AGILE SOFTWARE CORP
Form 10-Q
March 12, 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 January 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
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The number of shares outstanding of the Registrant's Common Stock as of January 31, 2001 was 47,220,184.

AGILE SOFTWARE CORPORATION

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Part 1 - Financial Information

Item 1. Financial Statements

AGILE SOFTWARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands)
(unaudited)

	January 31, 2001	April 30, 2000 (1)

ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,827	$142,721
Short-term investments	170,101	157,154
Accounts receivable, net	18,271	6,537
Other current assets	8,921	4,979
Total current assets	334,120	311,391
Long-term investments	-	12,550
Property and equipment, net	12,330	6,519
Intangible assets, net	65,331	92,965
Other assets	14,577	7,376
	$ 426,358	$430,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,617	$ 1,434
Accrued expenses and other liabilities	10,352	6,391
Deferred revenue	17,988	8,634
Current portion of capital lease obligations	469	681
Total current liabilities	34,426	17,140
Capital lease obligations, noncurrent	192	518
Notes payable, noncurrent	39	39
Other liabilities	83	458
	34,740	18,155
Stockholders' equity:		
Common Stock	47	46
Additional paid-in capital	512,047	500,155
Notes receivable from stockholders	(617)	(1,460)
Unearned stock compensation	(16,886)	(23,838)
Accumulated other comprehensive income (loss)	358	(530)
Accumulated deficit	(103,331)	(61,727)
Total stockholders' equity	391,618	412,646
	$ 426,358	$430,801

(1) The April 30, 2000 consolidated balance sheet information has been derived from the audited financial statements at that date.

See accompanying notes to these condensed consolidated financial statements.

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AGILE SOFTWARE CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended January 31,	
	2001	2000
Revenues:		
License	$ 19,058	$ 5,814
Professional services	2,291	1,277
Maintenance	3,676	1,472
Total revenues	25,025	8,563
Cost of revenues:		
License	1,184	448
Professional services (exclusive of stock compensation of $163 and $140 for the three months ended January 31, 2001 and 2000, and $511 and $276 for the nine months ended January 31, 2001 and 2000, respectively	1,526	1,020
Maintenance (exclusive of stock compensation of $31 and $36 for the three months ended January 31, 2001 and 2000, and $99 and $71 for the nine months ended January 31, 2001 and 2000, respectively	1,545	603
Total cost of revenues	4,255	2,071
Gross profit	20,770	6,492
Operating expenses:		
Sales and marketing (exclusive of stock compensation of $1,939 and $1,811 for the three months ended January 31, 2001 and 2000, and $5,960 and $3,580 for the nine months ended January 31, 2001 and 2000, respectively	16,602	7,248
Research and development (exclusive of stock compensation of $893 and $1,020 for the three months ended January 31, 2001 and 2000, and $3,160 and $2,015 for the nine months ended January 31, 2001 and 2000, respectively	7,202	2,836
General and administrative (exclusive of stock compensation of $712 and $950 for the three months ended January 31, 2001 and 2000, and $2,578 and $1,673 for the nine months ended January 31, 2001 and 2000, respectively	1,641	864
Amortization of stock compensation	3,738	3,957
Amortization of intangible assets	8,999	5,965
Acquired in-process technology	-	1,300
Total operating expenses	38,182	22,170
Loss from operations	(17,412)	(15,678)
Interest and other income	4,993	2,853
Interest and other expense	(174)	(107)
Net loss	$ (12,593)	$ (12,932)
Net loss per share:		
Basic and diluted	$ (.27)	$ (.31)
Weighted average shares	46,014	42,158

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See accompanying notes to these condensed consolidated financial statements.

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

	Nine Months Ended
	2001
Cash flows from operating activities:	
Net loss	$ (41,604)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Acquired in-process technology	-
Depreciation and amortization	30,943
Amortization of stock compensation and warrants	12,308
Change in operating assets and liabilities	
Accounts receivable, net	(11,734)
Other assets, current and non-current	(4,793)
Accounts payable	4,183
Accrued expenses and other liabilities	3,586
Deferred revenue	9,354
Net cash provided by (used in) operating activities	2,243
Cash flows from investing activities:	
Purchases of investments	(117,703)
Proceeds from maturities of investments	118,194
Purchases of privately-held equity investments	(6,350)
Cash paid in business combination	-
Acquisition of property and equipment, net of disposals	(9,782)
Net cash used in investing activities	(15,641)
Cash flows from financing activities:	
Repayment of capital lease obligations	(538)
Repayment of notes payable	-
Proceeds from issuance of common stock, net of repurchases	7,195
Repayment of notes receivable from stockholders	847
Net cash provided by financing activities	7,504
Net increase (decrease) in cash and cash equivalents	(5,894)
Cash and cash equivalents at beginning of period	142,721
Cash and cash equivalents at end of period	$ 136,827
Supplemental disclosure:	
Cash paid for interest	$ 151
Non-cash investing and financing activities:	
Common stock issued in exchange for notes receivable	$ -

