

LOGILITY INC
Form 10-Q
December 10, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2004

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 0-23057

LOGILITY, INC.

(Exact name of registrant as specified in its charter)

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Georgia
(State or other jurisdiction of
incorporation or organization)

58-2281338
(IRS Employer
Identification Number)

470 East Paces Ferry Road, N.E., Atlanta, Georgia
(Address of principal executive offices)

30305
(Zip Code)

(404) 261-9777

(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 No

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

Indicate the number of shares outstanding of the issuer's common stock, as of the latest practicable date.

| <u>Class</u> | <u>Outstanding at December 8, 2004</u> |
|----------------------------|--|
| Common Stock, no par value | 12,961,304 Shares |

Table of Contents

LOGILITY, INC. AND SUBSIDIARIES

Form 10-Q

Quarter Ended October 31, 2004

Index

| | <u>Page Number</u> |
|---|------------------------|
| <u>Part I Financial Information</u> | |
| Item 1. <u>Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>October 31, 2004 and April 30, 2004</u> | 3 |
| <u>Condensed Consolidated Statements of Operations (Unaudited)</u> <u>Three and Six Months Ended October 31, 2004 and October 31, 2003</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> <u>Six Months Ended October 31, 2004 and October 31, 2003</u> | 5 |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 6 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 23 |
| Item 4. <u>Controls and Procedures</u> | 24 |
| <u>Part II Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 24 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 24 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 25 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 25 |
| Item 5. <u>Other Information</u> | 25 |
| Item 6. <u>Exhibits</u> | 26 |

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

LOGILITY, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share data)

| | October 31, | April 30, |
|--|--------------------|-------------------|
| | 2004 | 2004 |
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 633 | \$ 10,467 |
| Investments - current | 19,863 | 20,364 |
| Trade accounts receivable, less allowance for doubtful accounts of \$307 at October 31, 2004 and \$180 at April 30, 2004: | | |
| Billed | 4,096 | 3,166 |
| Unbilled | 505 | 813 |
| Prepaid expenses and other current assets | 1,877 | 466 |
| | <u> </u> | <u> </u> |
| Total current assets | 26,974 | 35,276 |
| Investments - noncurrent | 500 | |
| Property and equipment, net | 260 | 230 |
| Capitalized computer software development costs, less accumulated amortization | 6,263 | 6,406 |
| Goodwill | 6,241 | |
| Other intangibles, net | 2,363 | |
| Other assets, net | 414 | 456 |
| | <u> </u> | <u> </u> |
| | \$ 43,015 | \$ 42,368 |
| | <u> </u> | <u> </u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 470 | \$ 131 |
| Accrued compensation and related costs | 688 | 1,106 |
| Other current liabilities | 2,057 | 530 |
| Deferred revenue | 5,695 | 5,869 |
| Due to American Software, Inc. | 2,722 | 2,458 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 11,632 | 10,094 |
| | <u> </u> | <u> </u> |
| Shareholders' equity: | | |
| Preferred stock: 2,000,000 shares authorized; no shares issued | | |
| Common stock, no par value; 20,000,000 shares authorized; 13,970,219 and 13,960,219 shares issued at October 31, 2004 and April 30, 2004, respectively | | |

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| | | |
|---|-------------------|-------------------|
| Additional paid-in capital | 44,956 | 44,927 |
| Accumulated deficit | (7,533) | (7,382) |
| Treasury stock, at cost 1,008,915 and 848,265 shares at October 31, 2004 and April 30, 2004, respectively | (6,040) | (5,271) |
| | <u> </u> | <u> </u> |
| Total shareholders' equity | 31,383 | 32,274 |
| | <u> </u> | <u> </u> |
| | \$ 43,015 | \$ 42,368 |
| | <u> </u> | <u> </u> |

See accompanying notes to condensed consolidated financial statements - unaudited.

Table of Contents**Item 1. Financial Statements (continued)**

LOGILITY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | October 31, | | October 31, | |
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| License fees | \$ 656 | \$ 1,174 | \$ 2,070 | \$ 2,285 |
| Services and other | 1,148 | 1,281 | 2,408 | 2,735 |
| Maintenance | 3,027 | 2,712 | 5,784 | 5,509 |
| Total revenues | 4,831 | 5,167 | 10,262 | 10,529 |
| Cost of revenues: | | | | |
| License fees | 840 | 1,013 | 1,700 | 1,969 |
| Services and other | 588 | 667 | 1,250 | 1,367 |
| Maintenance | 632 | 459 | 1,072 | 902 |
| Total cost of revenues | 2,060 | 2,139 | 4,022 | 4,238 |
| Gross Margin | 2,771 | 3,028 | 6,240 | 6,291 |
| Operating expenses: | | | | |
| Research and development costs | 1,404 | 1,395 | 2,735 | 2,760 |
| Less: Capitalized computer software research and development costs | (711) | (849) | (1,381) | (1,651) |
| Sales and marketing | 1,779 | 1,599 | 3,636 | 3,220 |
| General and administrative | 805 | 726 | 1,490 | 1,481 |
| Acquisition related amortization of intangibles | 38 | | 38 | |
| Total operating expenses | 3,315 | 2,871 | 6,518 | 5,810 |
| Operating income (loss) | (544) | 157 | (278) | 481 |
| Investment impairment | (100) | | (100) | |
| Other income, net | 116 | 64 | 227 | 110 |
| Earnings (loss) before income taxes | (528) | 221 | (151) | 591 |
| Income taxes | | | | |
| Net earnings (loss) | \$ (528) | \$ 221 | \$ (151) | \$ 591 |

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| | | | | |
|---|-----------|---------|-----------|---------|
| Net earnings (loss) per common share: | | | | |
| Basic: | \$ (0.04) | \$ 0.02 | \$ (0.01) | \$ 0.05 |
| Diluted: | \$ (0.04) | \$ 0.02 | \$ (0.01) | \$ 0.04 |
| Shares used in the calculation of net earnings (loss) per common share:* | | | | |
| Basic | 13,013 | 13,105 | 13,052 | 13,119 |
| Diluted | 13,013 | 13,317 | 13,052 | 13,322 |

* Diluted weighted average common shares outstanding does not include dilutive stock options in the three and six months ended October 31, 2004 calculations due to the anti-dilution of the net loss.

See accompanying notes to condensed consolidated financial statements - unaudited.

