

LOGILITY INC
Form 10-Q
December 14, 2005
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, 2005

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)

Edgar Filing: LOGILITY INC - Form 10-Q

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 by check mark whether the registrant is a shell company (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 5, 2005</u>
Common Stock, no par value	12,737,716 Shares

Table of Contents

LOGILITY, INC. AND SUBSIDIARY

Form 10-Q

Quarter Ended October 31, 2005

Index

	<u>Page Number</u>
Part I <u>Financial Information</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets October 31, 2005 and April 30, 2005</u>	4
<u>Condensed Consolidated Statements of Operations Three Months and Six Months Ended October 31, 2005 and 2004</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three Months and Six Months Ended October 31, 2005 and 2004</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	26
Part II <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3. <u>Defaults Upon Senior Securities</u>	28
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	29

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

3

Table of Contents**Logility, Inc. and Subsidiary****Condensed Consolidated Balance Sheets (unaudited)**

(in thousands, except share data)

	October 31, 2005	April 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,698	\$ 7,824
Investments - current	17,618	16,899
Trade accounts receivable, less allowance for doubtful accounts of \$82 at October 31, 2005 and \$230 at April 30, 2005:		
Billed	4,843	4,228
Unbilled	1,736	1,252
Deferred income taxes	135	
Prepaid expenses and other current assets	1,603	1,663
	<u>31,633</u>	<u>31,866</u>
Total current assets	31,633	31,866
Investments - noncurrent	1,732	996
Furniture, equipment, and purchased software, net	449	472
Capitalized computer software development costs, less accumulated amortization	6,138	5,854
Goodwill	5,809	6,103
Other intangibles, net	1,913	2,138
Deferred income taxes	2,716	
Other assets	220	380
	<u>50,610</u>	<u>47,809</u>
	<u>\$ 50,610</u>	<u>\$ 47,809</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 193	\$ 352
Accrued compensation and related costs	1,386	972
Other current liabilities	1,726	2,283
Deferred revenue	8,765	9,696
Due to American Software, Inc.	4,553	3,560
	<u>16,623</u>	<u>16,863</u>
Total current liabilities	16,623	16,863
Deferred income taxes - due to American Software, Inc.	4,403	
Shareholders' equity:		
Preferred stock: 2,000,000 shares authorized; no shares issued		
Common stock, no par value; 20,000,000 shares authorized; 14,018,820 and 13,975,819 shares issued at October 31, 2005 and April 30, 2005, respectively		
Additional paid-in capital	40,645	44,974
Accumulated deficit	(3,387)	(7,988)
Treasury stock, at cost 1,281,104 and 1,008,915 shares at October 31, 2005 and April 30, 2005, respectively	(7,674)	(6,040)
	<u>29,584</u>	<u>30,946</u>
Total shareholders' equity	29,584	30,946

Commitments and contingencies

	<u>50,610</u>	<u>47,809</u>
	\$ 50,610	\$ 47,809

See accompanying notes to condensed consolidated financial statements - unaudited.

Table of Contents**Item 1. Financial Statements (continued)****Logility, Inc. and Subsidiary****Condensed Consolidated Statements of Operations (unaudited)**

(in thousands, except earnings per share data)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2005	2004	2005	2004
Revenues:				
License	\$ 3,590	\$ 656	\$ 6,026	\$ 2,070
Services and other	1,336	1,148	2,783	2,408
Maintenance	4,349	3,027	8,369	5,784
Total revenues	9,275	4,831	17,178	10,262
Cost of revenues:				
License	913	840	1,918	1,700
Services and other	894	588	1,766	1,250
Maintenance	1,006	632	1,933	1,072
Total cost of revenues	2,813	2,060	5,617	4,022
Gross margin	6,462	2,771	11,561	6,240
Operating expenses:				
Research and development	1,741	1,404	3,396	2,735
Less: Capitalizable software	(617)	(711)	(1,234)	(1,381)
Sales and marketing	2,494	1,779	4,681	3,636
General and administrative	1,488	805	2,516	1,490
Amortization of acquisition-related intangibles	88	38	175	38
Total operating expenses	5,194	3,315	9,534	6,518
Operating income (loss)	1,268	(544)	2,027	(278)
Investment impairment	(160)	(100)	(160)	(100)
Other income, net	166	116	309	227
Earnings (loss) before income taxes	1,274	(528)	2,176	(151)
Benefit for income taxes	(2,458)		(2,425)	
Net earnings (loss)	\$ 3,732	\$ (528)	\$ 4,601	\$ (151)
Earnings (loss) per common share:				
Basic	\$ 0.29	\$ (0.04)	\$ 0.36	\$ (0.01)

Edgar Filing: LOGILITY INC - Form 10-Q

Diluted	\$ 0.28	\$ (0.04)	\$ 0.34	\$ (0.01)
Shares used in the calculation of earnings (loss) per common share:				
Basic	12,737	13,013	12,806	13,052
Diluted	13,206	13,013	13,354	13,052

See accompanying notes to condensed consolidated financial statements - unaudited.

