AGILE SOFTWARE CORP
Form 10-Q
September 14, 2001

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 July 31, 2001

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 of incorporation)	(IRS Employer Identification Number)

One Almaden Boulevard, San Jose, Ca 95113-2253

(Address of principal executive offices, including ZIP code)

(408) 975-3900
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

The number of shares outstanding of the Registrant's Common Stock as of July 31, 2001 was 47,754,845.

AGILE SOFTWARE CORPORATION

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Part 1 - Financial Information

Item 1. Financial Statements

AGILE SOFTWARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)
(unaudited)

	July 31, 2001	April 30, 2001
ASSETS		(1)
Current assets:		
Cash and cash equivalents	$ 88,458	$ 139,917
Short-term investments	202,779	160,608
Accounts receivable, net	15,905	22,626
Other current assets	13,939	12,105
Total current assets	321,081	335,256
Property and equipment, net	14,499	12,975
Intangible assets, net	1,009	1,198
Other assets	4,814	5,762
	$ 341,403	$ 355,191
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,276	$ 10,972
Accrued expenses and other liabilities	11,058	11,544
Deferred revenue	13,519	18,542
Current portion of capital lease obligations	89	359
Total current liabilities	30,942	41,417
Capital lease obligations, noncurrent	15	95
Notes payable	39	39
	30,996	41,551
Stockholders' equity:		
Common Stock	48	48
Additional paid-in capital	510,078	510,433
Notes receivable from stockholders	(547)	(628)
Unearned stock compensation	(7,404)	(9,368)
Accumulated other comprehensive income	314	217
Accumulated deficit	(192,082)	(187,062)
Total stockholders' equity	310,407	313,640
	$ 341,403	$ 355,191

1) The April 30, 2001 consolidated balance sheet information has been derived from the audited financial statements at that date.

See accompanying notes to these condensed consolidated financial statements.

AGILE SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended July 31,	
	2001	2000
Revenues:		
License	$ 16,007	$ 11,450
Professional services	2,187	2,036
Maintenance	5,131	2,282
Total revenues	23,325	15,768
Cost of revenues:		
License	962	557
Professional services	2,477	1,597
Maintenance	1,228	888
Stock compensation	27	202
Total cost of revenues	4,694	3,244
Gross profit	18,631	12,524
Operating expenses:		
Sales and marketing:		
Other sales and marketing	15,068	12,936
Stock compensation	435	2,065
Research and development:		
Other research and development	8,348	4,801
Stock compensation	138	1,229
General and administrative:		
Other general and administration	2,200	1,425
Stock compensation	(186)	920
Amortization of goodwill and other intangible assets	189	9,067
Merger related benefit	(835)	-
Total operating expenses	25,357	32,443
Loss from operations	(6,726)	(19,919)
Interest and other income	3,356	5,026
Impairment of equity investments	(1,446)	-
Interest expense	(97)	(54)
Loss before income taxes	(4,913)	(14,947)
Provision for income taxes	107	-
Net loss	$ (5,020)	$ (14,947)
Net loss per share:		

Basic and diluted	$ (.11)	$ (.33)
Weighted average shares	46,790	44,894

See accompanying notes to these condensed consolidated financial statements.

AGILE SOFTWARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months End
	2001
Cash flows from operating activities:	
Net loss	$ (5,020)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for doubtful accounts	200
Depreciation and amortization	2,322
Amortization of stock compensation	414
Impairment of equity investments	1,446
Changes in operating assets and liabilities:	
Accounts receivable	6,521
Other assets, current and non-current	(2,182)
Accounts payable	(4,696)
Accrued expenses and other liabilities	(486)
Deferred revenue	(5,023)
Net cash used in operating activities	(6,504)
Cash flows from investing activities:	
Purchases of investments	(124,679)
Proceeds from maturities or sales of investments	82,605
Purchases of privately-held investments	(150)
Acquisition of property and equipment	(3,657)
Net cash used in investing activities	(45,881)
Cash flows from financing activities:	
Repayment of capital lease obligations	(350)
Proceeds from issuance of Common Stock, net of repurchases	1,218
Repayment of notes receivable from stockholders	58
Net cash provided by financing activities	926
Net decrease in cash and cash equivalents	(51,459)

Cash and cash equivalents at beginning of period	139,917
Cash and cash equivalents at end of period	$ 88,458
Non-cash investing and financing activities:	
Additions (reduction) in stock compensation	$ (1,550)

See accompanying notes to these condensed consolidated financial statements.

AGILE SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Agile Software Corporation and its subsidiaries ("Agile" or the "Company") have been prepared by the Company 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 period presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending April 30, 2002. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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 the Company's audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2001, included in the Company's Annual Report on Form 10-K filed on July 25, 2001 with the Securities and Exchange Commission.

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

2. Revenue Recognition

The Company recognizes revenues in accordance with SOP 97-2, "Software Revenue Recognition," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions."

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

License revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectibility is probable, and delivery and customer acceptance (including the expiration of an acceptance period), if required under the terms of the contract, of the software products have occurred. In the event the Company grants its customers the right to specified upgrades, license revenue is deferred until delivery of the specified upgrade. If vendor-specific objective evidence of fair value exists for the specified upgrade, then an amount equal to this fair value is deferred. If vendor-specific objective evidence of fair value does not exist, then the entire license fee is deferred until the delivery of the specified upgrade. Allowances for estimated returns are provided upon product delivery. In instances where vendor obligations remain, revenues are deferred until the obligation has been satisfied.

Revenues from professional services consist of implementation and training services. Training revenues are recognized as the services are performed. Implementation services are typically performed under fixed-price contracts and accordingly, revenues are recognized upon customer acceptance. A provision for estimated losses on fixed-price professional services contracts is recognized in the period in which the loss becomes known.

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

3. Net Loss Per Share

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

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

	Three Months Ended July 31,	
	2001	2000
Numerator:		
Net loss	$ (5,020)	$ (14,947)
Denominator:		
Weighted average shares	47,586	46,482
Weighted average unvested shares of Common Stock subject to repurchase	(796)	(1,588)
Denominator for basic and diluted calculation	46,790	44,894

Net loss per share:		
Basic and diluted	$ (.11)	$ (0.33)

4. Segment Information

The Company identifies its operating segments based on business activities, management responsibility and geographical location. During the three months ended July 31, 2001 and 2000, the Company operated in a single business segment, primarily in the United States. Through July 31, 2001, foreign operations were not significant in either revenue or investment in long- lived assets.

5. Stock compensation

	Three Months Ended July 31,	
	2001	2000
Cost of revenues	$ 27	$ 202
Sales and marketing	435	2,065
Research and development	138	1,229
General and administrative	(186)	920
Total	$ 414	$ 4,416

In connection with certain stock option grants to employees stock compensation expense is being recognized over the applicable vesting period of the options, generally five years consistent with the accelerated amortization method prescribed by FASB Interpretation No. 28. Amortization of stock compensation for employees was $492,000 and $3.8 million for the three months ended July 31, 2001 and July 31, 2000, respectively.

Stock compensation expense related to stock options granted to consultants is recognized as earned, over the applicable vesting period of the options, generally five years consistent with the accelerated amortization method prescribed by FASB Interpretation No. 28. At each reporting date, the Company re-values the stock compensation using the Black-Scholes option pricing model for unvested options. As a result, the stock compensation expense will fluctuate as the fair market value of the Company's common stock fluctuates. Amortization of stock compensation for consultants was ($78,000) and $639,000 for the three months ended July 31, 2001 and July 31, 2000, respectively.

6. Intangible Assets

In connection with the acquisition of Digital Markets, Inc. in November 1999, the Company recorded goodwill and other intangible assets of approximately $109.2 million, of which $1.3 million was immediately expensed as acquired in-process technology. Goodwill and other intangible assets are presented at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the assets, which is generally three years. Amortization of goodwill and intangibles for the three months months ended July 31, 2001 and 2000 was $189,000 and $9.1 million, respectively. At each balance sheet date, the Company assesses the value of recorded intangible assets for possible impairment based upon a

number of factors including turnover of the acquired workforce and the

undiscounted value of expected future operating cash flows.

