

AMERICAN SOFTWARE INC

Form 10-Q

March 06, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia
 (State or other jurisdiction of
 incorporation or organization)

58-1098795
 (IRS Employer
 Identification Number)

470 East Paces Ferry Road, N.E., Atlanta, Georgia
 (Address of principal executive offices)
(404) 261-4381

30305
 (Zip Code)

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Classes
 Class A Common Stock, \$.10 par value

Outstanding at February 27, 2015
 25,656,532 Shares

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

Class B Common Stock, \$.10 par value

2,587,086 Shares

Table of Contents

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Form 10-Q

Quarter ended January 31, 2015

Index

	Page No.
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of January 31, 2015 and April 30, 2014</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months ended January 31, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months ended January 31, 2015 and 2014</u>	5
<u>Notes to Condensed Consolidated Financial Statements Unaudited</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	30
<u>Item 1A. Risk Factors</u>	30
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3. Defaults Upon Senior Securities</u>	30
<u>Item 4. Mine Safety Disclosures</u>	30
<u>Item 5. Other Information</u>	30
<u>Item 6. Exhibits</u>	31

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

(in thousands, except share data)

	January 31, 2015	April 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,023	\$ 55,803
Investments	16,269	14,796
Trade accounts receivable, less allowance for doubtful accounts of \$332 at January 31, 2015 and \$222 at April 30, 2014		
Billed	14,826	15,422
Unbilled	2,639	3,234
Prepaid expenses and other current assets	3,985	4,092
Total current assets	78,742	93,347
Investments Noncurrent	13,704	8,975
Property and equipment, net of accumulated depreciation of \$31,437 at January 31, 2015 and \$30,545 at April 30, 2014	3,793	3,681
Capitalized software, net of accumulated amortization of \$11,279 at January 31, 2015 and \$8,589 at April 30, 2014	9,767	10,732
Goodwill	18,749	13,819
Other intangibles, net of accumulated amortization of \$3,609 at January 31, 2015 and \$2,881 at April 30, 2014	2,997	534
Other assets	618	132
Total assets	\$ 128,370	\$ 131,220
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 578	\$ 1,382
Accrued compensation and related costs	2,512	3,532
Dividends payable	2,825	2,822
Other current liabilities	3,030	2,735
Deferred income taxes	586	418
Deferred revenue	25,784	23,638
Total current liabilities	35,315	34,527

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

Deferred income taxes	1,190	1,936
Long-term deferred revenue	385	670
Other long-term liabilities	868	1,527
Total liabilities	37,758	38,660
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 30,224,833 shares at January 31, 2015 and 30,075,187 shares at April 30, 2014	3,023	3,008
Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,587,086 shares at January 31, 2015 and April 30, 2014; convertible into Class A shares on a one-for-one basis	259	259
Additional paid-in capital	108,266	106,203
Retained earnings	4,442	7,368
Class A treasury stock, 4,568,297 shares at January 31, 2015 and 4,444,815 shares at April 30, 2014, at cost	(25,378)	(24,278)
Total shareholders' equity	90,612	92,560
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 128,370	\$ 131,220

See accompanying notes to condensed consolidated financial statements unaudited.

Table of Contents**American Software, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations (unaudited)****(in thousands, except earnings per share data)**

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2015	2014	2015	2014
Revenues:				
License	\$ 4,338	\$ 5,002	\$ 11,718	\$ 14,412
Services and other	11,662	10,167	34,448	33,057
Maintenance	9,839	9,258	29,107	27,207
Total revenues	25,839	24,427	75,273	74,676
Cost of revenues:				
License	1,989	727	5,488	3,122
Services and other	8,792	7,695	25,130	23,916
Maintenance	2,209	2,042	6,365	5,994
Total cost of revenues	12,990	10,464	36,983	33,032
Gross margin	12,849	13,963	38,290	41,644
Research and development	2,603	2,338	8,609	6,442
Sales and marketing	4,540	5,032	13,758	14,444
General and administrative	3,153	2,882	9,529	9,106
Amortization of acquisition-related intangibles	107	125	299	375
Provision for (recovery of) doubtful accounts	71	47	178	(37)
Total operating expenses	10,474	10,424	32,373	30,330
Operating income	2,375	3,539	5,917	11,314
Other income (expense):				
Interest income	326	231	885	697
Other, net	(406)	(33)	(170)	(38)
Earnings before income taxes	2,295	3,737	6,632	11,973
Income tax (benefit) expense	(546)	1,260	1,082	4,210
Net earnings	\$ 2,841	\$ 2,477	\$ 5,550	\$ 7,763
Earnings per common share ^(a):				
Basic	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.28