Table of Contents**Item 1. Financial Statements (continued)****Logility, Inc. and Subsidiary****Condensed Consolidated Statements of Cash Flows (unaudited)****(in thousands)**

	Six Months Ended October 31,	
	2005	2004
Cash flows from operating activities:		
Net earnings (loss)	\$ 4,601	\$ (151)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Investment impairment	160	100
Depreciation and amortization	1,287	1,658
Bond amortization	(42)	136
Deferred income taxes	(2,492)	
(Increase) decrease in assets:		
Accounts receivable, net	(1,099)	1,374
Prepaid expenses and other assets	60	(263)
Increase (decrease) in liabilities:		
Accounts payable, accrued costs and other current liabilities	(9)	(581)
Deferred revenue	(931)	(1,324)
Due to American Software, Inc.	993	264
Net cash provided by operating activities	2,528	1,213
Cash flows from investing activities:		
Additions to capitalized computer software development costs	(1,234)	(1,381)
Purchases of furniture, equipment, and computer software costs	(88)	(100)
Proceeds from maturities of investments	49,027	44,511
Purchases of investments	(50,441)	(44,646)
Purchases of Demand Management, Inc., net of cash acquired		(8,691)
Net cash used in investing activities	(2,736)	(10,307)
Cash flows from financing activities:		
Proceeds from exercise of stock options	136	29
Deemed distribution for deferred income taxes resulting from Tax Sharing Agreement	(420)	
Repurchases of common stock	(1,634)	(769)
Net cash used in financing activities	(1,918)	(740)
Net change in cash and cash equivalents	(2,126)	(9,834)
Cash and cash equivalents at beginning of period	7,824	10,467
Cash and cash equivalents at end of period	\$ 5,698	\$ 633



See accompanying notes to condensed consolidated financial statements - unaudited.

Table of Contents

LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited

October 31, 2005

A. Basis of Presentation

The accompanying condensed consolidated 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 financial statements prepared in accordance with U.S. generally accepted accounting principles. You should review these financial statements in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended April 30, 2005, 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 89% owned subsidiary of American Software, Inc., a publicly held provider of enterprise resource planning and supply chain management software solutions (NASDAQ: AMSWA).

B. Principles of Consolidation

The condensed consolidated financial statements include the accounts of Logility, Inc., and its wholly owned subsidiary, DMI. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform to the current year presentation.

C. 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, providing business-to-business collaborative commerce solutions to optimize supply chain operations for manufacturers, distributors and retailers.

D. 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 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.

E. Revenue Recognition

We recognize revenue in accordance with Statement of Position No. 97-2: *Software Revenue Recognition*, (SOP 97-2) and Statement of Position No. 98-9: *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, (SOP 98-9).

License. License revenue in connection with license agreements for standard proprietary software is recognized upon delivery of the software, providing collection is considered 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, the

Table of Contents

LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

October 31, 2005

Company recognizes revenue under the residual method as permitted by SOP 98-9, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized in accordance with SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. We record revenues from sales of third-party products net of royalties, in accordance with Emerging Issues Task Force Issue 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (EITF 99-19). Furthermore, in accordance with EITF 99-19, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we 1) act as principal in the transaction, 2) take title to the products, 3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, our sales through the DMI channel are typically recorded on a gross basis.

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. Maintenance contracts are typically sold for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. Maintenance fees are generally billed annually in advance. Maintenance revenue is recognized ratably over the term of the maintenance agreement.

Services. Revenue derived from services primarily includes consulting, implementation, and training. Fees are billed under primarily time and materials arrangements and are recognized as services are performed. In accordance with the FASB's Emerging Issues Task Force Issue No. 01-14: *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* (EITF No. 01-14), the Company recognizes amounts received for reimbursement of travel and other out-of-pocket expenses incurred as revenues in the consolidated statements of operations under services and other.

Indirect Channel Revenue. We recognize revenues for sales we make through indirect channels principally when the distributor makes the sale to an end-user, when the license fee is fixed or 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 we recognize revenue.

F. Major Customer

No single customer accounted for more than 10% of our total revenues in the three months or six months ended October 31, 2005 or October 31, 2004.

G. Earnings per Common Share

Basic earnings per common share available to common shareholders are based on the weighted-average number of common shares outstanding. Diluted earnings per common share available to common shareholders are based on the weighted-average number of common shares outstanding and dilutive potential common shares, such as dilutive stock options.