During the fourth quarter ended April 30, 2001, the Company performed an impairment assessment of the identifiable intangibles and goodwill recorded upon the acquisition of DMI. This assessment was performed primarily as a result of the decision by management in February 2001 to discontinue the further development of the products acquired in the DMI acquisition. As a result of the assessment, the Company recorded a $55.2 million impairment charge reflecting the amount by which the carrying amount of the assets exceeded its fair value. The charge was determined based upon the estimated discounted future cash flows relating to the future cash flows from the specific products acquired using a discount rate of 25%. The assumptions supporting such cash flows including the discount rate were determined using management's best estimates. The remaining identifiable intangibles balance of approximately $1.2 million, consisting principally of workforce in place, will continue to be amortized over its remaining useful life of 1.5 years which management considers appropriate. Amortization of goodwill and other intangible assets was $189,000 and $9.1 million for the three months ended July 31, 2001 and 2000, respectively.

7. Marketable Investments

The Company's investments comprise U.S., state, and municipal government obligations; corporate debt securities; and foreign debt securities. Investments with maturities of less than one year are considered short-term and are carried at fair value. All investments are primarily held in the Company's name and custodied with one major financial institution. The specific identification method is used to determine the cost of securities disposed. At July 31, 2001 and April 30, 2001, all of the Company's investments were classified as available for sale. Unrealized gains and losses on these investments are included as a separate component of stockholders' equity.

8. Other Assets

Other assets include investments in equity instruments of privately held companies which amounted to $3.5 million and $4.8 million as of July 31, 2001 and April 30, 2001, respectively. These investments, accounted for using the cost method and consisting primarily of investments in preferred stock in privately-held companies, are reviewed each reporting period for declines considered other-than-temporary, and, if appropriate, written down to their estimated fair value.

During the three months ended July 31, 2001, the Company determined that certain of these investments had incurred a decline in value that was other than temporary primarily due to the limited liquidity and poor prospects for additional funding and reduced their carrying amounts to their estimated fair value by a charge of $1.4 million to results of operations.

9. Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, or SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive loss, depending on the type of hedging relationship that exists. In July 1999, the Financial Accounting Standard Boards issued SFAS No. 137, or "SFAS 137," "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133." SFAS 137 deferred the effective date of SFAS 133 until the first fiscal year beginning after June 15, 2000. The Company does not currently hold derivative instruments or engage in hedging

activities. Accordingly, the adoption of SFAS No. 133 did not have an impact on the Company's financial position, results of operations or cash flows.

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria for determining intangible assets acquired in a purchase method business combination that must be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company is required to adopt the provisions of SFAS No. 141 immediately, and SFAS No.142 effective May 1, 2002. Furthermore, any goodwill and any intangible assets determined to have indefinite useful lives that are acquired in a purchase business combination completed after June

30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142. The Company is currently evaluating the impact SFAS No. 141 and 142 will have on its financial position and results of operations.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. 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 intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed in "Other Factors Affecting Operating Results" and "Liquidity and Capital Resources" below, as well as Risk Factors included in our Annual Report on Form 10-K filed on July 25, 2001 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.

Overview

We develop and market collaborative manufacturing commerce solutions that speed the "build" and "buy" process across the virtual manufacturing network. We believe that our products improve time-to-volume, customer responsiveness and

cost of goods sold. Our solutions manage product content and critical communication, collaboration and commerce transactions among original equipment manufacturers, electronic manufacturing services providers, customers and suppliers in real-time. We were founded in March 1995 and in June 1996 we began selling our first products and delivering related services. We currently license our products in the United States through our direct sales force, and in Europe and Asia through our direct sales force and distributors. To date, revenues from international sales have not been material. We have derived our revenues principally from the licenses of our products, the delivery of professional services and from maintenance contracts.

Customers who license our software products receive a license for our application servers, one or more user licenses, and adapters provided by third parties to connect with the customer's other existing enterprise systems. Our customers generally purchase a limited number of user licenses at the time of the initial license of the software products and may purchase additional user licenses as needed. Customers may purchase implementation services from us. These professional services are generally provided on a fixed-price basis and are often provided by third-party consulting organizations. We also offer fee-based training services to our customers. As of July 31, 2001, over 98% of our customers who licensed our products had purchased maintenance contracts, which provide unspecified software upgrades on a when-and-if available basis, and technical support over a stated term, which is generally a twelve-month period. Over 95% of our customers had renewed their maintenance contracts as of July 31, 2001. We may not be able to maintain or continue these rates of purchases or renewals of maintenance agreements.

We recognize revenue under Statement of Position, or SOP, 97-2, "Software Revenue Recognition," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." When contracts contain multiple elements and vendor-specific objective evidence of fair-value exists for all undelivered elements, we account for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9. Multiple element arrangements generally include post-contract support (PCS or support), software products, and in some cases, service. Vendor-specific objective evidence of fair value is generally determined by sales of the same element or service to third parties or through a renewal rate specified in the related arrangement. In most cases, the bundled multiple elements include PCS and the software product. In such cases, when vendor-specific objective evidence of fair value exists for all of the undelivered elements (most commonly PCS), the residual amount is recognized as revenue and the PCS is recognized ratably over the PCS term as described below.

License revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectibility is probable, and delivery and customer acceptance (including the expiration of an acceptance period), if required under the terms of the contract, of the software products has occurred. In the event that we grant a customer the right to

specified upgrades, license revenue is deferred until delivery of the specified upgrade. If vendor-specific objective evidence of fair value exists for the specified upgrade, an amount equal to this fair value is deferred. If vendor-specific objective evidence of fair value does not exist, then recognition of the entire license fee is deferred until the delivery of the specified upgrade. Allowances for estimated returns are provided upon product delivery. In instances where vendor obligations remain, recognition of revenues is deferred until the obligation has been satisfied.

Revenues from professional services consist of implementation and training services. Training revenues are recognized as the services are performed. Implementation services are typically performed under fixed-price contracts and accordingly, revenues are recognized upon customer acceptance. A provision for estimated losses on fixed-price professional services contracts is recognized in the period in which the loss becomes known.

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

Our cost of license revenues include royalties due to third parties for integrated technology, the cost of manuals and product documentation, production media used to deliver our products and packaging costs. Our cost of professional services revenues include salaries and related expenses for the implementation and training services organizations, costs of third parties contracted to provide implementation services to customers and an allocation of our overhead expenses. Our cost of maintenance revenues include salaries and related expenses for the customer support organization and an allocation of our overhead expenses. The cost of professional services can fluctuate depending upon whether more or less of the professional services are provided to our customers by us rather than by third-party service providers. We generally provide implementation services to our customers on a fixed-price basis. If we have to engage independent contractors or third parties to provide these services on our behalf, it is generally at higher cost resulting in a lower gross margin than if we had provided the services to our customers ourselves. Therefore, our gross margin from professional services may fluctuate based on who performs the services and the actual cost to provide these services. Although services revenues may increase in absolute dollars if we increase the professional services we provide, services revenues have lower gross margins than license revenues. Our overall gross profit can therefore fluctuate based on the mix of license revenues compared to professional services revenues and maintenance revenues.

Our operating expenses are classified as sales and marketing, research and development and general and administrative. We classify all charges to these operating expense categories based on the nature of the expenditures. Although each category includes expenses that are unique to the category type, there are common recurring expenditures that are typically included in all operating expenses categories, such as salaries, employee benefits, incentive compensation, bonuses, travel costs, telephone, communication, rent and allocated facilities costs and professional fees. The sales and marketing category of operating expenses includes additional expenditures specific to the marketing group, such as public relations and advertising, trade shows, marketing collateral materials, and customer user group meetings and expenditures specific to the sales group, such as commissions. To date, all software development costs in research and development have been expensed as incurred. Also included in our operating expenses is the amortization of stock compensation described below.

On November 23, 1999, we acquired Digital Market, Inc. ("DMI") in a transaction accounted for as a purchase business combination. We paid $20.0 million in cash and issued 1,202,018 shares of our Common Stock valued at $75.7 million or $62.95 per share based upon the average price of our Common Stock two days before, day of and two days after the transaction measurement date. In addition, we also assumed all unvested outstanding stock options granted by DMI. The estimated fair value of the assumed options was $5.6 million, and was included as a component of the purchase price. The fair value of the options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free rate of 5.96%, expected life of 2 to 4 years, expected dividend rate of 0%, and volatility of 85%. We incurred $1.2

million in acquisition expenses, including financial advisory and legal fees and other direct transaction costs resulting in an adjusted aggregate purchase price of $102.5 million.

