

LOGILITY INC
Form 10-Q
March 10, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2008

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

58-2281338
(IRS Employer

incorporation or organization)

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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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.

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Class	Outstanding at March 7, 2008
Common Stock, no par value	12,946,958 Shares

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LOGILITY, INC. AND SUBSIDIARY

Form 10-Q

Quarter ended January 31, 2008

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Logility, Inc. and Subsidiary****Condensed Consolidated Balance Sheets (unaudited)**

(in thousands, except share data)

	January 31, 2008	April 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,372	\$ 16,144
Investments		16,172
Trade accounts receivable, less allowance for doubtful accounts of \$75 and \$73 at January 31, 2008 and April 30, 2007:		
Billed	6,308	7,764
Unbilled	977	1,412
Deferred income taxes	486	1,361
Due from American Software, Inc.		1,167
Prepaid expenses and other current assets	2,409	1,995
Total current assets	51,552	46,015
Furniture, equipment and purchased software, net	453	436
Capitalized software, net	4,595	6,042
Goodwill	5,809	5,809
Other intangibles, net	965	1,288
Other assets	61	67
Total assets	\$ 63,435	\$ 59,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 398	\$ 275
Accrued compensation and related costs	795	2,110
Other current liabilities	2,103	3,570
Deferred revenue	11,329	11,350
Due to American Software, Inc.	1,633	
Total current liabilities	16,258	17,305
Deferred income taxes long-term	1,792	1,940
Total liabilities	18,050	19,245
Shareholders' equity:		
Preferred stock: 2,000,000 shares authorized; no shares issued		
Common stock, no par value; 20,000,000 shares authorized; 14,297,812 and 14,214,536 shares issued at January 31, 2008 and April 30, 2007, respectively		
Additional paid-in capital	43,136	42,179

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Retained earnings	10,373	6,019
Treasury stock, at cost 1,326,104 shares at January 31, 2008 and 1,296,104 shares at April 30, 2007	(8,124)	(7,786)
Total shareholders' equity	45,385	40,412
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 63,435	\$ 59,657

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 January 31,		Nine Months Ended January 31,	
	2008	2007	2008	2007
Revenues:				
License	\$ 2,333	\$ 3,900	\$ 10,409	\$ 10,544
Services and other	1,933	1,773	5,985	4,775
Maintenance	5,665	5,623	16,636	15,589
Total revenues	9,931	11,296	33,030	30,908
Cost of revenues:				
License	1,364	1,318	4,518	4,192
Services and other	853	879	2,898	2,570
Maintenance	1,261	1,229	3,609	3,675
Write-down of capitalized computer software	1,196		1,196	
Total cost of revenues	4,674	3,426	12,221	10,437
Gross margin	5,257	7,870	20,809	20,471
Operating expenses:				
Research and development	1,239	1,373	3,909	3,713
Sales and marketing	2,402	2,378	7,279	7,310
General and administrative	854	1,381	3,484	3,821
Amortization of acquisition-related intangibles	87	88	263	263
Total operating expenses	4,582	5,220	14,935	15,107
Operating income	675	2,650	5,874	5,364
Other income, net	538	456	1,451	1,226
Earnings before income taxes	1,213	3,106	7,325	6,590
Income tax expense	378	1,111	2,971	2,559
Net earnings	\$ 835	\$ 1,995	\$ 4,354	\$ 4,031
Earnings per common share:				
Basic	\$ 0.06	\$ 0.15	\$ 0.34	\$ 0.31
Diluted	\$ 0.06	\$ 0.15	\$ 0.33	\$ 0.30

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Shares used in the calculation of earnings per common share:

