AGILE SOFTWARE CORP
Form 10-Q
March 13, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended January 31, 2006

OR

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

Commission file number 000-27071

AGILE SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**77-0397905**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive office)

(408) 284-4000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ An accelerated filer x Or a non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of Common Stock of Agile Software Corporation issued and outstanding as of January 31, 2006 was 56,887,908.

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FORM 10-Q

JANUARY 31, 2006

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AGILE SOFTWARE CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	January 31, 2006	April 30, 2005 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,078	$ 81,760
Short-term investments	84,216	93,444
Accounts receivable, net of allowance for doubtful accounts of $1,823 and $1,892 as of January 31, 2006 and April 30, 2005, respectively	22,836	26,899
Other current assets	4,784	5,157
Total current assets	213,914	207,260
Long-term investments	14,101	23,176
Property and equipment, net	9,112	10,067
Intangible assets, net	8,404	12,735
Other assets	1,038	1,127
Goodwill	66,713	66,658
Total assets	$ 313,282	$ 321,023
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 7,551	$ 8,409
Accrued expenses and other liabilities	18,115	16,275
Accrued restructuring, current	2,327	2,010
Deferred revenue	26,483	25,190
Total current liabilities	54,476	51,884
Accrued restructuring, non-current	321	615
Deferred revenue, non-current	1,036	1,647
Other non-current liabilities	4,820	5,996
Total liabilities	60,653	60,142
Commitments and contingencies (Note 8)		
Stockholders equity:		
Common Stock	57	54
Additional paid-in capital	555,609	551,846
Notes receivable from stockholders	(77)	(77)
Unearned stock compensation		(526)
Accumulated other comprehensive loss	220	(1,391)
Accumulated deficit	(303,180)	(289,025)

Total stockholders equity	252,629	260,881
Total liabilities and stockholders equity	$ 313,282	$ 321,023

(1) Amounts as of April 30, 2005 have been derived from audited financial statements as of that date.

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

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AGILE SOFTWARE CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2005	2006	2005
Revenues:				
License	$ 13,405	$ 12,455	$ 36,882	$ 33,975
Service	19,397	17,825	61,783	51,003
Total revenues	32,802	30,280	98,665	84,978
Cost of revenues:				
License	842	1,243	2,449	3,484
Service (1)	9,840	8,460	32,253	24,042
Amortization of intangible assets	726	178	2,176	533
Total cost of revenues	11,408	9,881	36,878	28,059
Gross margin	21,394	20,399	61,787	56,919
Operating expenses:				
Sales and marketing (1)	12,376	12,043	37,538	33,501
Research and development (1)	8,923	5,651	25,678	16,496
General and administrative (1)	3,239	2,942	9,553	8,419
Amortization of intangible assets	627	357	1,856	1,403
Restructuring charges	1,729		1,729	2,132
Total operating expenses	26,894	20,993	76,354	61,951
Loss from operations	(5,500)	(594)	(14,567)	(5,032)
Interest and other income, net	1,597	1,169	3,751	3,047
Income (loss) before provision for income taxes	(3,903)	575	(10,816)	(1,985)
Provision for income taxes	237	285	644	820
Net income (loss)	$ (4,140)	$ 290	$ (11,460)	$ (2,805)
Net income (loss) per share:				
Basic and diluted	$ (0.08)	$ 0.01	$ (0.21)	$ (0.05)
Weighted average shares				
Basic	54,808	53,058	54,052	52,732
Diluted	54,808	54,840	54,052	52,732

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(1) Effective May 1, 2005, Agile adopted FAS 123(R), Share-Based Payments, and uses the modified prospective method to value its share-based payments. Accordingly, for the three and nine months ended January 31, 2006, stock compensation was accounted under FAS 123(R), while for the three and nine months ended January 31, 2005, stock compensation was accounted under APB 25, Accounting for Stock Issued to Employees. See Note 7 - Stock Compensation. The amounts in the tables above includes stock compensation as follows:

Cost of service revenue	$ 144	$ 36	$ 417	$ 179
Sales and marketing	462	87	1,353	331
Research and development	123	2	326	25
General and administrative	207	34	611	157
Total stock compensation	$ 936	$ 159	$ 2,707	$ 692