The total acquisition price of $102.5 million was allocated to the assets acquired, including tangible and intangible assets, and liabilities assumed based upon the fair value of such assets and liabilities on the date of the acquisition. The total acquisition price of the acquisition was allocated to assets and liabilities based on management's estimates of their fair value and an independent appraisal of certain intangible assets, with the excess costs over the net assets acquired allocated to goodwill. The aggregate purchase price was allocated as follows (in thousands):

Net tangible liabilities	$ (6,659)
In-process technology	1,300
Existing technology	1,850
Trademark	150
Assembled workforce	2,100
Goodwill	103,776
	$102,517

The net tangible liabilities consisted primarily of cash and cash equivalents, accounts receivable, property and equipment, accounts payable and other liabilities and notes payable. Because the in-process technology had not reached the stage of technological feasibility at the acquisition date and had no alternative future use, the amount was immediately charged to operations. The amount allocated to existing technology, trademark and assembled workforce was being amortized over the estimated useful lives of three years. The purchase price in excess of identified tangible and intangible assets was allocated as goodwill. As a result of the rapid technological changes occurring in the software and Internet industries, goodwill was being amortized over the estimated useful life of three years. The valuation of the intangible assets was been determined using management's assumptions and a valuation report from an independent appraiser.

Management assesses the impairment of identifiable intangibles and related goodwill periodically in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of. Impairment of enterprise level goodwill is also assessed periodically in accordance with the provision of Accounting Principles Board (APB) Opinion No. 17, Intangible Assets. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, or a significant decline in our market capitalization relative to net book value. When it is determined that the carrying value of goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in our current business model.

During the fourth quarter of 2001, management performed an impairment assessment of the identifiable intangibles and goodwill recorded upon the acquisition of DMI. This assessment was performed primarily as a result of the decision by management in February 2001 to discontinue the further development of the products acquired in the DMI acquisition. As a result of the assessment, an impairment charge of $55.2 million was recorded to reduce the carrying value of developed technology and goodwill. The charge was determined based upon our estimated discounted cash flows using a discount rate of 25%. The assumptions supporting such cash flows including the discount rate were determined using management's best estimates. The remaining identifiable intangibles balance of approximately $1.2 million, consisting principally of workforce in place, will continue to be amortized over its remaining useful life of 1.5 years which management considers appropriate.

We granted options below market price to purchase 269,144 shares of our common stock to certain DMI employees who remained our employees after the acquisition. We recorded additional deferred stock compensation of approximately $11.7 million associated with these stock option grants, which was amortized over their expected term of 18 months.

In connection with the granting of stock options to our employees (including the DMI employees who remained our employees after the acquisition) and non-employee consultants, we have recorded unearned stock compensation totaling approximately $38.8 million through July 31, 2001, of which $7.4 million remains to be amortized. This amount is included as a component of stockholders' equity and is being amortized by charges to operations over the applicable vesting period of the options, consistent with the accelerated amortization method described in Financial Accounting Standards Board, or FASB, Interpretation No. 28. We recognized amortization of unearned stock compensation of $414,000 and $4.4 million in the three months ended July 31, 2001 and 2000, respectively. The amortization of the remaining unearned stock compensation at July 31, 2001 will result in additional charges to operations through fiscal 2005. We calculated the fair value of options to purchase 130,000 shares of our common stock granted to non-employee consultants, which totals $848,000 as of July 31, 2001, using the Black-Scholes option pricing model as prescribed by SFAS No. 123 with the following underlying assumptions: expected volatility of 100%, risk-free interest rate of 4.25% and option terms of two to four years. We are accounting for these options

under variable plan accounting and therefore the expense associated with these options may fluctuate significantly from quarter to quarter through fiscal 2005.

In September 2000, in connection with a marketing alliance with a third party, we issued a warrant to purchase 50,000 shares of our common stock at an exercise price of $67.05 per share, the fair value of our common stock on the date of the agreement. We recorded a charge of $2.0 million representing the fair value of the warrant, estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free rate of 5.75%, expected life of 3.0 years, expected dividend rate of 0%, and volatility of 80%. Such amount is presented as a reduction of stockholders' equity and is being amortized to sales and marketing expense over the three-year life of the marketing alliance.

The warrant was granted on a non-contingent basis and vests immediately. The warrant is not subject to repurchase, nor does it require substantial performance for the third party to exercise. The marketing alliance is a three-year non-exclusive cooperative agreement, which is designed to enhance our and the third party's potential revenues in their respective areas, and credibility in collaborative manufacturing commerce without constraining each

other's business. We will each be responsible for our own cost and expenses in performing joint marketing sales activities.

Although our total revenues have increased from year to year, we have incurred significant costs to develop our products and to recruit and train personnel for our engineering, sales, marketing, professional services and administration departments. As a result, we have incurred significant losses since inception, and, as of July 31, 2001, had an accumulated deficit of $192.1 million.

We intend to continue to incur significant sales and marketing, research and development, general and administrative expenses and stock compensation expenses. For example, we had 490 full-time employees at July 31, 2001, compared to 356 at July 31, 2000. We expect to continue to incur operating losses for the foreseeable future. In order to achieve profitability, we will need to increase our revenues significantly. Therefore, we cannot be sure that we will ever attain or maintain profitability. Our expansion will also place significant demands on our management and operational resources. To manage this rapid growth and increased demands, we must improve existing and implement new operational and financial systems, procedures and controls. We must also hire, train, manage, retain and motivate qualified personnel. We expect future expansion to continue to challenge our ability to hire, train, manage, retain and motivate our employees.

In view of the rapidly changing nature of our market and our limited operating history, we believe that period-to-period comparisons of our revenues and other operating results are not necessarily meaningful and should not be relied upon as indications of future performance. Our historic revenue growth rates are not necessarily sustainable or indicative of our future growth.

Results of Operations

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

	Three Months Ended July 31,	
	2001	2000
Revenues:		
License	69%	73%
Professional services	9	13
Maintenance	22	14
Total revenues	100	100
Cost of revenues:		
License	4	4
Professional services	11	9
Maintenance	5	6
Stock compensation	-	1
Total cost of revenues	20	20

Gross profit	80	80
Operating expenses:		
Sales and marketing:		
Other sales and marketing	65	82
Stock compensation	2	13
Research and development:		
Other research and development	36	30
Stock compensation	1	8
General and administrative:		
Other general and administration	9	9
Stock compensation	(1)	6
Amortization of goodwill and other intangible assets	1	58
Merger related expenses	(4)	-
Total operating expenses	109	206
Loss from operations	(29)	(126)
Interest income (expense)	14	31
Impairment of equity investments	(6)	-
Loss before income taxes	(21)	(95)
Provision for income taxes	1	-
Net loss	(22%)	(95%)

Three Months Ended July 31, 2001 and 2000

Revenues

Our total revenues for the three months ended July 31, 2001 were $23.3 million, representing an increase of $7.6 million, or 48%, from the revenues of $15.8 million in the quarter ended July 31, 2000. We had no customers that accounted for more than 10% of our total revenues in the three months ended July 31, 2001 or 2000.

License Revenues. Our license revenues for the three months ended July 31, 2001 were $16.0 million, representing an increase of $4.6 million, or 40%, from the license revenues of $11.5 million in the quarter ended July 31, 2000. License revenues as a percentage of total revenues were 69% and 73% for the three months ended July 31, 2001 and 2000, respectively. The increase in our license revenues from the prior year period was due to software licensed to new customers and

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additional software licensed to existing customers. This increase was primarily attributed to continued market acceptance of and demand for our products. However, due to the current economic slowdown and the significant decline in

information technology spending, we expect software license revenues, on an absolute basis and as a percentage of total revenues, to decrease sequentially for at least the next quarter and perhaps longer.

Professional Services Revenues. Our professional services revenues for the three months ended July 31, 2001 were $2.2 million, representing an increase of $151,000, or 7%, from the professional services revenues of $2.0 million for the three months ended July 31, 2000. Professional services revenues as a percentage of total revenues were 9% and 13% for the three months ended July 31, 2001 and 2000, respectively. The increase in professional services revenues in absolute dollars was due to increased license revenues and an increased range of services, consisting of additional data migration and integration services. The decrease in professional services revenues as a percentage of total revenues is due to the increased percentage of professional services that were provided by third party implementers who invoiced the customer directly.