Table of Contents**Item 1. Financial Statements (continued)**

LOGILITY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

| | Six Months Ended October 31, | |
|--|---|------------------|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ (151) | \$ 591 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Investment impairment | 100 | |
| Depreciation and amortization | 1,658 | 2,090 |
| (Increase) decrease in assets, net of effects of acquisition: | | |
| Accounts receivable | 1,374 | 2,657 |
| Prepaid expenses and other assets | (263) | (40) |
| Increase (decrease) in liabilities, net of effects of acquisition: | | |
| Due to American Software, Inc. | 264 | 116 |
| Accounts payable, accrued costs and other current liabilities | (581) | (1,426) |
| Deferred revenues | (1,324) | (1,318) |
| Net cash provided by operating activities | 1,077 | 2,670 |
| Cash flows from investing activities: | | |
| Additions to capitalized computer software development costs | (1,381) | (1,651) |
| Proceeds from maturities of investments | 44,511 | 51,577 |
| Purchases of investments | (44,510) | (50,204) |
| Purchases of furniture and equipment | (100) | (47) |
| Purchase of Demand Management, Inc., net of cash acquired | (8,691) | |
| Net cash used in investing activities | (10,171) | (325) |
| Cash flows from financing activities: | | |
| Repurchases of common stock | (769) | (317) |
| Proceeds from exercise of stock options | 29 | 80 |
| Net cash used in financing activities | (740) | (237) |
| Net change in cash and cash equivalents | (9,834) | 2,108 |
| Cash and cash equivalents at beginning of period | 10,467 | 8,573 |
| Cash and cash equivalents at end of period | \$ 633 | \$ 10,681 |

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See accompanying notes to condensed consolidated financial statements - unaudited.

Table of Contents

LOGILITY, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited

October 31, 2004

A. Basis of Presentation

The accompanying condensed financial statements are unaudited. Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), we have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. You should review these consolidated financial statements in conjunction with the financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004, as filed with the SEC. The financial information we present in the condensed consolidated financial statements reflects all normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of the period indicated. This information is not necessarily indicative of the results for the full year or for any other future period.

We are an approximately 87% owned subsidiary of American Software, Inc., a publicly held provider of enterprise resource planning and supply chain management software solutions (NASDAQ AMSWA).

B. Industry Segments

We have adopted Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures About Segments of an Enterprise and Related Information*. We operate and manage our business in one segment, collaborative supply chain management, which provides business-to-business collaborative commerce solutions to optimize supply chain operations for manufacturers, distributors and retailers.

C. Comprehensive Income

We have adopted SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. We have not included consolidated statements of comprehensive income in the accompanying condensed consolidated financial statements since comprehensive income and net earnings presented in the accompanying condensed consolidated statements of operations would be substantially the same.

D. Revenue Recognition

We recognize revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*.

License. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided that we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific objective evidence (VSOE) exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, we recognize revenue under the residual method as permitted by SOP 98-9, whereby (1) we defer the total fair value of the undelivered elements, as indicated by VSOE, and subsequently recognize the value of these elements in accordance with SOP 97-2 and (2) we recognize the difference between the total arrangement fee and the deferred amount as revenue related to the delivered elements.

Table of Contents

LOGILITY, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (Continued)

October 31, 2004

Services and Other. Revenue derived from services and other primarily includes revenues from consulting, implementation, and training. We bill under both time and materials and fixed fee arrangements and recognize revenues as we perform the services. We classify the reimbursements that we receive for travel and other out-of-pocket expenses incurred in connection with consulting, implementation, and training services as revenue in our consolidated statements of operations.

Maintenance. Revenue derived from maintenance contracts primarily includes telephone consulting, product updates, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. Typically, we enter into maintenance contracts for a separate fee, with initial contractual periods ranging from one to three years, and with renewal provisions for additional periods thereafter.

We generally bill maintenance fees annually in advance. We recognize maintenance revenue ratably over the term of the maintenance agreement. In situations where we bundle all or a portion of the maintenance fee with the license fee, we determine VSOE for maintenance based on prices that apply when we sell maintenance separately.

Indirect Channel Revenue. We recognize a sale that we make through indirect channels when the distributor makes the sale to an end-user, or upon delivery to the reseller, when the license fee is fixed and determinable, the license fee is nonrefundable, and all other conditions of SOP 97-2 and SOP 98-9 are met.

Deferred Revenue. Deferred revenue represents advance payments or billings for software licenses, services, and maintenance billed in advance of the time revenue is recognized.

E. Major Customer

No single customer accounted for more than 10% of our total revenues in the quarters and six months ended October 31, 2004 and October 31, 2003.

F. Net Earnings Per Common Share

Basic net earnings per common share available to common shareholders is based on the weighted-average number of common shares outstanding. For periods in which we have net earnings, we base diluted net earnings per common share available to common shareholders on the weighted-average number of common shares outstanding and dilutive potential common shares, such as dilutive stock options.

Table of Contents

LOGILITY, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (Continued)

October 31, 2004

The numerator in calculating both basic and diluted net earnings per common share for each period is the same as net earnings. The denominator is based on the following number of common shares:

| | Three Months ended October 31, | | Six Months ended October 31, | |
|--|-----------------------------------|---------------|---------------------------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | (in thousands) | | (in thousands) | |
| Common Shares: | | | | |
| Weighted average common shares outstanding | 13,013 | 13,105 | 13,052 | 13,119 |
| Dilutive effect of outstanding stock options | | 212 | | 203 |
| Total | 13,013 | 13,317 | 13,052 | 13,322 |
| Net earnings (loss): | \$ (528) | \$ 221 | \$ (151) | \$ 591 |
| Net earnings (loss) per common share: | | | | |
| Basic | \$ (0.04) | \$ 0.02 | \$ (0.01) | \$ 0.05 |
| Diluted | \$ (0.04) | \$ 0.02 | \$ (0.01) | \$ 0.04 |

Because of the antidilutive effect of the net loss, all outstanding stock options were excluded from the calculation of diluted earnings per share for the three and six months ended October 31, 2004. For the three months ended October 31, 2004, options to purchase 727,159 shares of common stock, and for the six months ended October 31, 2004, options to purchase 650,991 shares of common stock would have been taken into account in calculating diluted earnings per share were it not for the antidilutive effect of the net loss.

For the three months ended October 31, 2003, we excluded from the computation of diluted earnings per share options to purchase 130,099 shares of common stock, and for the six months ended October 31, 2003, we excluded from that computation options to purchase 131,294 shares of common stock. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the common stock during the applicable period.

As of October 31, 2004, we had a total of 874,849 options outstanding and as of October 31, 2003, we had a total of 746,109 options outstanding.

