (0.05)	$ (0.45)

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

	Three Months Ended January 31,		**Nine Months Ended January 31,**	
	2005	**2004**	**2005**	**2004**
Unvested common stock subject to repurchase		59		59
Options to purchase common stock	17,255	18,435	19,037	18,435
Total shares excluded	17,255	18,494	19,037	18,494

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 Comprehensive Loss:

Comprehensive loss, which is reflected as a component of stockholders equity, includes net income (loss), unrealized gains or losses on investments, and foreign currency translation adjustments, as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	2004	2005	2004
Net income (loss)	$ 290	$ (4,038)	$ (2,805)	$ (22,384)
Other comprehensive loss:				
Unrealized gain (loss) on investments	(422)	205	(586)	43
Foreign currency translation adjustment	(29)	(397)	(511)	(481)
Other comprehensive loss	(451)	(192)	(1,097)	(438)
Total comprehensive loss	$ (161)	$ (4,230)	$ (3,902)	$ (22,822)

Note 4 Business Combinations:

During fiscal 2004, we acquired TRADEC, Inc. (Tradec) and Eigner US Inc. (Eigner). Each transaction was accounted for under the purchase method of accounting and, accordingly, the results of operations of each acquisition are included in the accompanying unaudited condensed consolidated statements of operations for all periods or partial periods subsequent to their respective acquisition date.

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

Tradec

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

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Eigner

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

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

In connection with the acquisition of Eigner, we paid approximately $1.5 million in hiring bonuses to certain persons who were employees of Eigner at the date of the acquisition and agreed to pay approximately $1.7 million in retention bonuses to certain persons who were employees of Eigner at the date of the acquisition and who remained employees of Agile for six months following completion of this acquisition. These bonuses were paid in February 2004 and were recorded as acquisition-related compensation in fiscal 2004.

Also in connection with the Eigner acquisition, we implemented a plan to terminate approximately 10% of the combined company workforce, for a total of 63 employees, to eliminate duplicative activities and reduce the cost structure of the combined company. The terminations included 30 Eigner employees and 33 Agile employees, and were made across all business functions and geographic regions. Net of these terminations, our overall headcount increased by 89 employees as a result of the Eigner acquisition. The estimated cost for related severance, benefits, payroll taxes and other associated costs totaled $3.3 million, of which $2.2 million was related to the termination of the Eigner employees and $1.1 was related to the termination of the Agile employees. Both the hiring bonuses and the severance related costs for the Eigner employees, totaling $3.7 million, were accrued for at the time of the acquisition and have been recognized as a liability assumed in the business combination. The severance-related costs for the Agile employees of $1.1 million were included in restructuring and other charges during the second quarter of fiscal 2004 (see Note 6 Restructuring and Other Charges for additional information). The Eigner and Agile employee termination obligations were fully paid as of April 30, 2004.

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Eigner
Tangible assets acquired:	
Cash and cash equivalents	$ 3,015
Accounts receivable	2,478
Property and equipment	1,361
Other assets	2,098
Liabilities assumed:	
Accounts payable	(5,670)
Accrued expenses and other liabilities	(12,590)
Deferred revenue	(3,956)
Identifiable intangible assets acquired:	
In-process research and development	500
Other identifiable intangible assets:	
Existing technology	1,300
Customer relationships	4,000
Non-compete agreements	1,200
Goodwill	25,549
Total	$ 19,285

Pro forma financial information

The following table presents certain unaudited pro forma combined financial information for Eigner, Tradec, and us for the nine months ended January 31, 2004, as if the acquisitions had occurred on May 1, 2003, after giving effect to certain purchase accounting adjustments (in thousands, except per share amounts):

	Nine Months Ended January 31, 2004
Pro forma net revenue	$ 76,903
Pro forma net loss	$ (25,027)

Pro forma net loss per basic and diluted share	$ (0.49)
Pro forma shares outstanding	50,802

These results are presented for illustrative purposes only and are not necessarily indicative of the actual operating results or financial position that would have occurred if the transactions had been consummated on May 1, 2003.

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5 Goodwill and Intangible Assets:

Goodwill

The change in carrying amount of goodwill for the nine months ended January 31, 2005, is as follows (in thousands):

Balance as of April 30, 2004	$ 34,724
Earnout payments (1)	761(1)
Balance as of January 31, 2005	$ 35,485

(1) Earnout payments represent payments made during the nine months ended January 31, 2005 to the former ProductFactory stockholders related to the acquisition of ProductFactory, Inc. by the Company completed on March 27, 2003. Included in such payment was the final payment due in connection with the ProductFactory acquisition.

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

As at January 31, 2005, none of the goodwill is deductible for tax purpose.

Intangible Assets

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

	January 31, 2005			April 30, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

Intangible Assets:						
Developed technologies	$ 2,600	$ (1,252)	$ 1,348	$ 2,600	$ (720)	$ 1,880
Customer relationships	4,482	(2,310)	2,172	4,482	(1,239)	3,243
Non-compete agreements	1,200	(1,200)		1,200	(867)	333
	$ 8,282	$ (4,762)	$ 3,520	$ 8,282	$ (2,826)	$ 5,456

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

As of January 31, 2005, the estimated future amortization expense for acquired identifiable intangible assets is as follows (in thousands):

Fiscal Years:	
2005 (remaining three months)	$ 534
2006	2,138
2007	755
2008	93
Total	$ 3,520

13

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 6 Restructuring and Other Charges:

From time to time, management has initiated various restructurings of our operations and facilities. These restructurings have been taken primarily in response to redundant or excess capacity brought about by acquisitions and/or significant changes in economic conditions and market demand. During the second quarter of fiscal 2003, we recorded restructuring and other charges of $5.2 million (the 2003 Restructuring). The 2003 Restructuring consisted primarily of the consolidation of excess facilities and abandonment of certain assets in connection with the consolidation of excess facilities. As of January 31, 2005, $1.5 million of the 2003 Restructuring obligations remained, which represents costs related to excess facilities.

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

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

In connection with our acquisition of Eigner during the second quarter of fiscal 2004, we recorded additional restructuring and other charges of $1.2 million, primarily related to the severance, benefits, payroll taxes and other associated costs of the termination of 33 Agile employees (see Note 4 Business Combination Eigner).

As of January 31, 2005, $2.0 million of the 2004 Restructuring obligations remained, which represents costs related to excess facilities.

In the first quarter of fiscal 2005, we announced a further restructuring involving termination of employment of approximately 15% of our employees worldwide and consolidation of our Chinese development centers into a single location (the 2005 Restructuring). In connection with the 2005 restructuring, we recorded restructuring and other charges of $2.1 million. As of January 31, 2005, $436,000 of the 2005 Restructuring obligations remained, which represents costs related to severance and excess facilities.

