AGILE SOFTWARE CORP
Form 10-K
July 26, 2002
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-K

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

For the fiscal year ended April 30, 2002

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.)**

One Almaden Boulevard, San Jose, California 95113-2253
(Address of principal executive office)

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 par value
(Title of class)

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

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

The aggregate market value of Agile Software Corporation Common stock, $.001 par value, held by non-affiliates as of June 30, 2002 was $202,632,719 based upon the last sales price reported for such date on the Nasdaq National Market. For purposes of this disclosure, shares of common stock held by persons who held more than 5% of the outstanding shares of common stock and shares held by officers and directors of the registrant, have been excluded in that such persons may be deemed to be affiliates. Share ownership information of certain persons known by the Registrant to own greater than 5% of the outstanding common stock for purposes of the preceding calculation is based solely on information on Schedule 13G filed with the Securities and Exchange Commission and is as of December 31, 2001. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock of Agile Software Corporation issued and outstanding as of June 30, 2002 was 48,472,534.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this Form 10-K portions of its proxy statement for the registrant s Annual Meeting of Stockholders to be held October 3, 2002.

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K 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). These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry s actual results to differ materially from those implied by the forward-looking statements. We use words such as may, will, should, expects, estimates, predicts, potential, strategy, believes, anticipates, pl similar expressions to identify these forward looking statements. We have based these statements on our current expectations and projections about future events. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons including those discussed in Risk Factors and elsewhere in this Annual Report.

Agile Software Corporation, incorporated on March 13, 1995 under the laws of California and reincorporated on June 22, 1999 under the laws of Delaware, is hereinafter sometimes referred to as the Registrant, the Company, Agile, we, and us.

Overview

We develop and market product chain management solutions to help companies work internally and with their suppliers and customers to build better, more profitable products faster. We believe that our products reduce time-to-volume and cost of goods sold and improve customer responsiveness and product quality. Our solutions manage the system of record for a company s products and provide business applications for critical communication and collaboration about the product record among manufacturers, outsourced manufacturing providers, suppliers and customers. Our products help companies manage complex supply chains, as well as globally dispersed engineering, manufacturing, sales and distribution functions. Since June 1996, when we shipped our first product, we have licensed our products to more than 800 customers in the following sectors: computers and peripherals, components, consumer electronics, data networking and telecommunications equipment, electronics manufacturing services, medical devices and equipment, automotive, aerospace and industrial equipment. Our current customers in these markets include, among others, Armstrong Air Conditioning, B/E Aerospace, Dell Computer, Flextronics International, FujiFilm, Hewlett-Packard, InFocus, International Paper, Juniper Networks, Lucent, nVidia, Philips, Precor, and Texas Instruments.

Industry Background

The competitive environment for companies engaged in the manufacture and supply of products has intensified dramatically and expanded globally in recent years. This trend has been driven principally by productivity improvements arising from advances in technology and growing customer expectations for feature-rich products delivered quickly and at competitive prices. To remain competitive, companies are adopting new strategies to address these challenges.

Across most manufacturing industries, companies continue to shift to more horizontal models of manufacturing their products. Companies have come to rely much more heavily on suppliers to deliver manufactured components, assemblies or even finished products for end markets compared to previous practices where manufacturers controlled most phases of the manufacturing process from raw materials to finished goods.

By outsourcing production, companies have created supply chains that are more efficient, dynamic and flexible than manufacturing operations that control all phases of the manufacturing process internally. Use of the outsourced supply chain has afforded companies the flexibility to choose top suppliers and partners to make each link in the supply chain more competent, innovative and productive. As companies operate on a global basis,

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supply chains can span multiple continents, tying suppliers in one part of the world with a plant in another to serve customers in a third location. The end result is that companies can bring their products to market more efficiently while at the same time achieving higher levels of customer satisfaction.

Managing the Outsourced Supply Chain

A critical aspect of managing the outsourced supply chain across multiple suppliers is finding effective ways to store, access, and share information within the company as well as with all supply-chain partners during each stage of the production process. Sourcing direct materials used in the production process from a multitude of sources across the globe is also a challenging task. Different stages of the production process generate many complex types of data that need to be shared across the supply chain.