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

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AGILE SOFTWARE CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended January 31, 2006	Nine Months Ended January 31, 2005
Cash flows from operating activities:		
Net loss	$ (11,460)	$ (2,805)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	16	413
Depreciation and amortization	7,239	5,684
Stock compensation	2,707	692
Non-cash portion of restructuring charges	265	39
Shares withheld in payment of employee withholding taxes (see Note 7 - Stock Compensation for description of this payment)	(2,695)	
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,663	(3,164)
Other assets, current and non-current	357	(1,209)
Accounts payable	(691)	1,254
Accrued expenses and other liabilities	412	(2,679)
Deferred revenue	935	3,020
Net cash provided by operating activities	748	1,245
Cash flows from investing activities:		
Purchases of investments	(32,123)	(92,071)
Proceeds from maturities of investments	51,987	133,350
Cash paid in business combinations, net of cash acquired	245	(761)
Acquisition of property and equipment	(2,394)	(3,188)
Net cash provided by investing activities	17,715	37,330
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of repurchases	1,582	5,265
Repayment of notes receivable from stockholders		6
Net cash provided by financing activities	1,582	5,271
Effect of exchange rate changes on cash	273	1,138
Net increase in cash and cash equivalents	20,318	44,984
Cash and cash equivalents at beginning of period	81,760	45,337
Cash and cash equivalents at end of period	$ 102,078	$ 90,321

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

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AGILE SOFTWARE CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Summary of Significant Accounting Policies:

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Agile Software Corporation and its subsidiaries (Agile) have been prepared by us and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with the Securities and Exchange Commission s rules and regulations. These unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2005, included in our Annual Report on Form 10-K filed on July 14, 2005 with the Securities and Exchange Commission (2005 10-K).

Concentrations of credit risk and significant customers

In the three and nine months ended January 31, 2006 and nine months ended January 31, 2005, none of our customers accounted for more than 10% of our total revenue. In the three months ended January 31, 2005, one of our customers accounted for 11% of our total revenue. As of January 31, 2006 one of our customers accounted for 12% of our net accounts receivable. As of April 30, 2005, none of our customers accounted for more than 10% of our net accounts receivable.

Note 2 Net Loss Per Share:

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

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	**2005**	**2006**	**2005**
Numerator:				
Net income (loss)	$ (4,140)	$ 290	$ (11,460)	$ (2,805)
Denominator (basic):				
Weighted average shares	55,974	53,058	54,440	52,738
Weighted average unvested shares of restricted common stock subject to repurchase	(1,166)		(388)	(6)
Denominator for basic calculation	54,808	53,058	54,052	52,732
Denominator (diluted):				
Weighted average shares	55,974	53,058	54,440	52,738
Weighted average unvested shares of restricted common stock subject to repurchase	(1,166)		(388)	(6)

Dilutive effect of employee stock options		1,782		
Denominator for diluted calculation	54,808	54,840	54,052	52,732
Net income (loss) per share:				
Basic and diluted	$ (0.08)	$ 0.01	$ (0.21)	$ (0.05)

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(Unaudited)

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2005	2006	2005
Unvested common stock subject to repurchase	1,748		1,748	
Options to purchase common stock	7,792	17,255	7,792	19,037
Total shares excluded	9,540	17,255	9,540	19,037

Note 3 Comprehensive Loss:

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2005	2006	2005
Net income (loss)	$ (4,140)	$ 290	$ (11,460)	$ (2,805)
Other comprehensive gain (loss):				
Unrealized gain (loss) on investments	139	(422)	1,562	(586)
Foreign currency translation adjustment	(98)	(29)	49	(511)
Other comprehensive gain (loss)	$ 41	$ (451)	$ 1,611	$ (1,097)
Total comprehensive loss	$ (4,099)	$ (161)	$ (9,849)	$ (3,902)

Note 4 Business Combinations - Cimmetry:

On February 3, 2005, we acquired substantially all of the assets and assumed certain liabilities of Cimmetry Systems, Inc. (Cimmetry), a privately held company. Cimmetry is a leading provider of visualization and collaboration solutions. Through the acquisition of Cimmetry we acquired visual collaboration software that has become an increasingly important element of PLM solutions. Under the terms of the acquisition, we paid approximately $44.0 million in cash. We funded the consideration from our current investments. We had been partnering with Cimmetry for a number of years to solve critical viewing and collaboration issues and, prior to the acquisition, we integrated the Cimmetry software into our products under a license from Cimmetry.

The transaction was accounted for under the purchase method of accounting and, accordingly, the results of operations of Cimmetry have been included in the accompanying condensed consolidated statements of operations since the acquisition date. Pro forma results of operations have not been presented because the effects were not material to our overall results.