G. Acquisition of Demand Management, Inc.

On September 30, 2004, we acquired certain assets and the distribution channel of privately-held Demand Management, Inc. (DMI), a St. Louis-based provider of supply chain planning systems marketed under the Demand Solutions® brand, for \$9.5 million in cash, less working capital and cash on hand, for a net cash consideration of \$8.7 million. Under the terms of the agreement, the business and assets of Demand Management were acquired by a wholly-owned subsidiary of Logility. The results of operations from DMI have been included in the accompanying condensed consolidated financial statements effective October 1, 2004.

In accordance with SFAS No. 141, Business Combinations, the acquisition has been accounted for under the purchase method of accounting. The fair values of the assets acquired and liabilities assumed represent management's estimate of current fair values. We allocated the total purchase price to the net tangible assets and

Table of Contents**LOGILITY, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****October 31, 2004**

intangible assets acquired based on our estimates of fair value at the date of acquisition. The allocation of the total purchase price to the acquired technology and other intangible assets, including tradenames and maintenance contracts, was based on management's best estimate. The estimating process included a consultation and review with a third party appraiser. We allocated \$6.2 million of the total purchase price to goodwill, which is deductible for income tax purposes.

The preliminary calculation of the total purchase price was as follows (in thousands):

| | |
|----------------------------------|----------|
| Tangible Net Book Value | \$ 900 |
| Business Restructuring | (425) |
| Acquisition Expenses | (425) |
| Intangible Asset to be Amortized | 2,400 |
| Goodwill | 6,241 |
| | <hr/> |
| Net Cash Outlay | 8,691 |
| Working Capital Adjustment | 590 |
| Closing Cash | 219 |
| | <hr/> |
| Total Purchase Price | \$ 9,500 |
| | <hr/> |

The following preliminary allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of September 30, 2004 (in thousands):

| | |
|--|----------|
| Accounts receivable | \$ 1,997 |
| Deferred sales commissions | 780 |
| Prepaid expenses and other current assets | 209 |
| Property and equipment | 26 |
| Other non-current assets | 217 |
| Intangible assets ¹ | 2,400 |
| Goodwill | 6,241 |
| Accounts payable | (1,039) |
| Accrued expenses and other current liabilities | (990) |
| Deferred revenue | (1,150) |
| | <hr/> |
| Total Cash Outlay | 8,691 |
| Cash and cash equivalents | 219 |
| Working capital adjustment | 590 |
| | <hr/> |
| Total Purchase Price | \$ 9,500 |
| | <hr/> |

¹ Includes \$1 million for distribution channels, \$800,000 for customer relationships, and \$300,000 for trademarks, all of which are subject to straight-line amortization over a period of six years. Also includes \$300,000 for current technology, which is subject to straight-line amortization over a period of three years.

SFAS 141 requires that an acquiring enterprise allocate the cost of an entity acquired in a business combination to the individual assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The fair value of maintenance deferred revenues in a business combination generally is not readily available and, accordingly, in practice, the fair value of an assumed liability (which must arise from a legal performance

Table of Contents**LOGILITY, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****October 31, 2004**

obligation) related to deferred revenue is estimated based on the direct cost of fulfilling the obligation plus a normal profit margin thereon. Also, in practice, the normal profit margin is limited to the profit margin on the costs to provide the product or service (that is, the fulfillment effort).

Management believes that the purchase accounting related to the DMI acquisition will be finalized by the end of our current fiscal year.

Pro Forma Information

The following unaudited pro forma information presents our results of operations for the three and six months ended October 31, 2004 and October 31, 2003 as if the acquisition had taken place at the beginning of the periods presented (in thousands, except per share data):

| | Three Months Ended October 31, 2004 | Three Months Ended October 31, 2003 | Six Months Ended October 31, 2004 | Six Months Ended October 31, 2003 |
|--|--|--|--|--|
| Total revenues | \$ 7,148 | \$ 7,404 | \$ 14,925 | \$ 14,994 |
| Net earnings (loss) | (342) | 159 | 24 | 587 |
| Net earnings (loss) per common share (basic) | (0.03) | 0.01 | 0.00 | 0.04 |
| Net earnings (loss) per common share (diluted) | (0.03) | 0.01 | 0.00 | 0.04 |
| Weighted average number of common shares outstanding (basic) | 13,013 | 13,105 | 13,052 | 13,119 |
| Weighted average number of common shares outstanding (diluted) | 13,013 | 13,317 | 13,307 | 13,322 |

These pro forma results of operations include adjustments to the historical financial statements of the consolidated companies and have been prepared for comparative purposes only. Because Logility's fiscal year ends April 30, and DMI's ends December 31, timing differences exist in the three and six month periods reported; however, we believe these timing differences are not material, as DMI's operating results have historically been consistent quarter to quarter. For DMI, we use the three month period from July 1 - September 30, and the six month period from April 1-September 30. DMI's results for the month of October 2004 are excluded. These pro forma results exclude the post-acquisition fair value adjustment made to deferred revenue described above, and do not purport to be indicative of our actual results of operations had the acquisition occurred at the beginning of the periods presented or which may occur in the future.

H. Stock Compensation Plans

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As permitted under SFAS No. 148, *Accounting for Stock-Based Compensation Transaction and Disclosure*, which amended SFAS No. 123, *Accounting for Stock-Based Compensation*, we have elected to continue to follow the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for our fixed-plan stock options. Under this method, we record compensation expense on the date of grant generally if the current market price of the underlying stock exceeds the exercise price. No stock-based employee compensation cost is reflected in operations, as all options granted under those plans have an exercise price equal to or above the market value of the underlying common stock on the date of grant.

Table of Contents**LOGILITY, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****October 31, 2004**

The following table illustrates the pro forma effect on net earnings if we had applied the fair-value-based method in each period:

| | Three months ended | | Six months ended | |
|---|---------------------------------------|--------------|---------------------------------------|---------------|
| | October 31 | | October 31 | |
| | 2004 | 2003 | 2004 | 2003 |
| | (In thousands, except per share data) | | (In thousands, except per share data) | |
| Net earnings (loss) as reported | \$ (528) | \$ 221 | \$ (151) | \$ 591 |
| Less total stock-based compensation expense determined under fair value based method for all awards | (131) | (135) | (207) | (310) |
| Pro forma net earnings (loss) | <u>\$ (659)</u> | <u>\$ 86</u> | <u>\$ (358)</u> | <u>\$ 281</u> |
| Basic earnings (loss) per share: | | | | |
| As reported | \$ (0.04) | \$ 0.02 | \$ (0.01) | \$ 0.05 |
| Pro forma | \$ (0.05) | \$ 0.01 | \$ (0.03) | \$ 0.02 |
| Diluted earnings (loss) per share: | | | | |
| As reported | \$ (0.04) | \$ 0.02 | \$ (0.01) | \$ 0.04 |
| Pro forma | \$ (0.05) | \$ 0.01 | \$ (0.03) | \$ 0.02 |

I. Agreements with American Software, Inc. (ASI)

We have entered into certain contractual arrangements with ASI, as described below. Because ASI owns a majority of our shares, the terms of these agreements do not reflect arm's length negotiation. However, management believes that the rates negotiated in the agreements reflect fair market values.