Product Development. During the product design stage, a company must communicate large amounts of data within the company as well as to supply-chain partners. The company begins by designating the content of the finished product with a list of parts known as the bill of materials. The parts on this list can be divided into two classes: buy or make. For the buy components, also called off-the-shelf components, specifications for each part must be determined and information must be collected and analyzed to determine if the available components meet the required specifications. Once eligible components have been selected, the manufacturers of the components are incorporated into the approved-manufacturers list. For customized, or make components, other data are created, including: assembly drawings, detailing precisely how the component should be fabricated; work instructions, which guide the manual assembly process; machine instructions, to drive automated manufacturing and assembly equipment; art work, for processes such as printed circuit board fabrication; schematics, for describing electronic components and assemblies; and test instructions, which enable the suppliers and original equipment manufacturers to test for conformity to the manufacturer s specifications.

Direct Materials Sourcing. As companies source direct materials, they are making critical decisions which will impact their downstream supply chain success. Decisions made about who will supply which materials and at what price have dramatic impact on the cost, quality and ultimate profitability of a product. During new product introduction, companies must disseminate large amounts of product information to suppliers and then negotiate and analyze supplier responses effectively. Companies also want to aggregate demand for direct materials across the enterprise, enabling them to use volume purchasing to negotiate better contract terms. Companies must also aggressively manage materials costs on an ongoing basis to maximize profits.

New Product Introduction. Prior to commencing volume production, the data created during the product design stage must be communicated to all relevant parties in the supply chain. One of the complexities of the outsourced supply chain model is that supply chain members often have multiple discrete roles, including sourcing parts, fabrication, assembling components, testing and delivery. In addition, the manufacture of even a relatively simple product can involve procurement from hundreds of suppliers. Ensuring that accurate product information is disseminated promptly and to all of the appropriate supply chain constituents is one of the most difficult challenges facing a company. Further, suppliers may often discover constraints and/or opportunities for improvements during the prototyping and pilot production phases this often prompts a flurry of product changes requiring rapid collaboration among supply chain partners to reduce costs and to avoid delays and excessive start-up or inventory costs.

Volume Production and Product Changes. Product specifications frequently change even during volume production. Changes can occur due to a number of reasons, including:

Changes in design in response to customer requests or market conditions;

Changes required to address a defect in the design or to improve the manufacturing process; and

Changes due to fluctuations in the cost or availability of materials and supplied parts.

The communication of information regarding product changes is a dynamic loop in which members of the supply chain must respond to market-dictated demands while also reacting to information shared among supply-

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chain partners. It is difficult to execute a design change through the manufacturing process expeditiously and effectively due to the complexity of the information and the number of companies and people who must collaborate on and then approve a change. A design change requires a company to create an engineering change order; develop the specifications required by the engineering change order; secure the necessary approvals to effect the change; and communicate the change to the supply chain.

This problem is especially critical for companies operating in markets where products change frequently. For example, the requirements of a personal computer manufacturer that builds products to order may change each day as information regarding orders is received from customers or its sales force.

To address these challenges, many companies have implemented software systems that govern supply chain management, electronic data interchange, product data management and enterprise resource planning. However, many of these products were not designed to connect multiple companies in collaborative business processes, and therefore do not fully address the need for supply chain collaboration. For example, electronic data interchange, a system that facilitates interconnection and exchange of data, is expensive to install and maintain and is typically only used to communicate relatively simple transaction information such as purchase orders and shipping information. Other methods of communication and collaboration within the supply chain, including phone, paper-based solutions such as courier or fax, or e-mail or web page sources, are not linked in real-time and are slow, incomplete and often inaccurate.

As product lifecycles continue to shrink, the ability to manage product development, sourcing, introduction and volume manufacturing across dispersed supply networks has become critical to a company s profitability and competitiveness. A company that can disseminate information quickly and accurately to the appropriate supply chain partners can reduce costs and gain competitive advantage. For example, through collaboration with its supply chain partners, a company may learn that a component is not readily available due to lack of supply or that a new component is available which might substantially reduce costs or improve manufacturing quality. Instead of continuing to rely on the originally selected component, the company may incorporate another component in the product design and notify partners before these components are incorporated into new products. By doing so, the company has the opportunity to increase revenues by maintaining product availability or increase profits by taking advantage of lower cost components more quickly.