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

	Three months ended October 31,		Six months ended October 31,	
	2005	2004	2005	2004
	(in thousands, except per share data)		(in thousands, except per share data)	
Common Shares:				
Weighted average common shares outstanding	12,737	13,013	12,806	13,052
Dilutive effect of outstanding stock options	469		548	
Total	13,206	13,013	13,354	13,052
Net earnings (loss):	\$ 3,732	\$ (528)	\$ 4,601	\$ (151)
Net earnings (loss) per common share:				
Basic	\$ 0.29	\$ (0.04)	\$ 0.36	\$ (0.01)
Diluted	\$ 0.28	\$ (0.04)	\$ 0.34	\$ (0.01)

Table of Contents**LOGILITY, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements - unaudited (continued)****October 31, 2005**

For the three months and six months ended October 31, 2005, we excluded options to purchase 56,590 and 55,139 shares of common stock from the computation of diluted earnings per share. 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. 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 loss per share were it not for the antidilutive effect of the net loss.

As of October 31, 2005, we had a total of 824,052 options outstanding and as of October 31, 2004, we had a total of 867,449 options outstanding.

H. Acquisition

On September 30, 2004, Logility 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 \$8.6 million. We have included the results of operations from DMI in the accompanying consolidated financial statements effective October 1, 2004.

The following unaudited pro forma information presents our results of operations for the three and six months ended October 31, 2004 as if the acquisition had taken place at May 1, 2004 (in thousands, except per share data):

	Three Months Ended October 31, 2004	Six Months Ended October 31, 2004
Total revenues	\$ 7,147	\$ 14,925
Net earnings (loss)	(341)	24
Net earnings (loss) per common share (basic)	(0.03)	0.00
Net earnings (loss) per common share (diluted)	(0.03)	0.00
Weighted average number of common shares outstanding (basic)	13,013	13,052
Weighted average number of common shares outstanding (diluted)	13,013	13,307

Table of Contents**LOGILITY, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements - unaudited (continued)****October 31, 2005**

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. These pro forma results do not purport to be indicative of our actual results of operations had the acquisition occurred at May 1, 2004 or which may occur in the future.

In accordance with SFAS No. 141, Business Combinations, we have accounted for the acquisition under the purchase method of accounting. The fair values of the assets acquired and liabilities assumed represent management's estimates of current fair values. We allocated the total purchase price to the net tangible assets and intangible assets acquired based on management's estimates of fair value at the date of acquisition. We based the allocation of the total purchase price to the acquired technology and other intangible assets, including trade names and maintenance contracts, on such estimates. The estimating process included analyses based on income, cost, and market approaches. We initially allocated \$6.1 million of the total purchase price to goodwill, which is deductible for income tax purposes.

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

Tangible Net Book Value	\$ 805
Business Restructuring	(15)
Acquisition Expenses	(358)
Intangible Asset to be Amortized	2,400
Goodwill	5,809
	<hr/>
Net Cash Outlay	8,641
Working Capital Adjustment	640
Closing Cash	219
	<hr/>
Total Purchase Price	\$ 9,500
	<hr/>

The following 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	156
Property and equipment	26
Other non-current assets	179
Intangible assets ¹	2,400
Goodwill	5,809
Accounts payable	(1,043)
Accrued expenses and other current liabilities	(513)

Edgar Filing: LOGILITY INC - Form 10-Q

Deferred revenue	(1,150)
Total Cash Outlay	8,641
Cash and cash equivalents	219
Working capital adjustment	640
Total Purchase Price	\$ 9,500

¹ Includes \$1 million for contractual distributor relationships, \$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.

Table of Contents**LOGILITY, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements - unaudited (continued)****October 31, 2005**

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 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 has completed the purchase accounting related to this acquisition. During the three months ended October 31, 2005, we reversed the purchase accounting accrual related to certain contingent liabilities, which totaled approximately \$294,000 and reduced goodwill by this same amount.

I. Stock Compensation Plans

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.

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 October 31,		Six months ended October 31,	
	2005	2004	2005	2004
	(In thousands, except per share data)		(In thousands, except per share data)	
Net earnings (loss) as reported	\$ 3,732	\$ (528)	\$ 4,601	\$ (151)
Less total stock-based compensation expense determined under fair value based method for all awards	(114)	(131)	(194)	(207)
Pro forma net earnings (loss)	\$ 3,618	\$ (659)	\$ 4,407	\$ (358)

Edgar Filing: LOGILITY INC - Form 10-Q

Basic earnings (loss) per share:				
As reported	\$ 0.29	\$ (0.04)	\$ 0.36	\$ (0.01)
Pro forma	\$ 0.28	\$ (0.05)	\$ 0.34	\$ (0.03)
Diluted earnings (loss) per share:				
As reported	\$ 0.28	\$ (0.04)	\$ 0.34	\$ (0.01)
Pro forma	\$ 0.27	\$ (0.05)	\$ 0.33	\$ (0.03)

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Table of Contents

LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

October 31, 2005

Statement 123(R) must be adopted no later than May 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123(R) for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
2. A modified retrospective method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We will be adopting Statement 123(R) beginning May 1, 2006 and are currently in the process of evaluating the impact and which method will be adopted.