Property and equipment acquired under capital lease	$ -	$
Additional deferred stock compensation	$ 5,358	$
DMI escrow shares retained	$ 663	$

See accompanying notes to these condensed consolidated financial statements.

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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 periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending April 30, 2001. 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, 2000, included in the Company's Annual Report on Form 10-K filed on July 24, 2000 with the Securities and Exchange Commission.

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

Recent Developments

On January 29, 2001, the Company signed a definitive agreement to merge with Ariba, Inc. in a stock-for-stock transaction. Under the terms of the definitive merger agreement, Ariba will acquire all of the outstanding shares of common stock and options to acquire common stock of the Company in exchange for 1.35 shares of common stock of Ariba for each share of the Company's common stock and options to acquire commons stock. The merger, which is subject to the approval of the Company's and Ariba's stockholders, has been unanimously approved by the boards of directors of both companies. Pending stockholder approval, the merger is expected to close before June 30, 2001.

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 exists for all undelivered elements, the Company

accounts for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9.

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, 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 has taken place. If vendor-specific objective evidence of fair value exists for the specified upgrade, then an amount equal to the 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

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on fixed-price professional service contracts is recognized during 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 and, for periods prior to our initial public offering, shares issuable upon conversion of Convertible Preferred Stock.

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

	Three Months Ended January 31,	
	2001	2000
Numerator:		
Net loss	$(12,593)	$(12,932)
Denominator:		
Weighted average shares	47,109	44,144

Weighted average unvested shares of Common Stock subject to repurchase	(1,095)	(1,986)
Denominator for basic and diluted calculation	46,014	42,158
Net loss per share:		
Basic and diluted	$ (.27)	$ (.31)

At January 31, 2001, approximately 12,851,000 potential shares of Common Stock are excluded from the determination of diluted net loss per share as the effect of such shares is antidilutive.

4. Comprehensive Loss

"Other Comprehensive Loss" refers to revenues, expenses and gains and losses that are not included in net loss but rather are recorded directly in stockholders' equity. The components of comprehensive loss for the three and nine months ended January 31, 2001 and 2000 were as follows (in thousands):

	Three Months Ended January 31,		N
	2001	2000	
Net loss	$(12,593)	$(12,932)	
Unrealized gain (loss) on securities	403	(322)	
Comprehensive loss	(12,190)	(13,254)	

5. Segment Information

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

6. Unearned stock compensation

In connection with certain stock options and warrants granted to employees and consultants, the Company recorded unearned stock compensation of $5.4 million for the nine months ended January 31, 2001 representing the difference between the option exercise price and fair value of the Company's common stock on the date of grant. Such amount is presented as a reduction of stockholders' equity and amortized over the vesting period of the applicable option, generally four years. Stock compensation expense for employees and consultants was $3.7 million and $4.0 million for the three months ended January 31, 2001 and January 31, 2000, respectively, and $12.3 million and $7.6 million for the nine months ended

January 31, 2001 and January 31, 2000, respectively.

Stock compensation expense related to stock options granted to consultants is recognized as earned, using the multiple option method as prescribed by FASB Interpretation No. 28. At each reporting date, we re-value the unearned stock compensation using the Black-Scholes option pricing model. As a result, the stock compensation expense will fluctuate as the fair market value of our common stock fluctuates.

In September 2000, in connection with a marketing alliance with a third party, the Company issued a warrant to purchase 50,000 shares of its common stock at an exercise price of $67.05 per share, the fair value of the Company's common stock on the date of the agreement. The Company recorded a charge of $2.0 million representing the fair value of the warrant, estimated using the Black-Scholes option pricing model. Such amount is presented as a reduction of stockholders' equity and is being amortized to stock compensation expense over the three-year life of the marketing alliance.

Upon the Company's merger, consolidation with or sale or conveyance of all of its assets to any other corporation or entity, to the extent that the warrant has not been exercised in full by the effective date of such transaction, this warrant shall terminate.