Basic	12,964	12,898	12,950	12,897
Diluted	13,336	13,220	13,372	13,247

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)**

	Nine Months Ended January 31,	
	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 4,354	\$ 4,031
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Write-down of capitalized computer software development costs	1,196	
Stock-based compensation expense	277	288
Tax benefit of stock options exercised	1,329	
Excess tax benefits from stock-based compensation	(873)	
Depreciation and amortization	2,381	2,474
Bond amortization	2	(221)
Deferred income taxes	727	2,273
Changes in operating assets and liabilities:		
Accounts receivable, net	1,891	(1,038)
Prepaid expenses and other assets	(408)	(207)
Accounts payable and other liabilities	(3,134)	(102)
Deferred revenue	(21)	937
Due to American Software, Inc.	2,493	(184)
Net cash provided by operating activities	10,214	8,251
Cash flows from investing activities:		
Capitalized computer software development costs	(1,635)	(1,678)
Purchases of furniture, equipment, and computer software costs	(189)	(152)
Purchased technology		(75)
Proceeds from maturities of investments	42,057	82,741
Purchases of investments	(25,887)	(81,964)
Net cash provided by (used in) investing activities	14,346	(1,128)
Cash flows from financing activities:		
Proceeds from exercise of stock options	278	115
Excess tax benefits from stock-based compensation	873	
Dividend to American Software, Inc.	(145)	
Deemed distribution for deferred income taxes resulting from Tax Sharing Agreement		(1,642)
Repurchases of common stock	(338)	(112)
Net cash provided by (used in) financing activities	668	(1,639)
Net change in cash and cash equivalents	25,228	5,484
Cash and cash equivalents at beginning of period	16,144	6,128
Cash and cash equivalents at end of period	\$ 41,372	\$ 11,612

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See accompanying notes to condensed consolidated financial statements unaudited.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements unaudited

January 31, 2008

A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-1 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of our management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the financial position at January 31, 2008, the results of operations for the three and nine months ended January 31, 2008 and 2007 and cash flows for the nine months ended January 31, 2008 and 2007. The results for the three and nine months ended January 31, 2008 are not necessarily indicative of the results expected for the full year. You should read these statements in conjunction with our audited consolidated financial statements and management's discussion and analysis included in our annual report on Form 10-K for the year ended April 30, 2007.

The preparation of the unaudited condensed consolidated financial statements requires management 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. On an ongoing basis, we evaluate our estimates, including, but not limited to, those related to revenue, vendor specific objective evidence (VSOE), bad debts, capitalized software costs, goodwill, intangible asset impairment, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

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. Principles of Consolidation

The condensed consolidated financial statements include the accounts of Logility, Inc. and its wholly owned subsidiary, Demand Management Inc. (DMI). All significant intercompany balances and transactions have been eliminated in consolidation.

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 reportable segment, Collaborative Supply Chain Management, providing collaborative supply chain solutions to streamline and optimize the production, distribution and management of products between trading partners.

D. Comprehensive Income

We have adopted SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 establishes standards for reporting and presenting 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.

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Notes to Condensed Consolidated Financial Statements unaudited (continued)

January 31, 2008

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. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and 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) 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 revenue 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, in most cases we record our sales through the DMI channel 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. Typically, we sell maintenance contracts for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. We generally bill maintenance fees annually in advance. Maintenance revenue is recognized 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, VSOE for maintenance is based on prices when sold separately.

Services. Revenue derived from services primarily includes consulting, implementation, and training. We primarily bill fees under time and materials arrangements and recognize revenue as we perform services. 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), we recognize amounts received for reimbursement of travel and other out-of-pocket expenses incurred as revenue in the consolidated statements of operations under services and other. Reimbursements received from customers for out-of-pocket expenses totaled approximately \$182,000 and \$623,000 for the three and nine months ended January 31, 2008, respectively, and \$172,000 and \$444,000 for the three and nine months ended January 31, 2007, respectively.

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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 the sales meet all other conditions of SOP 97-2 and SOP 98-9.

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 or nine months ended January 31, 2008 and 2007.

