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PRESENTATION

Operator

Welcome to the 9 months 2017 Results Conference Call of the Linde Group. At our customer's request, this conference will be recorded and published afterwards.

Please be aware that this discussion may contain certain forward-looking statements, including statements concerning Linde's businesses and strategies and the business combination between Linde and Praxair.

Please also be aware that in connection with the proposed business combination, Linde PLC, a newly formed holding company has filed a registration statement with the U.S. SEC and published an offer document, which was approved for publication by German BaFin, and an amendment to such offer document.

Praxair's stockholders approved the merger at Praxair's Special Meeting held on September 27, 2017. We urge you to read the offer document and amendment thereto as it contains important information.

May I now hand you over to Mr. Wang, who will lead you for this conference.

Bernard Wang - Linde Aktiengesellschaft - Head of IR

Thank you, operator. On behalf of Linde, we would like to thank you to -- for joining our results presentation for the first 9 months of the 2017 financial year. Hosting today's presentation is Dr. Sven Schneider, our CFO. Also joining us today is Dr. Aldo Belloni, our CEO.

Before beginning the presentation, I would like to hand you over to Dr. Belloni for some brief remarks about the planned merger with Praxair.

Aldo Ernesto Belloni - Linde Aktiengesellschaft - Chairman of Executive Board, CEO & Employment Director

Good afternoon, ladies and gentlemen. Let me take this opportunity to provide a quick update on the status of the planned merger with Praxair. As reported, as of 14:00 Central European Time on Tuesday, the 24th of October, 64.5% of Linde's shares entitled to voting rights have been tendered.

We are happy to report that the development has further improved, reaching 67.9% as of yesterday at 14:00. We would like to thank our shareholders for their support in achieving this very positive interim results.

With this, we are now over the 60% minimum acceptance ratio that we and Praxair earlier this week jointly set for the exchange offer. Assuming that the tendering rate stays above the minimum ratio when the acceptance period closes at midnight Central European Time of the 7th of November, then the offer will be successful and an additional acceptance period of 2 weeks will commence soon thereafter.

We expect that certain index providers such as SEI and FTSE will adopt the tender share class during the additional acceptance period, which is expected to end on the 24th of November. However, as communicated, should the acceptance ratio be less than 74% at the end of this additional acceptance period, this might trigger significant adverse tax consequences. And if that should be the case, the business combination would likely fail. So we remain confident that the exchange offer will be successful. It nevertheless remains important that any shareholders that have yet to tender their shares do so as soon as possible.

And on the side of shareholder approval processes, the regulatory review process is also moving forward where 5 is for approval in multiple jurisdictions, including the U.S. and China. We are also including the exchange with further jurisdictions, including India and the European Commission.

On the 16th of October, we announced that the business combination has received unconditional antitrust clearance in Russia, thus satisfying a closing condition. Approval has also been received in Pakistan, Paraguay and Turkey. We will be providing appropriate updates on the regulatory review and potential divestitures as the situation progresses.

Last, but not least, integration planning with the boundaries -- within the boundaries of competition laws is also fully on track. Overall, we remain on track to complete the merger and aim to begin as a new company in the second half of next year.

Bernard Wang - Linde Aktiengesellschaft - Head of IR

Turn to Slide 3 for today's agenda. Dr. Schneider will open the presentation with a report on our operational and financial performance during the reported period. This will be followed by a progress update on our strategic plan and finally, the outlook for 2017.

Let me now hand you over to Dr. Schneider.

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Thank you very much. Good afternoon, ladies and gentlemen, and a warm welcome from my side. Let me begin with highlights from the first 9 months of 2017 on Slide 4.

Group revenue from continuing operations was EUR 12.9 billion, up 2.7% versus the reported figure for the prior year. Adjusted for currency, the increase was 2.4%. The growth in revenue was driven by the industrial Gases business as well as by a higher contribution from Engineering.

Group operating profit grew by 3.8% to EUR 3.15 billion. Adjusted for currency, operating profit increased by 3.7%. The over proportional increase in profit versus sales resulted in a margin increase by 30 basis points versus the year-ago period. This increase was supported by higher margins in the Gases Division.

Operating cash flow was 7.4% below last year's level and amounted to EUR 2.3 billion. However, operating cash flow in the third quarter did come in 12% higher than the same period last year.

Special items of EUR 277 million are recorded in the reported period. These expenses are related to restructuring as well as the planned merger with Praxair.

Finally, at EUR 5.71, EPS before special items showed a strong increase of 9.2% compared to the same period last year.

I would like to proceed to Slide #5 and the development of revenue and operating profit by division. Reported revenue in the Gases Division rose by 2.1% to EUR 11.2 billion. The increase was driven by organic growth as well as tailwinds from natural gas prices effects and currency.

At EUR 3.2 billion, operating profit in the Gases Division increased by 3.5% versus the year-ago period. The operating profit margin increased by 40 basis points to 28.5%. If adjusted for higher natural gas prices, the margin would have been 28.7%, 60 basis points above last year's level.

In the Engineering Division, reported revenue of EUR 1.8 billion was 4% ahead of the level in the first 9 months of 2016. The operating profit margin of 8.4% was stable versus last year and is in line with our guidance for 2017.

Continuing on to Slide 6 for a review of the revenue bridge in the Gases Division. Higher natural gas prices in all operating segments positively affected the comparable base by 0.8% versus the prior year period. Currency also provided a slight tailwind in the reported period coming in at 0.2%.

However, the appreciation of the euro versus many currencies significantly reduced the tailwind during the third quarter. After adjusting for natural gas and currency, Gases' comparable growth for the first 9 months was plus 1%. This was supported by a comparable growth figure in Q3 of 2.6%. Please note that this figure reflects diverse trends across product areas, in particular, in Healthcare. I will cover this subject in more detail on Slide 7.

Moving to Slide 7. Excluding Healthcare, comparable growth was 4.5% in the reported period. In Healthcare, comparable growth was minus 9.2% versus the prior year. The main negative influence was from competitive bidding.

In addition, consolidation effects from the specialty pharma divestment and American HomePatient acquisition had an impact on growth. Excluding these consolidation effects, comparable growth in Healthcare would have been minus 5.5%.