Diluted	\$ 0.10	\$ 0.09	\$ 0.19	\$ 0.28
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.20
Shares used in the calculation of earnings per common share:				
Basic	28,239	27,686	28,247	27,499
Diluted	28,554	28,187	28,580	27,972

- (a) Basic per share amounts are the same for Class A and Class B shares. Diluted per share amounts for Class A shares are shown above. Diluted earnings per share for Class B shares under the two-class method are \$0.10 and \$0.09 for the three months ended January 31, 2015 and 2014 and \$0.20 and \$0.28 for the nine months ended January 31, 2015 and 2014, respectively. See Note D to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements unaudited.

Table of Contents**American Software, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows (unaudited)****(in thousands)**

	Nine Months Ended January 31,	
	2015	2014
Cash flows from operating activities:		
Net earnings	\$ 5,550	\$ 7,763
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	4,311	1,897
Stock-based compensation expense	1,179	1,081
Bond amortization		1
Accretion of liability from purchase of business	9	
Tax benefit of stock options exercised	102	409
Excess tax benefits from stock-based compensation	(87)	(349)
Net loss on investments	381	485
Deferred income taxes	(578)	101
Changes in operating assets and liabilities, net of effects of acquisition:		
Purchases of trading securities	(14,899)	(10,291)
Proceeds from maturities and sales of trading securities	8,316	13,301
Accounts receivable, net	1,738	(1,062)
Prepaid expenses and other assets	160	(387)
Accounts payable and other liabilities	(2,929)	69
Deferred revenue	1,461	1,413
Net cash provided by operating activities	4,714	14,431
Cash flows from investing activities:		
Capitalized computer software development costs	(1,725)	(2,402)
Purchases of property and equipment, net of disposals	(972)	(205)
Proceeds from maturities of investments		225
Purchase of business, net of cash acquired	(7,909)	(1,241)
Net cash used in investing activities	(10,606)	(3,623)
Cash flows from financing activities:		
Repurchase of common stock	(1,100)	
Excess tax benefits from stock based compensation	87	349
Proceeds from exercise of stock options	797	3,352
Payment for accrued acquisition consideration	(200)	
Dividends paid	(8,472)	(2,751)
Net cash (used in) provided by financing activities	(8,888)	950

Net change in cash and cash equivalents	(14,780)	11,758
Cash and cash equivalents at beginning of period	55,803	41,164
Cash and cash equivalents at end of period	\$ 41,023	\$ 52,922

See accompanying notes to condensed consolidated financial statements unaudited.

Table of Contents

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited

January 31, 2015

A. Basis of Presentation and Principles of Consolidation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of our management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the financial position at January 31, 2015, the results of operations for the three and nine months ended January 31, 2015 and 2014 and cash flows for the nine months ended January 31, 2015 and 2014. The results for the three and nine months ended January 31, 2015 are not necessarily indicative of the results expected for the full year. You should read these statements in conjunction with our audited consolidated financial statements and management s discussion and analysis and results of operations included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements for the fiscal year ended April 30, 2014 describes the significant accounting policies that we have used in preparing our financial statements. On an ongoing basis, we evaluate our estimates, including but not limited to those related to revenue/vendor specific objective evidence (VSOE), bad debts, capitalized software costs, goodwill, intangible assets, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

Principles of Consolidation

The consolidated financial statements include the accounts of American Software, Inc. (American Software or the Company), and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

B. Revenue Recognition

We recognize revenue in accordance with the Software Revenue Recognition Topic of the Financial Accounting Standards Board s (FASB) Accounting Standards Codification.

License. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and VSOE exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, we recognize revenue under the residual method, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized 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 in accordance with Principal Agent Considerations within the Revenue Recognition Topic of the FASB's Accounting Standards Codification. Furthermore, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we: (1) act as principal in the transaction, (2) take title to the products, (3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and (4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, in most cases we record our sales through the Demand Management, Inc. (DMI) channel on a gross basis.