The aggregate purchase price for the Cimmetry acquisition has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition see the table below. The net tangible assets acquired and liabilities assumed in the acquisition, as discussed further below, were recorded at the fair value, which approximated the carrying amounts at the acquisition date. We determined the valuation of the identifiable intangible assets using future revenue assumptions and a valuation analysis from an independent appraiser. The amounts allocated to the identifiable intangible assets were determined through established valuation techniques accepted in the technology and software industries. In calculating the value of the acquired in-process research and development (IPR&D), we gave consideration to relevant market size and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by us and our competitors, individual product sales cycles, and the estimated lives of each of the products derived from the underlying technology. The value of the acquired IPR&D reflects the relative value and contribution of the acquired research and development. Consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the expected cost to complete the project in determining the value assigned to the acquired IPR&D. The amounts allocated to the acquired IPR&D were immediately expensed in the period the acquisition was completed because the projects associated with the IPR&D efforts had not yet reached technological feasibility and no future alternative uses existed for the technology. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing the other identifiable intangible assets. Key assumptions included discount factors ranging from 20% to 23%, estimates of revenue growth, maintenance renewal rates, cost of sales, operating expenses and taxes. The purchase price in excess of the identified tangible and intangible assets was allocated to goodwill.

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(Unaudited)

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

	Cimmetry
Tangible assets acquired:	
Cash and cash equivalents	$
Accounts receivable	3,528
Property and equipment	135
Other assets	140
Liabilities assumed:	
Accounts payable	(353)
Accrued expenses and other liabilities	(1,087)
Deferred revenue	(1,524)
Identifiable intangible assets acquired:	
In-process research and development	1,700
Other identifiable intangible assets:	
Developed technology	6,600
Customer relationships	2,400
Trademark	1,200
Non-compete agreements	80
Goodwill	31,228
Total	$ 44,047

Note 5 Goodwill and Intangible Assets:

Goodwill

The activity within goodwill, for the nine months ended January 31, 2006, is as follows (in thousands):

	(in thousands)
Balance as of April 30, 2005	$ 66,658
Cimmetry purchase price allocation adjustments	55
Balance as of January 31, 2006	$ 66,713

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

As at January 31, 2006, $31.2 million of goodwill is deductible for tax purpose.

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(Unaudited)

Intangible Assets

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

	January 31, 2006			April 30, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets:						
Developed technologies	$ 9,200	$ (4,141)	$ 5,059	$ 9,200	$ (1,965)	$ 7,235
Customer relationships	6,882	(4,537)	2,345	7,182	(2,892)	4,290
Trademark	1,200	(240)	960	1,200	(60)	1,140
Non-compete agreements	1,280	(1,240)	40	1,280	(1,210)	70
	$ 18,562	$ (10,158)	$ 8,404	$ 18,862	$ (6,127)	$ 12,735

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

As of January 31, 2006, the estimated future amortization expense of acquired identifiable intangible assets is as follows (in thousands):

Fiscal Years:	
2006 (remaining three months)	$ 1,352
2007	4,037
2008	2,595
2009	240
2010	180
Total	$ 8,404

Note 6 Restructuring Charges:

From time to time, management has initiated various restructurings of our operations and facilities. These restructurings have been taken primarily in response to redundant or excess capacity brought about by acquisitions and/or significant changes in economic conditions and market demand. During the second quarter of fiscal 2003, we recorded a restructuring charge of $5.2 million (the 2003 Restructuring). The 2003 Restructuring consisted primarily of the consolidation of excess facilities and abandonment of certain assets in connection with the consolidation of excess facilities. As of January 31, 2006, $666,000 of the 2003 Restructuring obligations remained, which represents costs related to excess facilities.

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

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

In connection with our acquisition of Eigner US, Inc. during the second quarter of fiscal 2004, we recorded an additional restructuring charge of $1.2 million, primarily related to the severance, benefits, payroll taxes and other associated costs of the termination of 33 Agile employees.

As of January 31, 2006, none of the 2004 Restructuring obligations remained.

In the first quarter of fiscal 2005, we terminated approximately 15% of our employees worldwide and consolidated our Chinese development centers into a single location (the 2005 Restructuring). In connection with the 2005 Restructuring, we

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(Unaudited)

recorded a restructuring charge of $2.1 million. As of January 31, 2006, $420,000 of the 2005 Restructuring obligations remained, which represents costs related to severance.

In the third quarter of fiscal 2006, we announced a further restructuring involving termination of 18 employees and closure of our facility in Massachusetts (2006 Restructuring). In connection with these actions, we incurred a restructuring charge of approximately $1.6 million, which is comprised of severance payments of approximately $1.4 million and facilities and asset abandonment costs of approximately $191,000. Additionally, we reassessed our previous assumptions underlying our 2003 Restructuring related to the excess facilities charges, and as a result, recorded an additional expense of $93,000 related to our 2003 Restructuring. As of January 31, 2006, $1.5 million of the 2006 Restructuring obligations remained, which represents costs related to employee termination and excess facilities.