Moving on to on-site. Contributions from start-ups and ramp-ups in all operating segments resulted in solid growth of 5.6% on a comparable basis. Please note that the growth rate in on-site slowed in the third quarter as most of the significant start-ups for 2017 have already occurred and ramp-ups from past years approached completion. Due to these factors, the growth rate is expected to slow further in the fourth quarter, as previously communicated.

Continuing to bulk. Comparable growth in this product area remains strong at 6.5%. Positive development continues to be seen in all regions, with Asia remaining the most notable contributor to growth.

In cylinder, comparable growth was positive at 1.4%. Cylinder development improved in all operating segments in the third quarter. In contrast, our specialty gases business has been restrained by lower prices versus the first 9 months of 2017 though the effect did diminish in the third quarter and is expected to be minimal in the fourth quarter.

Now moving on to revenue by operating segment on Slide 8. In the EMEA operating segment, revenue grew in the reported period by 2.7% while comparable growth came in at 2.9%. In terms of regions, Northern Europe, the Middle East and Eastern Europe made the highest growth contributions. In terms of product, on-site and bulk were the strongest contributors.

In Asia/Pacific, growth was strong on both a reported basis as well as on a comparable basis, coming in at 8.1% and 6.3%, respectively. From a regional perspective, Asia led the way with 8.5% comparable growth while trends in the

South Pacific continued to remain stable but at a low level. From a product area perspective, the highest growth contribution came from bulk and on-site, most notably in East Asia.

In the Americas, revenue was 3.3% below last year's reported level and 5% lower on a comparable basis. As expected, significant headwinds from competitive bidding, the divestment of specialty pharma and lower prices in specialty gases were seen during the reported period. Regionally, positive development in North America was driven by on-site and bulk. However, the macroeconomic situation in South America remains tepid.

Please continue to Slide 9 for a discussion on operating profit by operating segment. As mentioned earlier, both operating profit and margins in the Gases Division were up versus the prior year reported period. The improvement was supported by growth and restructuring savings in all operating segments.

In EMEA, reported operating profit came in at EUR 1.4 billion, an increase of 1.8% versus the year-ago period and resulted in an operating profit margin of 31.5%. It should be noted that the 2016 figure included a positive onetime effect of EUR 39 million from changes to pension plans and profits on asset disposals. Adjusting for this would result in a year-on-year improvement in operating margin by 60 basis points.

In Asia Pacific, operating profit increased year-on-year by 15.3%, corresponding to a margin of 27.9%. Please note that operating profit in the reported period included a benefit from asset sales in the second quarter.

In the Americas, the reported operating margin was stable year-on-year at 24.5% despite headwinds from competitive bidding, specialty Gases and higher natural gas prices. Adjusted for higher natural gas prices, operating margin would have been 20 basis points above last year's level, reflecting positive development in on-site and bulk.

Now moving on to the Engineering Division's performance on Slide 10. In Engineering, revenue developed in line with project progress totaling EUR 1.8 billion in 9 months 2017 and in line with our expectations. The resulting margin of 8.4% is also in line with expectations.

Despite the continued low oil price environment and postponement of investment decisions, in particular, in the petrochemical industry, Engineering's order intake increased year-on-year by 24.1% to nearly EUR 2 billion. This figure includes an order in the third quarter from our customer Gazprom for natural gas plants related to the third phase of the Amur GPP project. At EUR 4.4 billion, the order backlog is at the same level as at the end of last year.

Let me conclude this section of the presentation with our financial performance on Slide 11. As mentioned earlier, operating cash flow declined by 7.4% compared to 9 months. The biggest driver behind the decrease can be seen in the line item, other changes, which includes special items related to restructuring and a decrease in provisions. Another factor was a lower figure for income taxes paid in the year-ago period.

On the other hand, third quarter of 2017 did show an increase of 12% versus Q3 the prior year. This can be attributed to improved profitability as well as lower working capital requirement in both the Gases and Engineering divisions.

In terms of financing activities in the third quarter, we redeemed a bond with a nominal value of NOK 2 billion. As for net debt, this figure declined to EUR 6.7 billion. At the end of the reported period, the corresponding net debt to operating profit ratio was 1.6x.

This concludes the operational and financial performance review. I will now continue to the second part of today's presentation with an update on our strategic plan on Slide 13.

With regard to the FOCUS program, we can confirm that it remains on track to deliver annual savings of approximately EUR 180 million by the end of this year. With regard to the LIFT program, the implementation of associated measures is fully on track in all operating segments in the Engineering Division and with corporate functions.

The progress is visible in the number of employees' figure, which has been reduced by over 1,700 versus the end of 2016, a decline of 2.9%. The result is also visible in our profit and loss statement where adjusted for special items, SG&A expenses are down versus the prior year reported period by EUR 103 million. To date, the total figure for special items associated with LIFT measures is EUR 343 million with EUR 116 million recognized in 2016 and EUR

227 million recognized so far this year.

We continue to expect total restructuring costs related to LIFT of around EUR 400 million by the end of this year. We then confirm that we are on track to realize this year's cost-savings target of around EUR 120 million as well as the targeted savings for LIFT of EUR 370 million by the end of 2019.

Let me provide an update on Slide 14 on another aspect of our strategic plan, quality growth. In the first 9 months of 2017, we have been able to add new projects with an investment value of approximately EUR 500 million to our project pipeline. This brings the total investment for committed projects with on-stream dates in 2018 and beyond to EUR 1.1 billion. The chart on the right side of the slide shows that the proportion of investments is regionally balanced.

One notable addition achieved in the third quarter is a second ASU for our customer ArcelorMittal in Kazakhstan. Also, before the joint venture, we had a new ASU with Erdemir Group to construct and operate the largest gas operation plant for a gases producer in Turkey.

You may recall that back in March, we have guided the CapEx to sales ratio for the Gases Division of 11% to 12% for 2017, which is the same as our midterm guidance. With the positive development of the backlog, we expect that this figure will be at the upper end of this range for full year 2017.

Moreover, we could confirm that we are currently evaluating additional profitable growth opportunities. The further addition of project to investment backlog may require a level of CapEx to sales higher than the midterm guidance in the coming years. We will provide an update for you on this when we report our full year 2017 results in March when we have more visibilities on projects currently in negotiation.

I'm now on Slide 15. As this slide shows, we've confirmed our 2017 outlook at the group level as well as for the Gases and Engineering Divisions. Please note that the outlooks for the group and Gases Division are relative to the respective 2016 figures adjusted for FX.