7. 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 and nine months ended January 31, 2001 was $9.0 million and $18.1 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. Since inception, the Company has not recorded any provisions for possible impairment of intangible assets.

8. Borrowings

The Company had a line-of-credit agreement with a bank that provided for borrowings of up to $5,000,000, including $500,000 available for the issuance of letters of credit and foreign currency exchange activity. Borrowings under the line-of-credit agreement bore interest at an annual rate of 8.5%, subject to adjustment by the bank. Borrowings under the line of credit were collateralized by the assets of the

Company. The line-of-credit agreement expired in August 2000 and was not renewed by the Company.

9. 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 January 31, 2001

and April 30, 2000, substantially 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.

The Company also has certain other minority investments in non-publicly traded companies. These investments are included in other assets on the Company's balance sheet and are generally carried at cost. The Company monitors these investments for impairment and makes appropriate reductions in carrying values when necessary. At January 31, 2001 and April 30, 2000, the Company had $13.4 million and $7.0 million invested in such companies, respectively.

10. Payroll Taxes Associated with Stock Option Exercises

In October 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus on Issue No. 00-16, "Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation ("EITF 00-16") which requires that payroll taxes paid on the difference between the exercise price and the fair value of acquired stock in association with an employee's exercise of stock options be treated as operating expenses at the date the payroll taxes are triggered. Payroll taxes on stock option exercises were $209,000 and $478,000 for the three months and nine months ended January 31, 2001, respectively.

11. 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. The Company is currently evaluating the impact SFAS 133 will have on its financial position and results of operations.

In December 1999, Staff Accounting Bulletin No. 101, or SAB 101, was issued to summarize the Securities and Exchange Commission's (SEC) views in applying generally accepted accounting principles to revenue recognition in financial statements. On October 31, 2000, the SEC issued SAB 101, Revenue Recognition in Financial Statement--Frequently Asked Questions (FAQ). SAB 101 becomes effective in the Company's quarter ended April 30, 2001. The Company does not expect the impact of the adoption of SAB 101 to have a material effect on its financial condition or results of operations.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB 25," which clarifies the application of Opinion 25 for (a) the definition of an employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000 but certain

conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material effect on the Company's 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 24, 2000 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 customer responsiveness and reduce 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. 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 third-party provided adapters 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 January 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, and over 95% of our customers had renewed their maintenance contracts. 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 exists for all undelivered elements, we account for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9. Software licenses sold to new customers are recognized upon installation and acceptance by the customer. Software licenses sold to existing customers, or add-on sales, do not include acceptance provisions and are recognized upon shipment of the software product. In the event we grant our 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.

Our professional services revenues consist of implementation services which are recognized upon customer acceptance and training revenues which are recognized as the services are performed.

Our maintenance revenues are recognized ratably over the contract period, generally twelve months.

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, stock compensation, 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 and amortization of intangible assets described below.

In connection with the grant of stock options and warrants to employees and consultants, we recorded aggregate unearned stock compensation of $5.4 million for the nine months ended January 31, 2001. For employees, the amount charged to deferred stock compensation represents the difference between the deemed fair value of our common stock at the date of grant and the exercise price of such options for employees. For consultants, the amount charged to deferred stock compensation represents the fair value of the stock option using the Black-Scholes option pricing model. Such amount is presented as a reduction of stockholders' equity and is being amortized by charges to operations over the vesting period of the applicable option for employees, generally four years, and over the service period for consultants.

Stock compensation expense related to stock options granted to consultants is recognized as earned, using the multiple option method as prescribed by FASB Interpretation No. 28. At each reporting date, we re-value the unvested portion of the option using the Black-Scholes option pricing model. As a result, stock compensation will fluctuate in future periods as the fair market value of our common stock fluctuates.

In September 2000, in connection with a marketing alliance with a third party, the Company issued a warrant to purchase 50,000 shares of the Company's common stock at

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an exercise price of $67.05 per share, the fair value of the Company's common stock on the date of the agreement. The Company recorded $2.0 million as a reduction to equity representing the fair value of the warrant using the Black-Scholes option pricing model. Such amount is being amortized to stock compensation expense over the three-year life of the marketing alliance. Upon the Company's merger, consolidation with or sale or conveyance of all of its assets to any other corporation or entity, to the extent that the warrant has not been exercised in full by the effective date of such transaction, this warrant shall terminate.