Tax Sharing Agreement In 1997, we entered into a Tax Sharing Agreement with ASI (the "Tax Sharing Agreement"). Under this Agreement, we will determine with ASI the amount of taxes that we will pay, subject to certain adjustments, as if we were to file separate federal, state, and local income tax returns, rather than as a consolidated subsidiary of ASI. Pursuant to the Tax Sharing Agreement, we compute a separate, stand-alone income tax provision and settle balances due to or from ASI on this basis. The Tax Sharing Agreement allocated to ASI all benefits derived from deferred tax assets as defined in the Tax Sharing Agreement (which include net operating loss and tax credit carryforwards) that arose prior to our October 1997 initial public offering (\$5,768,000). Accordingly, we will not receive any benefit from the \$5,768,000 of contributed gross deferred tax assets. In addition, the Tax Sharing Agreement allocates to us certain deferred tax liabilities that arose prior to the initial public offering. To the extent the tax computation produces a tax benefit for us, ASI is required to pay such amounts to us only if and when ASI realizes a reduction in income taxes payable with respect to the current tax period. At April 30, 2004, ASI had net operating loss carryforwards of approximately \$12 million that ASI must utilize before we would receive payment for any currently generated tax benefits. Such net operating losses expire in varying amounts through 2022.

Table of Contents**LOGILITY, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****October 31, 2004**

Services Agreement We purchase or sell various services from or to ASI based upon various cost methodologies as described below:

| Service | Cost methodology | Three months ended | Three months ended | Six months ended | Six months ended |
|--|--|--------------------|--------------------|------------------|------------------|
| | | October 31, 2004 | October 31, 2003 | October 31, 2004 | October 31, 2003 |
| General corporate services, including accounting and insurance expense | Apportioned based on formula to all ASI subsidiaries | \$ 242,000 | \$ 239,000 | \$ 479,000 | \$ 516,000 |
| Professional services to our customers (services are available unless ASI determines it is not economic or otherwise feasible) | Cost plus billing with the percentage of costs and expenses to be negotiated | 21,000 | 26,000 | 48,000 | 34,000 |
| Employee benefits services | Apportioned based on formula to all ASI subsidiaries | 8,000 | 3,000 | 11,000 | 7,000 |

The Services Agreement had an initial term of three years and is renewed automatically thereafter for successive one-year terms unless either party elects not to renew. The Services Agreement has been renewed annually since the initial term. We will indemnify ASI against any damages that ASI may incur in connection with its performance of services under the Services Agreement (other than those arising from its gross negligence or willful misconduct), and ASI will indemnify us against any damages arising out of its gross negligence or willful misconduct in connection with ASI's rendering of services under the Services Agreement.

Facilities Agreement We lease various properties from ASI for specified square foot rates pursuant to a Facilities Agreement dated August 1, 1997, which the parties have renewed automatically annually since the initial two-year term. The stated term of the agreement is for two years with automatic one year extensions; however, either party may terminate the agreement upon 90 days' written notice. ASI also allocates utilities, telephone and security expenses under this agreement based on our percentage of occupancy. Our lease of space at any facility under the agreement is limited by the term of the underlying lease between ASI and a landlord with respect to any facility leased by ASI and is subject to the disposition by ASI of any facility that ASI owns. The parties valued the services related to this agreement at \$101,000 for the three months ended October 31, 2004, \$114,000 for the three months ended October 31, 2003, \$209,000 for the six months ended October 31, 2004, and \$230,000 for the six months ended October 31, 2003.

Marketing License Agreement Effective August 1, 2002, we entered into a Marketing License Agreement (the "Marketing License Agreement") with American Software, USA ("USA"), a wholly-owned subsidiary of ASI, in which USA agreed to act as a nonexclusive marketing representative for licensing of our products. The Marketing License Agreement provided that we pay USA 30% of net license fees collected by us for its services. The parties have had similar agreements in effect since 1997. The Marketing License Agreement expired July 31, 2003 and has not been renewed. No payments were made under this agreement to date in fiscal years 2005 and 2004.

Technology License Agreement We have granted ASI a nonexclusive, nontransferable, worldwide right and license to use, execute, reproduce, display, modify and prepare derivatives of our Supply Chain Planning and

Table of Contents

LOGILITY, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (Continued)

October 31, 2004

Execution Solutions, which we call the *Logility Voyager Solutions* product line (which ASI had transferred to us), so that ASI may maintain and support end-users of the software products and for no other purpose. The license is fully paid and royalty-free. Pursuant to this Agreement, the parties disclose to one another any enhancements and improvements that they may make or acquire in relation to a *Logility Voyager Solutions* product, subject to third-party confidentiality requirements. The term of this Agreement is indefinite, although we may terminate the Agreement for cause, and ASI may terminate it at any time upon 60 days' prior written notice to us. Upon termination of this Agreement, all rights to *Logility Voyager Solutions* products that we license to ASI revert to us, while all rights to enhancements and improvements ASI make to *Logility Voyager Solutions* products revert to ASI.

Stock Option Agreement We have granted ASI an option to purchase that number of shares of our common stock that would enable ASI to maintain the 80% ownership percentage required to consolidate Logility in ASI's consolidated Federal income tax return. The purchase price of the option is the average of the closing price on each of the five business days immediately preceding the date of payment.

J. Lease Commitments

We occupy our principal office facilities under a facilities agreement with ASI dated August 1, 1997, that is cancelable upon 90-day notice by either party (see note I). Amounts allocated to the Company for rent expense for these facilities were \$70,000 for the three months ended October 31, 2004, \$82,000 for the three months ended October 31, 2003, \$148,000 for the six months ended October 31, 2004, and \$164,000 for the six months ended October 31, 2003. The Facilities Agreement, summarized above, is the basis for the calculation of these amounts. In addition, we have various other operating and facilities leases. Expense under these operating and facilities leases was \$161,000 for the three months ended October 31, 2004, \$32,000 for the three months ended October 31, 2003, \$291,000 for the six months ended October 31, 2004, and \$59,000 for the six months ended October 31, 2003.