Thank you for your attention and interest in Linde. We are happy to take your questions now. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Martin Roediger, Kepler Cheuvreux.

Martin Roediger - Kepler Cheuvreux, Research Division - Equity Research Analyst

Yes, thanks for taking my 3 questions. First, on your growth rate in Gas in Americas. If I strip out the deconsolidation effect, your organic growth rate in Q3 was flat, and there is no adverse comparison base from competitive bidding [3]. So what is the reason why you cannot keep paces and achieve organic growth in Americas? Is that all to do your poor performance in South America? Secondly, on Engineering. I see EBITDA margin at 9.2% in Q3, ahead of your guidance of 8%. Is that due to cost savings? And in that context, I see you have substantially added restructuring costs in Engineering Q3. Is that an indication that we should expect the margin go forward to be structurally higher than your 8% guidance? And finally, maybe you can give us a comment on recent press articles. Can you clarify whether the Engineering business in its current set up as well as the Healthcare gas business will remain part of your portfolio after the merger?

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Martin, I will take number 1 and number 2, and Aldo will take your third question on Engineering and Lincare. So your first question to the Gases margin in the Americas. So first, your remark on the Healthcare comparable number for Q3 being flat is broadly correct. Your second statement that there is a poor performance in South America with a drag on the margin, I cannot confirm. The reason for the restrained growth in Q3 comes, again, from Healthcare but not from competitive bidding because year-on-year, there was no impact. But it's coming from, as we communicated last time, from commercial or private insurers. That's the answer to the first question. The second question to Linde Engineering, you pointed out that the margin is 9.2% above the range. Do we revisit the range and is it LIFT-related, the answer is we stick to our guidance of around 8%. You know that the Engineering business is a project-based business where a pure quarterly perspective makes limited sense. So in 1 quarter, it can be a bit higher, in another one, it can be a bit lower. It has to do with the percentage of completion and the execution progress on Engineering project and, to a lesser extent, with LIFT. LIFT, we can confirm, as I said in my speech, introductory speech, that the LIFT measures are all on track, including Engineering. But that doesn't warrant a change of the midterm operating profit margin for Engineering.

Aldo Ernesto Belloni - Linde Aktiengesellschaft - Chairman of Executive Board, CEO & Employment Director

Okay, this is Aldo. I'm referring to this article in the [Frankfurt] (inaudible) site, where an analyst reports with regard to a meeting with the CFO for Praxair was quoted. None of us were attending this meeting, so we're just relying on this source of information. I can only tell you that I am engaged in conversation on these topics with the CEO of Praxair, who has reconfirmed and given me assurance that no decision have been made with regard to the retention, neither of the Engineering business nor of the Lincare business. These are decisions, which will be scrutinized and examined after closing in due course. But for the time being, we assume that both the Engineering Division and the Lincare business will be part of Linde PLC in the future.

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

If I may add one additional information, I think it's important that we all are aware that the, I would say, primarily -- the primary observation of just the operating profit margin is not sufficient from our perspective. Yes, the operating profit margin of Engineering is significantly below Gases, no doubt about that. But Engineering has various other very important contributors to our group. Just to mention, a positive ROCE impact, a positive cash flow impact and there's also an impact of having access to customers and technologies in certain areas. That's why we think it's a cornerstone of our business. Thank you.

Operator

The next question is from Peter Clark, Societe Generale.

Peter Anthony John Clark - Societe Generale Cross Asset Research - Senior Analyst, Chemicals

On a positive quarter, we've mentioned America. But going to Asia Pac, Asia/Pacific, if I'm assuming that Australia now has modest growth and I know you keep saying it's stable, but certainly we've had a message that it might actually be seeing a bit of price inflation, a bit of volume inflation. The rest of Asia looks like it could be growing double-digit. I want to drill down into that, if that's about right and just touch on the pricing environment because all 3 are now talking about this China pricing story. I guess, your biggest competitor talked about price over 4%. Just how you see that and how you see [figuring the error stuff], the utilization in that market now because all your competitors are throwing out a number for that. And then secondly, if I'm looking at the cylinder business, the acceleration there, which is pretty encouraging really, and maybe Australia is a little [growing] that as well but, clearly, Europe probably is, just how that acceleration is coming through. And then again, I was reading all these headlines about the Engineering business and Lincare. I'm not aware of this stuff coming out of the CFO of Praxair, so it seems a bit intriguing to me. But in terms of the Lincare business itself, clearly, it's much more disappointing than you thought. And you're talking now about the private insurers again, just how you see that trending from the private insurer stuff, that would be great.

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Peter, thank you for your questions. The first one on Asia. Let me start with South Pacific, Australia. The situation has stabilized on a low level, that's something we can confirm again. With our big customers, the so-called light industry with our small customers is still a bit weak. So we see a very low comparable growth in South Pacific. So the real growth comes out of the other parts of Asia. And here, we can only repeat what you have said that from a volume and pricing perspective, APAC is very positive, be it bulk, be it cylinders, be it tonnage outside of Australia. So that we can definitely confirm. And from a capacity utilization perspective, for example, if we look at East Asia, we look at the bulk utilization, we are definitely above the average utilization rate in that market. And that's a very positive sign supporting that. Moving to the cylinders. Here, you are right. We have seen a positive development in Q3. The positive development in Q3 is mainly driven from cylinder growth in all regions in EMEA and in APAC. And as I said before, there is a component, which is price, but there is also a significant volume component to the cylinder growth in these regions.

In the U.S., the growth in cylinders is restrained from the specialty gas pricing effect, although, as I said before, it's less pronounced than in the first quarters. So really, the specialty gases price effect in the -- in Q3 is a single digit number so not relevant anymore. And to your third question to Lincare, I don't want to repeat my very long speech from the last calls, but you are aware that we always look at 3 important levers. One is the patient growth and the underlying growth, the megatrend, so to say, this is intact and stays positive. We have seen some low digit growth from this volume perspective in the first 9 months in Lincare. The second one is anything about new applications. We are working on that, but you cannot easily translate them into quarterly sales. And the third component is M&A. And as we have mentioned earlier today, in our press conference, there are small M&A activities, which we are doing, and there are some other more sizeable M&A opportunities, which we are currently looking at, which is important to split the cost over a bigger population of patients. We have not yet concluded these transactions because, unfortunately, the U.S. administration has not yet clearly stated how they will look at the industry going forward. But on your comment with the private insurers, yes, unfortunately, the positive effect from an underlying patient growth base is, so to say, negatively impacted by the pricing pressure from these insurers. I hope that was a comprehensive answer to the Lincare situation.