Maintenance Revenues. Our maintenance revenues for the three months ended July 31, 2001 were $5.1 million, representing an increase of $2.8 million, or 125%, from the maintenance revenues of $2.3 million for the three months ended July 31, 2000. Maintenance revenues as a percentage of total revenues were 22% and 14% for the three months ended July 31, 2001 and 2000, respectively. The increase in maintenance revenues in absolute dollars and as a percentage of revenues was due to our increased customer base.

Cost of Revenues

Cost of License Revenues. Cost of license revenues, excluding stock compensation, was $962,000 for the three months ended July 31, 2001, representing an increase of $405,000, or 73%, from the cost of license revenues of $557,000 for the three months ended July 31, 2000. Cost of license revenues as a percentage of license revenues was 6% and 5% for the three months ended July 31, 2001 and 2000, respectively. The increase in the cost of license revenues in absolute dollars in the three months ended July 31, 2001 reflects increased expenses associated with royalties due to third-parties for software used in our products.

Cost of Professional Services Revenues. Cost of professional services revenues, excluding stock compensation, was $2.5 million for the three months ended July 31, 2001, representing an increase of $880,000 million, or 55%, from the cost of professional services revenues of $1.6 million for the three months ended July 31, 2000. Cost of professional services revenues as a percentage of professional services revenues was 113% and 78% for the three months ended July 31, 2001 and 2000, respectively. The increase in cost of professional services revenues in absolute dollars from the prior period was due to increased professional services personnel necessary to support our increased customer base. In the current period, certain periods in the past, and potentially in the future, our cost of professional services revenues exceeded or may exceed our professional services revenues, primarily because the actual cost of providing the services, whether provided internally or through third parties, exceeded the fixed price payment received from some of our customers for such services. In addition, as we increase the size of our professional services staff, we will incur payroll, training and related costs for new personnel before they become fully productive.

Cost of Maintenance Revenues. Cost of maintenance revenues, excluding stock compensation, was $1.2 million for the three months ended July 31, 2001, representing an increase of $340,000, or 38%, from the cost of maintenance revenues of $888,000 for the three months ended July 31, 2000. Cost of maintenance revenues as a percentage of maintenance revenues was 24% and 39% for the three months ended July 31, 2001 and 2000, respectively. The decrease in cost of maintenance revenues as a percentage of maintenance revenue for the three months ended July 31, 2001 over the prior year period was due to economies

of scale realized as a result of increased management personnel and experienced maintenance personnel.

Operating Expenses

Sales and Marketing. Sales and marketing expenses, excluding stock compensation, were $15.1 million for the three months ended July 31, 2001, representing an increase of $2.1 million, or 16%, from the sales and marketing expenses of $12.9 million for the three months ended July 31, 2000. The increase in sales and marketing expenses for the three months ended July 31, 2001, compared to the corresponding period in the prior fiscal year, reflects significant increased personnel-related expenses such as salaries, benefits and commissions, bonuses, recruiting fees, travel expenses and related costs of hiring sales management, sales representatives, sales engineers and marketing personnel. We anticipate that our sales and marketing expenses will continue to increase in absolute dollars as we continue to selectively expand our domestic and international sales force.

Research and Development. Research and development expenses, excluding stock compensation, were $8.3 million for the three months ended July 31, 2001, representing an increase of $3.5 million, or 74%, from the research and development expenses of $4.8 million for the three months ended July 31, 2000. The increase in research and development expenses for the three months ended July 31, 2001, compared to the corresponding period in the prior fiscal year, was due to the increase in the number of our software developers, quality assurance personnel and outside contractors needed to support our product development, documentation and testing activities related to the development and release of the latest versions of our products. We anticipate that research and development expenses will continue to increase in absolute dollars as we continue investing in new product development through the economic downturn.

General and Administrative. General and administrative expenses, excluding stock compensation, were $2.2 million for the three months ended July 31, 2001, representing an increase of $775,000, or 54%, from the general and administrative expenses of $1.4 million for the three months ended July 31, 2000. The increase in general and administrative expenses in absolute dollars for the three months ended July 31, 2001, compared to the corresponding period in the prior fiscal year, was due to hiring additional finance and administrative personnel to support the growth of our business during that period. We expect that general and administrative expenses will remain relatively stable over the short term.

Amortization of Stock Compensation. We recognized amortization of stock compensation of approximately $414,000 and $4.4 million for the three months ended July 31, 2001 and 2000, respectively.

Amortization of Goodwill and Purchased Intangible Assets. In connection with our acquisition of Digital Market, Inc. in November 1999, $103.8 million was allocated to goodwill and $4.1 million was allocated to other intangible assets, all of which were being amortized over a period of 3 years. Amortization of goodwill and intangibles was $189,000 and $9.1 million for the three months ended July 31, 2001 and 2000, respectively.

Merger related benefit. In the fourth quarter of fiscal 2001, we accrued $5.0 million for financial advisory and professional fess resulting from the terminated merger with a third party. The accrual was management's best estimate of its obligation at the time. As of July 31, 2001, we had incurred actual costs of $4.2 million and we had no remaining liability related to the terminated

merger. As a result, we recorded a reduction of merger related expenses of $835,000 in the three months ended July 31, 2001, which was included in the statement of operations.

Interest income (expense) was $3.3 million for the three months ended July 31, 2001 compared to $5.0 million for the three months ended July 31, 2000. This decrease in interest income was due principally to declining interest rates and lower average cash and investment balances.

Impairment of Equity Investments. During the three months ended July 31, 2001, we determined that certain equity investments of privately held companies had incurred a decline in value that was considered other than temporary. We recorded a charge of $1.4 million in our results of operations to write down the investments to their estimated fair values. See Note 8 of Notes to Consolidated Financial Statements for more detailed information.

Provision for Income Taxes. The Company incurred operating losses for the three months ended July 31, 2001 and July 31, 2000. Management has recorded a valuation allowance for the full amount of the net deferred tax assets, as sufficient uncertainty exists that it is more likely than not that the deferred tax assets will not be realized. During the three months ended July 31, 2001, the Company incurred income tax expense of $107,000, primarily attributable to its international subsidiaries.

Liquidity and Capital Resources

As of July 31, 2001, we had cash, cash equivalents and short-term investments of $291.2 million, a decrease of $9.3 million from the cash, cash equivalents and short-term investments held as of April 30, 2001. Our working capital at July 31, 2001 was $290.1 million.

Operating activities used cash of $6.5 million for the three months ended July 31, 2001 and used $1.3 million for the three months ended July 31, 2000. Net cash used in operating activities in the three months ended July 31, 2001 was due primarily to the net loss (less non-cash expenses) and decreases in deferred revenue, accounts payable, and an increase in other assets, partially offset by increases in accounts receivable. Net cash used in operating activities in the three months ended July 31, 2000 was due primarily to the net loss (less non-cash expenses) and increases in accounts receivable and other assets, partially offset by increases in deferred revenue and accrued expenses.

Investing activities used cash of $45.9 million for the three months ended July 31, 2001 and used $12.6 million for the three months ended July 31, 2000. Net cash used in investing activities in

both the three months ended July 31, 2001 and 2000 consisted primarily of net purchases of marketable investments and purchases of property and equipment. Purchases of property and equipment were approximately $3.7 million in the three months ended July 31, 2001 and $2.6 million in the three months ended July 31, 2000. These capital expenditures were primarily for computer hardware and software and furniture and fixtures. We expect that capital expenditures will continue to increase to the extent we continue to increase our headcount or expand our operations.

Financing activities provided cash of $926,000 in the three months ended July 31, 2001 and provided cash of $940,000 in the three months ended July 31, 2000. Net cash was provided in both the three months ended July 31, 2001 and 2000 primarily from the sale of common stock under employee stock option plans.

Capital lease obligations, including both short-term and long-term portions, were $104,000 at July 31, 2001, and are payable through fiscal 2003.

We expect to experience growth in our operating expenses, particularly research and development and sales and marketing expenses, for the foreseeable future in order to execute our business plan. As a result, we anticipate that such operating expenses, as well as planned capital expenditures, will constitute a material use of our cash resources. In addition, we may utilize cash resources to fund acquisitions or investments in complementary businesses, technologies or product lines. We believe that our existing cash and cash equivalents and our anticipated cash flow from operations will be sufficient to meet our working capital and operating resource expenditure requirements for at least the next twelve months. Thereafter, we may find it necessary to obtain additional equity or debt financing. In the event additional financing is required, we may not be able to raise it on acceptable terms or raise it at all, and the issuance of any additional securities would result in ownership dilution to our existing stockholders.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, or SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive loss, depending on the type of hedging relationship that exists. In July 1999, the Financial Accounting Standard Boards issued SFAS No. 137, or "SFAS 137," "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133." SFAS 137 deferred the effective date of SFAS 133 until the first fiscal year beginning after June 15, 2000. The Company does not currently hold derivative instruments or engage in hedging activities. Accordingly, the adoption of SFAS No. 133 did not have an impact on the Company's financial position, results of operations or cash flows.