We review the assumptions used in estimating our restructuring charges, principally sublease income expectations for excess facilities and employee termination expenses, quarterly. Based upon this review, we did not make any adjustments to our prior restructuring estimates and assumptions during the quarter ended January 31, 2005. Furthermore, we currently do not expect our existing restructuring estimates and assumptions to change materially.

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Summary of Restructuring Obligations

The significant activity within and components of the restructuring and other charges as of January 31, 2005 are as follows (in thousands):

	Employee Termination Costs	Facility-Related Costs	Asset Abandonment Costs	Other Charges	Total
Restructuring obligations at April 30, 2004	$	$ 6,586	$	$	$ 6,586
2005 Restructuring charges (1)	1,643	366	10	113	2,132
Cash payments	(1,132)	(3,540)		(84)	(4,756)
Non-cash charges/adjustments	(91)	91	(10)	(29)	(39)
Restructuring obligations at January 31, 2005 (2)	$ 420	$ 3,503	$	$	$ 3,923
Accrued restructuring, current					$ 3,209
Accrued restructuring, non-current					714
					$ 3,923

(1) The 2005 restructuring charges and related obligations were recorded at fair value, after giving effect to the fair value of the related obligations, in accordance with SFAS No. 146.

(2) The remaining employee termination obligations and other charges are expected to be paid through the quarter ending January 31, 2006. The remaining facility-related obligations are expected to be paid through the quarter ending January 31, 2008.

Note 7 Commitments and Contingencies:

Indemnification obligations

Our software license agreements typically provide for indemnification of customers for intellectual property infringement claims. To date, no such claims have been filed against us. We also warrant to customers that our software products operate substantially in accordance with specifications. Historically, minimal costs have been incurred related to product warranties, and as such no accruals for warranty costs have been made. In addition, we are obligated to indemnify our officers and directors under the terms of indemnity agreements entered into with them, as well as pursuant to our certificate of incorporation, bylaws, and applicable Delaware law. To date, we have not incurred any material costs related to these obligations.

Litigation

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

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

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 set for hearing on March 18, 2005, a conference to determine the final form, substance and program of class notice and the scheduling of a fairness hearing for final approval of the settlement.

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

Note 8 Segment and Geographic Information:

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

The following table presents our revenue by geographic location, based on the location of the customer, for the three and nine months ended January 31, 2005 and 2004 (in thousands, except percentages):

	Three Months Ended January 31,		As percentage of total revenue Three Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Revenues:				
North America	$ 20,996	$ 15,246	69%	58%
Europe	7,675	7,706	26	30
Asia-Pacific	1,609	3,231	5	12
	$ 30,280	$ 26,183	100%	100%

16

Table of Contents

AGILE SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Nine Months Ended January 31,		As percentage of total revenue Nine Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Revenues:				
North America	$ 57,207	$ 43,806	67%	63%
Europe	21,909	16,292	26	24
Asia-Pacific	5,862	9,016	7	13
	$ 84,978	$ 69,114	100%	100%

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

	January 31, 2005	April 30, 2004
Long-lived assets:		
North America	$ 6,961	$ 7,102
Europe	1,491	1,284
Asia-Pacific	282	310
	$ 8,734	$ 8,696

Note 9 Subsequent Event:

On February 3, 2005, we acquired substantially all of the assets and assumption of certain liabilities of Cimmetry Systems, Inc. (Cimmetry), a privately held company. Cimmetry is a leading provider of visualization and collaboration solutions for the A/E/C, Engineering, Manufacturing and Electronic Markets.

Under the terms of the acquisition, we paid approximately $41.5 million in cash. The final purchase price is subject to an adjustment based upon Cimmetry s closing balance sheet. We funded the consideration from our current investments. We have been partnering with Cimmetry for a number of years to solve critical viewing and collaboration issues, and prior to the acquisition, we integrated the Cimmetry software into our products under a license from Cimmetry.

Table of Contents

Item 2. Management s Discussion & Analysis of Financial Condition and Results of Operations

The information in this discussion contains forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended) including statements about expected financial results and business, financial and operational trends in future periods. 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 occurring 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 a discrepancy include, but are not limited to, those discussed below under Risk Factors, as well as in the Risk Factors section included in our Annual Report on Form 10-K, filed on July 14, 2004 with the Securities and Exchange Commission. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report. Our fiscal year ends on April 30 of each year.

Business Overview

We develop, market and support 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. Albertson s. Inc., Alcatel, Bayer Consumer Healthcare, Boeing Service Company, Dell Computer Products, Flextronics International, GE Medical, Haemonetics, Harris Corporation, Hitachi Corporation, Johnson and Johnson, LeapFrog Enterprises, Lockheed Martin Missile and Fire Control, Magna Steyr, Siemens A&D, QUALCOMM Corporation, ThyssenKrupp Presta AG, Tyco Healthcare Group LP, Veritas Software Corporation and ZF are among the over 1200 customers that have licensed Agile PLM solutions.

We believe that understanding the following key developments is helpful to an understanding of our overall business.

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. In October 2004, we introduced Agile Advantage, a PLM product targeted to the needs of small and medium-sized enterprises (SMEs). Agile Advantage provides the features and functionality most sought after by SMEs, and is offered in licensing/pricing models that make PLM affordable for SMEs.

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.

18

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 over the past two years:

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

Through the acquisition of ProductFactory, Inc. we acquired what is now our Product Portfolio Management product. 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 industrial products industries as well as in certain geographic markets, primarily the Central European. The acquisition of oneRev, Inc. and TRADEC, Inc. provided additional functionality to our existing products, as well as new customers. The results of all of these acquisitions are included in our statements of operations beginning as of the respective acquisition dates.

In addition, on February 3, 2005, we acquired Cimmetry Systems, Inc. (Cimmetry). Through the Cimmetry acquisition, we acquired visual collaboration software that has become an increasingly important element of PLM solutions. The results of Cimmetry will be included in our statements of operations beginning with our fiscal quarter ending April 30, 2005. Prior to this acquisition, we had integrated and offered Cimmetry product, in our Agile 9 through a license agreement.

Restructurings

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

- Throughout the first half of fiscal 2003, we evaluated the economic conditions and initiated a restructuring of our operations. As a consequence, during the second quarter of fiscal 2003, we recorded restructuring and other charges 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 restructuring and other charges of $7.5 million, primarily related to our outstanding lease commitments for properties that we vacated in September 2003 and the abandonment of certain related long-lived assets;

Also during the second quarter of fiscal 2004, in connection with our acquisition of Eigner, we recorded additional restructuring and other charges of $1.2 million primarily related to a reduction of our workforce, elimination of duplicative activities and reduction of the cost structure of the combined company (see Note 6 Restructuring and Other Charges to our unaudited condensed consolidated financial statements); 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 restructuring and other charges 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 revenues are comprised of fees charged for the use of our products licensed primarily under perpetual and, to a lesser extent, term-based 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.