Operator

We have received another question from Markus Mayer, Baader-Helvea.

Markus Mayer - Baader-Helvea Equity Research - Lead Analyst of Chemicals

One question again on the [specialty pharma] business. Part of the kind of political transition, do you expect certain competitive bidding processes in the U.S.? And should the (inaudible) if there are any (inaudible) , the same kind of phasing with the same kind of [1, 2, 3] (inaudible) . Yes, that's the first one I had. And secondly, on the cash flow, very nice operating cash flow. You said this was from a change in the working capital also from higher operating profits but mostly also effects from prepayment coming (inaudible) and if so, what kind of effect was it?

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Okay, Markus, sorry, the line was pretty bad. I hope I got your first question right, but let me start with the second one. And then I'll answer as much as I understood it, and please come back in case something is missing. So on the operating cash flow, as you said, Q3 was pretty strong, 12% up compared to last year. Two -- Three important factors. One was increase of operating profit. Secondly, improvement of working capital Engineering, which is prepayment and third, improvement of working capital at Gasses. So that was the cash flow answer. And if I got your question on competitive bidding right, you asked about rebates and bids and is there any clarity. Unfortunately, the only information I still have is there seems to be a postponement of the 2019, but we do not have yet any further evidence on how the U.S. administration looks at that. We are, of course, actively engaged in lobbying in Washington and in other places but that's, unfortunately, all I can tell you at that moment in time.

Operator

The next question is from Mr. Andreas Heine, MainFirst Bank.

Andreas Heine - MainFirst Bank AG, Research Division - MD

I have basically two questions. The first is on CapEx. You indicated that your CapEx to sales ratio as of next year, at least going forward, might be back, let's say, to a nicer growth pace in the range of 13% or maybe even higher. Is that due to 1 or 2 very big projects? Or do you see this as a trend of investments across the industrial gas industry going up again? And also coming through the nice performance in Q3. That is basically what now all the major players have reported, a much faster growth in Q3 than in the first half. Is there something which is specific to this quarter or can we also extrapolate this? Looking back on what you have conveyed in the SEC filings, looking forward more to an average growth of 3% for the coming years for the group, it looks like that, that is now rather cautious given what you were able to deliver in this specific quarter, if it is lasting?

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Andreas, thank you for the questions. Number one, on CapEx. I mean, as we all know, the CapEx sales ratio depend on project -- project, progress, but it also depends on a lot of other extrinsic variables, exchange rate, energy and so on. But leaving that aside, I think it's important to guide you a bit up as we've said, so 12%-ish towards the end of the year. I think it's premature to really give you a more accurate guidance on '18 following as we are in negotiations for a couple of projects and probably that's the answer to your question, though we are not talking about one only. There are bigger projects, there are also smaller projects, and rest assured, that we always look at the CapEx also from a portfolio perspective before we make any decisions in the investment committee. The second one, Q3 and maybe also important to clarify that. I mean, we have shown you the comparable growth for the 9 months at a percent -- at 4.5%. Excluding Healthcare, we have 2.6% comparable growth in Q3. Excluding Healthcare, the number is 4.3%. So you see that the real restraining factor for the overall Gases growth comes from Healthcare as we have now explained in the previous question. And if you look the details in Q3, the bulk was pretty solid with around 6% cylinder accelerated even and on-site contributions was a bit lower as communicated because of the fact that a couple of these ramp-ups and start-ups from 2016 and '17 are now well in their ramp-up phase, and therefore, the contribution on a full year basis is lower. And therefore, we expect also on-sites in the second half to be below first half. And therefore, if you then, on top of that, take into consideration and maybe I'll preempt a question, which may come, why you're narrowing your guidance for 2017 being now in October, I think the important other element is if you look at our Q4 2016 numbers, there were a couple of special effects, probably will not repeat themselves. One was the so-called Cures Act from the U.S. Healthcare administration where we got EUR 60 million, EUR 6-0 million of OP and revenue in the quarter, which we probably will not repeat this year. We had already a very strong bulk quarter in Q4, and we had the deconsolidation of the healthcare companies, which we disposed of in August last year. So all that is not repeatable. Therefore, we would not now recommend to simply extrapolate linearly the Q3 performance. And therefore, we think our midterm guidance is still the valid one for the next foreseeable time. And last point to that, Andreas, I think we should be all aware that we are living in a world where we still have, unfortunately, a growing number of geopolitical issues, not talking oil price now, which is, of course, a bit better, but far away from previous levels. But if we just think about all the geopolitical hotspots in South America, in Asia, in now also, unfortunately, Europe again, we also have to be a bit careful. And we see, although some of these projects opportunities look pretty reassuring to us, we see still customers who are cautious because of these effects to make now investment decisions, and we need to wait how this will develop.

Andreas Heine - MainFirst Bank AG, Research Division - MD

Very helpful. May I still add a question on this, specify it a bit more? What I have seen in -- from all the 4 players was, in Q3, quite a bit different what we have seen in the first half. And basically, everyone was talking about the acceleration. You had mentioned some specifics you had in Q4, which we have to have in mind, but has something changed across the board in Q3? Do you see, in general, a higher activity in the industrial gases? So if I go back 3, 4 years, then the user growth rate was indeed in the range of 4%, 5%, that seems that in this one single quarter, the industrial gas players are back. I just wonder whether this is just a low base or some special effects, then the company specifics or whether something has happened in Q3, which was really different to the first half?

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Andreas, I think it's -- I would not say there's a fundamental change. I would like to guide you more towards there is a slightly better utilization rate in certain geographies that was -- therefore, also a bit [set up]. The other thing is if you look at the addition of new projects of EUR 500 million for on-stream's 2018 and beyond, we see that in some geographies, we see it with some industries, like electronics, like chemistry and energy. But we [look at] across all industries. Therefore, we should also be aware that the growth is very much dependent on the tonnage project start-ups and ramp-ups, and here I've given you already some guide.