G. Earnings per Share of Common Stock

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

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

	Three Months Ended January 31, 2008 2007 (in thousands, except		Nine Months Ended January 31, 2008 2007 (in thousands, except	
	per share data)		per share data)	
Common Shares:				
Weighted average common shares outstanding	12,964	12,898	12,950	12,897
Dilutive effect of outstanding stock options	372	322	422	350
Total	13,336	13,220	13,372	13,247
Net earnings	\$ 835	\$ 1,995	\$ 4,354	\$ 4,031
Earnings per common share:				
Basic	\$ 0.06	\$ 0.15	\$ 0.34	\$ 0.31
Diluted	\$ 0.06	\$ 0.15	\$ 0.33	\$ 0.30

For the three and nine months ended January 31, 2008, we excluded options to purchase 6,000 and 5,011 shares of common stock, respectively, and for the three and nine months ended January 31, 2007, we excluded options to purchase 117,590 and 37,590 shares of common stock, respectively, from the computation of diluted earnings per share. We excluded these option share amounts because the exercise prices of those

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options were greater than the average market price of the common stock during the applicable period. As of January 31, 2008, we had a total of 670,470 options outstanding and as of January 31, 2007, we had a total of 757,386 options outstanding.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements unaudited (continued)

January 31, 2008

H. Share Repurchase

In February 2003, our Board of Directors amended an existing stock repurchase program to authorize the repurchase of up to an additional 400,000 shares of our common stock for a total authorized repurchase amount of up to 1,550,000 shares. We had repurchased 1,326,104 shares of our common stock for \$8,123,800 as of January 31, 2008.

I. Stock-Based Compensation

On May 15, 2007, our Board of Directors adopted the Logility, Inc. 2007 Stock Plan. The 2007 Stock Plan was approved by Shareholders on August 21, 2007, at the Logility annual meeting of Shareholders. The 2007 Stock Plan replaced the Company's 1997 Stock Plan, which expired on August 7, 2007, and provides for the granting of options to purchase up to 500,000 shares of common stock and up to 300,000 stock appreciation rights units, on terms similar to those in the 1997 Stock Plan. Options previously granted under the 1997 Stock Plan will continue to be exercisable in accordance with their terms.

On July 17, 2007, American Software exercised its right to extend the term of the Stock Option Agreement between the Company and American Software for an additional ten years, expiring on August 7, 2017.

Effective May 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), *Share-Based Payment* using the modified prospective transition method. Under this transition method, compensation cost recognized on or after May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or after May 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R).

During the nine months ended January 31, 2008 and 2007, we granted options for 20,000 and 114,000 shares of common stock, respectively. We recorded stock option compensation cost of approximately \$99,000 and \$85,000 and related income tax benefits of approximately \$5,000 and \$2,000 during the three months ended January 31, 2008 and 2007, respectively. We recorded stock option compensation cost of approximately \$277,000 and \$288,000 and related income tax benefits of approximately \$30,000 and \$38,000 during the nine months ended January 31, 2008 and 2007, respectively. Stock-based compensation expense is recorded on a straight-line basis over the vesting period.

SFAS 123(R) requires that cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows. We generated excess tax benefits of \$873,000 and \$0 for the nine months ended January 31, 2008 and 2007, respectively.

During the nine months ended January 31, 2008 and 2007, we issued 83,276 and 34,961 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the nine months ended January 31, 2008 and 2007, based on market value at the exercise dates was \$685,946 and \$201,609, respectively. As of January 31, 2008, unrecognized compensation cost related to unvested stock option awards totaled approximately \$1.2 million and is expected to be recognized over a weighted average period of 2.1 years.

Table of Contents**LOGILITY, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements unaudited (continued)****January 31, 2008****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. In situations in which tax sharing agreements do not provide an allocation methodology that is acceptable for financial statement purposes, differences may arise between the amounts reported in the financial statements and the amounts actually payable or receivable under the tax sharing agreement. These differences generally should be reported as adjustments to capital (as contributed capital or deemed dividends) in the separate financial statement of the subsidiaries.