K. Investment Impairment

In the quarter ended October 31, 2004, we recorded a \$100,000 investment impairment charge related to a minority investment. The impairment charge adjusted the carrying value of the investment to its estimated fair market value due to an other than temporary impairment having occurred.

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

FORWARD-LOOKING STATEMENTS

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This report on Form 10-Q contains forward-looking statements relating to our future financial performance, business strategy, financing plans and other future events that involve uncertainties and risks. You can identify these statements by forward-looking words such as anticipate , intend , plan , continue , could , grow , may , potential , predict , strive , will , seek , estimate , believe , expect , and similar uncertainty of future events or outcomes. Any forward-looking statements we make herein are pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning future:

results of operations;

Table of Contents

liquidity, cash flow and capital expenditures;

demand for and pricing of our products and services;

acquisition activities and the effect of completed acquisitions;

industry conditions and market conditions; and

general economic conditions.

Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, competitive pressures, delays and other risks associated with new product development, the difficulty of predicting the effectiveness and duration of third-party marketing agreements, undetected software errors, and risks associated with market acceptance of our products and services. We discuss certain factors in greater detail in *Business Overview*, below. The terms *fiscal 2005* and *fiscal 2004* refer to our fiscal years ending April 30, 2005 and 2004, respectively.

BUSINESS OVERVIEW

We provide collaborative supply chain solutions to help streamline and optimize the management, production and distribution of products between manufacturers, suppliers, distributors, retailers, carriers and other organizations and their respective trading partners. The supply chain refers to the complex network of relationships that organizations maintain with trading partners (customers, suppliers and carriers) to source, manufacture, and deliver products and services to the customer and includes demand chain, supply chain, logistics, warehouse management and business-to-business process management for collaborative relationships between customers, suppliers and carriers. Our solutions help enterprises build competitive advantages and increase profitability by significantly reducing costs, increasing revenues, improving operational efficiencies and collaborating with suppliers and customers to more effectively respond to dynamic market conditions.

The DMI acquisition brings an additional set of solutions to our product offering suite, as well as an increased focus on the small and medium sized business markets. We expect the acquisition to be accretive to our net earnings and cash flow within 12 months, and to contribute approximately \$10 million in annual revenue, with 50% as a recurring component occurring through maintenance contracts.

Some of the assets that we acquired through this transaction include:

Distribution Channel. Demand Management has a worldwide value-added reseller (VAR) network of 23 organizations with 67 sales, implementation and support resources. This network will continue to sell Demand Solutions products, and we plan to introduce components of the Logility Voyager Solutions suite into appropriate areas of this proven distribution channel.

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Customer Base. Demand Management has approximately 800 active customers in over 70 countries in consumer goods, food and beverage, apparel, life sciences, service parts and retail industries. The VAR channel and our Demand Management subsidiary will continue to support these Demand Solutions customers.

Technology. The Demand Solution products are designed for small and medium sized businesses and include supply chain forecasting, demand planning, inventory planning and replenishment planning. The Demand Solution Stores product enables store-level forecast modeling and replenishment capabilities for retailers.

We derive revenues primarily from three sources: software licenses, services and other, and maintenance. We

Table of Contents

generally determine software license fees based on the number of modules, servers, users and/or sites licensed. Services and other revenues consist primarily of fees from software implementation, training, consulting and customization services. We bill under both time and materials and fixed fee arrangements and recognize revenues as we perform services. We typically enter into maintenance agreements for a one- to three-year term at the time of the initial product license. We generally bill maintenance fees annually in advance under agreements with terms of one to three years, and then recognize the resulting revenues ratably over the term of the maintenance agreement. Deferred revenues represent advance payments or billings for software licenses, services and maintenance billed in advance of the time we recognize the related revenues.

Our cost of revenue for licenses includes amortization of capitalized computer software development costs, salaries and benefits, and royalties paid to third-party software vendors. Costs for maintenance and services include the cost of personnel to conduct implementations and customer support, consulting, and other personnel-related expenses. We account for the development costs of software intended for sale in accordance with SFAS 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. We monitor the net realizable value of our capitalized software on a quarterly basis based on an estimate of future product revenues. We currently expect to fully recover the value of the capitalized software asset recorded on our balance sheet. However if future product revenues are less than management's current expectations, we may incur a write-down of capitalized software costs.

Our selling expenses generally include the salary and commissions paid to our sales professionals, along with marketing, promotional, travel and associated costs. Our general and administrative expenses generally include the salary and benefits paid to executive, corporate and support personnel, as well as office rent, utilities, communications expenses, and various professional fees. DMI sells its products primarily through indirect channels.

We currently view the following factors as the primary opportunities and risks associated with our business:

The opportunity to expand the depth and number of strategic relationships with leading enterprise software, systems integrators and service providers to integrate the *Logility Voyager Solutions* suite into their services and products and to create joint marketing opportunities; we currently have a number of marketing alliances, including those with IBM and SSA Global Technologies, and plan to use DMI's existing relationships to expand these efforts.

The opportunity for select acquisitions or investments to provide opportunities to expand our sales distribution channels and/or broaden our product offering by providing additional solutions for our target markets. We believe our recent acquisition of DMI will provide such an opportunity.

Our dependence on, and the risks associated with, the capital spending patterns of U.S. and international businesses, which in turn are functions of economic trends and conditions over which we have no control.

The risks associated with acquisitions of complementary companies, products and technologies, such as our recent acquisition of DMI, including the risks that we will not achieve the financial and strategic goals that we contemplate at the time of the transaction. More specifically, in any acquisition we will face risks and challenges associated with the uncertain value of the acquired business or assets, the difficulty of assimilating operations and personnel, integrating acquired technologies and products and maintaining the loyalty of the customers of the acquired business.

The risk that our competitors may develop technologies that are substantially equivalent or superior to our technology.

Table of Contents

The risks inherent in the market for business application software and related services, which has been and continues to be intensely competitive; for example, some of our competitors may become more aggressive with their prices and/or payment terms, which may adversely affect our profit margins.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004.

ECONOMIC OVERVIEW

Corporate capital spending trends and commitments are the primary determinants of the size of the market for business software. Corporate capital spending is, in turn, a function of general economic conditions in the U.S. and abroad. In recent years, the weakness in the overall world economy, and the U.S. economy in particular, has resulted in reduced expenditures in the business software market. As a result of these economic conditions, as well as increased competition in the business application area, we restructured our business in the first half of fiscal 2001 in order to become profitable. Our restructuring consisted of changes in sales management, a redirection of marketing efforts, and general reductions in expenditure levels across all functional areas.