Impact of the Internet

Companies that have successfully implemented strategies to communicate with their customers over the Internet now face the challenge of utilizing the Internet and intranets to gain the same level of increased efficiencies in their supply chain. An Internet-based software solution can offer scalability, easier implementation, and compatibility across diverse information technology platforms and reduced incremental infrastructure investments. However, many companies are wary of major software deployments due to the cost, long implementation times and frequently cited examples of failed enterprise application deployments undertaken in recent years. Companies want to implement new software systems with short implementation times, low risk, low total project cost and high return on investment, all without burdening already over-taxed internal information technology personnel.

The Agile Solution

Our product chain management solutions are a suite of integrated business applications that enable manufacturers to collaborate over the Internet with their supply chain partners about new or changing product content, to source and manage product costs, and to reduce warranty and repair costs, while improving overall customer satisfaction. Our solutions are designed for use over the Internet, reduce dependence upon traditional methods of interaction, and enable supply chain members to link to each other without requiring substantial investments in additional technology infrastructure. We have also designed our products to allow for rapid implementation by the manufacturer and with limited implementation cost and assistance.

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We believe that our products are well suited for participants in outsourced supply chains, as well as those managing multi-site engineering, manufacturing and sales and distribution. The Agile solutions deliver the following benefits to companies and their supply chain partners:

Increased responsiveness. With the help of our solutions, companies can respond more rapidly to changes in customer requirements, competitive challenges and supplier constraints throughout the product lifecycle. The ability to effect change even during volume production enables Agile Product Collaboration and Agile Product Sourcing users to adjust production strategies, and produce what they can sell, rather than sell what they can produce. Agile Product Collaboration and Agile Product Sourcing also enhance the ability of companies to increase their revenue by being first to market with the right products.

Reduced obsolete inventory costs and reduced scrap costs. Agile s solutions are designed to help companies rapidly and accurately communicate planned product changes internally and with supply chain partners. This eliminates errors due to miscommunication within the supply chain, and can reduce the instances of materials being ordered that turn into obsolete inventory or products being built incorrectly that must then be reworked or scrapped.

Rapid Return on Investment. Because Agile s solutions are comprised of applications based on existing industry standards and do not require custom software development, our solutions can be implemented in less time than required to implement traditional enterprise software applications which require extensive customization.

Lower Costs of Goods Sold. The Agile Product Sourcing suite can enable companies to effectively manage their product costs and to aggregate demand for direct materials across the enterprise, a powerful tool for reducing product costs. Companies are able to collaborate with and forward complex direct materials sourcing information to many suppliers, as well as analyze large amounts of data to minimize ongoing product costs.

The Agile Strategy

Our objective is to be the leading provider of product chain management solutions, enabling global collaboration among supply-chain partners. Key elements of our strategy include:

Provide Superior Customer Satisfaction. We expect to continue to build a highly referenceable customer base of market leaders in various vertical markets and we will continue our focus on programs designed to enhance and maintain customer satisfaction. We will continue to anticipate customer needs by introducing new applications, new product functionality and new technologies. We believe our focus on customer satisfaction will increase customer loyalty and result in increased follow-on sales opportunities and shorter sales cycles.

Capitalize on Network Effects to Expand Our Customer Base. As users of Agile Product Collaboration and Agile Product Sourcing solutions deploy our software across their supply chains, additional supply chain members will be exposed to our solutions and to the functionality provided by our products. We believe that this exposure, which allows non-customer participants in the supply chain to benefit from our solutions, creates a network effect that accelerates industry recognition and adoption of our products. As additional members of a supply chain deploy our solutions, the quality and timeliness of available information relevant to the production and supply of their products improves, which increases the value to each participant and helps drive greater usage.

Pursue a Vertical Market Strategy. Since inception, we have pursued a vertical market strategy, developing product features targeted to particular industries. To date, we have focused on the electronics and high technology, medical device and automotive markets which encompasses original equipment manufacturers, outsourced manufacturing providers and suppliers. We seek to further penetrate our current markets while addressing new vertical markets characterized by rapidly changing products and/or complex supply chains.

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Leverage Our Technology Platform. We intend to continue to pioneer new Internet business applications based on emerging standards supporting electronic commerce. For example, we have used Java and HTML technologies to deliver robust, powerful and rapidly deployable Internet business applications to our customers. Further, we have taken the initiative to define a protocol for supply chains, Product Definition eXchange, or PDX, based on eXtensible Mark-up Language, or XML, which has been submitted and approved by industry standards groups. We intend to lead technological innovation in the product chain management market, offering our customers solutions designed to provide a rapid and high return on investment.