In connection with our acquisition of Digital Markets, Inc. in November 1999, we recorded goodwill and other intangible assets of approximately $109.2 million, of which $1.3 million was charged to expense as acquired in-process technology in fiscal 2000. Goodwill and 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. The Company periodically assesses its 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. Since inception, the Company has not recorded any provisions for possible impairment of intangible assets.

Although our total revenues have increased from quarter to quarter and year to year, we have incurred significant costs to develop our technology and our products and to recruit and train personnel for our sales, marketing, engineering, professional services and administration departments, as well as for amortization of goodwill and intangible assets. As a result, we have

incurred significant losses since inception, and as of January 31, 2001, had an accumulated deficit of $103.3 million.

We intend to continue to incur significant sales and marketing, research and development and general and administrative expenses. For example, we had 436 full-time employees at January 31, 2001, compared to 250 at January 31, 2000. We will seek to hire additional employees in the future. We will continue to have expenses going forward related to the amortization of our goodwill and other intangible assets, as well as non-cash expenses related to deferred stock compensation. 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. The continued expansion of our business 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.

Recent Developments

On January 29, 2001, the Company signed a definitive agreement to merge with Ariba, Inc. in a stock-for-stock transaction. Under the terms of the definitive merger agreement, Ariba will acquire all of the outstanding shares of common stock and options to acquire common stock of the Company in exchange for 1.35 shares of common stock of Ariba for each share of the Company's common stock and options to acquire commons stock. The merger, which is subject to the approval of the Company's and Ariba's stockholders, has been unanimously approved by the boards of directors of both companies. Pending stockholder approval, the merger is expected to close before June 30, 2001.

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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 January 31,		Nine Months Ended January 31,	
	2001	2000	2001	2000
Revenues:				
License	76%	68%	75%	66%
Professional services	9	15	11	16
Maintenance	15	17	14	18
Total revenues	100	100	100	100
Cost of revenues:				

License	5	5	4	4
Professional services	6	12	8	13
Maintenance	6	7	6	7
Total cost of revenues	17	24	18	24
Gross profit	83	76	82	76
Operating expenses:				
Sales and marketing	66	85	74	81
Research and development	29	33	29	28
General and administrative	7	10	7	11
Amortization of stock compensation	15	46	20	36
Amortization of intangible assets	36	70	44	28
Acquired in-process technology	--	15	--	6
Total operating expenses	153	259	174	190
Loss from operations	(70)	(183)	(92)	(114)
Interest income (expense), net	20	32	24	14
Net loss	(50%)	(151%)	(68%)	(100%)

Three and Nine Months Ended January 31, 2001 and 2000

Revenues

Our total revenues for the three months ended January 31, 2001 were $25.0 million, representing an increase of $16.5 million, or 192%, from the revenues of $8.6 million in the quarter ended January 31, 2000. Our total revenues for the nine months ended January 31, 2001 were $61.0 million, representing an increase of $39.7 million, or 185%, from the revenues of $21.4 million for the nine months ended January 31, 2000. We had no customers that accounted for more than 10% of our total revenues in the three or nine months ended January 31, 2001 and 2000.

License Revenues. Our license revenues for the three months ended January 31, 2001 were $19.1 million, representing an increase of $13.2 million, or 228%, from the license revenues of $5.8 million in the quarter ended January 31, 2000. Our license revenues for the nine months ended January 31, 2001 were $45.8 million, representing an increase of $31.6 million, or 223%, from the revenues of $14.2 million for the nine months ended January 31, 2000. License revenues as a percentage of total revenues were 76% and 75% for the three and nine months ended January 31, 2001, respectively, and 68% and 66% for the three and nine months ended January 31, 2000, respectively. The increase in our license revenues from the prior year periods was due to software licensed to new customers and additional software licensed to existing customers. This increase was primarily attributed to continued market acceptance of and demand for our products.

Professional Services Revenues. Our professional services revenues for the three months ended January 31, 2001 were $2.3 million, representing an increase of $1.0

million, or 79%, from the professional services revenues of $1.3 million for the three months ended January 31, 2000. Our professional services revenues for the nine months ended January 31, 2001 were $6.6 million, representing an increase

of $3.1 million, or 90%, from the professional services revenues of $3.4 million in the nine months ended January 31, 2000. Professional services revenues as a percentage of total revenues were 9% and 11% for the three and nine months ended January 31, 2001, respectively, and 15% and 16% for the three and nine months ended January 31, 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. We anticipate that professional services revenues will continue to decline as a percentage of total revenues.