Throughout fiscal 2004, 2003 and 2002, the primary factor that has negatively impacted our operations and financial performance has been weak demand for enterprise software resulting from weakness in the global and U.S. economies and the resulting more constrained technology-spending environment. Weak economic conditions persisted through most of fiscal 2004. Beginning in the fourth quarter of fiscal 2004, we began to see early evidence of strengthening demand for our products, particularly in North America. Demand appears to have continued to slowly build in North America in fiscal 2005; however, while demand from customers outside of North America appears to have remained relatively stable, we have not yet seen the same strengthening in the market as we have seen in North America.

Recent highlights in our business include:

- We reported record revenues for the third quarter of fiscal 2005 of $30.3 million, a 16% increase from total revenues of $26.2 million in the third quarter of fiscal 2004. License revenue for the third quarter of fiscal 2005 was $12.5 million, a 31% increase from license revenue of $9.5 million in the third quarter of fiscal 2004.

- Our net income for the three months ended January 31, 2005 was $290,000, or $0.01 per share, compared to a net loss of $4.0 million or ($0.08) per share for the comparable prior-year period.

- Our cash flows provided by operations for the nine months ended January 31, 2005 were $1.2 million. In addition, we maintained a cash and investments balance as of January 31, 2005 of $241.3 million, an increase of $3.1 million over the balance as of April 30, 2004.

Critical Accounting Policies

We have prepared our condensed consolidated financial statements in accordance with accounting principles 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 we 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 estimates and assumptions. 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, sales commission, stock options and warrants, and business combinations and acquired intangible assets, which are described below. In addition, please refer to Note 1 of our unaudited condensed consolidated financial statements for further discussion of our significant accounting policies.

Table of Contents

Additional information about these critical accounting policies may be found in the Management s Discussion & Analysis of Financial Condition and Results of Operations section included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004. There have been no changes to these critical accounting policies subsequent to April 30, 2004.

Table of Contents

Results of Operations

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005	2004	2005	2004
Revenues:				
License	41%	36%	40%	36%
Service	59	64	60	64
Total revenues	100	100	100	100
Cost of revenues:				
License	4	4	4	4
Service	28	32	28	30
Stock compensation		1		
Acquisition-related compensation		1		1
Amortization of intangible assets	1	1	1	1
Impairment of prepaid software license				1
Total cost of revenues	33	39	33	37
Gross margin	67	61	67	63
Operating expenses:				
Sales and marketing:				
Other sales and marketing	39	38	39	40
Stock compensation		1		4
Research and development:				
Other research and development	19	23	19	25
Stock compensation				
General and administrative:				
Other general and administrative	10	9	10	9
Stock compensation				1
Acquisition-related compensation		2		2
Amortization of intangible assets	1	2	2	2
Acquired in-process research and development				1
Restructuring and other charges			3	12
Total operating expenses	69	75	73	96
Loss from operations	(2)	(14)	(6)	(33)
Other income:				
Interest and other income, net	4	3	4	3
Loss from foreign currency translation		(3)		(1)

Income (loss) before provision for income taxes	2	(14)	(2)	(31)
Provision for income taxes	1	1	1	1
Net income (loss)	1 %	(15)%	(3)%	(32)%

Comparison of the Three and Nine Months Ended January 31, 2005 and 2004

Revenues

Total revenues for the three months ended January 31, 2005 increased by 16%, or $4.1 million from the prior-year period. This increase was primarily attributable to increases in both license and service revenue from both existing and new customers in North America, partially offset by a decrease in revenues in Asia-Pacific due to weak sales in Japan (see the license revenue, service revenue and revenues by geographic region discussion below). The increase in total revenue for the three months ended January 31, 2005 compared to the prior year period in part was also attributable to stronger European currencies in the current-year period compared to the US Dollar. Had our revenues from Europe for the three months ended January 31, 2005 been translated at exchange rates in effect during the comparable prior-year period, our revenues for such three month period would have been lower by approximately $434,000.

Total revenues for the nine months ended January 31, 2005 increased by $15.9 million from the prior-year period. These increases were primarily attributable to increases in both license and service revenue from both

Table of Contents

existing and new customers in North America, partially offset by a decrease in revenues in Asia-Pacific due to weak sales in Japan (see the license revenue, service revenue and revenues by geographic region discussion below). The increase in total revenue for the nine months ended January 31, 2005 compared to the prior year period was also attributable to the inclusion of Eigner, acquired in the second quarter of fiscal 2004, and in part to stronger European currencies in the current-year period compared to the US Dollar. Excluding the contribution from Eigner, total revenues for the nine months ended January 31, 2005 increased by $10.9 million from the prior-year period. Had our revenues from Europe for the nine months ended January 31, 2005 been translated at exchange rates in effect during the comparable prior-year period, our revenues for such nine-month period would have been lower by approximately $1.3 million.

Our quarterly operating results have varied significantly in the past and are likely to vary significantly in the future. Our products have a complex and unpredictable sales cycle. The timing of large orders, which continue to account for a significant percentage of our total license revenue, remains unpredictable. During the three months ended January 31, 2005, one of our customers accounted for more than 10% of total revenues. During the nine months ended January 31, 2005, no one customer accounted for more than 10% of total revenues.

Our revenues by geographic region for the three and nine months ended January 31, 2005 and 2004 are as follows (in thousands, except percentages):

	Three Months Ended January 31,		As percentage of total revenue Three Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Revenues:				
North America	$ 20,996	$ 15,246	69%	58%
Europe	7,675	7,706	26	30
Asia-Pacific	1,609	3,231	5	12
	$ 30,280	$ 26,183	100%	100%

	Nine Months Ended January 31,		As percentage of total revenue Nine Months Ended January 31,	
	2005	**2004**	**2005**	**2004**
Revenues:				
North America	$ 57,207	$ 43,806	67%	63%
Europe	21,909	16,292	26	24
Asia-Pacific	5,862	9,016	7	13
	$ 84,978	$ 69,114	100 %	100 %

During the three months ended January 31, 2005 and 2004, revenues from customers located outside of North America represented approximately 31% and 42% of total revenues, respectively.

During the nine months ended January 31, 2005 and 2004, revenues from customers located outside of North America represented approximately 33% and 37% of total revenues, respectively.

While our results represent a better geographic revenue balance than we had prior to acquiring Eigner, revenues have been growing more rapidly from customers in North America than in the international markets we serve. As a result, the percentage of total revenues represented by revenues from customers located outside of North America has been declining in recent quarters. However, we continue to develop our international sales force to both grow our overall revenue and to achieve a better geographic revenue balance.