We continue to believe that the overall world economy, the U.S. economy, and the economic environment for business software spending appear to be improving slightly. However, our results for the three and six months ended October 31, 2004 were materially and adversely affected by significant delays in the software purchasing process by several prospective customers. It is our belief that these prospective customers may, in future periods, commit to the purchase of our software licenses and services, although we can give no assurance that such commitments will occur.

Table of Contents**COMPARISON OF RESULTS OF OPERATIONS**

Three-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the three months ended October 31, 2004 and 2003:

| | Percentage of Total Revenues | | Pct. Change in Dollars |
|---|---------------------------------|------------|---------------------------|
| | 2004 | 2003 | 2004 vs 2003 |
| Revenues: | | | |
| License fees | 14% | 23% | (44)% |
| Services and other | 24 | 25 | (10) |
| Maintenance | 62 | 52 | 12 |
| Total revenues | 100 | 100 | (7) |
| Cost of revenues: | | | |
| License fees | 17 | 19 | (17) |
| Services and other | 13 | 13 | (12) |
| Maintenance | 13 | 9 | 38 |
| Total cost of revenues | 43 | 41 | (4) |
| Gross margin | 57 | 59 | (8) |
| Operating expenses: | | | |
| Research and development | 29 | 27 | 1 |
| Less: Capitalized computer software development costs | (15) | (16) | (16) |
| Sales and marketing | 37 | 31 | 11 |
| General and administrative | 17 | 14 | 16 |
| Total operating expenses | 68 | 56 | 12 |
| Operating income (loss) | (11) | 3 | nm |
| Other income, net | 0 | 1 | nm |
| Earnings (loss) before income taxes | (11) | 4 | nm |
| Income taxes | | | |
| Net earnings (loss) | (11)% | 4% | nm% |

nm not meaningful

Table of Contents

Six-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the six months ended October 31, 2004 and 2003:

| | Percentage of Total Revenues | | Pct. Change in Dollars |
|---|---------------------------------|------------|---------------------------|
| | 2004 | 2003 | 2004 vs 2003 |
| Revenues: | | | |
| License fees | 20% | 22% | (9)% |
| Services and other | 24 | 26 | (12) |
| Maintenance | 56 | 52 | 5 |
| Total revenues | 100 | 100 | (3) |
| Cost of revenues: | | | |
| License fees | 17 | 19 | (14) |
| Services and other | 12 | 13 | (9) |
| Maintenance | 10 | 8 | 19 |
| Total cost of revenues | 39 | 40 | (5) |
| Gross margin | 61 | 60 | (1) |
| Operating expenses: | | | |
| Research and development | 27 | 26 | (1) |
| Less: Capitalized computer software development costs | (13) | (16) | (16) |
| Sales and marketing | 35 | 31 | 13 |
| General and administrative | 15 | 14 | 3 |
| Total operating expenses | 64 | 55 | 12 |
| Operating income (loss) | (3) | 5 | nm |
| Other income, net | 1 | 1 | 15 |
| Earnings (loss) before income taxes | (2) | 6 | nm |
| Income taxes | | | |
| Net earnings (loss) | (2)% | 6% | nm |

nm not meaningful

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2004 AND 2003:

REVENUES:

For the quarter ended October 31, 2004, the decrease in total revenues when compared to the quarter ended October 31, 2003 was attributable primarily to a decrease in license fee revenues, and to a lesser extent a decrease in services and other revenues. For the six months ended October 31, 2004, the decrease in total revenues when compared to the six months ended October 31, 2003 was attributable primarily to a decrease in services and other revenues, and to a lesser extent a decrease in license fee revenues. For both the three and six-month periods, these decreases were partially offset by increases in maintenance revenues.

International revenues represented approximately 8% of total revenues in the quarter ended October 31, 2004,

Table of Contents

compared to approximately 7% in the same period a year ago, and represented approximately 9% of total revenues in the six months ended October 31, 2004, compared to approximately 8% in the same period a year ago. Our international revenues may fluctuate substantially from period to period primarily because we derive these revenues from a relatively small number of customers in a given period.

LICENSES. We believe the decrease in license fees in the quarter and six months ended October 31, 2004 was primarily the result of significant delays in the software purchasing process by several prospective customers. The direct sales channel provided approximately 75% of license fee revenues for the quarter ended October 31, 2004, compared to approximately 82% in the comparable quarter a year ago. This decrease was due primarily to greater indirect channel sales in the month of October 2004 resulting from the DMI acquisition. For the six months ended October 31, 2004, the direct sales channel provided approximately 85% of license fee revenues, compared to approximately 81% in the comparable period a year ago. For the quarter ended October 31, 2004, our margins after commissions on direct sales were approximately 91%, and our margins after commissions on indirect sales were approximately 62%. For the six months ended October 31, 2004, our margins after commissions on direct sales were approximately 90%, and our margins after commissions on indirect sales were approximately 56%. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

SERVICES AND OTHER. The decrease in services and other revenues for the quarter and six months ended October 31, 2004 was primarily the result of lower software implementation services related to decreased license fees in recent periods. We have observed that there is a tendency for services and other revenues to lag changes in license revenues by one to three quarters, as new licenses in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

MAINTENANCE. The increase in maintenance revenues for the quarter and six months ended October 31, 2004 was due primarily to increased maintenance revenues in October resulting from the acquisition of DMI. Typically, our maintenance revenues have had a direct relationship to current and historic license fee revenues, since new licenses are the potential source of new maintenance customers.

GROSS MARGIN:

The following table provides both dollar amounts and percentage measures of gross margin:

| (\$000 s omitted) | Three months ended | | | | Six months ended | | | |
|-------------------------------------|--------------------|------------|-----------------|------------|------------------|------------|-----------------|------------|
| | October 31, | | | | October 31, | | | |
| | 2004 | | 2003 | | 2004 | | 2003 | |
| Gross margin on license fees: | \$ (184) | -28% | \$ 161 | 14% | \$ 370 | 18% | \$ 316 | 14% |
| Gross margin on services and other: | \$ 560 | 49% | \$ 614 | 48% | \$ 1,158 | 48% | \$ 1,368 | 50% |
| Gross margin on maintenance: | \$ 2,395 | 79% | \$ 2,253 | 83% | \$ 4,712 | 81% | \$ 4,607 | 84% |
| Total gross margin: | \$ 2,771 | 57% | \$ 3,028 | 59% | \$ 6,240 | 61% | \$ 6,291 | 60% |

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For the quarter ended October 31, 2004, the decrease in total gross margin percentage was due primarily to a decrease in license fee gross margin percentage, and to a lesser extent a decrease in maintenance gross margin. These decreases were partially offset by an increase in gross margin percentage on services and other revenues. For the six months ended October 31, 2004, the increase in total gross margin percentage was due primarily to an increase in license fee gross margin percentage, partially offset by decreases in gross margin percentage on maintenance revenues and services and other revenues.