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 January 31, 2008	Three months ended January 31, 2007	Nine months ended January 31, 2008	Nine months ended January 31, 2007
General corporate services including accounting, insurance and employee benefits services expense	Apportioned based on formula to all ASI subsidiaries	\$ 288,684	\$ 296,000	\$ 929,916	\$ 917,000
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	9,925	11,000	37,950	102,000

The Services Agreement had an initial term of three years and is renewed automatically thereafter for successive one-year terms unless either Logility or ASI elects not to renew its term by giving proper notice. 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 was for two years and is renewed automatically thereafter for successive one-year terms; 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

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Notes to Condensed Consolidated Financial Statements unaudited (continued)

January 31, 2008

the disposition by ASI of any facility that ASI owns. The parties valued the services related to this agreement at \$113,545 and \$105,000 for the three months ended January 31, 2008 and 2007, respectively, and \$324,228 and \$309,000 for the nine months ended January 31, 2008 and 2007, respectively.

Technology License Agreement We have granted ASI a nonexclusive, nontransferable, worldwide perpetual 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), provided such license is limited to maintaining and supporting users that have licensed *Logility Voyager Solutions* products from ASI. Pursuant to this Agreement, ASI and Logility are required to disclose to one another any and all enhancements and improvements that they may make or acquire in relation to a *Logility Voyager Solutions* product, subject to confidentiality requirements imposed by third parties. 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 licensed by Logility to ASI revert to us, while all rights to enhancements and improvements that ASI makes 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.

K. Recent Accounting Pronouncements

In July 2006, the FASB issued SFAS Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 applies to all tax positions accounted for under SFAS 109. FIN 48 refers to tax positions as positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include the following:

A decision not to file a tax return in a particular jurisdiction for which a return might be required,

An allocation or a shift of income between taxing jurisdictions,

The characterization of income or a decision to exclude reporting taxable income in a tax return, or

A decision to classify a transaction, entity, or other position in a tax return as tax exempt.

FIN 48 clarifies that a tax benefit may be reflected in the financial statements only if it is more likely than not that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. This is a change from prior practice, whereby companies were able to recognize a tax benefit only if it is probable a tax position will be sustained.

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Notes to Condensed Consolidated Financial Statements unaudited (continued)

January 31, 2008

We adopted the provisions of FIN 48 on May 1, 2007. As a result of the implementation of FIN 48, we did not record any cumulative adjustments to retained earnings as of May 1, 2007. As of the date of adoption, our unrecognized tax benefits totaled \$60,000, inclusive of interest and penalties of approximately \$26,000, primarily related to state income taxes, all of which, if recognized, would impact the effective tax rate. An additional accrual of \$41,000, inclusive of interest and penalties of approximately \$9,000, was made for the nine months ended January 31, 2008. We classify interest and penalties related to uncertain tax positions in income taxes.

We conduct business globally and, as a result, file income tax returns in the United States Federal jurisdiction and in many states and foreign jurisdictions. We are no longer subject to U.S. Federal, state and local or non-U.S. income tax examinations for years prior to 2000.

We do not anticipate that total unrecognized tax benefits will significantly change in the next twelve months due to the expiration of statute of limitations prior to March 31, 2008.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-03: *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross Versus Net Presentation)*. EITF 06-03 provides that any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer may include, but is not limited to, sales, use, value added, and some excise taxes. EITF 06-03 also provides that the presentation of taxes on either a gross (included in revenue and costs) or a net (excluded from revenues) basis is an accounting policy decision that a company should make and disclose in its financial statements. Any such taxes that are reported on a gross basis, if material, should be disclosed in interim and annual financial statements for each period for which an income statement is presented. The disclosure of those taxes can be done on an aggregate basis. EITF 06-03 is effective for financial statements for interim and annual reporting periods beginning after December 15, 2006. We recognize taxes collected from customers and remitted to governmental authorities on a net basis, therefore no additional disclosures are deemed necessary.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* , which becomes effective for fiscal periods beginning after November 15, 2007. SFAS No.157 addresses the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurement of a company's assets and liabilities. SFAS No.157 requires that the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. We do not expect this issue to have a material impact on our 2009 consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* , which becomes effective for fiscal periods beginning after November 15, 2007. Under SFAS No. 159 companies may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election called the fair value option will enable some companies to reduce volatility in reported earnings caused by measuring related assets and liabilities differently. We do not expect this issue to have a material impact on our 2009 consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* , which becomes effective for fiscal periods beginning after December 15, 2008. SFAS No. 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred

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Notes to Condensed Consolidated Financial Statements unaudited (continued)

January 31, 2008

to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values, the identifiable assets acquired, liabilities assumed, and any non-controlling interests in the acquiree. In the case of a bargain purchase, the acquirer is required to re-evaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. We do not expect this issue to have a material impact on our 2010 consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB 51*, which becomes effective for fiscal periods beginning after December 15, 2008. This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure on the face of the consolidated statement of income, the amounts of consolidated net income attributable to the parent and to the non-controlling interest. In addition, this statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. We do not expect this issue to have a material impact on our 2010 consolidated financial statements.