Table of Contents

License Revenue

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Total license revenue	$ 12,455	$ 9,527	31%	$ 33,975	$ 25,154	35%
As a percentage of total revenues	41%	36%		40%	36%	

The increase in license revenue in absolute dollars during the three months ended January 31, 2005 compared to the prior-year period was primarily due to increases in sales of newer products to new and existing customers in North America of $3.8 million, and to a lesser extent in Europe of $423,000, partially offset by the decrease in sales to customers in the Asia Pacific region of $1.3 million, due to weak sales in Japan.

The increase in license revenue in absolute dollars during the nine months ended January 31, 2005 compared to the prior-year period was primarily due to increases in sales of newer products to new and existing customers in North America of $9.4 million, offset by the decrease in sales to customers in the Asia Pacific region of $2.3 million, due to weak sales in Japan. License revenue in Europe for the nine months ended January 31, 2005 was also increased by $1.8 million compared to the prior year period, which was attributable to the inclusion of Eigner as well as to stronger European currencies in the current-year period compared to the US Dollar. Excluding the contribution from Eigner, total license revenue for the nine months ended January 31, 2005 increased by $7.6 million from the prior-year period. Had our license revenue from Europe for the nine months ended January 31, 2005 been translated at exchange rates in effect during the comparable prior-year period, our license revenue for such nine-month period would have been lower by approximately $399,000.

The increase in license revenue as a percentage of total revenues during the three and nine months ended January 31, 2005 compared to the prior-year period was primarily due to a more significant increase in license revenue as discussed above than in service revenue, as well as to the lag in generating service revenue as discussed below.

We expect that license revenue for the three months ending April 30, 2005 will be higher than the level achieved in the three months ended January 31, 2005 due in part to the inclusion of Cimmetry s license revenue.

Service Revenue

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Professional service	$ 7,004	$ 6,294	11%	$ 19,319	15,476	25%
Maintenance	10,821	10,362	4	31,684	28,484	11

Total service revenue	$ 17,825	$ 16,656	7%	$ 51,003	$ 43,960	16%
As a percentage of total revenues	59%	64%		60%	64%	

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.

The increase in service revenue in absolute dollars during the three months ended January 31, 2005 compared to the prior-year period was primarily due to a $1.8 million increase in professional service revenue in North America, driven by our growth in license revenue, partially offset by the $1.1 million decrease in international professional service revenue.

Table of Contents

The increase in service revenue in absolute dollars during the nine months ended January 31, 2005 compared to the prior-year period was primarily due to the $3.9 million increase in professional service revenue in North America, primarily due to our growth in license revenue, as well as a $3.0 million increase in maintenance revenue in Europe, the majority of which is due to the inclusion of Eigner for the period.

The decrease in service revenue as a percentage of total revenues during the three and nine months ended January 31, 2005 compared to the prior-year period was primarily due to a more significant increase in license revenue as discussed above, than in service revenue.

We expect that service revenue for the three months ending April 30, 2005 will be higher than the level achieved in the three months ended January 31, 2005 because of stronger demand in North America and the inclusion of Cimmetry s maintenance revenue.

Cost of Revenues

Cost of License Revenue

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Cost of license revenue	$ 1,243	$ 988	26%	$ 3,484	$ 2,774	26%
As a percentage of license revenue	10%	10%		10%	11%	

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 during the three and nine months ended January 31, 2005 when compared to the prior-year period was primarily due to our overall increase in license revenue. The slight decrease in cost of license revenues as a percentage of license revenue during the nine months ended January 31, 2005 was due to the lower cost of third-party software embedded in Agile 9 compared to the earlier version of our products.

For the three months ending April 30, 2005, we expect cost of license revenue in absolute dollars and as a percentage of license revenue to decrease as a result of the elimination of royalties previously payable to Cimmetry. Actual results, however, may fluctuate somewhat depending upon the amount of non-embedded third-party software sold in any particular period.

25

Table of Contents

Cost of Service Revenue

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Cost of service revenue	$ 8,424	$ 8,461	(0)%	$ 23,863	$ 21,014	14%
As a percentage of service revenue	47%	51%		47%	48%	

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 decrease in cost of service revenue as a percentage of service revenue during the three months ended January 31, 2005 compared to the prior-year period was primarily related to a higher rate of utilization of our professional service personnel.

The increase in cost of service revenues in absolute dollars for the nine months ended January 31, 2005 compared to the prior year period was as a result of: (a) $1.9 million in incremental costs associated with third-party service providers that we relied on to meet increased demand (particularly in regions where we have limited services resources); and (b) $1.1 million in increased personnel-related costs (including compensation and benefits, travel expenditures, and facilities and depreciation expense) resulting from an increase in service organization headcount, to a large extent due to the addition of the Eigner employees in the beginning of the second quarter of fiscal 2004. In addition, we have and will continue to increase our professional service personnel in North America.

For the three months ending April 30, 2005, we expect cost of service revenue as a percentage of service revenue to increase compared to the three months ended January 31, 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 the nine months ended January 31, 2004 includes a $471,000 charge for the impairment of non-refundable prepaid software licenses for which we determined that the carrying value exceeded its net realizable value as a result of our decision to discontinue selling the products in which the third party licensed software was embedded.

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.

As a result of our restructuring efforts, as discussed further under Restructuring and Other Charges below, we realized significant reduction in our operating expenses during the nine months ended January 31, 2005. During the three and nine months ended January 31, 2005, our aggregate facilities and depreciation expenses decreased by $579,000 and $2.3 million, respectively, when compared to the same periods in the prior year. Significant portions of these costs savings are reflected in the Sales and Marketing, Research and Development and General and Administrative operating expenses through decreased facilities and depreciation expenses allocated to each such line item.

Additionally, due to our presence in Europe, our operating expenses are also affected by the foreign exchange rate fluctuation. For example, had our operating expenses from Europe for the nine months ended January 31, 2005 been translated at exchange rates in effect during the comparable prior-year period, our operating expenses from Europe for such nine month period would have been lower by approximately $935,000. This increase is reflected in the Sales and Marketing, Research and Development and General and Administrative operating expenses.

Table of Contents

Sales and Marketing

The following table sets forth a summary of our sales and marketing expenses in absolute dollars and as a percentage of total revenues for the three and nine months ended January 31, 2005 and 2004, respectively, excluding the stock compensation which is explained separately under Stock Compensation (Recovery) below.

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Sales and marketing, excluding stock compensation	$ 11,956	$ 9,828	22%	$ 33,170	$ 27,499	21%
As a percentage of total revenues	39%	38%		39%	40%	

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 incentive compensation, and expenditures specific to the marketing group, such as public relations and advertising, trade shows, marketing collateral and 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 during the three months ended January 31, 2005 compared to the prior-year period was primarily related to increased personnel-related costs, primarily sales incentive compensation associated with higher revenues.