Table of Contents

LICENSES. The decrease in gross margin percentage on license fees for the quarter ended October 31, 2004 was due to lower license fee revenues. For the six months ended October 31, 2004, the increase in gross margin percentage on license fees was due primarily to decreased expense related to amortization of capitalized software development costs, partially offset by lower license fee revenues. License fee gross margin normally is directly related to the level of license fee revenues due to the relatively fixed amortization level of computer software development expense, which is the primary component of cost of license fees.

SERVICES AND OTHER. For the quarter and six months ended October 31, 2004, services and other gross margin percentage remained relatively stable, as we were able to adjust our cost of services to closely match the level of services and other revenues.

MAINTENANCE. For the quarter and six months ended October 31, 2004, maintenance gross margin percentage decreased despite an increase in maintenance revenues. This was due primarily to the fair value adjustments required for the purchase accounting treatment of post-acquisition DMI maintenance revenues.

EXPENSES:

RESEARCH AND DEVELOPMENT. Gross product research and development costs include all non-capitalized and capitalized software development costs. A breakdown of the research and development costs is as follows:

| | Three Months Ended (\$000 s omitted) | | |
|--|--------------------------------------|-------------------|---------------------|
| | October 31, 2004 | Percent Change | October 31, 2003 |
| Gross product research and development costs | \$ 1,404 | 1% | \$ 1,395 |
| Percentage of total revenues | 29% | | 27% |
| Less: Capitalized computer software research and development costs | \$ (711) | (16)% | \$ (849) |
| Percentage of gross product research and development costs | 51% | | 61% |
| Product research and development expenses | \$ 693 | 27% | \$ 546 |
| Percentage of total revenues | 14% | | 11% |

| | Six Months Ended (\$000 s omitted) | | |
|--|------------------------------------|-------------------|---------------------|
| | October 31, 2004 | Percent Change | October 31, 2003 |
| Gross product research and development costs | \$ 2,735 | (1)% | \$ 2,760 |
| Percentage of total revenues | 27% | | 26% |
| Less: Capitalized computer software research and development costs | \$ (1,381) | (16)% | \$ (1,651) |
| Percentage of gross product research and development costs | 50% | | 60% |
| Product research and development expenses | \$ 1,354 | 22% | \$ 1,109 |
| Percentage of total revenues | 13% | | 11% |

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For the quarter and six months ended October 31, 2004, capitalized software development costs decreased at a higher rate than gross product research and development costs, when compared to the prior year period. We typically capitalize higher levels of development costs towards the end of the development phase of a large project.

Table of Contents

In the quarter ended July 31, 2003, we ended the development phase of Logility Voyager Solutions 7.0, which caused an increase in capitalized development costs during that period. Because this development phase has ended, and because we are in the non-capitalizable research phase of our next product, we expect capitalized development costs to show a decreasing trend in coming quarters.

SALES AND MARKETING. For the quarter and six months ended October 31, 2004, the increase in sales and marketing expenses when compared to the same period a year ago was due primarily to increased marketing expenditures related to the DMI acquisition.

GENERAL AND ADMINISTRATIVE. For the quarter and six months ended October 31, 2004, the increase in general and administrative expenses was due to increases in employee headcount resulting from the DMI acquisition. For the three months ended October 31, 2004, the average number of total employees was approximately 144, compared to approximately 126 for the three months ended October 31, 2003.

OTHER INCOME:

Other income is comprised of earnings from the investment of our cash reserves. Our investments are primarily short-term in nature, and all mature within 18 months. Investments consist of money market funds, U.S. Government Securities, A1/P1 rated commercial paper, and minimum A- rated corporate bonds. For the six months ended October 31, 2004, these investments generated an annualized yield of approximately 1.8%, compared to approximately 1.2% for the six months ended October 31, 2003. This increase was due primarily to increased market rates of interest on investments.

In the quarter ended October 31, 2004, we recorded a \$100,000 investment impairment charge related to a minority investment.

INCOME TAXES:

We are included in the consolidated federal income tax return filed by American Software, Inc. However, we provide for income taxes as if we were filing a separate income tax return. For the quarters and six months ended October 31, 2004 and October 31, 2003, we did not record any income taxes, as a result of cumulative net operating losses in prior years.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Sources and Uses of Cash

We have historically funded, and continue to fund, our operations and capital expenditures primarily with cash generated from operating activities. The changes in net cash that operating activities provide generally reflect changes in our net earnings and non-cash operating items plus the effect of changes in our operating assets and liabilities, such as trade accounts receivable, trade accounts payable, accrued expenses and deferred revenue. We have no debt obligations or off-balance sheet financing arrangements, and therefore we use no cash for debt service

purposes.

The following tables show summary information about our cash flows and liquidity positions during the six months ended October 31, 2004 and October 31, 2003. You should read this table and the discussion that follows in conjunction with our condensed consolidated statements of cash flows contained in Item 1. Financial Statements in Part I of this report and in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004.

Table of Contents

| | Six Months Ended | |
|--|----------------------------|-----------------|
| | October 31 (000 s omitted) | |
| | 2004 | 2003 |
| Net cash provided by operating activities | \$ 1,077 | \$ 2,670 |
| Net cash used in investing activities | (10,171) | (325) |
| Net cash used in financing activities | (740) | (237) |
| Net change in cash and cash equivalents | \$ (9,834) | \$ 2,108 |

For the six months ended October 31, 2004 when compared to the prior year period, the decrease in cash provided by operating activities was due primarily to an increase in accounts receivable, and to a lesser extent a decrease in depreciation and amortization expense. These were partially offset by increases in accounts payable, accrued costs and other liabilities. The increase in accounts receivable was due primarily to increased outstanding maintenance billings which in turn resulted from license fees sold in prior periods. The increase in cash used in investing activities when compared to the prior year period was due primarily to cash paid for the DMI acquisition. Cash used in financing activities increased when compared to the prior year period, due primarily to increased repurchases of our common stock.

The following table shows net changes in total cash, cash equivalents, and investments, which is one measure management uses to view net total cash generated by our activities:

| | As of October 31 | |
|---|-------------------|------------------|
| | (000 s omitted) | |
| | 2004 | 2003 |
| Cash and cash equivalents | \$ 633 | \$ 10,681 |
| Short and Long-Term Investments | 20,363 | 17,067 |
| Total cash and short and long term investments | \$ 20,996 | \$ 27,748 |
| Net change in total cash and investments (six months ended October 31) | \$ (9,835) | \$ 735 |

The change in total cash generated for the six months ended October 31, 2004 when compared to cash used in the prior year period was due primarily to the cash used in the DMI acquisition.