Operator

We have another question from Stephanie Bothwell, Bank of America Merrill Lynch.

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Stephanie Bothwell - BofA Merrill Lynch, Research Division - VP

Just 2 short questions from me. So the first one, in your opening remarks, you noted that you'd already begun initial discussions with a number of the antitrust agencies across a number of jurisdictions. Can you already give us a sense in terms of the most key questions or areas of focus that have come out of those discussions, whether it be on a product level, geography or, indeed, industry-wide considerations? And the second question is on your LIFT program. Can you just give us an update in terms of how much of the cumulative savings you've actually realized to date up until the third quarter of 2017?

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Okay. So to your first question, Stephanie. I'm sorry, but we cannot give you any more detailed information on the antitrust or divestiture process because we are in the middle of discussions as Aldo was mentioning, with more than 20 regulators. And this is still a phase where we want to refrain from any additional comments. To the second question on LIFT, when a couple of topics -- I mean, to help you to understand. Firstly, as I said, LIFT is on track. EUR 120 million of the savings from FOCUS and LIFT for the year 2017, which we expect to come through. We can confirm that number. We have reduced the workforce by 1,700 people in all functions, Engineering and Gas operating segments. And maybe one other data point, and then I would leave it there is if you look at the SG&A cost adjusted for one-timers, you'd see a reduction of EUR 103 million by month '17 compared to '16, which should give some indication of the magnitude of LIFT coming through.

Operator

The next question is from Laurence Alexander, Jefferies.

Laurence Alexander - Jefferies LLC, Research Division - VP and Equity Research Analyst

I want to come back to one of the earlier answers where you're talking about the types of projects that are under consideration. As you -- are you seeing on the Engineering side customers just showing more interest in preparing for when capacity gets sold out? Because when we look at the volumes that are being posted in the last couple of quarters against the capacity's utilization rates, I mean, it looks like probably about 1.5 years, 2 years out, is you should see more projects activity. Is that in line with what you're seeing? Or are customers more cautious?

Aldo Ernesto Belloni - Linde Aktiengesellschaft - Chairman of Executive Board, CEO & Employment Director

Okay, I will take this question. This is Aldo. Yes, there has been, especially in petrochemicals, a pickup of activities. As you know, we are currently executing 3 steam cracker projects at the same time, which is unprecedented in the history of Linde Engineering. And we have signed a fourth one for a customer in Pakistan, which is still -- has to be financed. So I think that for the petrochemical perspective, I can confirm your perception. And also on syngas, especially for refining, we have seen a strong interest in adding hydrogen capacity, especially for fulfilling diesel sulfur requirements. So these are the two more visible drivers for the activities of Linde Engineering.

Laurence Alexander - Jefferies LLC, Research Division - VP and Equity Research Analyst

And then on the cylinder business. How much cyclical leverage do you think the business has as it is currently constituted? If and when then markets do recover, how much more incremental margin lift or operating leverage do you think you'd have to a recovery in volumes?

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

I think that really very much depends on the mix. I don't think I can give you an accurate number.

Operator

There are currently no more questions. (Operator Instructions) We have received another question from Peter Clark, Societe Generale.

Peter Anthony John Clark - Societe Generale Cross Asset Research - Senior Analyst, Chemicals

It's just a quick one, and it's a small but it's, I think, symbolic maybe. I keep seeing [legislatoris] with the Linde Group company outside M&A and stuff. And I'm just wondering how that is progressing, if there's anything to say because it's still being seen in the group. And it's been quite some time now it's been noncore and quite some time now you've really gone through a sale, I think. I'm just wondering how that's progressing. And maybe your case is not easy, but I'm just wondering.

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Peter, I appreciate that you're looking after our business and that you can confirm that the trucks are driving around. So good question. So we can, I mean, the fact that we show it as discontinued operations should give you enough comfort that we are evaluating the disposals. We are well advanced in the process, but we cannot communicate on buyers or on price as you will understand. But the sale is ongoing, I can confirm that.

Operator

There are no more questions. I will hand back to Dr. Sven Schneider.

Sven Schneider - Linde Aktiengesellschaft - CFO, Head of Group Treasury & Member of Executive Board

Thank you, operator, and thank you all on the call for the good discussion and all the questions. If you have any further question, please reach out to our IR team. We are happy to assist. Thank you for interest and the time you spent with us, and have a great weekend. Bye-bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.

Additional Information and Where to Find It

In connection with the proposed business combination between Praxair, Inc. ("Praxair") and Linde AG ("Linde"), Linde plc has filed a Registration Statement on Form S-4 (which Registration Statement was declared effective on August 14, 2017) with the U.S. Securities and Exchange Commission ("SEC") that includes (1) a proxy statement of Praxair that also constitutes a prospectus for Linde plc and (2) an offering prospectus of Linde plc to be used in connection with Linde plc's offer to acquire Linde shares held by U.S. holders. Praxair has mailed the proxy statement/prospectus to its stockholders in connection with the vote to approve the merger of Praxair and an indirect wholly-owned subsidiary of Linde plc, and Linde plc has distributed the offering prospectus to Linde shareholders in the United States in connection with Linde plc's offer to acquire all of the outstanding shares of Linde. Linde plc has also filed an offer document with the German Federal Financial Supervisory Authority (Bundesanstalt fuer Finanzdienstleistungsaufsicht) ("BaFin") which was approved for publication by BaFin on August 14, 2017, published by Linde plc on August 15, 2017, and amended by Linde plc on October 23, 2017 (the "offer document"). Praxair's stockholders approved the merger at Praxair's special meeting held on September 27, 2017. The consummation of the proposed business combination remains subject to regulatory approvals and other customary closing conditions.

INVESTORS AND SECURITY HOLDERS OF LINDE ARE URGED TO READ THE OFFER DOCUMENT REGARDING THE PROPOSED BUSINESS COMBINATION TRANSACTION AND OFFER BECAUSE IT CONTAINS IMPORTANT INFORMATION. You may obtain a free copy of documents filed by Praxair, Linde and Linde plc with the SEC on the SEC's Web site at www.sec.gov. The offer document is available for free at Linde plc's Web site at www.lindepraxairmerger.com. Furthermore, the offer document is available at BaFin's Web site for free at www.bafin.de. You may also obtain a copy of the offer document from Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Germany for distribution free of charge (also available from Deutsche Bank Aktiengesellschaft via e-mail to dct.tender-offers@db.com or by telefax to +49 69 910 38794).