The increase in sales and marketing expenses, excluding stock compensation, in absolute dollars during the nine months ended January 31, 2005 compared to the prior-year period was primarily related to increased personnel-related costs of $5.4 million, primarily sales incentive compensation associated with higher revenues and, to a lesser extent, an increase in the number of sales and marketing employees, primarily due to the addition of Eigner employees in the beginning of the second quarter of fiscal 2004.

For the three months ending April 30, 2005, we expect sales and marketing expenses, excluding stock compensation, but including results from Cimmetry, to increase in absolute dollars but to remain essentially flat or decrease slightly as a percentage of revenues compared to the three months ended January 31, 2005.

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 the three and nine months ended January 31, 2005 and 2004, respectively, excluding stock compensation which is explained separately under Stock Compensation (Recovery) below.

	Three Months Ended January 31, 2005	Three Months Ended January 31, 2004	% Change	Nine Months Ended January 31, 2005	Nine Months Ended January 31, 2004	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Research and development, excluding stock compensation	$ 5,649	$ 6,038	(6)%	$ 16,471	$ 17,214	(4)%
As a percentage of total revenues	19%	23%		19%	25%	

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.

The decrease in research and development expenses, excluding stock compensation, in absolute dollars during the three months ended January 31, 2005 compared to the prior-year period was primarily a result of our restructuring efforts (see the discussion under Restructuring and Other Charges below), including the consolidation of our China-based development centers into a single location. This restructuring reduced our personnel-related costs by $486,000 and our facilities and depreciation expenses by $230,000. This decrease was partially offset by a $304,000 increase in third-party consultant fees incurred to support our new product initiatives.

Table of Contents

The decrease in research and development expenses, excluding stock compensation, in absolute dollars during the nine months ended January 31, 2005 compared to the prior-year period was primarily a result of our restructuring efforts (see the discussion under Restructuring and Other Charges below), which reduced our personnel and facilities costs by $2.4 million. This decrease was partially offset by a $1.0 million increase in third-party consultant fees incurred to support our new product initiatives, and to a lesser extent by the inclusion of Eigner for the period.

For the three months ending April 30, 2005, we expect research and development expenses, excluding stock compensation, to increase as a percentage of revenue compared to our results for the three months ended January 31, 2005 due to the addition of Cimmetry, and to a lesser extent, investment in the Agile PLM suite.

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 the three and nine months ended January 31, 2005 and 2004, respectively, excluding stock compensation which is explained separately under Stock Compensation (Recovery) below.

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
General and administrative, excluding stock compensation	$ 2,908	$ 2,246	29%	$ 8,262	$ 6,507	27%
As a percentage of total revenues	10%	9%		10%	9%	

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 during the three months ended January 31, 2005 compared to the prior-year period was due to increased outside consultant fees and compensation and benefits as we added resources to comply with increased regulatory requirements, including the regulations implemented in response to Sarbanes-Oxley Act of 2002.

The increase in general and administrative expenses, excluding stock compensation, in absolute dollars during the nine months ended January 31, 2005 compared to the prior-year period was due to increased personnel costs and outside consultant fees of $ 1.4 million as we added resources to comply with increased regulatory requirements, including the regulations implemented in response to Sarbanes-Oxley Act of 2002. In addition, our compensation and benefits costs increased because included are general and administrative costs incurred by Eigner for the full nine months for the period ended January 31, 2005, but only for less than six months for the period ended January 31, 2004.

For the three months ending April 30, 2005, we expect general and administrative expenses, excluding stock compensation, as a percentage of revenue to remain comparable to the three months ended January 31, 2005, due to additional costs related to the acquisition and integration of Cimmetry and inclusion of general and administrative costs incurred by Cimmetry for the period, as well as compliance with the internal controls review, assessment and attestation required under the Sarbanes-Oxley Act.

Table of Contents

Stock Compensation

	Three Months Ended January 31, 2005	Three Months Ended January 31, 2004	% Change	Nine Months Ended January 31, 2005	Nine Months Ended January 31, 2004	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Stock compensation:						
Cost of revenues	$ 36	$ 95	(62)%	$ 179	$ 147	22%
Sales and marketing	87	315	(72)%	331	2,988	(89)%
Research and development	2	53	(96)%	25	165	(85)%
General and administrative	34	101	(66)%	157	592	(73)%
Total stock compensation	$ 159	$ 564	(72)%	$ 692	$ 3,892	(82)%
As a percentage of total revenues	1%	2%		1%	6%	

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

Stock compensation was lower in absolute dollars during the three and nine months ended January 31, 2005 than in the prior-year periods primarily because of the $2.5 million charge taken during the prior-year periods. This charge was due to the modifications made to the terms of certain stock options held by certain employees we involuntary terminated in the prior year. In addition, we experienced a lower amortization of employee and non-employee stock compensation amounts in later periods as a result of using the accelerated method of amortization. During the nine months ended January 31, 2004, we also incurred recoveries that were $253,000 higher than during the comparable current period as a result of the reversal of accelerated amortization on options cancelled in connection with employee terminations during the period.

As of January 31, 2005, the estimated future amortization expense of unearned stock compensation is as follows (in thousands):

Fiscal Years:	
2005 (remaining three months)	$ 178
2006	411
2007	139
2008	38
2009	3
Total	$ 769

Acquisition-Related Compensation

	Three Months Ended January 31, 2005	Three Months Ended January 31, 2004	% Change	Nine Months Ended January 31, 2005	Nine Months Ended January 31, 2004	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Acquisition-related compensation	$	$ 868	(100)%	$	$ 1,686	(100)%
As a percentage of total revenues		3%			2%	

In connection with our acquisition of Eigner during fiscal 2004, we agreed to pay approximately $1.7 million in retention bonuses to certain persons who were employees of Eigner at the date of the acquisition and who remained employees of Agile for six months following the acquisition. The retention bonuses are recorded as acquisition-related compensation in the unaudited condensed consolidated statements of operations. During the three and nine months ended January 31, 2004, we recorded $868,000 and $1.7 million of acquisition-related compensation. We paid all of this acquisition-related compensation in February 2004. There was no such compensation during the three or nine months ended January 31, 2005.

Table of Contents

Amortization of Intangible Assets

	Three Months Ended January 31, 2005	Three Months Ended January 31, 2004	% Change	Nine Months Ended January 31, 2005	Nine Months Ended January 31, 2004	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Amortization of intangible assets	$ 535	$ 891	(40)%	$ 1,936	$ 1,807	7%
As a percentage of total revenues	2%	3%		2%	3%	

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

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

	January 31, 2005			April 30, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets:						
Developed technologies	$ 2,600	$ (1,252)	$ 1,348	$ 2,600	$ (720)	$ 1,880
Customer relationships	4,482	(2,310)	2,172	4,482	(1,239)	3,243
Non-compete agreements	1,200	(1,200)		1,200	(867)	333
	$ 8,282	$ (4,762)	$ 3,520	$ 8,282	$ (2,826)	$ 5,456

As of January 31, 2005, the estimated future amortization expense of acquired intangible assets is as follows (in thousands):

Fiscal Years:	
2005 (remaining three months)	$ 534
2006	2,138
2007	755
2008	93
Total	$ 3,520

As discussed under Note 9 Subsequent Event, on February 3, 2005 we completed the acquisition of substantially all of the assets and assumption of certain liabilities of Cimmetry. As a result, based upon our current estimate of the allocation of the purchase price, we expect that amortization of acquired intangible assets will be significantly higher in the quarter ending April 30, 2005.