Maintenance Revenues. Our maintenance revenues for the three months ended January 31, 2001 were $3.7 million, representing an increase of $2.2 million, or 150%, from the maintenance revenues of $1.5 million for the three months ended January 31, 2000. Our maintenance revenues for the nine months ended January 31, 2001 were $8.7 million, representing an increase of $4.9 million, or 130%, from the maintenance revenues of $3.8 million for the nine months ended January 31, 2000. Maintenance revenues as a percentage of total revenues were 15% and 14% for the three and nine months ended January 31, 2001, respectively, and 17% and 18% for the three and nine months ended January 31, 2000, respectively. The increase in maintenance revenues in absolute dollars from the prior year periods was directly attributable to increased licenses for our products since 98% of our licenses also purchase maintenance contracts. The decrease in maintenance revenues as a percentage of total revenues from the prior year periods was due to a higher proportion of license revenues to total revenues resulting from increased market acceptance of our products.

Cost of Revenues

Cost of License Revenues. Cost of license revenues for the three months ended January 31, 2001 was $1.2 million, representing an increase of $736,000, or 164%, from the cost of license revenues of $448,000 for the three months ended January 31, 2000. Cost of license revenues for the nine months ended January 31, 2001 was $2.7 million, representing an increase of $1.7 million, or 177%, from the cost of license revenues of $976,000 for the nine months ended January 31, 2000. Cost of license revenues as a percentage of license revenues was 6% for both the three and nine months ended January 31, 2001, and 8% and 7% for the three and nine months ended January 31, 2000, respectively. The increase in the cost of license revenues in absolute dollars in the three and nine months ended January 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 for the three months ended January 31, 2001 were $1.5 million, representing an increase of $506,000, or 50%, from the cost of professional services revenues of $1.0 million for the three months ended January 31, 2000. Cost of professional services revenues for the nine months ended January 31, 2001 were $4.7 million, representing an increase of $2.0 million, or 72%, from the cost of professional services revenues of $2.7 million for the nine months ended January 31, 2000. Cost of professional services revenues as a percentage of professional services revenues was 67% and 72% for the three and nine months ended January 31, 2001, respectively, and 80% for both the three and nine months ended January 31, 2000. The increase in cost of professional services revenues in absolute dollars from the prior periods was due to increased professional services personnel necessary to support our increased customer base. In certain periods in the past, and potentially in the future, our cost of professional services revenues exceeded 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 for the three months ended January 31, 2001 was $1.5 million, representing an increase of $942,000, or

156%, from the cost of maintenance revenues of $603,000 for the three months ended January 31, 2000. Cost of maintenance revenues for the nine months ended January 31, 2001 was $3.5 million, representing an increase of $2.0 million, or 129%, from the cost of maintenance revenues of $1.5 million for the nine months ended January 31, 2000. Cost of maintenance revenues as a percentage of maintenance revenues was 42% and 40% for the three and nine months ended January 31, 2001, respectively, and 41% and 40% for the three and nine months ended January 31, 2000, respectively. The increase in cost of maintenance revenues as a percentage of revenue for the three months ended January 31, 2001 over the prior year period was due to increased personnel-related expenses necessary to support our increased installed base of customers.

Operating Expenses

Sales and Marketing. Sales and marketing expenses for the three months ended January 31, 2001 were $16.6 million, representing an increase of $9.4 million, or 129%, from the sales and marketing expenses of $7.2 million for the three months ended January 31, 2000. Sales and marketing expenses were $44.9 million for the nine months ended January 31, 2001, representing an increase of 160%, or $27.7 million, from the sales and marketing expenses of $17.3 million for the nine months ended January 31, 2000. The increase in sales and marketing expenses for the three and nine months ended January 31, 2001, compared to the corresponding periods in the prior fiscal year, reflect significant increased personnel-related expenses such as salaries, benefits and commissions, 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 increase in absolute dollars for the foreseeable future as we continue to expand our domestic and international sales force.

Research and Development. Research and development expenses for the three months ended January 31, 2001 were $7.2 million, representing an increase of $4.4 million, or 154%, from the research and development expenses of $2.8 million for the three months ended January 31, 2000. Research and development expenses were $17.6 million for the nine months ended January 31, 2001, representing an increase of 192%, or $11.6 million, from the research and development expenses of $6.0 million for the nine months ended January 31, 2000. The increase in research and development expenses for the three and nine month period ended January 31, 2001, compared to the corresponding periods 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 for the foreseeable future as we continue to add to our research and development staff.