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria for determining intangible assets acquired in a purchase method business combination that must be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company is required to adopt the provisions of SFAS No. 141 immediately, and SFAS No.142 effective May 1, 2002. Furthermore, any goodwill and any intangible assets determined to have indefinite useful lives that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142. The Company is currently evaluating the impact SFAS No. 141 and 142 will have on its financial position and results of operations.

Other Factors Affecting Operating Results

We Have a History of Losses, We Expect to Incur Losses in the Future and We May Not Achieve or Maintain Profitability

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Since inception, we have funded our business primarily through selling our stock, not from cash generated from our business. We have incurred quarterly and annual losses in each of the years since we were formed and we expect to continue to incur quarterly and annual losses in the near term. We incurred losses of $5.0 million and $14.9 million for the three months ended July 31, 2001 and 2000, respectively. As of July 31, 2001 we had an accumulated deficit of approximately $192.1 million. We expect to continue to incur significant sales and marketing, research and development and general and administrative expenses. We have incurred and expect to continue to incur substantial non-cash costs relating to the amortization of intangible assets and stock compensation which will contribute to our net losses. We expect to incur losses for the foreseeable future. We will need to generate significant increases in revenues to achieve and maintain profitability, and we may not be able to do so. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future.

Because We Have a Limited Operating History, It Is Difficult to Evaluate Our Business and Prospects

We are still in the early stages of development, so evaluating our business operations and our prospects is difficult. We incorporated in 1995 and began shipping our first product in June 1996. The revenues and income potential of our business and market are unproven. We will encounter risks and difficulties frequently encountered by early-stage companies in new and rapidly evolving markets. These risks include the following:

. we need to increase sales to achieve profitability, requiring us to sell additional licenses and software products to our existing customers and expand our customer base outside of the electronics and medical device industries;

. we need to expand our sales and marketing, customer support and professional services organizations, build strategic relationships and expand our international operations in order to increase sales; and

. we need to effectively manage our anticipated growth which could lead to management distractions and increased operating expenses, and will require us to attract and retain key personnel.

Our business strategy may not be successful and we may not be able to successfully address these risks. In addition, because of our limited operating history, we have limited insight into trends that may emerge and affect our business.

Our Quarterly Operating Results Fluctuate and Are Difficult to Predict and, if Our Future Results Are Below the Expectations of Public Market Analysts or Investors, the Price of Our Common Stock May Decline

Our quarterly operating results have varied significantly in the past and are likely to vary significantly in the future, which makes it difficult for us to predict our future operating results. This quarter-to-quarter fluctuation is due to a number of factors, including the following:

. fluctuations in demand for Internet collaborative manufacturing commerce software;

. size and timing of sales and installations of our products;

. entry of new competitors into our market, or the announcement of new products or product enhancements by competitors;

. our ability to successfully expand our direct sales force and our international sales organization;

. changes in our sales force incentives;

. unexpected delays in developing or introducing new and enhanced products;

. unexpected decline in purchases by our existing customers, including purchases of additional licenses and maintenance contracts;

. delays in our customers' orders due to their priorities;

. variability in the mix of our license and professional services revenues;

. our ability to accurately price fixed-priced professional services projects;

. variability in the mix of professional services that we perform versus those performed for our customers by others; and

. our ability to establish and maintain relationships with our third-party implementation partners.

Furthermore, we typically receive and fulfill most of our orders within the same quarter, with the substantial majority of our orders typically received in the last month of each fiscal quarter. Recently, declining economic conditions have caused our customers to delay and reduce spending on information technology, our sales cycle has lengthened and orders are being pushed to the last day of the quarter. As a result, we may not learn of revenue shortfalls until late in a fiscal quarter, after which it is too late to adjust expenses for that quarter. Moreover, recent adverse economic conditions in the United States, particularly those related to the technology industry, may increase the likelihood that customers will unexpectedly delay or cancel orders causing us to fail to achieve anticipated revenues for the quarter. A number of technology companies, particularly software companies that, like Agile, sell enterprise-wide software solutions, have recently announced that adverse economic conditions have negatively affected their business and results of operations. Any revenue shortfall below our expectations could have an immediate and significant adverse effect on our results of operations.

If, in response to market pressures or other demands, we introduce new pricing structures for our existing products, we could experience customer dissatisfaction and loss of sales. In addition, we could introduce products that are sold in a manner different from how we currently market our products, or we could recognize revenue differently than under our current accounting policies. Depending on the manner in which we sell existing or future products, this could have the effect of extending the length of time over which we recognize revenues. Furthermore, our quarterly revenues could be significantly affected based on how applicable accounting standards are amended or interpreted over time.

In addition, we have accounted for options to purchase common stock granted to consultants under variable plan accounting. The expenses associated with these options may fluctuate significantly from quarter to quarter through fiscal 2006 if the price of our stock fluctuates and could cause our operating results to vary significantly from quarter to quarter.

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 the expectations of public market analysts and investors. If this occurs, the price of our common stock may decline.

The Impact of Changes in Global Economic Conditions on Our Customers May Cause Us to Fail to Meet Expectations, Which Would Negatively Impact the Price of Our Stock

Our operating results can vary significantly based upon the impact of changes in global economic conditions on our customers. More specifically, the macro-economic environment that we are facing in fiscal 2002 is more uncertain than in recent periods and has the potential to materially and adversely affect us and our operating results. The revenue growth and profitability of our business depends on the overall demand for enterprise-level software services, particularly in the areas in which we compete. Because our sales are primarily to major corporate customers whose business fluctuates with general economic and business conditions, a softening of demand for computer software caused by a weakening economy may result in decreased revenues and lower growth rates. We may be especially prone to this as a result of the relatively large license transactions we have historically relied upon. Customers may defer or reconsider purchasing products if they experience a downturn in the general economy.

We May Not Achieve Anticipated Revenues if the Introduction and Customer Acceptance of Agile Anywhere or Any Upgrades or Enhancements to Our Products Is Unsuccessful

Our future financial performance will depend on customer acceptance of Agile Anywhere products and any upgrades or enhancements that we may make to our products in the future. We have generated substantially all of our revenues from licenses and services related to current and prior versions of our product suite. We believe that revenues from Agile Anywhere, together with revenues from maintenance and support contracts from Agile Anywhere and prior versions of our suite, will account for a substantial portion of our revenues for the foreseeable future. If we are unable to ship or implement any upgrades or enhancements when planned, or if the introduction of upgrades or enhancements causes customers to defer orders for our existing products, we may not achieve anticipated revenues.

We May Need to Make Additional Future Acquisitions to Remain Competitive. Our Business Could be Adversely Affected as a Result of These Acquisitions

We may encounter risks to our business during our integration of acquisitions including:

- difficulties in assimilation 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 management's decision in February 2001 to discontinue the further development of the products acquired in the DMI acquisition;

- diversion of management's attention from other business concerns;

- adverse effects on our existing business relationships with our customers or the customers of any acquisitions we make; and

- inability to retain employees of acquisitions we make.

As part of our business strategy, we may in the future seek to acquire or invest in additional businesses, joint venture arrangements, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or that may otherwise offer growth opportunities. Management's negotiations of potential acquisitions or joint ventures and management's integration of acquired businesses, products or technologies could divert their time and resources. Future 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 that could seriously harm our financial condition and operating results. Further, we may not be able to properly integrate acquired businesses, products or technologies with our existing operations or train, retain and motivate personnel from the acquired businesses. If we are unable to fully integrate an acquired business, product or technology or train, retain and motivate personnel from the acquired business, we may not receive the intended benefits of that acquisition.

Recent volatility in the stock markets has made it more difficult to value acquired businesses where the consideration payable as the purchase price is stock. We may reach agreement to buy another company using our stock as consideration. Thereafter, prior to closing the acquisition the relative values of the capital stock of the acquired company could change, causing the purchase price to increase. As a result, in periods of market volatility as we are experiencing, acquisitions are difficult to complete, and we may be unable to complete beneficial acquisitions of complementary businesses or technologies at an acceptable price.