We may continue purchasing assets or businesses to accelerate industry or geographic expansion, or increase the features and functions of our products available to our customers. Any future acquisitions may result in the creation of additional intangible assets that leads to a corresponding increase in our amortization expense in future periods. In addition, in connection with preparing financial statements for each reporting period, we analyze whether our intangible assets have been impaired and should be written down or off. Our future operating performance could be impacted by the future amortization and/or impairment of intangible assets.

Table of Contents

Acquired In-Process Research and Development

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Acquired in-process technology	$	$		$	$ 500	(100)%
As a percentage of total revenues					1%	

In connection with our acquisition of Eigner during fiscal 2004, we allocated $500,000 of the purchase price to acquired in-process research and development (IPR&D). The amounts allocated to the acquired IPR&D were immediately expensed in the period the acquisition was completed because the projects associated with the acquired IPR&D efforts had not yet reached technological feasibility and no future alternative uses existed for the technology. We used an independent appraiser to calculate the amount allocated to acquired IPR&D. In calculating the value of the acquired IPR&D, the independent appraiser used established valuation techniques accepted in the technology and software industries. This calculation gave consideration to relevant market size and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by us and our competitors, individual product sales cycles, and the estimated lives of each of the products derived from the underlying technology. The value of the acquired IPR&D reflects the relative value and contribution of the acquired research and development. Consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the expected cost to complete the project in determining the value assigned to the acquired IPR&D. During the nine months ended January 31, 2004, we recognized a $500,000 charge for acquired IPR&D. There were no such charges during the three or nine months ended January 31, 2005.

Restructuring and Other Charges

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Restructuring and other charges	$	$		$ 2,132	$ 8,730	(76)%
As a percentage of total revenues				3%	12%	

From time to time, management has initiated various restructurings of our operations and facilities. These restructurings have been taken primarily in response to redundant or excess capacity brought about by acquisitions and/or significant changes in economic conditions and market demand. During the second quarter of fiscal 2003, we recorded restructuring and other charges of $5.2 million (the 2003 Restructuring). The 2003 Restructuring consisted primarily of the consolidation of excess facilities and abandonment of certain assets in connection with the consolidation of excess facilities. As of January 31, 2005, $1.5 million of the 2003 Restructuring obligations remained, which represents costs related to excess facilities.

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

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

In connection with our acquisition of Eigner during the second quarter of fiscal 2004, we recorded additional restructuring and other charges of $1.2 million, primarily related to the severance, benefits, payroll taxes and other associated costs of the termination of 33 Agile employees (see Note 4 Business Combination Eigner).

Table of Contents

As of January 31, 2005, $2.0 million of the 2004 Restructuring obligations remained, which represents costs related to excess facilities.

In the first quarter of fiscal 2005, we announced a further restructuring involving termination of employment of approximately 15% of our employees worldwide and consolidation of our Chinese development centers into a single location (the 2005 Restructuring). In connection with the 2005 restructuring, we recorded restructuring and other charges of $2.1 million. As of January 31, 2005, $436,000 of the 2005 Restructuring obligations remained, which represents costs related to severance and excess facilities.

We review the assumptions used in estimating our restructuring charges, principally sublease income expectations for excess facilities and employee termination expenses, quarterly. Based upon this review, we did not make any adjustments to our prior restructuring estimates and assumptions during the quarter ended January 31, 2005. Furthermore, we currently do not expect our existing restructuring estimates and assumptions to change materially.

Summary of Restructuring Obligations

The significant activity within and components of the restructuring and other charges as of and for the nine months ended January 31, 2005 are as follows (in thousands):

	Employee Termination Costs	Facility-Related Costs	Asset Abandonment Costs	Other Charges	Total
Restructuring obligations at April 30, 2004	$	$ 6,586	$	$	$ 6,586
2005 Restructuring charges (1)	1,643	366	10	113	2,132
Cash payments	(1,132)	(3,540)		(84)	(4,756)
Non-cash charges/adjustments	(91)	91	(10)	(29)	(39)
Restructuring obligations at January 31, 2005 (2)	$ 420	$ 3,503	$	$	$ 3,923
Accrued restructuring, current					$ 3,209
Accrued restructuring, non-current					714
					$ 3,923

(1) The 2005 Restructuring charges and related obligations were recorded at fair value, after giving effect to the fair value of the related obligations, in accordance with SFAS No. 146.

(2) The remaining employee termination obligations and other charges are expected to be paid through the quarter ending January 31, 2006. The remaining facility-related obligations are expected to be paid through the quarter ending January 31, 2008.

Interest and Other Income, Net

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Interest and other income, net	$ 1,169	$ 754	55%	$ 3,047	$ 2,347	30%
As a percentage of total revenues	4%	3%		4%	3%	

Table of Contents

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

The increase in interest and other income, net, during the three and nine months ended January 31, 2005 compared to the prior year periods was due to slightly higher interest rates earned on our investments. See also Liquidity and Capital Resources below.

For the three months ending April 30, 2005, we expect interest and other income, net in absolute dollar to decrease slightly due to lower overall cash, cash equivalents and investments balance as a result of the acquisition of Cimmetry.

Provision for Income Taxes

	Three Months Ended January 31,		%	Nine Months Ended January 31,		%
	2005	2004	Change	2005	2004	Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Provision for income taxes	$ 285	$ 348	(18)%	$ 820	$ 1,008	(19)%
Effective income tax rates	50%	-9%		-41%	-5%	

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

Liquidity and Capital Resources

Overview

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

	January 31,	April 30,
	2005	2004

Cash and cash equivalents	$ 90,321	$ 45,337
Short-term and long-term investments	151,019	192,884
	$ 241,340	$ 238,221

Our cash, cash equivalents, and investments are placed with high credit quality financial institutions, commercial companies and government agencies in order to limit the amount of credit exposure. As of January 31, 2005, our working capital was $177.6 million and our days sales outstanding (DSO) was 70 days.

Table of Contents

Cash Flows

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

	Nine Months Ended January 31, 2005	2004
Net cash provided by (used in) operating activities	$ 1,245	$ (12,028)
Net cash provided by investing activities	37,330	25,814
Net cash provided by financing activities	5,271	7,318

Cash provided by operating activities during the nine months ended January 31, 2005 was due to our non-cash items of $6.8 million, which offset our net loss for the period of $2.8 million and a net decrease of approximately $2.8 million in other operating assets and liabilities.