As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on our results of operations. The impact of adopting Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

J. 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 accordance with the Company's Tax Sharing Agreement with ASI, the Company computes a separate, stand-alone income tax provision and settles balances due to or from ASI on this basis. However, 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 the initial public offering (originally in the amount of \$6,188,000, of which \$1,785,000 was used during 1998, 1999 and 2000) were allocated to ASI. Accordingly, the Company will not receive any economic benefit from the \$4,403,000 of contributed gross deferred tax assets, which relate to pre-IPO NOLs,

Edgar Filing: LOGILITY INC - Form 10-Q

that still remain as of October 31, 2005 (see Note K below). Also, as of October 31, 2005 the Company has generated approximately \$2,019,000 of net operating loss carryforwards (tax-effected) since the initial public offering which, under the terms of the Tax Sharing Agreement, can be used by the Company to avoid making a payment to ASI. Of the \$2,019,000 of net operating loss carryforwards, approximately \$350,000 relates to deductions from the exercise of stock options. In accordance with FAS 109, these stock option NOLs will be the last to be utilized. To the extent the tax computation produces a tax benefit for the Company subsequent to the initial public offering, ASI will be required to pay such amounts to the Company only if and when realized by ASI by a reduction in income taxes payable with respect to the current tax period. At April 30, 2005, ASI had substantial net operating loss carryforwards, which must be utilized by ASI before the Company 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 SUBSIDIARY****Notes to Condensed Consolidated Financial Statements - unaudited (continued)****October 31, 2005**

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

<u>Service</u>	<u>Cost methodology</u>	<u>Three months ended</u>	<u>Three months ended</u>	<u>Six months ended</u>	<u>Six months ended</u>
		<u>October 31, 2005</u>	<u>October 31, 2004</u>	<u>October 31, 2005</u>	<u>October 31, 2004</u>
General corporate services, including accounting and insurance expense	Apportioned based on formula to all ASI subsidiaries	\$ 279,000	\$ 242,000	\$ 580,000	\$ 479,000
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	20,000	21,000	40,000	48,000
Employee benefits services	Apportioned based on formula to all ASI subsidiaries	8,000	8,000	16,000	11,000

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 after a 90 day 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 \$99,000 for the three months ended October 31, 2005, \$101,000 for the three months ended October 31, 2004, \$198,000 for the six months ended October 31, 2005, and \$209,000 for the six months ended October 31, 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 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-

Table of Contents

LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

October 31, 2005

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.

Reseller Agreement Effective May 1, 2005, we entered into a Memorandum of Understanding (MOU) with ASI for the resale of ASI products by Logility personnel. Specifically, we will pay a royalty equal to 30% of the net license fees recognized allocated to the ASI products sold, after discounts and revenue recognition adjustments. Any maintenance fees included in the arrangement will be pro-rated based on the net license fees. For the three and six months ended October 31, 2005, we recorded royalty expenses of approximately \$41,000 and \$79,000, respectively. The related license fee revenues for such transactions are presented net of royalty expense in the accompanying statements of operations, in accordance with EITF 99-19.

K. Income Taxes

During the three months ended October 31, 2005, the Company recognized a deferred tax asset of approximately \$4,994,000 by eliminating the income tax valuation allowance due to the improvement in the Company's reported results and expected future taxable income. As a result, the Company recorded an income tax benefit of approximately \$2.5 million. In accordance with the Company's tax sharing agreement with ASI, the Company will not receive any economic benefit from the contributed pre-formation deferred tax assets (including net operating losses and tax credit carryforwards) of approximately \$4.4 million. As a result, the Company has recorded the expected payment to ASI for these amounts (Deferred income taxes - due to American Software, Inc.) to shareholders' equity (Additional paid-in capital) as a deemed distribution.

In accordance with the Company's tax sharing agreement, the Company also recorded a deemed distribution of approximately \$420,000 to shareholders' equity (Additional paid-in capital) and an increase in the related party payable (Due to American Software, Inc.) relating to capitalized software contributed by ASI to Logility.

L. 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 J). Amounts allocated to the Company for rent expense for these facilities were \$71,000 for the three months ended

Edgar Filing: LOGILITY INC - Form 10-Q

October 31, 2005, \$142,000 for the six months ended October 31, 2005, \$82,000 for the three months ended October 31, 2004, and \$164,000 for the six months ended October 31, 2004. 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 \$150,000 for the three months ended October 31, 2005, \$295,000 for the six months ended October 31, 2005, \$127,000 for the three months ended October 31, 2004 and \$221,000 for the six months ended October 31, 2004.

Table of Contents

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

FORWARD-LOOKING STATEMENTS

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;

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 challenges and risks associated with integration of acquired product lines and companies, the effect of competitive products and pricing, 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. The terms fiscal 2006 and fiscal 2005 refer to our fiscal years ending April 30, 2006 and 2005, respectively.

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. Overall Information Technology spending, while still relatively weak when compared to the period prior to the last economic downturn, appears to be improving steadily. We believe Information Technology spending has incrementally improved in the first half of Fiscal 2006 and will continue to improve as increased global competition forces companies to improve productivity by upgrading their technology environment systems.