Implementation of Our Products By Large Customers May Be Complex and Customers Could Become Dissatisfied if Implementation of Our Products Proves Difficult, Costly or Time-Consuming

Our products must integrate with many existing computer systems and software programs used by our customers. Integrating with many other computer systems and software programs can be complex, time consuming and expensive, causing delays in the deployment of our products. Because we are one of the first companies to offer products designed for collaborative manufacturing commerce solutions, many customers will be facing these integration issues for the first time in the context of collaborating with supply chain partners. Customers could become dissatisfied with our products if implementations prove to be difficult, costly or time-consuming.

We Currently Perform Most of Our Implementations on a Fixed-Price Basis, Which Could Cause Us to Incur More Costs Than We Expect

When we install our products or when we have a third party install them, we typically charge customers a fixed fee for these services. At the time of a product sale and prior to agreeing to an installation price, we estimate the amount of work involved for a particular installation project. We have at times in the past underestimated and may in the future underestimate the amount of time or resources required to install our products. If we do not correctly estimate the amount of time or resources required for a large number of

installations, our gross margins could decline.

If We Do Not Sell Additional Licenses or Enhanced Versions or Upgrades of Our Products to Existing Customers, We May Not Achieve Revenue Growth

The size of a new customer's initial order is relatively small and may include a limited number of user licenses. In subsequent orders, customers often add user licenses or additional products designed for specific functions, such as the AML Server targeted at manufacturers. In order to grow revenues, we depend on sales of additional user licenses to our existing customers as well

as sales of new licenses to new customers. 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. Customers could choose not to purchase any new products or expand the use of our products. If we do not increase sales to existing customers, we may not be able to achieve revenue growth.

If We Do Not Establish and Maintain Relationships With Key Partners, We May Encounter Difficulty in Providing Implementation and Customer Support of Our Products

We rely heavily on our relationships with consulting and integration partners to implement our software, provide customer support services and endorse our products during the evaluation stage of the sales cycle. Currently, a limited number of companies provide implementation services for our products. We expect to increasingly rely on these types of partners in the future. These companies are not contractually obligated to continue to provide implementation services for us or to otherwise promote our products. Although we seek to develop and maintain relationships with these types of service providers, they may have similar or more established relationships with our competitors. If these service providers do not increase this segment of their business, or reduce or discontinue their relationships with us or their support of our products, our business could be harmed. We will need to develop new third party relationships if sales of our products increase and our current partners cannot fulfill all of our needs for implementation and customer support services. Without these third parties, we would have to expand our services organization to increase the consulting and professional services that we provide to our customers and divert resources from other areas of our business. If we are required to expand our professional services capabilities, we may not be able to do so on a timely basis.

We are beginning to implement larger deployments of our products together with third parties such as Accenture. If we are not successful with these joint deployments, we may incur increased costs and customer dissatisfaction and may not achieve increased sales and market acceptance of our products.

To meet customer demand, we might have to outsource services to more costly independent contractors and other third parties. In addition, if our implementation partners do not adequately perform implementation services, our customers could become dissatisfied with our products. In order to avoid dissatisfaction, we may need to provide supplemental implementation services at no additional cost to customers. Although we could experience an increase in services revenues if our service partners are not successful, services revenues have lower gross margins than license revenues. We could also experience delays in recognition of license revenue if customer implementation projects fall behind schedule.

We May Experience Customer Dissatisfaction and Lost Sales if Our Products Do Not Scale to Accommodate Substantial Increases in the Number of Users

Our strategy requires that our software be highly scalable, or able to accommodate substantial increases in the number of users. If our customers cannot successfully implement large-scale deployments, or if they determine 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.

We May Not Be Able to Increase Sales of Our Products if We Do Not Expand Our Direct Sales Organization

We sell our products primarily through our direct sales force. Our ability to increase our sales will depend on our ability to recruit, train and retain top quality sales people with the advanced sales skills and technical knowledge we need. Competition for qualified personnel remains intense in our industry. In addition, it takes time for our new sales personnel to become productive, particularly our senior sales and services personnel, who could take up to nine months to become fully productive. Recent volatility in our stock price could decrease our ability to hire and retain qualified personnel. If we are unable to hire or retain qualified sales personnel, or if newly hired personnel fail to develop the necessary skills or reach productivity more slowly than anticipated, it would be more difficult for us to sell our products, and we may experience a shortfall in revenues.

Our Variable Sales Cycle Makes it Difficult For Us to Predict When or if Sales Will Be Made

Our products have an unpredictable sales cycle that contributes to the uncertainty of our future operating results. With the recent economic uncertainties facing our customers, and the decline in the business that they face, our sales cycle has lengthened. Customers are taking longer to evaluate our product, and orders may be delayed or postponed. Our collaborative manufacturing commerce software is a new category of products, and customers often view the purchase of our

products as a significant and strategic decision. As a result, intensive marketing and sales efforts may be necessary to educate prospective customers regarding the uses and benefits of our products. Customers may take time to evaluate our products. The sale of our products may be subject to delays due to the lengthy internal budgeting, approval and evaluation processes of our customers. We may expend significant sales and marketing expenses during this evaluation period before the customer places an order with us. Customers may initially purchase a smaller number of user licenses before expanding the order to allow a greater number of users to benefit from the application. Larger customers may purchase our products as part of multiple simultaneous purchasing decisions, which may result in additional unplanned administrative processing and other delays in our product sales. If sales forecasted from a specific customer for a particular quarter are not realized, we may experience an unplanned shortfall in revenues. As a result, we have only a limited ability to forecast the timing and size of sales of our products.

The Success of Our Business Depends on Our Key Personnel, Whose Knowledge of Our Business and Technical Expertise Would Be Difficult to Replace

Our success depends largely on the continued contributions of our key senior management, particularly Bryan D. Stolle, our Chief Executive Officer, who is

not bound by an employment agreement, as well as of our key engineering and sales and marketing personnel. We do not have key-man life insurance on Mr. Stolle. If one or more members of our senior management or any of our key employees were to resign, the loss of personnel could result in delays to product development, loss of sales, and diversion of management resources.

Because of Competition For Additional Qualified Personnel, We May Not Be Able to Recruit or Retain Necessary Personnel, Which Could Impact Development or Sales of Our Products

Our success depends on our ability to attract and retain qualified and experienced employees. There is substantial competition for experienced engineering, sales and marketing personnel in our industry. The volatility and current market price of our common stock may make it more difficult for us to recruit, hire and retain qualified personnel, or cause us to incur higher salary costs. If we are unable to retain our existing key personnel, or attract and retain additional qualified personnel, we may from time to time experience inadequate levels of staffing to perform services for our customers. As a result, our growth could be limited due to our lack of capacity to develop and market our products to our customers, or we could experience deterioration in service levels or decreased customer satisfaction.

Our Efforts to Expand Sales of Our Products to Other Industries May Not Succeed

We have historically sold our products primarily to companies in the electronics and medical device manufacturing industries. We intend to market products to customers in additional industries. Although we have targeted enterprises in other markets as potential customers, these potential customers may not be as willing to purchase products like ours as have the electronics and medical device industries.

The Market For Our Products Is Newly Emerging and Customers May Not Accept Our Products

The market for software products that allow companies to collaborate with suppliers on product information and change is newly emerging. Companies have not traditionally automated collaborative manufacturing commerce solutions like we offer throughout the supply chain. We cannot be certain that this market will continue to develop and grow or that companies will elect to utilize our products rather than attempt to develop applications internally or through other sources. In addition, the use of the Internet, as well as corporate intranets, has not been widely adopted for sharing product information as well as for collaboration among supply chain participants. Companies that have already invested substantial resources in other methods of sharing product information during the manufacturing and supply process may be reluctant to adopt a new approach that may replace, limit or compete with their existing systems or methods. 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. Therefore, demand for and market acceptance of our products will be subject to a high level of uncertainty.

Competition Among Providers of Software Enabling Collaboration in a Manufacturing Supply Chain May Increase, Which Could Cause Us to Reduce Prices, and Resulting in Reduced Gross Margins or Loss of Market Share

The market for products that enable companies to interactively manage and share information relating to the manufacture and supply of products is highly fragmented, rapidly changing and increasingly competitive. We expect competition to continue to intensify, which could result in price reductions for our products, reduced margins and loss of market share. Competitors vary in

size and in the scope and breadth of the products and services offered. We face potential competition from in-house development efforts by potential customers or partners, vendors of software designed for management of engineering information, and developers of general purpose groupware software addressing only limited technology components involved in managing data generated by changes to the engineering process. We also face potential competition from providers of enterprise resource planning software and supply-chain software.