Extend Supply Chain Collaboration and Functionality. We believe our solutions provide a robust platform that enables us to extend the functionality and application of our products to the creation and delivery of new value-added applications. We will continue to develop new products and enhancements to our products to enable increased collaboration among outsourced supply chain partners. We will also address new opportunities that result from the creation of new business processes for Internet-based collaboration and interaction among supply-chain partners.

The Agile Suite of Applications

Agile s solutions are an integrated suite of applications to manage the product record and the business processes that contribute to and leverage the product record. The product record consists of the rich set of information that defines a company s product throughout the entire lifecycle, such as bills of material, component information, drawings, specifications, manufacturing instructions, component cost and availability information, quality data, and service instructions. The Agile Solutions leverage this single product record to help companies develop, source, produce and improve products.

Agile Product Collaboration

The Agile Product Collaboration suite helps companies manage and collaborate on a single product record internally and across their extended supply chain. With a single comprehensive product record, companies can synchronize internal functions and members of their supply chain on the latest product information. The Agile Product Collaboration suite can help companies:

Develop and introduce new products faster,

Decrease the time and cost to ramp to volume production,

Rapidly drive down materials and manufacturing cost,

Eliminate scrap and rework,

Rapidly improve product quality,

Ensure continuity of supply throughout volume production, and

Cost effectively manage products through end-of-life transitions.

Agile Product Collaboration provides a comprehensive suite of applications to help manage complex product information and collaboration on product changes with suppliers and customers. The solutions utilize Java, HTML and XML technologies to allow supply chain partners to communicate and collaborate on the product record in real time via the Internet. Agile Product Collaboration is designed to provide the scalability, security and open standards that are required for an application that extends across supply chain partners. Agile Product Collaboration solutions include Agile Product Definition, Agile Change Collaboration, Agile Supplier Management, Agile Design Integration and Agile Manufacturing Integration.

Agile Product Definition This application provides a single repository for holding the product record and tracking its change throughout the product lifecycle, while simultaneously making it available to all members of the extended supply chain in real time. It is the foundation of Agile s Product Collaboration suite, providing the

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information to enable companies to produce products faster, more profitably, and with higher quality. Agile Product Definition helps companies:

Maintain a single set of up-to-date product information,

Create, find and share the current, preliminary, and released information about any part, document or engineering change,

Share product information with supply chain partners in real time,

Access all product related data on-line,

Graphically view and redline bills of material, and

View and redline drawings and other documents on-line.

Agile Change Collaboration This application helps companies manage the product change process online and to share it with trading partners in real time. Manufacturers and their supply chain partners and customers use these Internet-based tools to initiate changes and to collaborate throughout the product change process. By involving supply chain partners throughout the product lifecycle, companies leverage their expertise and can synchronize the supply chain on product or component changes before they occur. Agile s Change Collaboration solution eliminates many of the tasks that slow down the change process and allows changes to be initiated, distributed, reviewed, and approved or rejected online. External suppliers and customers can view proposed changes via a secure Internet connection, and provide feedback on proposed changes, effective dates, supply plans, or quotations. Users can configure intelligent workflows that automate the routing of the changes. When a change is ready to be approved, the system automatically notifies all reviewers of the change. Agile Change Collaboration lets companies:

Create, modify and approve change requests,

Route product changes internally and externally,

Notify reviewers when a change is ready for review or approval,

Enable supply chain partners to initiate and review proposed product, materials and manufacturing changes, and

Optimize the routing process through intelligent, customizable workflows.

Agile Supplier Management This application provides change management of both the bills of materials and the approved manufacturers list . Agile Supplier Management extends the management of the product definition down to the suppliers component manufacturer level and assures that products meet the business objectives of quality, cost and availability while addressing the complexities of geographically-specific sourcing requirements, volume purchase agreements and material constraints. The approved manufacturers list is available on-line to all supply chain partners, allowing all participants to optimize their operations to meet the customer s needs and to recommend changes to the approved manufacturers list to improve cost, quality, manufacturability and availability. Agile Supplier Management helps companies:

Create and view an approved manufacturers list,

Identify preferred and alternate manufacturers for each component based on quality, cost and other performance criteria, and

Cross reference internal and manufacturer part numbers.