Although this improvement could slow or regress at any time, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. While our sales pipelines are improving, customers continue to take longer to evaluate discretionary software purchases than generally was the case prior to the economic downturn.

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

Table of Contents

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.

We derive revenues primarily from three sources: software licenses, services and other, and maintenance. We 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. Maintenance agreements typically are for a one- to three-year term and usually are entered into 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 as well as agent commission expenses related to license revenues generated by the indirect channel primarily from DMI. Costs for maintenance and services include the cost of personnel to conduct implementations and customer support, consulting, and other personnel-related expenses as well as agent commission expenses related to maintenance revenues generated by the indirect channel primarily from DMI. We account for the development costs of software intended for sale in accordance with SFAS No. 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 consolidated balance sheet; however, if future product revenues are less than management's current expectations, we may incur a write-down of capitalized software costs.

Gross product research and development costs include all non-capitalized and capitalized software development costs which principally include the salary and benefits for our development personnel. 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.

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 providers, systems integrators and service providers to integrate our software solutions 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;

The opportunity for select acquisitions or investments to provide opportunities to expand our sales distribution channels, industry verticals, geographic reach and/or broaden our product offering by providing additional solutions for our target markets;

Table of Contents

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 risk that our competitors may develop technologies that are substantially equivalent or superior to our technology; and

The risks inherent in the market for business application software and related services, which has been and continues to be intensely competitive; 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, 2005.

Business Acquisition

On September 30, 2004, we acquired certain assets and the distribution channel of privately-held Demand Management, Inc., a St. Louis-based provider of supply chain planning systems marketed under the Demand Solutions brand. The acquisition provided more than 800 active customers in the growing small and midsize business (SMB) market, which brought our customer base to approximately 1,100 companies, located in 70 countries and gives us what we believe to be the largest installed base of supply chain planning customers among application software vendors. We will continue to market and sell the Demand Solutions product line to the market through Demand Management's existing value-added reseller distribution network. We will also continue to offer the Logility Voyager Solutions suite to our traditional target market of upper-midsize to Fortune 1000 companies with distribution-intensive supply chains.

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, 2005 and 2004:

	Percentage of Total Revenues		Pct. Change in Dollars
	2005	2004	2005 vs 2004
Revenues:			
License	39%	13%	447%
Services and other	14	24	16
Maintenance	47	63	44
Total revenues	100	100	92
Cost of revenues:			
License	10	17	9
Services and other	10	12	52
Maintenance	11	13	59
Total cost of revenues	30	43	37
Gross margin	70	57	133
Operating expenses:			
Research and development	19	29	24
Less: Capitalizable software	(7)	(15)	(13)
Sales and marketing	27	37	40
General and administrative	16	17	85
Amortization of acquisition-related intangibles	1	1	132
Total operating expenses	56	69	57
Operating income (loss)	14	(11)	nm
Investment impairment	(2)	(2)	60
Other income, net	2	2	43
Earnings (loss) before income taxes	14	(11)	nm
Benefit for income taxes	(27)		nm
Net earnings (loss)	41%	(11)%	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, 2005 and 2004:

	Percentage of Total Revenues		Pct. Change in Dollars
	2005	2004	2005 vs 2004
Revenues:			
License	35%	20%	191%
Services and other	16	24	16
Maintenance	49	56	45
Total revenues	100	100	67
Cost of revenues:			
License	11	17	13
Services and other	10	12	41
Maintenance	11	10	80
Total cost of revenues	33	39	40
Gross margin	67	61	85
Operating expenses:			
Research and development	20	27	24
Less: Capitalizable software	(7)	(14)	(11)
Sales and marketing	27	35	29
General and administrative	15	15	69
Amortization of acquisition-related intangibles	1	0	nm
Total operating expenses	55	64	46
Operating income (loss)	12	(3)	nm
Investment impairment	(1)	(1)	60
Other income, net	2	2	36
Earnings (loss) before income taxes	13	(1)	nm
Benefit for income taxes	(14)		nm
Net earnings (loss)	27%	(1)%	nm%

nm - not meaningful

Table of Contents

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS

ENDED OCTOBER 31, 2005 AND 2004:

REVENUES:

For the three months ended October 31, 2005, the increase in revenues from the three months and six months ended October 31, 2004 was primarily attributable to increases in license fee and maintenance revenues as well as to a lesser extent an increase in services revenue. The primary reasons for these increases were 1) improved selling environment and better sales execution in contracting license fees this quarter compared to the same period in the prior year and 2) the acquisition of Demand Management, Inc. (DMI) on September 30, 2004, which increased revenue when compared to the prior year period that included only one month of DMI revenue. We believe that in recent quarters economic and industry conditions have stabilized, and market receptiveness for our products has improved. International revenues represented approximately 17% of total revenues for the three months ended October 31, 2005, compared to approximately 8% in the same period a year ago. International revenues represented approximately 14% of total revenues for the six months ended October 31, 2005, compared to approximately 9% in the corresponding six-month 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. No single customer accounted for more than 10% of our total revenues in the three months ended October 31, 2005 and October 31, 2004.