Cash used in operating activities during the nine months ended January 31, 2004 was primarily due to our net loss for the period of $22.4 million, adjusted for non-cash items of $13.3 million, and a net decrease of approximately $3.0 million in other operating assets and liabilities.

Cash provided by investing activities during the nine months ended January 31, 2005 consisted of $41.3 million of net maturities of short-term and long-term investments, partially offset by $3.2 million of purchases of property and equipment and $761,000 of cash paid as the final earn-out payment to the stockholders of ProductFactory.

Cash provided by investing activities during the nine months ended January 31, 2004 consisted of $34.6 million of net purchases of short-term and long-term investments, offset by $6.2 million of purchases of property and equipment, primarily related to furnishing and equipping our corporate headquarters in San Jose, California, and $2.5 million of net cash paid in business combinations for businesses acquired during the period.

Cash provided by financing activities in the nine months ended January 31, 2005 and 2004 was due primarily to the issuance of common stock associated with the exercise of stock options and our employee stock purchase plan totaling $5.3 million and $7.9 million, respectively.

We anticipate that our operating expenses, particularly sales and marketing and research and development expenses, will constitute a material use of our cash resources over the next quarter, partially offset by anticipated collections of accounts receivable. In addition, we have utilized approximately $41.5 million to fund the acquisition of Cimmetry, and we may utilize cash resources to fund other acquisitions of or investments in complimentary businesses, technologies or product lines. We believe that our existing cash, cash equivalents and investments, together with our anticipated cash flows from operations will be sufficient to meet our working capital and operating resource expenditure requirements for at least the next twelve months.

Recent Accounting Pronouncements

In December 2004, FASB issued SFAS 123(R) which replaces SFAS 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS 123(R) requires compensation costs relating to share-based payment transactions be recognized in financial statements. This statement is effective as of the beginning of the first reporting period that begins after June 15, 2005. We currently measure compensation costs related to share-based payments under APB 25, as allowed by SFAS 123, and provide disclosure in notes to financial statements as required by SFAS 123. We are required to adopt SFAS 123(R) starting from the second quarter of fiscal 2006. We expect the adoption of SFAS 123(R) will have a material adverse impact on our net income and income per share. We are currently in the process of evaluating the extent of such impact.

Table of Contents

RISK FACTORS

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

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

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

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

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

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

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

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

In addition, we believe that our software must be able to accommodate substantial numbers of users to achieve the level of customer satisfaction that we believe is critical to our success. If our customers cannot successfully implement large-scale deployments, or if they believe that our products cannot accommodate large-scale deployments, we could experience customer dissatisfaction and find it more difficult to obtain new customers or to sell additional products to our existing customers.

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

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

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

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

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

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

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

Demand for our services, principally implementation services for Agile 9, has begun to exceed the capacity of our internal services organization. As a result, we have had to engage third parties to subcontract all or a portion of the services engagements in some instances. The costs associated with using third parties are significantly higher than the costs associated with direct delivery of services. As a result, the increased use of third parties has adversely impacted our services gross margins. While we are seeking to hire additional internal services resources, we expect to continue to rely to a significant extent on third parties for the next few quarters which will continue to adversely affect our gross margins. Moreover, newly hired services personnel require up-front training and take some time before becoming fully productive. Accordingly, the addition of a significant number of new services personnel can adversely affect services margins in the short term. In addition, there are only limited number of people with PLM experience. We may then find it difficult to attract and retain the personnel we would need to successfully grow our services organization.

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

Table of Contents

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

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

- Difficulties in integration of acquired personnel, operations, technologies or products;
- Unanticipated costs associated with acquisitions. For example, in fiscal 2001 we recorded a $55.2 million impairment charge relating to goodwill and other intangible assets as a result of our decision in February 2001 to discontinue the further development of the products acquired in our acquisition of Digital Market, Inc. (DMI) in fiscal 2000;
- Diversion of management s attention from other business concerns;
- Adverse effects on our existing business relationships with our customers and the risk of losing the customers of acquired companies particularly where, as is the case with our recent Cimmetry acquisition, those customers may compete with us; and
- Inability to retain key employees of acquired companies.

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

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

Our Success Depends Upon Attracting and Retaining Qualified Employees

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

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

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

Although our software products can be used with a variety of popular industry standard relational database management system platforms, there may be future or existing platforms that achieve popularity in the marketplace that may not be architecturally compatible with our software product design. It may be necessary for us to invest significant resources to adapt our software if new or different platforms or operating environments become widely adopted in our current and prospective customer base.

If we are unable to offer new and enhanced products as the market and technology evolve, or if we encounter development difficulties with new products we release, we may find it difficult to sell products to existing and prospective customers. Moreover, customers may delay purchasing decisions if they are aware that new or enhanced products are soon to be released. If we experience difficulties or delays in releasing new and enhanced products that customers are expecting, we may experience lost or delayed sales. Delays in releasing new and enhanced products could have a material negative impact on our results of operations, particularly in the periods when the new or enhanced products were expected to become available.

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

We sell our products primarily through our direct sales force. Late in fiscal 2003 and continuing through fiscal 2004, we reorganized our North American sales organization. In fiscal 2005 we began to reorganize our international sales organization, a process that is still underway. In connection with these changes, we have recently hired a new country manager for Taiwan, and are seeking additional sales leadership for other parts of the Asia-Pacific region. As a result of these changes, many of our account executives, particularly our international sales executives, are relatively new to Agile. It generally takes six to 12 months for a new account executive to become fully productive. Changes in account executives can also result in the need to reestablish relationships with existing customers. This can result in dissatisfaction, and lost or delayed sales as customers become accustomed to their new account executives.

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

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

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

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

There is a risk that, even as the economy improves overall, businesses may not increase their information technology spending commensurate with their business growth. Moreover, even in an environment of increasing information technology spending, we (and other PLM vendors) are not only competing for PLM opportunities but also competing against unrelated internal projects and vendors of unrelated products and services, all of whom are

38

competing for the limited information technology funding being made available by current and prospective customers. There can be no assurance that PLM in general or Agile in particular will compete favorably against other potential uses of information technology spending.

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

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

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

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

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

- Difficulties in managing geographically disparate operations;
- Longer sales cycles associated with educating foreign customers on the benefits of using our products;
- Greater difficulty and longer time in collecting accounts receivable from customers located abroad;
- Difficulty in providing customer support for our software in multiple time zones and languages;
- The need to develop our software in multiple foreign languages;

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

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

Political and economic instability, civil unrest or war;

Terrorist activities that impact international commerce;

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

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

- Nationalization of foreign owned assets, including intellectual property.