General and Administrative. General and administrative expenses for the three months ended January 31, 2001 were $1.6 million, representing an increase of $777,000, or 90%, from the general and administrative expenses of $864,000 for the three months ended January 31, 2000. General and administrative expenses were $4.5 million for the nine months ended January 31, 2001, representing an increase of 89%, or $2.1 million, from the general and administrative expenses

of $2.4 million for the nine months ended January 31, 2000. The increase in general and administrative expenses in absolute dollars for the three and nine months ended January 31, 2001, compared to the corresponding periods 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 increase in absolute dollars for the foreseeable future as we expand our operations and incur the normal costs of a public company.

Amortization of Stock Compensation. We recognized amortization of stock compensation of approximately $3.7 million and $12.3 million for the three and nine months ended January 31, 2001, compared to $4.0 million and $7.6 million for the three and nine months ended January 31, 2000.

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

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are being amortized over a period of 3 years. Amortization of goodwill and intangibles was $9.0 million and $27.1 million in the three and nine month ended January 31, 2001, compared to $6.0 million for both the three and nine months ended January 31, 2000.

Purchased In-process Technology. In connection with our acquisition of Digital Market, Inc., $1.3 million of the purchase price was allocated to in-process technology, which was expensed in full upon completion of the acquisition in November 1999.

Interest income (expense) was $4.8 million and $14.6 million for the three and nine months ended January 31, 2001 compared to $2.7 million and $3.1 million for the three and nine months ended January 31, 2000. This increase was due primarily to higher interest income generated from higher balances in cash and cash equivalents and marketable investments as a result of our follow-on public offering in December 1999.

Provision for Income Taxes. Our operating losses are generated domestically, and amounts attributable to our foreign operations have been insignificant for all periods presented. No provision for income taxes has been recorded since our inception because we have incurred net losses in all periods. We have recorded a valuation allowance for the full amount of our net deferred tax assets, as the future realization of the tax benefit is not currently likely.

Liquidity and Capital Resources

We have historically satisfied our cash requirements primarily through issuances of equity securities and lease and debt financing. In August 1999, we completed our initial public offering and concurrent private placement of our common stock, which resulted in net proceeds to the Company of approximately $80.4 million, before offering expenses. We used $22.4 million of the proceeds from our initial public offering to pay the cash portion of the consideration payable by us in our acquisition of Digital Market. In December 1999, we completed a follow-on public offering, which resulted in net proceeds to the Company, before offering expenses, of $272.6 million. Prior to the offerings we had financed our operations through private sales of preferred stock, with net proceeds of $26.2 million, and through bank loans and equipment leases.

We had a $5.0 million senior line of credit facility with a bank, borrowings thereunder bearing interest at 8.5%, which expired on August 31, 2000 and was

not renewed by the Company. At January 31, 2001, no balance was outstanding under this line of credit. Accounts receivable and certain other assets secure this line of credit. Capital lease obligations, including both short-term and long-term portions, were $661,000 at January 31, 2001, and are payable through fiscal 2003.

As of January 31, 2001, we had cash, cash equivalents and short-term investments of $306.9 million, an increase of $7.1 million from the cash, cash equivalents and short-term investments held as of April 30, 2000. Our working capital at January 31, 2001 was $299.7 million.

Operating activities provided cash of $2.2 million for the nine months ended January 31, 2001 and used $6.6 million for the nine months ended January 31, 2000. Net cash provided by operating activities in the nine months ended January 31, 2001 was due primarily to increases in deferred revenue, accounts payable and accrued expenses, partially offset by increases in accounts receivable and other assets. In addition, net losses offset by non-cash charges provided approximately $1.6 million for the nine months ended January 31, 2001. Net cash used in operating activities in the nine months ended January 31, 2000 was due primarily to our net loss, an increase in accounts receivable and other assets and a decrease in accrued expenses, partially offset by increases in deferred revenue and accounts payable.

Investing activities used cash of $15.6 million for the nine months ended January 31, 2000. Net cash used in investing activities in the nine months ended January 31, 2001 consisted of purchases of privately-held equity investments and purchases of property and equipment, and net purchases of marketable investments. Net cash used in investing activities in the nine months ended January 31, 2000 consisted of net purchases of marketable securities, cash paid as the cash portion of the purchase

price of Digital Market and purchases of property and equipment. Purchases of property and equipment were approximately $9.8 million in the nine months ended January 31, 2001 and $3.1 million in the nine months ended January 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 $7.5 million in the nine months ended January 31, 2001 and provided cash of $348.6 million in the nine months ended January 31, 2000. Net cash was provided in the nine months ended January 31, 2001 from the sale of common stock under employee stock option plans. Net cash was provided in the nine months ended January 31, 2000 from our initial public offering and follow-on public offering in fiscal 2000.