Agile Design Integration This application integrates design data from multiple computer aided design (CAD) tools into Agile s Product Collaboration suite. It maintains design integrity and streamlines the engineering to manufacturing product release process. With Agile Design Integration, companies can start sourcing and building products sooner decreasing time-to-market, reducing operating costs, and increasing

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operational efficiency. Agile Design Integration transforms design data from multiple CAD systems. It automates the engineering to manufacturing product release process by publishing bills of material, CAD drawings and 3D models to Agile solutions. Agile Design integration supports most major CAD tools including AutoCAD, Catia, ConceptHDL, I-DEAS, Orcad, Pro/Engineer and Solidworks. Agile Design Integration helps companies:

Read geometric CAD data and convert it to a form usable by the supply chain,

Ensure the original designs cannot mistakenly be altered, and

Access engineering data easily and share it instantly with manufacturing, purchasing, materials and quality organizations as well as supply chain partners.

Agile Manufacturing Integration This application helps companies publish the product record to multiple enterprise resource planning systems both inside the company and across the supply chain. Agile Manufacturing Integration ensures that during all phases of the product lifecycle, the up-to-date product record is communicated quickly and accurately to transactional systems such as enterprise resource planning systems. This ensures that companies are buying the right materials and building the right products. Agile Manufacturing Integration utilizes Application Adaptors for all the leading enterprise resource planning systems to map, schedule and administer the process of validating and updating the Agile data in the enterprise resource planning system.

Agile Product Sourcing

The Agile Product Sourcing suite helps companies efficiently and effectively make the best decisions about how to source direct materials that are used in the manufacturing of their products. Agile Product Sourcing enables companies to make optimal choices concerning which suppliers, parts, materials and designs to use and which locations to buy and build from. These decisions all may directly impact a company s cost of goods sold. The suite also helps companies substantially speed the sourcing processes which often involve decisions about thousands of parts, hundreds of suppliers, supply partners and locations. These complex decisions need to be made quickly often in a matter of days or hours while involving very complex product definitions that are constantly changing. Through use of Agile Product Sourcing, companies can provide suppliers with an accurate, complete and timely view of the parts, assemblies and bills of materials. The Agile Product Sourcing applications suite includes Agile New Product Sourcing, Agile Product Cost Management and Agile Sourcing Intelligence.

Agile New Product Sourcing This application helps companies make better sourcing decisions during the New Product Introduction process. Sourcing effectively during this stage of the product lifecycle is very difficult because of the pressure to introduce new products quickly, while the specifications for the product and its components may still be changing. Agile New Product Sourcing is a comprehensive application that enables design and manufacturing organizations to quickly establish the optimal supply network to help ensure supply for their products at the best cost. Agile New Product Sourcing helps companies:

Determine optimal supply chain partners and utilize preferred suppliers,

Determine ideal components,

Set locations and geographies from which products and components will be sourced,

Understand total costs, and

Assess and address supply risks.

Agile Product Cost Management This application helps companies manage and lower the total costs of products throughout the product lifecycle. The solution allows companies to effectively collaborate with multiple tiers of their supply chain on an ongoing basis to help predict what costs are going to be, to understand where and when cost targets will be missed, and to reduce materials costs. Agile Product Cost Management enables

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companies to gather, aggregate and analyze forward looking market information. This includes material costs as well as non-material costs, such as labor, test or logistics costs, and non-recurring costs, such as engineering costs. This cost information, along with other delivery information, such as lead-time to introducing the product, can be quickly analyzed to provide a timely picture of total product costs. Agile Product Cost Management helps companies:

Keep up with continual changes in products and the resulting cost, quality, and delivery impact of those changes,

Uncover opportunities to reduce component and assembly costs, and

Determine factors that will increase or decrease costs early in the product lifecycle to reduce designed-in costs.