Days Sales Outstanding in accounts receivable were 91 days as of October 31, 2004, compared to 59 days as of October 31, 2003. This increase was due primarily to accounts receivable acquired through the purchase of DMI. Our current ratio on October 31, 2004 was 2.3 to 1, compared to 3.5 to 1 on April 30, 2004. This decrease was due primarily to the decrease in cash and cash equivalents resulting from the DMI acquisition.

As a result of the positive cash flow from operations our business has generated in recent periods, and because we have \$21.0 million in cash and investments with no debt, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated

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requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, due to the uncertainty in the recent economic environment, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. Neither we nor American Software currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

In November 1998, our Board of Directors approved a resolution authorizing us to repurchase up to 800,000 shares

Table of Contents

of our common stock through open market purchases at prevailing market prices. In February 2003, our Board of Directors approved a resolution authorizing us to repurchase an additional 400,000 shares for a total current authorized repurchase amount of 1,200,000 shares. The timing of any repurchases would depend on market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. For these current repurchase plans, through December 7, 2004, we repurchased a cumulative total of 658,915 shares at a total cost of approximately \$2.7 million. In the second quarter of fiscal 2005, we purchased 123,700 shares of our common stock at an average price of \$4.87 per share. See Part II, Item 2 for a table summarizing stock repurchases in the last quarter, and the number of remaining shares available for purchase under existing repurchase programs.

RECENT ACCOUNTING PRONOUNCEMENTS

There have been no recent accounting pronouncements applicable to the Company beyond those we reported in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004, as filed with the SEC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that are both important to the portrayal of our financial condition and results of operations, and they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. In our Annual Report on Form 10-K for the fiscal year ended April 30, 2004, as filed with the SEC, we described the policies and estimates relating to revenue recognition, allowance for doubtful accounts, valuation of long-lived and intangible assets, and income taxes as our critical accounting policies. In the current fiscal year, as a result of the acquisition of DMI, we identify accounting for business combinations under SFAS 141 as a critical accounting policy. Refer to Note G of our condensed consolidated financial statements for a discussion of the application of this policy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. For the quarter ended October 31, 2004, we generated approximately 8% of our revenues outside the United States, and for the six months ended October 31, 2004, we generated approximately 9% of our revenues outside the United States. We usually make international sales directly through our foreign operations or through value added resellers. We typically denominate these sales in U.S. Dollars, British Pounds Sterling, or Euros. However, we denominate the expenses that we incur in our foreign operations in the local currency. The effect of foreign exchange rate fluctuations on us during the quarter and six months ended October 31, 2004 was not material. We have not engaged in any hedging activities.

Interest rates. We have no debt, so we limit the following discussion of interest rate risk to risks associated with our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio of held-to-maturity instruments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies, in accordance with our investment policy. These instruments are denominated in U.S. Dollars. The fair market value and carrying value of securities held at October 31, 2004 were both approximately \$20.7 million.

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We also hold cash balances in accounts with commercial banks in the United States and foreign countries. These

Table of Contents

cash balances represent operating balances only and are invested in short-term time deposits of a local bank. The operating cash balances we hold at banks outside the United States are minor and denominated in the local currency.

Many of our investments carry a degree of interest rate risk. When interest rates fall, our income from investments in variable-rate securities declines. When interest rates rise, the fair market value of our investments in fixed-rate securities declines. Should our liquidity needs force us to sell fixed-rate securities prior to maturity, we may experience a loss of principal. We attempt to limit our exposure to the risks associated with interest rate fluctuations by holding fixed-rate securities to maturity and by limiting our investments to those with relatively short maturities. Accordingly, we believe that fluctuations in interest rates will not have a material affect on our financial condition or results of operations.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's CEO and CFO have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have not been any changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently involved in legal proceedings requiring disclosure under this item.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table summarizes repurchases of our stock in the quarter ended October 31, 2004:

| Fiscal Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs* |
|--|---|-------------------------------------|---|--|
| August 1, 2004 through August 31, 2004 | 3,400 | \$ 4.46 | 3,400 | 661,385 |
| September 1, 2004 through September 30, 2004 | 120,300 | \$ 4.88 | 120,300 | 541,085 |
| October 1, 2004 through October 31, 2004 | 0 | \$ 0.00 | 0 | 541,085 |
| Total Fiscal 2005 Second Quarter | 123,700 | \$ 4.87 | 123,700 | 541,085 |

* The above share purchase authority was approved by our Board of Directors in November 1998 and in February 2003, when the Board approved resolutions authorizing us to repurchase an aggregate of up to 1.2 million shares of common stock. These actions were announced in November 1998 and on February 19, 2003, respectively. The authorizations have no expiration dates.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

- (a) The Company held its 2004 Annual Meeting of Shareholders on August 17, 2004.
- (b) The shareholders elected the following directors at the meeting: J. Michael Edenfield and John A. White.

The terms of the following directors continued after the meeting:

James C. Edenfield, Frederick E. Cooper and Parker H. Petit

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- (c) At the Company's 2004 Annual Meeting of Shareholders, the only Shareholder vote taken was with respect to the election of directors. Two current directors were nominated for re-election to a three-year term, and were re-elected. There were no other nominees for director. The specific results of that shareholder vote were as follows:

J. Michael Edenfield: Votes For: 12,889,848; Withholding Authority to Vote For: 89,825

John A. White: Votes For: 12,953,933; Withholding Authority to Vote For: 25,740

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit 10.1. Asset Purchase Agreement dated as of September 30, 2004 by and among Demand Management, Inc., a Georgia corporation, as purchaser; Demand Management, Inc., a Missouri corporation, as Seller; and Stephen Johnston and Michael Campbell, as shareholders.

Exhibits 31.1-31.2. Rule 13a-14(a)/15d-14(a) Certifications

Exhibit 32.1. Section 906 Certifications

SIGNATURES

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.

LOGILITY, INC.

Date: December 8, 2004

By: /s/ J. Michael Edenfield

J. Michael Edenfield
President and Chief Executive Officer

Date: December 8, 2004

By: /s/ Vincent C. Klinges

Vincent C. Klinges
Chief Financial Officer

Date: December 8, 2004

By: /s/ Deirdre J. Lavender

Deirdre J. Lavender
Controller and Principal
Accounting Officer