This document is neither an offer to purchase nor a solicitation of an offer to sell shares of Linde plc, Praxair or Linde. The final terms and further provisions regarding the public offer are disclosed in the offer document and in documents filed with the SEC. No money, securities or other consideration is being solicited, and, if sent in response to the information contained herein, will not be accepted. The information contained herein should not be considered as a recommendation that any person should subscribe for or purchase any securities.

No offering of securities shall be made except by means of a prospectus meeting the requirements of the U.S. Securities Act of 1933, as amended, and applicable European and German regulations. The distribution of this document may be restricted by law in certain jurisdictions and persons into whose possession any document or other information referred to herein come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Subject to the exceptions described in the offer document and to any exceptions potentially granted by the respective regulatory authorities, no offering of securities will be made directly or indirectly in any jurisdiction where to do so would be a violation of the respective national laws.

Forward-looking Statements

This communication includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on our beliefs and assumptions on the basis of factors currently known to us. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. These forward-looking statements include, but are not limited to, statements regarding benefits of the proposed business combination, integration plans and expected synergies, and anticipated future growth, financial and operating performance and results. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted or expected. No assurance can be given that these forward-looking statements will prove accurate and correct, or that projected or anticipated future results will be achieved. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to: the expected timing and likelihood of the completion of the contemplated business combination, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the contemplated business combination that could reduce anticipated benefits or cause the parties to abandon the transaction; the occurrence of any event, change or other circumstances that could give rise to the termination of the business combination agreement; the ability to successfully complete the proposed business combination and the exchange offer; regulatory or other limitations imposed as a result of the proposed business combination; the success of the business following the proposed business combination; the ability to successfully integrate the Praxair and Linde businesses; the possibility that the requisite number of Linde shares may not be tendered in the public offer; the risk that the parties may not be able to satisfy the conditions to closing of the proposed business combination in a timely manner or at all; risks related to disruption of management time from ongoing business operations due to the proposed business combination; the risk that the announcement or consummation of the proposed business combination could have adverse effects on the market price of Linde’s or Praxair’s common stock or the ability of Linde and Praxair to retain customers, retain or hire key personnel, maintain relationships with their respective suppliers and customers, and on their operating results and businesses generally; the risk that Linde plc may be unable to achieve expected synergies or that it may take longer or be more costly than expected to achieve those synergies; state, provincial, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the industrial gas, engineering and healthcare industries; outcomes of litigation and regulatory investigations, proceedings or inquiries; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for industrial gas, engineering and healthcare and related services; potential effects arising from terrorist attacks and any consequential or other hostilities; changes in environmental, safety and other laws and regulations; the development of alternative energy resources; results and costs of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions; increases in the cost of goods and services required to complete capital projects; the effects of accounting pronouncements issued periodically by accounting standard-setting bodies; conditions of the debt and capital markets; market acceptance of and continued demand for Linde’s and Praxair’s products and services; changes in tax laws, regulations or interpretations that could increase Praxair’s, Linde’s or Linde plc’s consolidated tax liabilities; and such other factors as are set forth in Linde’s annual and interim financial reports made publicly available and Praxair’s and Linde plc’s public filings made with the SEC from time to time, including but not limited to those described under the headings “Risk Factors” and “Forward-Looking Statements” in Praxair’s Form 10-K for the fiscal year ended December 31, 2016, which are available via the SEC’s Web site at www.sec.gov. The foregoing list of risk factors is not exhaustive. These risks, as well as other risks associated with the contemplated business combination, are more fully discussed in the proxy statement/prospectus and the offering prospectus included in the Registration Statement on Form S-4 filed with the SEC and in the offering document and/or any prospectuses or supplements to be filed with BaFin in connection with the contemplated business combination. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Linde, Praxair or Linde plc has described. All such factors are difficult to predict and beyond our control. All forward-looking statements included in this document are based upon information available to Linde, Praxair and Linde plc on the date hereof, and each of Linde, Praxair and Linde plc disclaims and does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Increase (decrease) in liabilities:

Accounts payable, accrued costs and other current liabilities

(269) (360)

Deferred revenue

(195) (305)

Due to American Software, Inc.

338 14

Net cash provided by operating activities

833 1,610

Cash flows from investing activities:

Additions to capitalized computer software development costs

(617) (670)

Purchases of furniture, equipment, and computer software costs

(63) (60)

Proceeds from maturities of investments

27,373 22,990

Purchases of investments

(28,373) (23,178)

Net cash used in investing activities

(1,680) (918)

Cash flows from financing activities:

Proceeds from exercise of stock options

129 2

Repurchases of common stock

(1,634) (167)

Net cash used in financing activities

(1,505) (165)

Net change in cash and cash equivalents	(2,352)	527
Cash and cash equivalents at beginning of period	7,824	10,467
Cash and cash equivalents at end of period	$5,472	$10,994

See accompanying notes to condensed consolidated financial statements - unaudited.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited

July 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 AMSAE).

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

The Company recognizes 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

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 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 the Company 1) acts as principal in the transaction, 2) takes title to the products, 3) has risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) acts 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 quarters ended July 31, 2005 or July 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.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 31, 2005

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

	Three Months ended July 31, 2005	Three Months ended July 31, 2004
	(in thousands, except per share data)	
Common Shares:		
Weighted average common shares outstanding	12,874	13,092
Dilutive effect of outstanding stock options	406	206
Total	13,280	13,298
Net earnings:	$ 869	$ 377
Net earnings per common share:		
Basic	$ 0.07	$ 0.03
Diluted	$ 0.07	$ 0.03

For the three months ended July 31, 2005, we excluded options to purchase 56,590 shares of common stock from the computation of diluted earnings per share, and for the three months ended July 31, 2004, we excluded options to purchase 144,690 shares of common stock from that computation. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the common stock during the applicable period. As of July 31, 2005, we had a total of 824,472 options outstanding and as of July 31, 2004, we had a total of 883,811 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 fiscal quarter ended July 31, 2004 as if the acquisition had taken place at May 1, 2004 (in thousands, except per share data):

	Three Months Ended July 31, 2004
Total revenues	7,777
Net earnings	365
Net earnings per common share (basic)	0.03
Net earnings per common share (diluted)	0.03
Weighted average number of comon shares outstanding (basic)	13,092
Weighted average number of comon shares outstanding (dilluted)	13,298

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 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 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 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	(309)
Acquisition Expenses	(358)
Intangible Asset to be Amortized	2,400
Goodwill	6,103
Net Cash Outlay	8,641
Working Capital Adjustment	640
Closing Cash	219
Total Purchase Price	$ 9,500

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	6,103
Accounts payable	(1,043)
Accrued expenses and other current liabilities	(807)

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

LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 31, 2005

[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.