Agile Sourcing Intelligence This solution helps improve the performance of global sourcing efforts by enabling companies to make better sourcing decisions. Determining where to focus resources is a critical challenge for strategic sourcing efforts. Often opportunities to save costs, reduce supply risk, improve quality or drive product innovation are missed because companies do not have a comprehensive view of their current and historical sourcing and purchasing activities, nor the means to efficiently analyze large volumes of complex information regarding sourcing activities. Agile Sourcing Intelligence provides a broad repository of sourcing and supply information and the means to leverage that information. The solution is based on a star schema database model, and is interoperable with third-party business intelligence tools. Agile Sourcing Intelligence enables manufacturing companies to evaluate, analyze and manage the performance of their sourcing efforts to help them understand:

Which commodities offer the best opportunity for cost improvement,

Which sourcing projects are generating benefits and which are not,

What opportunities are available to leverage demand globally,

How partners and suppliers are performing, and

Whether product costs will be within targets.

Agile Product Service and Improvement

Agile s Product Service and Improvement suite is designed to enable companies to identify product quality problems due to design, process, material, labor, and supplier issues. By rapidly identifying, analyzing, and correcting such problems, companies may reduce their warranty and repair costs, while improving overall customer satisfaction. Agile Product Service and Improvement also provides visibility into the product record and facilitates internal collaboration with the marketing, sales, operations, and service organizations, and external collaboration with customers and suppliers to continually improve both the product and its serviceability. Reducing or eliminating recurring problems or issues along the product chain results in higher customer satisfaction levels and lower warranty and repair costs. The Agile Product Service and Improvement suite includes Agile Product Quality and Agile Customer Response.

Agile Product Quality This application drives systematic product improvement by tracking product and process problems, customer complaints, and enhancement requests. The solution facilitates rapid and systematic analysis of the root cause of the problem, identifies the needed corrective and preventative actions, and notifies engineering of these requests to eliminate future quality problems. Agile Product Quality gives companies the ability to:

View problems and failures on specific products,

Perform root cause analysis on those specific problems,

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Create quality change orders,

Provide notification and visibility to everyone involved in the process to the problem and the resolution,

Audit the overall product service and improvement process, and

Integrate with other systems to update such systems with information on the corrective and preventive actions taken.

Agile Customer Response This application completes the manufacturing process by integrating feedback from the manufacturing process, the sales and marketing force, the suppliers, and ultimately from the external customer base. Agile Customer Response can be seamlessly integrated with customer relationship management applications to provide critical customer response data such as problem report status, field service issues, and product enhancement requests. Agile Customer Response allows companies to push resolution of both short-term corrective actions and long-term preventative actions to help reduce or eliminate recurring product and process issues, and provide product record visibility to the field service organization and to customers. Agile Customer Response enables a company s marketing, sales, operations, and service organizations, as well as suppliers, and customers, to:

Link the customer to specific problem service reports,

Communicate information regarding resolution of issues to employees, customers and suppliers,

Provide access to full product record history for faster troubleshooting and cost-effective service of products in the field, and

Update other systems through seamless integration.

The Agile Business Platform

Agile s solutions are supported by a robust technology infrastructure to insure that the applications are scalable, reliable and extensible. The n-tier, standards-based architecture of the Agile platform leverages J2EE, XML and EAI technologies to manage the product record across Agile s solutions, and integrates that information to other applications within the enterprise. The Agile Business Platform includes the Agile Software Development Kit (SDK), Agile Application Programming Interface (API) and the Agile Integration Server.

Agile SDK The Agile SDK extends the solutions capabilities by allowing the rich set of services to be tailored to meet individual customer s requirements. Agile SDK is designed to allow Agile customers and partners to integrate Agile solutions with other enterprise-class systems, such as ERP, CAD, and CRM systems, using industry standard application integration technologies. Agile SDK comprises the Agile Application Programming Interface (API), documentation, and sample applications.

Agile Application Programming Interface Agile API is language independent and includes support for Java, C++, and Visual Basic programming languages. Developers may write Agile API applications in their preferred computer language, which reduces training costs and speeds application development time. Agile API exposes data and processes in Agile solutions and allows developers to create a wide range of applications, in order to extend and customize the functionality of Agile solutions. The Agile API invokes the same security restrictions as the other Agile applications so that critical data can only be accessed by authorized users and data transmission within the company and outside the company takes place in a secure manner that prevents tampering. Agile API is designed to be backward compatible so companies can more easily upgrade their Agile systems.

Agile Integration Server Agile Integration Server is an XML-based integration solution that makes the product record available to a wide variety of business applications and users both internally and across a global manufacturing network. Agile Integration Server can be used to directly share product information with other

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enterprise applications and to make information available to enterprise application integration and business-to-business integration systems, which can then send the data to a broad array of internal and external applications.