LICENSES. The increase in license fees in the three and six months ended October 31, 2005 was primarily the result of the improved selling environment and better sales execution in contracting license fees and the DMI acquisition subsequent to the end of the corresponding period a year ago. The direct sales channel provided approximately 79% of license fee revenues for the three months ended October 31, 2005 and 77% of license fee revenues for the six months ended October 31, 2005. This is compared to approximately 90% in both of the comparable periods a year ago. This decline was due primarily to the revenues associated with DMI, which principally uses indirect sales channels. For both the three and six months ended October 31, 2005, our margins after commissions on direct sales were approximately 90%, and our margins after commissions on indirect sales were approximately 49%.

SERVICES AND OTHER. The increases in services and other revenues for the three and six months ended October 31, 2005 from the corresponding periods in the previous fiscal year were primarily the result of an increase in overall software implementation services related to increased license fees in recent periods and to a lesser extent services associated with DMI software. 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 increases in maintenance revenues for the three and six months ended October 31, 2005 compared to the corresponding periods in the previous fiscal year were primarily the result of the DMI acquisition and to a lesser extent an improvement in customer retention on annual maintenance renewals. 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 (loss):

Edgar Filing: LOGILITY INC - Form 10-Q

(\$000 s omitted)	Three months ended				Six months ended			
	October 31,				October 31,			
	2005		2004		2005		2004	
Gross margin (loss) on license fees:	\$ 2,677	75%	\$ (184)	-28%	\$ 4,108	68%	\$ 370	18%
Gross margin on services and other:	\$ 442	33%	\$ 560	49%	\$ 1,017	37%	\$ 1,158	48%
Gross margin on maintenance:	\$ 3,343	77%	\$ 2,395	79%	\$ 6,436	77%	\$ 4,712	81%
Total gross margin:	\$ 6,462	70%	\$ 2,771	57%	\$ 11,561	67%	\$ 6,240	61%

Table of Contents

For the three and six months ended October 31, 2005, the increase in total gross margin percentage was due primarily to an increase in license fee gross margin percentages, partially offset by decreases in gross margin percentage on services and other and maintenance revenues.

LICENSES. The increase in gross margin percentage on license fees for the three months ended October 31, 2005 was due primarily to higher license fee revenues, and to a lesser extent decreased expense related to amortization of capitalized software development costs. These factors were partially offset by increased license fee revenues from the indirect channel, principally from DMI, which yields approximately 49% after agent commissions compared to approximately 90% margins after commissions for direct sales. License fee gross margin percentage tends to be directly related to the level of license fee revenues due to the relatively fixed cost of computer software amortization expense and amortization of acquired software, which are the primary components of cost of license fees, and to a lesser degree are related to the variable expense of DMI's agent commissions. We expect capitalized software amortization to increase in the future as projects achieve general availability and amortization commences.

SERVICES AND OTHER. For the three and six months ended October 31, 2005, the decrease in services and other gross margin percentage was due primarily to the timing of some billable projects and to a lesser extent due to lower than normal billable utilization rate as a result of employee vacations. Services and other gross margin normally is directly related to the level of services and other revenues. The primary component of cost of services and other revenues is services staffing, which is relatively fixed in the short term.

MAINTENANCE. For the three and six months ended October 31, 2005, maintenance gross margin percentage was lower due to the DMI acquisition for two primary reasons, 1) the purchase accounting write-down in DMI's deferred revenues associated with technical support services resulted in lower maintenance revenues that would have otherwise been recognized in the current quarter, and 2) agent commission expense related to maintenance revenues generated by the indirect channel. We expect maintenance revenues and related margins for DMI during comparable future periods to increase slightly, assuming retention of the current customer base.

Table of Contents**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, 2005	Percent Change	October 31, 2004
Gross product research and development costs	\$ 1,741	24%	\$ 1,404
Percentage of total revenues	19%		29%
Less: Capitalized computer software research and development costs	\$ (617)	(13)%	\$ (711)
Percentage of gross product research and development costs	35%		51%
Product research and development expenses	\$ 1,124	62%	\$ 693
Percentage of total revenues	12%		14%
Total amortization of capitalized computer software development costs	\$ 475	(38)%	\$ 762

	Six Months Ended (\$000 s omitted)		
	October 31, 2005	Percent Change	October 31, 2004
Gross product research and development costs	\$ 3,396	24%	\$ 2,735
Percentage of total revenues	20%		27%
Less: Capitalized computer software research and development costs	\$ (1,234)	(11)%	\$ (1,381)
Percentage of gross product research and development costs	36%		50%
Product research and development expenses	\$ 2,162	60%	\$ 1,354
Percentage of total revenues	13%		13%
Total amortization of capitalized computer software development costs	\$ 950	(38)%	\$ 1,524

For the three and six months ended October 31, 2005, capitalized software development costs decreased while gross product research and development costs increased when compared to the prior year period. This change was primarily due to the DMI acquisition, which added gross R&D costs, but did not capitalize any R&D costs during the period. We expect capitalized product development costs to be lower in coming quarters as a result of fewer capitalizable R&D projects in the pipeline. However, we expect capitalized software amortization to increase in the future as projects achieve general availability and amortization commences.