We expect to experience significant 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 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. The Company is currently evaluating the impact SFAS 133 will have on its financial position and results of operations.

In December 1999, Staff Accounting Bulletin No. 101, or SAB 101, was issued to summarize the Securities and Exchange Commission's (SEC) views in applying generally accepted accounting principles to revenue recognition in financial statements. On October 31, 2000, the SEC issued SAB 101, Revenue Recognition in Financial Statement--Frequently Asked Questions (FAQ). SAB 101 becomes effective in the Company's quarter ended April 30, 2001. The Company does not expect the adoption of SAB 101 to have a material effect on its financial position and results of operations.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB 25," which clarifies the application of Opinion 25 for (a) the definition of an employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000 but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material effect on our financial position and results of operations.

Other Factors Affecting Operating Results

Risks Related to Our Operations

Our Recently announced merger with Ariba may subject our Stock Price to downward adjustments as a result of adverse developments in Ariba's Business

The Company announced on January 29, 2001 that it had entered into a merger agreement with Ariba Inc., pursuant to which the Company's stockholders will receive 1.35 shares of Ariba common stock for each outstanding share of the Company's common stock. Since the Company may terminate the agreement only in very limited circumstances and the exchange ratio is not subject to adjustment, the Company's stock price will be affected by changes in the Ariba stock price. Accordingly, the Company's stockholders are subject to the risk of downward adjustments in the Company's stock price as a result of adverse developments in Ariba's business. Moreover, if for any reason the Company is unable to complete the merger with Ariba, the price of the Company's stock may be adversely

affected.

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

We are still in the early stages of our 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:

- until our acquisition of Digital Market, we have had only one product suite, and will need to successfully introduce new products such as Agile Buyer, released as a result of our acquisition of Digital Market, and enhance existing products to this suite;
- we need to successfully market the Agile Buyer product which has only been sold to a limited number of customers;
- 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.

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

As of January 31, 2001, we had an accumulated deficit of approximately $103.3 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.

Our Quarterly Operating Results Fluctuate and Are Difficult to Predict and, if

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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:

- our success with the Agile Buyer product;
- 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, customers may defer or reconsider purchasing products if they experience a downturn in their business or if there is a downturn in the general economy. We will continue to determine our investment and expense levels based on expected future revenues. Significant portions of our expenses are not variable in the short term, and we cannot reduce them quickly to respond to decreases in revenues. Therefore, if revenues are below expectations, this shortfall is likely to adversely and disproportionately affect our operating results.

License revenues in any quarter can be difficult to forecast because they depend on orders shipped or installed in that quarter. A high percentage of our operating expenses are essentially fixed in the short term and we may be unable to adjust spending to compensate for an unexpected shortfall in our revenues. In addition, we expect our operating expenses to increase as we expand our engineering and sales and marketing operations, broaden our customer support capabilities, develop new distribution channels and strategic alliances, fund increased levels of research and development and build our operational infrastructure. As a result, if we experience delays in recognizing revenue, or if our revenues do not grow faster than the increase in these expenses, we could experience significant variations in operating results from quarter to quarter.

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 expense associated with these options may fluctuate significantly from quarter to quarter through fiscal 2005 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.

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

Our future financial performance will depend on customer acceptance of Agile Anywhere and Agile Buyer 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.

Our Acquisition of Digital Market, and any Future Acquisitions, May Be Difficult to Integrate, Disrupt Our Business, Dilute Stockholder Value or Divert Management Attention

We acquired Digital Market in November 1999. We may encounter risks to our business during our integration of acquisitions such as Digital Market, including:

- difficulties in assimilation of acquired personnel, operations, technologies or products;
- unanticipated costs associated with the 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, 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. These future acquisitions could pose risks to our business posed at the time by our acquisition of Digital Market. In addition, with future acquisitions, we could use substantial portions of our available cash, including the proceeds of this offering, as all or a portion of the purchase price. We could also issue additional securities as consideration for these acquisitions, which could cause our stockholders to suffer significant dilution. Any future acquisitions may not generate any additional revenue or provide any benefit to our business.