L. Contingencies

The Company more often than not indemnifies its customers against damages and costs resulting from claims of patent, copyright or trademark infringement associated with use of the Company's products. The Company has historically not been required to make any payments under such indemnifications. However, the Company continues to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the indemnifications when those losses are estimable. In addition, the Company warrants to customers that the Company's products operate substantially in accordance with the software product's specifications. Historically, no costs have been incurred related to software product warranties and none are expected in the future, and as such no accruals for software product warranty costs have been made. Additionally, the Company is involved in various claims arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

M. Subsequent Event

On March 7, 2008, the Company purchased 25,000 shares of its common stock for approximately \$143,000 under the current authorized share buy-back program.

**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

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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

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 2008" and "fiscal 2007" refer to our fiscal years ending April 30, 2008 and 2007, 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, and in particular may be affected by conditions in U.S. and global credit markets. In the recent period, 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 continues to be relatively weak when compared to the period prior to the last economic downturn.

However, we believe over the long-term information technology spending should incrementally 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 due in part to the recent concerns in the global capital markets, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. While our sales pipelines have been improving, customers continue to take long periods to evaluate discretionary software purchases.

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.

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We derive revenue 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 primarily bill under time and materials arrangements and recognize revenue 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 and then recognize the resulting revenue ratably over the term of the maintenance agreement. Deferred revenue represents 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 revenue 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 SAP and IBM;

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;

The risks associated with acquisitions of complementary companies, products and technologies, including the risks that we will not achieve the financial and strategic goals that we contemplate at the time of the transaction; 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 customers of the acquired business;

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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, 2007.

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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 January 31, 2008 and 2007:

	Percentage of Total Revenues		Pct. Change in Dollars 2008 vs 2007
	2008	2007	
Revenues:			
License	24%	35%	(40)%
Services and other	19	16	9
Maintenance	57	50	1
Total revenues	100	100	(12)
Cost of revenues:			
License	14	12	3
Services and other	9	8	(3)
Maintenance	13	11	3
Write-down of capitalized computer software	12		nm
Total cost of revenues	48	30	36
Gross margin	52	70	(33)
Operating expenses:			
Research and development	12	12	(10)
Sales and marketing	24	21	1
General and administrative	9	12	(38)
Amortization of acquisition-related intangibles	1	1	(1)
Total operating expenses	46	46	(12)
Operating income	6	23	(74)
Other income, net	5	4	18
Earnings before income taxes	11	27	(61)
Income tax expense	4	10	(66)
Net earnings	7%	18%	(58)%

nm not meaningful

Subtotals may not total due to rounding.

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Nine-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 nine months ended January 31, 2008 and 2007:

	Percentage of Total Revenues		Pct. Change in Dollars 2008 vs 2007
	2008	2007	
Revenues:			
License	32%	34%	(1)%
Services and other	18	15	25
Maintenance	50	50	7
Total revenues	100	100	7
Cost of revenues:			
License	14	14	8
Services and other	9	8	13
Maintenance	11	12	(2)
Write-down of capitalized computer software	4		nm
Total cost of revenues	37	34	17
Gross margin	63	66	2
Operating expenses:			
Research and development	12	12	5
Sales and marketing	22	24	(0)
General and administrative	11	12	(9)
Amortization of acquisition-related intangibles	1	1	
Total operating expenses	45	49	(1)
Operating income	18	17	10
Other income, net	4	4	18
Earnings before income taxes	22	21	11
Income tax expense	9	9	16
Net earnings	13%		