SALES AND MARKETING. For the three months ended October 31, 2005, sales and marketing expenses were \$2.5 million, a 40% increase from the comparable period a year ago; for the six months ended October 31, 2005, sales and marketing expenses of \$4.7 million was a 29% increase from the comparable period a year

Table of Contents

ago. These increases were due primarily to an increase in sales and marketing expense resulting from the DMI acquisition and to a lesser extent due to an increase in the overall company sales commissions as a result of higher license fee sales. We generally include commissions on indirect sales in cost of sales.

GENERAL AND ADMINISTRATIVE. For the three and six months ended October 31, 2005, the increase in general and administrative expenses was due to an accrual for performance based compensation expenses, the DMI acquisition and an increase in audit fees. For the three months ended October 31, 2005, the total number of employees was approximately 140 compared to approximately 144 for the same period last year.

AMORTIZATION OF ACQUISITION-RELATED INTANGIBLE ASSETS. Acquisition-related intangible assets of DMI are stated at historical cost and include certain intangible assets with definitive lives. We are amortizing these intangible assets on a straight-line basis over their expected useful lives of six years.

OTHER INCOME:

Other income is principally comprised of investment earnings. For the three months ended October 31, 2005, the investment earnings increased to \$166,000 when compared to the same period last year of \$116,000 due primarily to an increase in interest rates, particularly on money market accounts. For the three months and six months ended October 31, 2005, these investments generated an annualized yield of approximately 3.3% and 3.1% compared to approximately 1.8% for both the three months and six months ended October 31, 2004. These investment earnings were partially offset by a write-down of a minority investment of \$160,000 in the three months ended October 31, 2005 and a write-down of a minority investment of \$100,000 in the three months ended October 31, 2004.

INCOME TAXES:

We are included in the consolidated federal income tax return filed by American Software; however, we provide for income taxes as if we were filing a separate income tax return. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under Statement of Financial Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes*, we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is more likely than not that we would realize the deferred tax asset. Due to the improvement of our historical results and projection of future taxable income, we have recognized a tax asset and have eliminated the valuation allowance against our recognizable net deferred tax assets in the quarter ended October 31, 2005, approximately \$350,000 of which was credited to additional paid-in capital, in accordance with SFAS No. 109.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Sources and Uses of Cash

Edgar Filing: LOGILITY INC - Form 10-Q

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.

Table of Contents

The following tables show summary information about our cash flows and liquidity positions during the three months ended October 31, 2005 and October 31, 2004. 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, 2005.

	Six Months Ended	
	October 31 (in thousands)	
	2005	2004
Net cash provided by operating activities	\$ 2,528	\$ 1,213
Net cash used in investing activities	(2,736)	(10,307)
Net cash used in financing activities	(1,918)	(740)
Net change in cash and cash equivalents	\$ (2,126)	\$ (9,834)

For the six months ended October 31, 2005, the increase in cash provided by operating activities when compared to the same period last year was due primarily to the net earnings increase when compared to a net loss in the comparable period. This increase was partially offset by a non-cash tax benefit. The decrease in cash used in investing activities when compared to the prior year period was due primarily to the purchase of DMI in the second fiscal quarter of fiscal 2005 for \$8.7 million. 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 (used) by our activities:

	As of October 31,	
	(in thousands)	
	2005	2004
Cash and cash equivalents	\$ 5,698	\$ 633
Investments	19,350	20,363
Total cash and investments	\$ 25,048	\$ 20,996
Net change in total cash and investments (six months ended October 31,)	\$ (671)	\$ (9,835)

The change in total cash generated for the six months ended October 31, 2005 when compared to cash used in the comparable period in the prior year was due primarily to the changes in operating assets and liabilities noted above.

Days Sales Outstanding in accounts receivable were 65 days as of October 31, 2005, compared to 91 days as of October 31, 2004. This decrease was due primarily to improved collection efforts after the DMI acquisition initially caused an increase in our accounts receivable. Our current

Edgar Filing: LOGILITY INC - Form 10-Q

ratio on October 31, 2005 was 1.9 to 1, compared to 1.9 to 1 on April 30, 2005.

As a result of the positive cash flow from operations our business has generated in recent periods, and because we have \$25.0 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 requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, 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

Table of Contents

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.