We May Not Achieve Anticipated Additional Revenues or Benefits or Broaden our Product Offerings As a Result of Our Acquisition of Digital Market

With the acquisition of Digital Market, we extended the functionality of Agile Anywhere with Digital Market's direct materials sourcing, quoting and ordering

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applications to introduce the Agile Buyer solution. If we are unable to successfully market our products with the Agile Buyer product, or create new or enhanced products combining the functionality provided by both, or otherwise broaden our product offerings, we may not achieve enhanced sales or other anticipated benefits from our acquisition of Digital Market. This is particularly difficult because Digital Market has had limited product sales as of and subsequent to the date of acquisition. If we fail to achieve further anticipated benefits from the acquisition, we may incur increased expenses, experience a shortfall in our anticipated revenues and may not obtain a satisfactory return on our investment.

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 and cause 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 later 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 the need 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 Andersen Consulting and Siemens. 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 revenue recognition 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 Concurrent Users

Our strategy requires that our software be highly scalable, or able to accommodate substantial increases in the number of users concurrently using the product. To date, however, only a limited number of our customers have deployed our software to manage the manufacturing process across their entire organization. While we have performed product testing on the scalability of our products, these products have not been tested in the context of a customer

implementation. 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. There is a shortage of the sales personnel we need, and competition for qualified personnel is 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. 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. 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, 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, 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. In addition, there is currently a very low unemployment rate, particularly for technical personnel, in the Silicon Valley where we are located, increasing our difficulty in hiring and retaining personnel. 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 new, highly fragmented, rapidly changing and increasingly competitive. We expect competition to intensify, which could result in price reductions for our products, reduced gross

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 a product

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 product 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.

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;
- 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; or
- 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 Data 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.

Defects in Our Software Products Could Diminish Demand For Our Products

Our software products are complex and may contain errors, including year 2000 related 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 assure you 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 250 employees at January 31, 2000 to 436 employees at January 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 will

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continue 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 at all.

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

We will 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 will 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 customer's

service level requirements. 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.

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

The employer payroll taxes are assessed on each employee's gain, 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 would be 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 will be recorded in a future period or the impact on our future financial results.

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.

Risks Related to Control

Our Executive Officers, Directors and Major Stockholders Will Retain Significant Control, Which May Lead to Conflicts With Other Stockholders Over Corporate Governance Matters

Currently executive officers, directors and holders of 5% or more of our outstanding common stock own, in the aggregate, approximately 36.2% of our outstanding common stock. These stockholders would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of significant corporate transactions. This concentration of ownership may also delay, deter or prevent a change in our control and may make some transactions more difficult or impossible to complete without the support of these stockholders.

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.

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 by year of maturity of the Company's investment portfolio.

(in thousands, except interest rates)	Year Ended 31-Jan-01	Thereafter	Total
Cash equivalents	$ 98,451	-	$ 98,451
Average interest rate	5.93%	-	5.93%
Investments	$ 170,101	-	$ 170,101
Average interest rate	6.44%	-	6.44%
Total investment securities	$ 268,571	-	$ 268,571

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 January 31, 2001, we had $13.3 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. To date, no such impairment has been recorded.

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

In August 2000, we issued a warrant to purchase 50,000 shares of our common stock in connection with the establishment of an alliance with an outside party. The warrant to purchase our common stock became exercisable immediately. The warrant expires upon the termination of the agreement. The offer and sale of the warrants to purchase Common Stock was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. The Company relied on the following criteria to make such exemption available: the number of offerees, the size and manner of the offering, the sophistication of the offerees and the availability of material information.

In September 2000, we issued an aggregate of 82,222 shares of our common stock upon the exercise of an outstanding warrant to purchase our Common Stock on a net issuance basis, at an exercise price of $74.92 per share. The offer and sale of the warrant to purchase Common Stock and the Common Stock issuable upon exercise thereof, was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. The Company relied on the following criteria to make such exemption available: the number of offerees, the size and manner of the offering, the sophistication of the offerees and the availability of material information.

During the quarter we issued an aggregate of 228,000 shares of our common stock upon the exercise of outstanding options to purchase our common stock. A portion of those shares was issued pursuant to an exemption by reason of Rule 701 under the securities act of 1933.

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.

Not applicable.

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

(a) Exhibits.

10.20 Agreement and Plan of Reorganization among Ariba, Inc., Silver Merger Corporation and Agile Software Corporation dated January 29, 2001, (which is incorporated herein by reference to Appendix A of Ariba, Inc.'s Form S-4 as filed with the Securities and Exchange Commission on February 9, 2001 Registration No. 333-55332).

(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: March 12, 2001

/s/ Thomas P. Shanahan

By: Thomas P. Shanahan
Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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