Initial implementations of Agile solutions typically include one or more applications, together with user licenses or subscriptions, and one or more of the integration products. The initial order may also include a third-party adapter for other existing enterprise systems of the customer. Following the initial implementation, additional user licenses and additional server modules may be purchased.

Product Technology and Architecture

Agile s application suite is designed upon open systems based on software industry standards for scalable Internet applications. The result is a low cost, low maintenance enterprise business application suite that eliminates the need for complex custom or in-house development. Agile solutions are built on an Internet-based architecture:

At the core of our architecture are the application servers, which currently utilize BEA WebLogic, Microsoft Windows and Sun Solaris. The application server is the intermediary between the HTML, Java and Windows applications and the database, providing the necessary business logic and security for validation of the data. We use encryption technology licensed from RSA Security Inc. on previous versions of our products to maintain secure data when transported over the Internet.

The Internet client applications are HTML and Java-based and can run on versions of Microsoft Internet Explorer and Netscape Navigator. There is also a Windows application for users who prefer a Windows user interface rather than a web browser interface. Operating systems supported include Windows 98, Windows NT, Windows 2000 and Sun Solaris. We follow the Microsoft standards for the Windows clients, and Internet standards for the Java application running within Microsoft Internet Explorer and Netscape Communicator. Our products can be integrated with more than 15 enterprise resource planning systems including, among others, Peoplesoft, Oracle Applications, J.D. Edwards and SAP.

The database includes the Oracle database server and the Agile Internet File Server.

The solutions are enabled for both single-byte and double-byte localization, and have been localized for Chinese, French, German and Japanese. We intend to provide localization for additional languages as market needs dictate.

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

Product Development

Our product development objectives are to:

be innovative in developing solutions to remove complexity from supply chain collaboration,

develop solutions that require little custom code, contain reusable components and are easy to use, implement, maintain, and upgrade, and,

adopt industry standard technologies.

Our software development staff is divided into teams consisting of software engineers, product and program managers, software quality assurance engineers, and technical writers. Working closely with our marketing

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department, we determine product functionality based upon market requirements, customer feedback, technical support and field consulting. We also try to incorporate emerging technologies that will allow us to develop additional features.

We introduced our first product, Agile Configurator version 1.0, in June, 1996 and have subsequently released 16 product collaboration revisions and 5 product sourcing revisions, adding over twenty modules. In addition, we have also introduced the beta version of Product Service and Improvement. During this time, our product has evolved from a 2-tiered client-server database application to a multi-tiered application supporting HTML, Windows and Java clients. Our product development activities are focused on broadening the scalability and functionality of our solutions. We are continuing to develop and release application interfaces to allow customers to more easily integrate our solutions with other systems.

We maintain our primary development centers in San Jose, California and Scotts Valley, California. We opened development centers in Bangalore, India, Hong Kong and Suzhou, China at the end of fiscal 2002 and we expect to shift more of our development personnel to these locations over the next fiscal year to leverage cost efficiencies.

Our research and development expenses, excluding stock compensation expense, were $33.5 million, $26.5 million and $9.4 million for fiscal 2002, 2001 and 2000, respectively, and we expect to continue to invest significantly in research and development in the future.

We cannot be sure that we will complete our existing and future development efforts within our anticipated schedule or that our new and enhanced products will have the features to make them successful. If we are unable to establish our foreign development centers in a timely manner, we may not be able to maintain research and development activities while decreasing operating expenses, as planned. We may experience difficulties that could delay or prevent the successful development, introduction or marketing of new or enhanced products. In addition, these new and enhanced products may not meet the requirements of the marketplace and achieve market acceptance. Furthermore, despite testing by us, our implementation partners and our customers, errors might be found in new products or in releases after shipment, resulting in product returns, loss of revenue or delay in market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs.

Customers

To date, we have licensed our products to over 800 customers. No customer accounted for more than ten percent of our total revenues in fiscal 2002, 2001 or 2000.