On December 15, 1997, our Board of Directors approved a resolution authorizing us to repurchase up to 350,000 shares of our common stock through open market purchases at prevailing market prices. We completed this repurchase plan in November 1998, at which time we adopted an additional repurchase plan for up to 800,000 shares. In February 2003, our Board of Directors approved a resolution authorizing us to repurchase an additional 400,000 shares for a total authorized repurchase amount of 1,550,000 shares. The timing of any repurchases would depend on market conditions, the market price of Logility's common stock and management's assessment of our liquidity and cash flow needs. For all repurchase plans, through October 31, 2005, we had purchased a cumulative total of approximately 1,281,000 shares at a total cost of approximately \$7.7 million. In the first quarter of fiscal 2006, we purchased approximately 272,000 shares of our common stock at an average price of \$6.00 per share for a total price of \$1.6 million. We did not make any repurchases of our common stock in the quarter ended October 31, 2005. 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

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We expect to implement this Statement during the first quarter of fiscal 2007.

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, 2005, as filed with the SEC, we described the policies and estimates relating to revenue recognition, allowance for doubtful accounts, valuation of acquired business, valuation of long-lived and intangible assets, valuation of capitalized software assets and income taxes as our critical accounting policies. Since then, we have made no changes to our reported critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. For the quarter ended October 31, 2005, we generated approximately 17% 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 effects of

Table of Contents

foreign exchange rate fluctuations have not historically had a material impact on our financial consolidated statements. In addition, a 10% movement in foreign currency rates would not have a material impact on our financial condition or results of operations. We have not engaged in any hedging activities.

Interest rates and other market risks. We have no debt, so we have limited our 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, 2005 were both approximately \$24.8 million.

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

Inflation. Although we cannot accurately determine the amounts attributable thereto, we have been affected by inflation through increased costs of employee compensation and other operational expenses. To the extent permitted by the marketplace for our products and services, we attempt to recover increases in costs by periodically increasing prices.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) under the supervision and with the participation of our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, the aforementioned officers have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective.

Table of Contents

Changes in Internal Control over Financial Reporting

In our Annual Report on Form 10-K for the fiscal year ended April 30, 2005, management identified material weaknesses in internal control over financial reporting related to Revenue Recognition and Accounting for Income Taxes. Accordingly, management concluded that our internal control over financial reporting was not effective as of April 30, 2005. Since that time, we implemented additional internal control over financial reporting to remediate these material weaknesses. These internal control over financial reporting improvements included:

Revenue recognition

We have implemented a policy which lowered the threshold of license revenue contracts that must be reviewed by corporate headquarters.

We have implemented lower thresholds for required reviews of revenue related analyses and calculations for license revenue contracts including a secondary review of the Company's non-standard multiple element arrangements.

We have implemented the use of review templates to help ensure accuracy and identify changes to standard terms and conditions

Accounting for income taxes

We have engaged a regional accounting firm specializing in, among other things, tax and consulting services, to further assist the Company in its preparation of the quarterly and annual income tax provision.

We implemented review procedures to monitor and evaluate the realization of our deferred tax assets.

We have accelerated the timing of the preparation of the quarterly and annual income tax provision and enhancing the levels of review of supporting documentation.

In addition, we are in the process of making further changes to our internal control over financial reporting as described below:

Revenue recognition

We are carrying out additional training of accounting personnel as it relates to revenue recognition standards.

These changes are part of our overall program that is intended to remediate all material weaknesses by April 30, 2006.

Edgar Filing: LOGILITY INC - Form 10-Q

Management believes there are no material inaccuracies or omissions of material fact in this filing on Form 10-Q. Management, to the best of its knowledge, believes that the financial statements presented herein are fairly stated in all material respects.

We intend to continue to monitor our internal controls over financial reporting, and if further improvements or enhancements are identified, we will take steps to implement such improvements or enhancements. Other than the changes discussed above relating to software revenue recognition and accounting for income taxes, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes repurchases of our stock in the three months ended October 31, 2005:

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, 2005 through August 31, 2005	0	\$ 0.00	0	268,896
September 1, 2005 through September 30, 2005	0	\$ 0.00	0	268,896
October 1, 2005 through October 31, 2005	0	\$ 0.00	0	268,896
Total Fiscal 2006 Second Quarter	0	\$ 0.00	0	268,896

* 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

Edgar Filing: LOGILITY INC - Form 10-Q

The Company held its 2005 Annual Meeting of Shareholders on September 15, 2005. At the meeting, the only shareholder vote taken was with respect to the re-election of James C. Edenfield as a director for a three-year term. There were no other nominees. The results of that shareholder vote were as follows:

Votes For: 12,504,709; Withholding Authority to Vote For: 20,497.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit 10.1.	Memorandum of Understanding with American Software, Inc. dated May 1, 2005 for the resale of American Software products by Company personnel
Exhibits 31.1-31.2.	Rule 13a-14(a)/15d-14(a) Certifications
Exhibit 32.1.	Section 906 Certifications

Table of Contents

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 12, 2005

By: /s/ J. Michael Edenfield

J. Michael Edenfield

President and Chief Executive

Officer

Date: December 12, 2005

By: /s/ Vincent C. Klinges

Vincent C. Klinges

Chief Financial Officer

Date: December 12, 2005

By: /s/ Michael R. Dowling

Michael R. Dowling

Controller and Principal

Accounting Officer