Many of our actual or potential competitors have a number of significant advantages over us, including:

- longer operating histories;
- significantly greater financial, technical, marketing and other resources;
- significantly greater name recognition and a larger installed base of customers; and
- well-established relationships with our actual and potential customers as well as with systems integrators and other vendors and service providers.

These competitors may also be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than we can. Some of our actual or potential competitors may also bundle their products in a manner that may discourage potential customers from purchasing our products. Accordingly, we may not be able to maintain or expand our sales if competition increases and we are unable to respond effectively.

We May Experience Difficulties in Introducing New Products and Upgrades Which Could Result in Negative Publicity, Loss of Sales, Delay in Market Acceptance or Customer Dissatisfaction

Our future financial performance depends on our successful and timely development, introduction and market acceptance of new and enhanced products. The life cycles of our products are difficult to predict because the market for our products is new and emerging, and is characterized by rapid technological change, changing customer needs and evolving industry standards. The introduction of products or computer systems employing new technologies and emerging industry standards could render our existing products obsolete and unmarketable. For example, portions of our software are written in the Java computer programming language. If a new software language becomes standard in our industry or is considered more robust, we may need to rewrite portions of our products in another computer language in order to remain competitive. The introduction of enhancements to our suite of products may also cause customers to defer orders for our existing products. We may experience difficulties that could delay or prevent the successful development, introduction or marketing of new or enhanced products in the future. In addition, those products may not meet the requirements of the marketplace and achieve market acceptance.

We expect to add new products to our supply chain applications by acquisition or internal development and by developing enhancements to our existing products. We have in the past experienced delays in the planned release dates of our software products and upgrades, and we have discovered software defects in new products after their introduction. New products or upgrades may not be released according to schedule, or may contain defects when released. Either situation could result in negative publicity, loss of sales, delay in market acceptance of our products or customer claims against us.

Our Products Might Not Be Compatible With All Platforms, Which Could Inhibit Sales

We must continually modify and enhance our products to keep pace with changes in computer hardware and software and database technology, as well as emerging technical standards in the software industry. For example, we have designed our products to work with databases such as Oracle. Any changes to these platforms could require us to modify our products, and could cause us to delay releasing product enhancements until the updated version of that platform has been released. Furthermore, third parties develop adapters to integrate our products with other design, manufacture, finance and supply chain systems used by our customers. We rely on these third parties to update the adapters to reflect changes to our products as well as to the targeted platform in order to maintain the functionality provided by our products. As a result, uncertainties related to the timing and nature of new product announcements, introductions or modifications by vendors of operating systems, back-office applications and browsers and other Internet-related applications could hurt our business, as customers may not be certain as to how our products will operate with their existing systems.

In addition, portions of our products are based upon a programming language that does not offer all of the features available in Windows. Accordingly, certain features available to products that run on Windows may not be available in the non-Windows version of our products, and this

could result in reduced customer demand. Furthermore, some of our products do not run on certain types of popular server computers, such as those that utilize the UNIX operating system. If another platform becomes more widely used or offers greater scalability, we could be required to convert, or "port" our product to that platform. We may not succeed in these efforts, and even if we do, potential customers may not choose our product. As we extend the functionality of our products to run on additional platforms, we may incur increased development costs and increased development lifecycles.

If We Are Unable to Timely Expand Our International Operations, We May Not Achieve Anticipated Revenue Growth

We believe that 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. We employ sales professionals in Europe and the Asia-Pacific market. If we are unable to successfully expand further in these international markets on a timely basis, we may not be able to achieve anticipated revenue growth. This expansion may be more difficult or take longer than we anticipate, and we may not be able to successfully market, sell, deliver and support our products internationally.

Our international expansion will subject us to a number of risks associated with international business activities. These risks include:

- difficulty in providing customer support for our software in multiple time zones;
- the need to develop our software in multiple foreign languages;
- 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;

- political and economic instability, particularly in Asia;

- difficulties in enforcing agreements through foreign legal systems; and

- 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.

To date, most of our revenues have been denominated in United States dollars. If we experience an increase in the portion of our revenues denominated in foreign currencies, we may incur greater risks in currency fluctuations, particularly since we translate our foreign currency revenues once at the end of each quarter. In the future, our international revenues could be denominated in the Euro, the currency of the European Union. The Euro is an untested currency and may be subject to economic risks that are not currently contemplated. 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.

We Depend on Licensed Technology and the Loss or Inability to Maintain These Technology Licenses Could Result in Increased Cost or Delays in Sales of Our Products

We license technology on a non-exclusive basis from several businesses for use with our products, including licenses from RSA Security Inc. for security and encryption technology software, Actuate Corporation for reporting capability and from Cimmetry Systems Inc. for our viewers. 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. This software 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, if available, is identified, licensed and integrated. In addition, the effective implementation of our products depends upon the successful operation of third-party licensed products in conjunction with our products, and therefore any undetected errors in these licensed products may prevent the implementation or impair the functionality of products, delay new product introductions and/or injure our reputation. The increased use of third-party software could require us to enter into license agreements with third parties, which could result in higher royalty payments and a loss of product differentiation and lower product gross margins.

Defects in Our Software Products Could Diminish Demand For Our Products

Our software products are complex and may contain errors that may be detected at any point in the life of the product. We have in the past discovered software errors in certain of our products and as a result have experienced delays in shipment of products during the period required to correct these errors. We cannot be sure that, despite testing by us, our implementation partners and our current and potential customers, errors will not be found in new products or releases after shipment, resulting in loss of revenue, delay in market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs.

Further, our products are generally used in systems with other vendors'

products, and as a result, our products must integrate successfully with these existing systems. System errors, whether caused by our products or those of another vendor, could adversely affect the market acceptance of our products, and any necessary revisions could cause us to incur significant expenses.

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 damages 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 litigation, existing or future laws or unfavorable judicial decisions could negate such limitation of liability provisions. Product liability litigation, even if unsuccessful, would be time-consuming and costly to defend and could harm our business.

In Order to Manage Our Growth and Expansion, We Will Need to Improve and Implement New Systems, Procedures and Controls

We have recently experienced a period of rapid growth and expansion that has placed a significant strain on our management information systems and our administrative, operational and financial resources. For example, we have grown from 356 employees at July 31, 2000 to 490 employees at July 31, 2001. If we are unable to manage our growth and expansion in an efficient or timely manner, our business will be seriously harmed. In addition, we have recently hired a significant number of employees and plan to further increase our total headcount. We also plan to expand the geographic scope of our operations. This expansion has resulted and continues to result in substantial demands on our management resources. To accommodate continued anticipated growth and expansion, we will be required to:

- improve existing and implement new operational and financial systems, procedures and controls;
- hire, train, manage, retain and motivate qualified personnel; and
- enter into relationships with strategic partners.

These measures may place additional burdens on our management and our internal resources.

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

Our success and ability to compete depend upon our proprietary technology, including our brand and logo and 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, or could develop software competitive to ours. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around patents that may be issued to us or our other intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States, and we expect that it will become more difficult to monitor the use of our

products if we increase our international presence.

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 our proprietary technology 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.

We May Be Subject to Intellectual Property Infringement Claims That, With or Without Merit, Could Be Costly to Defend or Settle

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 and Internet industries regarding intellectual property rights. It is possible that, in the future, third parties may claim that we or our current or potential future products infringe their intellectual property. We expect that software product developers and providers of electronic commerce solutions will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in industry segments overlaps. Any 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.

We Rely on Third Parties to Manage System and Network Environments for Hosted Customers

We rely on third parties to manage system and network environments running the Agile Anywhere and Agile Buyer solutions and related solutions for customers requiring hosting. Services provided by these third parties include managing the hosted servers, maintaining communications lines and managing network data centers, which are the locations where the Agile solutions reside. Since the hosting of the Agile solutions for certain customers will depend on these third parties, it is possible that these third parties may not be able to meet our and our customers' service level requirements. Dissatisfaction or problems with our service or the service of the third parties that host our solutions or delays or interruptions or other problems with service due to mechanical failure, human error, security breaches, power loss and other facility failures, natural disasters, sabotage, vandalism, or other similar events could result in a reduction of business generated by the hosted environment. In the event that we choose to use alternative hosting sources, this may result in a temporary degradation of the service level for hosting services that may be unacceptable to our customers.