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

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

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

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

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

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

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

Since inception, we have funded our business primarily through selling our stock, not from cash generated from our business. Although we have achieved profitability for the quarter ended January 31, 2005, prior to such period we have incurred quarterly and annual losses in each of the years since we were formed. We incurred losses of $2.8 million and $22.4 million for the nine months ended January 31, 2005 and 2004, respectively. As of January 31, 2005, we had an accumulated deficit of approximately $284.6 million. We expect to continue to incur significant sales and marketing, research and development and general and administrative expenses, as well as substantial non-cash costs relating to the amortization of intangible assets and stock compensation, may prevent us from achieving annual and maintaining quarterly net income.

For the three months ended January 31, 2005, we achieved net income. Due to the amortization of the intangibles as a result of the Cimmetry acquisition and the future adoption of FAS 123, we will likely not be profitable on a GAAP basis for the foreseeable future. Sustaining profitable results 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 maintain profitable operations or sustain or increase profitability on a quarterly or annual basis in the future.

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

We may have to resort to litigation to enforce our intellectual property rights, to protect our patents, trade secrets or know-how or to determine their scope, validity or enforceability. Enforcing or defending intellectual property rights is expensive, could cause the diversion of our resources, and may not prove successful. Our protective measures may prove inadequate to protect our proprietary rights, and any failure to enforce or protect our rights could cause us to lose a valuable asset. In addition, the laws of some countries do not protect our proprietary rights to as great an extent as do the laws of the United States, and we expect that it will become more difficult to monitor the use of our products as we increase our international presence.

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

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

The market price for our common stock has been, and is likely to continue to be, highly volatile. During the nine months ended January 31, 2005, the high and low closing sales prices of our common stock were $9.21 and $6.67, respectively. Our stock price is subject to wide fluctuations in response to factors, some of which will be beyond our control.

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

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

In order to comply with the Sarbanes-Oxley Act of 2002, as well as recent changes to listing standards by NASDAQ, and rules implemented by the Securities and Exchange Commission, we have had to hire additional personnel and utilize additional outside legal, accounting and advisory services, and may continue to require such additional resources. We currently anticipate that these efforts will cost at least $1 million during fiscal 2005, which has caused our general and administrative costs to increase. Moreover, in the rapidly changing regulatory environment in which we now operate, there is significant uncertainty as to what will be required to comply with many of the new rules and regulations. As a result, we may be required to spend substantially more than we currently estimate, and may need to divert resources from other activities, as we develop our compliance plans.

Table of Contents

Investor Confidence and Share Value May Be Adversely Impacted if We or Our Independent Registered Public Accountants Are Unable to Favorably Assess the Effectiveness of Our Internal Control Over Financial Reporting As of the End of Fiscal Year 2005 as Required by Section 404 of the Sarbanes-Oxley Act of 2002.

An effective system of internal control over financial reporting is necessary for us to provide reliable financial reports. Rules adopted by the Securities and Exchange Commission pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. This requirement will first apply to our Annual Report on Form 10-K for the fiscal year ending April 30, 2005. The rules governing the standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation. Although we are diligently reviewing, documenting and testing our internal control over financial reporting, we may encounter problems or delays in completing the implementation of any changes necessary to receive a favorable assessment of our internal control over financial reporting under the new standards. If we cannot complete our internal processes, or our independent registered public accountants are unable to provide an unqualified attestation report on our assessment of, the effectiveness of our internal control over financial reporting, investor confidence and share value may be negatively impacted.

If Requirements Relating to Accounting Treatment For Employee Stock Options Are Changed, We May Find it Necessary to Change Our Business Practices

We currently account for the issuance of stock options under APB Opinion No. 25, Accounting for Stock Issued to Employees. As a result of new rules adopted by accounting standards organizations and governmental authorities, we will be required to treat the value of the stock options granted to employees as a compensation expense beginning in the quarter ending October 31, 2005. As a result, we could decide to reduce the number of stock options granted to employees or to grant options to fewer employees. This could affect our ability to retain existing employees and attract qualified candidates, and increase the cash compensation we would have to pay to them. In addition, such a change will have a material negative effect on our GAAP earnings.

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

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

In addition, our Board of Directors has the authority to issue up to 10 million shares of Preferred Stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of shares of Preferred Stock, while potentially providing desirable flexibility in connection with possible acquisitions and for other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. We have no present intentions to issue shares of Preferred Stock. Further, in March 2001, our Board of Directors adopted a Preferred Stock purchase rights plan intended to guard against certain takeover tactics. The existence of this plan could also have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

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

In the three and nine months ended January 31, 2005, we experienced an increase in revenue and our operating expenses as a result of the strengthening of European currencies against the US Dollar.

Interest Rate Risk

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

The table below represents principal (or notional) amounts and related weighted-average interest rates by year of maturity of our investment portfolio as of January 31, 2005 (in thousands, except interest rates).

	Maturing within 12 months	**Maturing between 1 and 2 years**	**Thereafter**	**Total**
Cash equivalents	$ 90,321	$	$	$ 90,321
Weighted average interest rate	*1.90%*	*%*	*%*	*1.90%*
Investments	$ 106,755	$ 44,264	$	$ 151,019

Weighted average interest rate	*2.18%*	*2.57%*	*%*	*2.29%*
Total investment securities	$ 197,076	$ 44,264	$	$ 241,340

Item 4. Controls and Procedures

Evaluation of Our Disclosure Controls and Internal Controls

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Table of Contents

There has been no change in our internal control over financial reporting during the quarter ended January 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CEO and CFO Certifications

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

Disclosure Controls and Internal Controls

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

Limitations on the Effectiveness of Controls

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

PART II OTHER INFORMATION

Item 1. 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 set for hearing on March 18, 2005, a conference to determine the final form, substance and program of class notice and the scheduling of a fairness hearing for final approval of the settlement.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Table of Contents

Item 4. Submission Of Matters To A Vote Of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

(a) Exhibits

3.1	Certificate of Incorporation of Agile Software Corporation, as amended to date. (1)
3.2	Certificate of Elimination and Certificate of Amendment. (1)
3.3	Amended and Restated Bylaws of Agile Software Corporation. (2)
4.1	Specimen Common Stock Certificate. (1)
4.2	Form of Rights Agreement between Agile Software Corporation and Fleet National Bank, as Rights Agent (including as Exhibit A the form of Certificate of Designation, Preferences and Rights of the Terms of the Series A Preferred Stock, as Exhibit B the form of Right Certificate, and as Exhibit C the Summary of Terms of Rights Agreement). (2)
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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.

47

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AGILE SOFTWARE CORPORATION

By: /s/ CAROLYN V. AVER

Carolyn V. Aver

Executive Vice President

and Chief Financial Officer

(Principal Accounting Officer)

Date: March 11, 2005