The following is a representative list of current customers in our targeted industry markets that to date have purchased Agile products and services:

Datacom/Telecom Equipment	Computers and Peripherals	Medical Equipment
ADC	Dell	Analogic
Ciena	Fujitsu	GE Medical
Juniper	Hitachi	Hologic
Lucent	McData	Johnson & Johnson
Sycamore Networks, Inc.	Quantum	Novoste
		VISX

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Electronics and Original Design Manufacturing Services Providers	Semiconductor	Semiconductor Equipment
Benchmark	Altera	Brooks-PRI Automation
Flextronics	Amkor	Credence Systems
Manufacturer s Services Limited	Logitech	Cymer
Quanta Computer, Inc.	LSI Logic	Electroglas
Sanmina-SCI	nVidia	FSI International
Solectron	Qualcomm	Honeywell
Wistron		

Consumer Electronics	Wireless & Broadband	Industrial
Echostar	DMC Stratex	Flowserve
Handspring	Harris	Flow International
Microsoft XBOX	Teleste	International Paper
Philips	Zhone Technologies	Lennox
Scientific Atlanta		
TiVo		

Sales and Marketing

Our sales and marketing organization is responsible for identifying and developing vertical markets on which we intend to focus, as well as for identifying and specifying product requirements communicated to us by our customers. We market and sell our products primarily through our direct sales force located at our headquarters in San Jose, California, and at regional and local sales offices in the United States and at offices in France, Germany, Japan, Taiwan and the United Kingdom. Our direct sales force consists of Major Account Executives who focus on major accounts and Account Executives who focus on specific geographic territories. Solutions consultants in regional offices provide pre-sales technical support. We also compliment our direct sales force through additional distribution channels, including non-exclusive distributors, integrators and consulting partners.

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

An important element of our sales strategy is to establish marketing alliances to promote sales and marketing of our products, as well as to increase product interoperability. We also pursue services alliances with consulting and integration firms to implement our software, provide customer support services, create customized customer presentations and demonstrations and endorse our products during the evaluation stage of the sales cycle. We believe that our relationships with these service providers may shorten our sales cycle because these service providers have generated and qualified sales leads, made initial customer contacts and assessed needs prior to our introduction. We currently have relationships with Deloitte Consulting, Domain Systems, Inc., PRTM, Sierra Atlantic and Strategic Information Group, Inc.

Customer Service and Support

Consulting and Implementation. We offer services, on a fixed-price or time and materials basis, to assist in implementation planning, product installation, implementation assistance, legacy data loading and effectiveness audits. To facilitate and enhance the integration of our products, we have entered into alliances to enable integration of our products with existing design, manufacturing, finance and supply chain systems. This approach

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allows us to focus on our core competencies and leverage our partners domain knowledge, which helps reduce time to market both for our customers and us.

Customer Support. We believe that responsive technical support is a requirement for our continued growth. We provide technical support and unspecified product upgrades on a when-and-if available basis through our annual maintenance program. Customers generally purchase the first year of maintenance and support at the time they initially license one of our products. After the initial term of the license is complete, the customer may renew support on an annual or multi-year basis. Customer support is offered by telephone, email and fax and we also offer Internet-based support that features frequently asked questions, technical alerts, product upgrades and updates, problem reporting and analysis, and self-help through our on-line knowledge base. In addition, our consulting and implementation partners provide customer support and maintenance in some instances. Revenues associated with maintenance contracts are recognized ratably over the term of the maintenance contract, which is generally 12 months.

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

Competition

The market for product chain management solutions is fragmented, rapidly changing and consolidating, and becoming increasingly competitive. We expect competition to persist and intensify, which could result in price reductions, reduced gross margins and loss of market share, any one of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services offered.

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

- The performance, functionality, price, reliability and speed of implementation of our solutions,
- The timing and market acceptance of new products and product enhancements to our solutions,
- The quality of our customer service, and
- The effectiveness of our sales and marketing efforts.

Although we believe that we currently compete favorably as to each of these factors, the market for our solutions is still emerging and changing rapidly. In particular, we believe that we offer a suite of solutions that offers collaborative and interactive capabilities that many of our competitors do not effectively provide. However, we encounter competition with respect to different aspects of our solutions from a variety of vendors. We currently face three primary sources of competition:

- In-house development efforts by potential customers or partners,
- Vendors of engineering information management software, such as Dassault Systemes S.A., EDS, MatrixOne, Inc., and Parametric Technology Corporation, and
- Potential competition from providers of enterprise software who seek to extend the functionality of their products, such as i2 Technologies, Inc., Oracle Corporation, and SAP A.G.

We may not be able to maintain our competitive position against current and potential competition