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 believes that the purchase accounting related to this acquisition will be finalized by the end of the second fiscal quarter of fiscal year 2006. The primary outstanding issue is related to contingent liabilities, which totaled approximately $294,000 as of July 31, 2005.

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.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 31, 2005

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 July 31, 2005	Three months ended July 31, 2004
	(In thousands, except per share data)	
Net earnings as reported	$ 869	$ 377
Less total stock-based compensation expense determined under fair value based method for all awards	(114)	(76)
Pro forma net earnings	$ 755	$ 301
Basic earnings per share:		
As reported	$ 0.07	$ 0.03
Pro forma	$ 0.06	$ 0.02
Diluted earnings per share:		
As reported	$ 0.07	$ 0.03
Pro forma	$ 0.06	$ 0.02

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 $5,768,000, of which $1,333,000 was used in 1998) were allocated to ASI. Accordingly, the Company will not receive any economic benefit from the $4,435,000 of contributed gross deferred tax assets, of which approximately $3,983,000 relate to pre-IPO NOLs that still remain as of July 31, 2005. Also, 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. The income tax benefit when this portion of NOL is realized will be credited to additional paid-in-capital. 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.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 31, 2005

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 July 31, 2005	Three months ended July 31, 2004
• General corporate services, including accounting, employee benefits and insurance expense	Apportioned based on formula to all ASI subsidiaries	$ 303,000	$ 240,000
• 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	27,000

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 and $116,000 for the three months ended July 31, 2005 and July 31, 2004, respectively.

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-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.

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LOGILITY, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements - unaudited (continued)

July 31, 2005

K. 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 and $82,000 for the three months ended July 31, 2005 and July 31, 2004, respectively. 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 $145,000 for the three months ended July 31, 2005, and $129,000 for the three months ended July 31, 2004.

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 simila 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

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continues to be relatively weak when compared to the period prior to the last economic downturn. The generally weak economic conditions have prevented companies from replenishing resources needed for capital investment, including investment in information technology, resulting in continued reduced levels of software purchases.

However, we believe Information Technology spending has recently incrementally improved 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 slightly, 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 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 revenues for licenses includes amortization of capitalized computer software development costs, salaries and benefits and value added reseller (VAR) commissions. Costs for maintenance and services revenues include the cost of personnel to conduct implementations, customer support and consulting, and other personnel-related expenses as well as agent commission expenses related to maintenance revenues generated by the indirect channel.

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.

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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 and/or broaden our product offering by providing additional solutions for our target markets;
- 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 and increased our penetration in the growing small and midsize business (SMB) market. This 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.

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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 July 31, 2005 and 2004:

	Percentage of Total Revenues		Pct. Change in Dollars
	2005	2004	2005 vs 2004
Revenues:			
License fees	31%	26%	72%
Services and other	18	23	15
Maintenance	51	51	46
Total revenues	100	100	46
Cost of revenues:			
License fees	13	16	17
Services and other	11	12	32
Maintenance	12	8	111
Total cost of revenues	35	36	43
Gross margin	65	64	47
Operating expenses:			
Research and development	21	25	24
Less: Capitalized computer software development costs	(8)	(12)	(8)
Sales and marketing	28	34	18
General and administrative	14	12	50
Total operating expenses	55	59	35
Operating income	10	5	185
Other income, net	2	2	29
Earnings before income taxes	12	7	139
Income taxes	1		nm
Net earnings	11%	7%	131%

nm - not meaningful

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COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2005 AND 2004:

REVENUES:

For the quarter ended July 31, 2005, the increase in revenues from the quarter ended July 31, 2004 was primarily attributable to an increase in license fee and maintenance revenues as well as to a lesser extent an increase in services revenue. The primary reason for these increases is the acquisition of Demand Management, Inc. on September 30, 2004, which increased revenue when compared to the prior year period. To a lesser extent, the remaining business also increased revenue due to an improved selling environment and better sales execution. International revenues represented approximately 11% of total revenues in the quarter ended July 31, 2005, compared to approximately 10% in the same period a year ago. Our international revenues may fluctuate substantially from period to period primarily because we derive these revenues from a relatively small number of customers in a given period. No single customer accounted for more than 10% of our total revenues in the quarters ended July 31, 2005 and July 31, 2004.

LICENSES. The increase in license fees in the quarter ended July 31, 2005 was primarily the result of the DMI acquisition subsequent to the end of the corresponding period a year ago and to a lesser extent an increase in overall license fees sales due to an improved selling environment and better sales execution. We believe that in recent quarters economic and industry conditions have stabilized, and market receptiveness for our products has improved. The direct sales channel provided approximately 64% of license fee revenues for the quarter ended July 31, 2005, compared to approximately 90% in the comparable quarter a year ago. This decline was due primarily to the revenues associated with DMI, which principally uses indirect sales channels. For the quarter ended July 31, 2005, our margins after commissions on direct sales were approximately 92%, and our margins after commissions on indirect sales were approximately 49%.

SERVICES AND OTHER. The increase in services and other revenues for the quarter ended July 31, 2005 was primarily the result of the DMI acquisition as well as an increase in overall software implementation services related to increased license fees in recent periods. We have observed that there is a tendency for services and other revenues to lag changes in license revenues by one to three quarters, as new licenses in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

MAINTENANCE. The increase in maintenance revenues for the quarter ended July 31, 2005 was the result of the DMI acquisition and improved 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.

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GROSS MARGIN:

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

($000 s omitted)	Three months ended July 31, 2005		2004	
Gross margin on license fees:	$ 1,431	59%	$ 554	39%
Gross margin on services and other:	$ 575	40%	$ 598	47%
Gross margin on maintenance:	$ 3,093	77%	$ 2,317	84%
Total gross margin:	$ 5,099	65%	$ 3,469	64%

For the quarter ended July 31, 2005, the increase in total gross margin percentage was due to an increase in license fee gross margin percentage, partially offset by a decrease in gross margin percentage on services and other and maintenance revenues.