We Are Subject to Employer Payroll Taxes When Our Employees Exercise Their Stock Options That Could Adversely Affect Our Results of Operations

Employer payroll taxes are assessed on each employee's gain on the sale of stock received upon exercise of options, which is the difference between the price of our common stock on the date of exercise and the exercise price. During a particular period, these payroll taxes could be material. These employer payroll

taxes are recorded as an expense and are assessed at tax rates that varies depending upon the employee's taxing jurisdiction in the period such options are exercised based on actual gains realized by employees. However, because we are unable to predict how many stock options will be exercised, at what price and in which country during any particular period, we cannot predict the amount, if any, of employer payroll expense that will be recorded in a future period or the impact on our future financial results.

Power Outages In California May Adversely Affect Us

We have significant operations, including our headquarters, in the state of California and are dependent on a continuous power supply. California's current energy crisis could substantially disrupt our operations and increase our expenses. California has recently implemented, and may in the future continue to implement, rolling blackouts throughout the state. If blackouts interrupt our power supply, we may be temporarily unable to continue operations at our California facilities. Any such interruption in our ability to continue operations at our facilities could delay the development and delivery of our products and services and otherwise disrupt communications with our customers or other third parties on whom we rely. Furthermore, shortages in wholesale electricity supplies have caused power prices to increase. If energy prices continue to increase, our operating expenses will likely increase which could have a negative effect on our operating results.

Some of Our Customers are Small Emerging Growth Companies that May Represent Credit Risks

We have expanded our customer base to include licenses to small emerging growth companies. Many of these companies have limited operating histories, are operating at a loss and have limited access to capital. With the significant slowdown in U.S. economic growth in the past several months and uncertainty relating to the prospects for near-term U.S. economic growth, some of these customers may represent a credit risk. If our customers experience financial difficulties or fail to experience commercial success, we may have difficulty collecting on our accounts.

Risks Related to the Internet on Our Business and Prospects

If Use of the Internet Does Not Continue to Develop and Reliably Support the Demands Placed on It by Electronic Commerce, We May Experience Loss of Sales

Our success depends upon continued growth in the use of the Internet as a medium of collaboration and commerce. Although the Internet is experiencing rapid growth in the number of users, this growth is a recent phenomenon and may not continue. Furthermore, despite this growth in usage, the use of the Internet for commerce is relatively new. As a result, a sufficiently broad base of companies and their supply chain partners may not adopt or continue to use the Internet as a medium for collaboration for product content information. Our business would be seriously harmed if:

- use of the Internet does not continue to increase or increases more slowly than expected;

- the infrastructure for the Internet does not effectively support enterprises and their supply chain partners;

- the Internet does not create a viable commercial marketplace, inhibiting the

development of electronic collaborative manufacturing commerce and reducing the demand for our products;

. concerns over the secure transmission of confidential information over public networks and general disruption could inhibit the growth of the Internet as a means of conducting commercial transactions; or

. concerns about third parties using the Internet to create interference with the use of our products over the Internet.

Capacity Restraints May Restrict the Use of the Internet as a Commercial Marketplace, Resulting in Decreased Demand For Our Products

The Internet infrastructure may not be able to support the demands placed on it by increased usage or the limited capacity of networks to transmit large amounts of data. Other risks associated with commercial use of the Internet could slow its growth, including:

. outages and other delays resulting from the inadequate reliability of the network infrastructure;

. slow development of enabling technologies and complementary products; and

. limited availability of cost-effective, high-speed access.

Delays in the development or adoption of new equipment standards or protocols required to handle increased levels of Internet activity, or increased governmental regulation, could cause the Internet to lose its viability as a means of communication between manufacturers and their supply chain partners. If these or any other factors cause use of the Internet for commerce to slow or decline, the Internet may not prove viable as a commercial marketplace, resulting in decreased demand for our products.

Increasing Governmental Regulation of the Internet Could Limit the Market for Our Products

As Internet commerce continues to evolve, we expect that federal, state and foreign governments will adopt laws and regulations covering issues such as user privacy, taxation of goods and services provided over the Internet, pricing, content and quality of products and services. It is possible that legislation could expose companies involved in electronic commerce to liability, taxation or other increased costs, any of which could limit the growth of electronic commerce generally. Legislation could dampen the growth in Internet usage and decrease its acceptance as a communications and commercial medium. If enacted, these laws and regulations could limit the market for our products.

Our Stock Price Has Been and May Continue to Be Extremely Volatile, Which May Lead to Losses By Investors and to Securities Litigation

The stock market has experienced significant price and volume fluctuations and the market prices of securities of technology companies, particularly Internet-related companies including us, have been highly volatile. Investors may not be able to resell their shares purchased in this offering at or above the offering price. The market price of our common stock may decrease significantly in response to a number of factors, some of which are beyond our control, including the following:

. variations in our quarterly operating results;

- announcements that our revenues or income are below securities analysts' expectations;

- changes in securities analysts' estimates of our performance or industry performance;

- changes in market valuations of similar companies;

- sales of large blocks of our common stock;

- fluctuations in stock market price and volume, which are particularly common among highly volatile securities of software and Internet-based companies.

In the past, securities class action litigation has often been instituted against a company following periods of volatility in the company's stock price. This type of litigation, if filed against us, could result in substantial costs and could divert our management's attention and resources.

Risks Related to Control

Provisions Contained in Our Charter Documents 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.

We Have Adopted Certain Anti-Takeover Measures That May Make it More Difficult For a Third Party to Acquire Us

Our board of directors has the authority to issue up to 10,000,000 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, on March 2001, our board of directors adopted a preferred stock purchase rights plan intended to guard against certain takeover tactics. The adoption of this plan was not in response to any proposal to acquire us, and the board is not aware of any such effort. 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. In addition, certain provisions of our certificate of incorporation may have the effect of delaying or preventing a change of control, which could adversely affect the market price of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We develop products in the United States and market our products in North America, and to a lesser extent in Europe and Asia. As a result, our financial results could be affected by factors such as changes in foreign currency

exchange rates or weak economic conditions in foreign markets. Because nearly all of our revenue is currently denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in foreign markets. 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 cannot assure you that exchange rate fluctuations will not harm our business in the future.

Interest Rate Risk

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. The primary objective of our investment activities is to preserve principal while at the same time maximizing 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 the majority of our portfolio of cash in money market funds and short-term investments classified as "available for sale." In general, money market funds and short-term investments are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Because some of our debt arrangements are based on variable rates of interest, our interest expense is sensitive to changes in the general level of U.S. interest rates. Since these obligations represent a small percentage of our total capitalization, we believe that there is not a material risk exposure.

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

(in thousands, except interest rates)	Maturing within 12 months	Thereafter	Total
Cash equivalents	$ 52,003	-	$ 52,003
Average interest rate	3.74%	-	3.74%
Investments	$202,779	-	$202,779
Average interest rate	4.38%	-	4.38%
Total investment securities	$254,782	-	$254,782

Other Investments

We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when ownership is less than 20% and we do not have the ability to exercise significant influence over operations. As of July 31, 2001, we had $3.5 million invested in privately-held companies, some of which are business partners. For these investments, our policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. We identify and record impairment

losses when events and circumstances indicate that such assets might be impaired.

During the three months ended July 31, 2001, we determined that these investments had incurred a decline in value that was other-than-temporary and reduced their carrying amounts to estimated fair value by a charge of $1.4 million to results of operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities and Use of Proceeds.

(a) Modification of Constituent Instruments

Not applicable.

(b) Change in Rights

Not applicable.

(c) Issuances of Securities

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Effective September 7, 2001, Mr. Thomas P. Shanahan retired as Chief Financial Officer of the Company. Mr. Richard J. Browne, Vice President, Finance, has been appointed Interim Chief Financial Officer and Principal Accounting Officer. Mr. Shanahan will remain as a consultant to

the Company for an interim period to aid in transition and to assist in the recruitment of a new Chief Financial Officer.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Not applicable.

(b) Reports on Form 8-K

Not applicable.

AGILE SOFTWARE CORPORATION

SIGNATURE

Pursuant to the requirements of the Securities 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

Date: September 13, 2001

/s/ Richard J. Browne

By: Richard J. Browne
Vice President, Finance
and Interim Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
None	