We review the assumptions used in estimating our restructuring charges, principally sublease income expectations for excess facilities and employee termination expenses, quarterly. We currently do not expect our existing restructuring estimates and assumptions to change materially.

Summary of Restructuring Obligations

The significant activity within and components of the restructuring charges during the nine months ended January 31, 2006 are as follows (in thousands):

	Employee Termination Costs	Facility-Related Costs	Asset Abandonment Costs	Total
Restructuring obligations at April 30, 2005	$ 420	$ 2,205	$	$ 2,625
2006 Restructuring charges	1,445	200	84	1,729
Cash payments	(85)	(1,537)		(1,622)
Non-cash charges			(84)	(84)
Restructuring obligations at January 31, 2006	$ 1,780	$ 868	$	$ 2,648
Accrued restructuring, current				$ 2,327
Accrued restructuring, non-current				321
				$ 2,648

The remaining employee termination and facility-related obligations are expected to be paid through the quarter ending January 31, 2008.

Note 7 Stock Compensation

We adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, effective May 1, 2005. SFAS 123R requires the recognition of the fair value of stock compensation in net income. We recognize the stock compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. All of our stock compensation is accounted for as an equity instrument. Prior to May 1, 2005, we followed Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting for our stock compensation.

We elected the modified prospective method in adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. Our unearned stock compensation balance of $526,000 as of April 30, 2005, which was accounted for under APB 25, was reclassified into our additional paid-in-capital upon the adoption of SFAS 123R. In addition, the unrecognized expense of awards not yet vested at the date of adoption is recognized in net income in the periods after the date of adoption using the same valuation method (*i.e.* Black-Scholes) and assumptions determined under the original provisions of SFAS 123, *Accounting for Stock-Based Compensation,* as disclosed in our previous filings. The cumulative effect of the change in accounting principle from APB 25 to SFAS 123R was not material.

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AGILE SOFTWARE CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Under the provisions of SFAS 123R, we recorded $936,000 and $2,707,000 of stock compensation on our unaudited condensed consolidated statement of operations for the three and nine months ended January 31, 2006, respectively. We utilized the Black-Scholes valuation model for estimating the fair value of the stock compensation granted after the adoption of SFAS 123R, with the following weighted-average assumptions:

	Three Months Ended January 31, 2006		Nine Months Ended January 31, 2006	
	Stock Option Plan	Purchase Plan	Stock Option Plan	Purchase Plan
Dividend yield				
Expected volatility	56%	34%	61%	34%
Average risk-free interest rate	4.37%	4.30%	3.98%	3.76%
Expected life (in years)	4.5	.5	4.5	.5

The dividend yield of zero is based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends. Expected volatility is based on the combination of historical volatility of our common stock over the period commensurate with the expected life of the options and the mean historical implied volatility from traded options with a term of 180 days or greater measured over one year. The risk-free interest rate is derived from the average U.S. Treasury Strips rate during the period, which approximates the rate in effect at the time of grant. The expected life calculation is based on the observed and expected time to post-vesting exercise and forfeitures of option by our employees.

Based on the above assumptions, the weighted-average fair values of the options granted under the stock option plans (excluding options issued under the option exchange discussed below) and shares subject to purchase under the employee stock purchase plan for the three months ended January 31, 2006 were $4.60 and $1.69, respectively. The weighted-average fair values of the options granted under the stock option plans (excluding the option exchange discussed below) and shares subject to purchase under the employee stock purchase plan for the nine months ended January 31, 2006 were $4.70 and $1.71, respectively.

Based on our historical experience of pre-vesting option cancellations, we have assumed an annualized forfeiture rate of 15% for our options. Under the true-up provisions of SFAS 123R, we will record additional expense if the actual forfeiture rate is lower than we estimated, and will record a recovery of prior expense if the actual forfeiture is higher than we estimated.

SFAS 123R requires us to present pro forma information for the comparative period prior to the adoption as if we had accounted for all our employee stock options under the fair value method of the original SFAS 123. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation in the prior-year periods (dollars in thousands, except per-share data).

	Three Months Ended January 31, 2005	Nine Months Ended January 31, 2005
Net loss as reported	$ 290	$ (2,805)
Add: employee stock compensation included in reported net loss	159	696
Less: employee stock compensation under SFAS No. 123	(5,446)	(16,403)

Pro forma net loss	$	(4,997)	$	(18,512)
Net loss per basic and diluted share as reported				