LICENSES. The increase in gross margin percentage on license fees for the quarter ended July 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. To a lesser extent, the margin was higher due to increased license fee revenues from the indirect channel, principally from DMI, which yields approximately 49% after agent commissions. 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. We expect capitalized software amortization to increase in the future as projects achieve general availability and amortization commences.

SERVICES AND OTHER. For the quarter ended July 31, 2005, the decrease in services and other gross margin percentage was due primarily to the timing of some billable projects and lower than normal billable utilization rate due to 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 quarter ended July 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, assuming retention of the current customer base.

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)		
	July 31, 2005	Percent Change	July 31, 2004
Gross product research and development costs	$ 1,655	24%	$ 1,331
Percentage of total revenues	21%		25%
Less: Capitalized computer software research and development costs	$ (617)	(8)%	$ (670)
Percentage of gross product research and development costs	37%		50%
Product research and development expenses	$ 1,038	57%	$ 661
Percentage of total revenues	13%		12%

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For the quarter ended July 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 quarter ended July 31, 2005, sales and marketing expenses of $2.2million increased 18% from the same period a year ago due primarily to the increase in sales and marketing expenses resulting from the DMI acquisition during the year. This was partially offset by lower expenses in the remaining product lines due to lower sales commissions and marketing expenses. We generally include commissions on indirect sales in cost of sales.

GENERAL AND ADMINISTRATIVE. For the quarter ended July 31, 2005, the increase in general and administrative expenses was due primarily to the DMI acquisition. For the quarter ended July 31, 2005, the total number of employees was approximately 139 compared to approximately 111 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, six years.

OTHER INCOME:

Other income is principally comprised of investment earnings. For the quarter ended July 31, 2005, the investment earnings increased to $143,000 when compared to the same period last year of $111,000 due primarily to an increase in interest rates, particularly on money market accounts. This was partially offset by a lower average cash balance as a result of the cash outlay of $8.7 million for the DMI acquisition on September 30, 2004. For the three months ended July 31, 2005, these investments generated an annualized yield of approximately 3.0% compared to approximately 1.2% for the three months ended July 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. Our net loss for fiscal 2005 resulted in additional net operating loss carryforwards. 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 uncertainty of being able to continue to generate positive operating results and taxable income, we have not recognized a tax asset and have recorded a full valuation allowance against our otherwise recognizable net deferred tax asset, in accordance with SFAS No. 109.

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Future events could cause us to conclude that it is more likely than not that we will realize a portion of the net deferred tax asset. If we reach such a conclusion, we would reduce the valuation allowance and recognize the net deferred tax asset.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Sources and Uses of Cash

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

The following tables show summary information about our cash flows and liquidity positions during the quarters ended July 31, 2005 and July 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.

	Three Months Ended July 31 (in thousands)	
	2005	**2004**
Net cash provided by operating activities	$ 833	$ 1,610
Net cash used in investing activities	(1,680)	(918)
Net cash used in financing activities	(1,505)	(165)
Net change in cash and cash equivalents	$ (2,352)	$ 527

For the quarter ended July 31, 2005, the decrease in cash provided by operating activities was due primarily to an increase in accounts receivable and a decrease in accounts payable, accrued costs and other liabilities as well as deferred revenue. The increase in cash used in investing activities when compared to the prior year period was due primarily to increased purchases of short-term investments. 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 July 31,

	(in thousands)	
	2005	2004
Cash and cash equivalents	$ 5,472	$ 10,994
Investments	18,927	20,482
Total cash and investments	$ 24,399	$ 31,476
Net change in total cash and investments (three months ended July 31,)	$ (1,320)	$ 645

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

Days Sales Outstanding in accounts receivable were 71 days as of July 31, 2005, compared to 52 days as of July 31, 2004. This increase was due primarily to the DMI acquisition that increased the accounts receivable and collection efforts due to increase in the number of customers. Our current ratio on July 31, 2005 was 1.9 to 1, compared to 2.0 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 $24.4 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, due to the uncertainty in the recent economic environment, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. Neither we nor American Software currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

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 July 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. 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

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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 July 31, 2005, we generated approximately 11% 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 foreign exchange rate fluctuations have not historically had a material impact on our financial consolidated statements. We have not engaged in any hedging activities.

Interest rates. 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 July 31, 2005 were both approximately $24.1 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, such as this quarterly report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Our disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Our chief executive officer and chief financial officer, with the assistance of our Disclosure Committee, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of July 31, 2005. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our annual report on Form 10-K and quarterly reports on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that, as a result of the material weaknesses disclosed in our annual report on Form 10-K and the ongoing remediation efforts discussed below, certain disclosure controls and procedures were not effective as of July 31, 2005.

Changes in Internal Control over Financial Reporting

During the quarter ended July 31, 2005, the Company began implementing procedures to remediate the material weaknesses in internal control over software revenue recognition and accounting for income taxes (as previously disclosed by the Company in its Form 10-K). We believe these steps, when complete, will remediate these material weaknesses. However, certain of the corrective processes, procedures and controls relate to annual controls that cannot be tested until the preparation of our 2006 annual income tax provision. The Company will be testing the effectiveness of these procedures over the upcoming quarters to ensure that these material weaknesses are remediated.

Based upon the work performed to the date of this filing, 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, 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.

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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 quarter ended July 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*
May 1, 2005 through May 31, 2005	0	$ 0.00	0	541,085
June 1, 2005 through June 30, 2005	272,189	$ 6.00	272,189	268,896
July 1, 2005 through July 31, 2005	0	$ 0.00	0	268,896
Total Fiscal 2006 First Quarter	272,189	$ 6.00	272,189	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

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit 32.1. Section 906 Certifications

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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: September 13, 2005	By: /s/ J. Michael Edenfield
	J. Michael Edenfield President and Chief Executive Officer
Date: September 13, 2005	By: /s/ Vincent C. Klinges
	Vincent C. Klinges Chief Financial Officer
Date: September 13, 2005	By: /s/ Michael R. Dowling
	Michael R. Dowling Controller and Principal Accounting Officer