Maintenance. Revenue derived from maintenance contracts primarily includes telephone consulting, product updates, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. 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. We recognize maintenance revenue ratably over the term of the maintenance agreement. In situations where we bundle all or a portion of the maintenance fee with the license fee, VSOE for maintenance is determined based on prices when sold separately.

Table of Contents

Services. Revenue derived from services primarily includes consulting, implementation, and training. We primarily bill fees under time and materials arrangements and recognize them as we perform the services. In accordance with the other presentation matters within the Revenue Recognition Topic of the FASB's Accounting Standards Codification, we recognize amounts received for reimbursement of travel and other out-of-pocket expenses incurred as revenue in the condensed consolidated statements of operations under services and other. These amounts totaled approximately \$628,000 and \$2.0 million for the three and nine months ended January 31, 2015, respectively, and \$450,000 and \$1.7 million for the three and nine months ended January 31, 2014, respectively.

Indirect Channel Revenue. We recognize revenues for sales made through indirect channels principally when the distributor makes the sale to an end-user, the license fee is fixed or determinable, the license fee is nonrefundable, and the sale meets all other conditions for revenue recognition.

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

Sales Taxes. We account for sales taxes collected from customers on a net basis.

Unbilled Accounts Receivable. The unbilled receivable balance consists of amounts generated from license fee and services revenues. At January 31, 2015 and April 30, 2014, unbilled license fees were approximately \$480,000 and \$1.1 million, respectively, and unbilled services revenues were approximately \$2.2 million and \$2.2 million, respectively. Unbilled license fee accounts receivable represents revenue that has been recognized, but under the terms of the license agreement, which include specified payment terms that are considered normal and customary, certain payments have not yet been invoiced to the customers. Unbilled services revenues primarily occur due to the timing of the respective billings, which occur subsequent to the end of each reporting period.

C. Declaration of Dividend Payable

On November 19, 2014, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of our Class A and Class B common stock. The cash dividend is payable on February 24, 2015 to Class A and Class B shareholders of record at the close of business on February 6, 2015.

D. Earnings Per Common Share

We have two classes of common stock of which Class B Common Shares are convertible into Class A Common Shares at any time, on a one-for-one basis. Under our Articles of Incorporation, if we declare dividends, holders of Class A Common Shares will receive a \$0.05 dividend per share prior to the Class B Common Shares receiving any dividend and holders of Class A Common Shares will receive a dividend at least equal to Class B Common Shares dividends on a per share basis. As a result, we have computed the earnings per share in accordance with Earnings Per Share within the Presentation Topic of the FASB's Accounting Standards Codification, which requires companies that have multiple classes of equity securities to use the two-class method in computing earnings per share.

For our basic earnings per share calculation, we use the two-class method. Basic earnings per share are calculated by dividing net earnings attributable to each class of common stock by the weighted average number of shares outstanding. All undistributed earnings are allocated evenly between Class A and B Common Shares in the earnings per share calculation to the extent that earnings equal or exceed \$0.05 per share. This allocation is based on management's judgment after considering the dividend rights of the two classes of common stock, the control of the

Class B shareholders and the convertibility rights of the Class B shares to Class A shares.

The calculation of diluted earnings per share is similar to the calculation of basic earnings per share, except that the calculation includes the dilutive effect of the assumed exercise of options issuable under our stock incentive plans. For our diluted earnings per share calculation for Class A shares, we use the if-converted method. This calculation assumes that all Class B Common Shares are converted into Class A Common Shares and, as a result, assumes there are no holders of Class B Common Shares to participate in undistributed earnings.

For our diluted earnings per share calculation for Class B shares, we use the two-class method. This calculation does not assume that all Class B Common Shares are converted into Class A Common Shares. In addition, this method assumes the dilutive effect if Class A stock options were converted to Class A shares and the undistributed earnings are allocated evenly to both Class A and B shares including Class A shares issued pursuant to those converted stock options. This allocation is based on management's judgment after considering the dividend rights of the two classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B shares into Class A shares.

Table of Contents

The following tables set forth the computation of basic earnings per common share and diluted earnings per common share (in thousands except for per share amounts):

Basic earnings per common share:

	Three Months Ended January 31, 2015		Nine Months Ended January 31, 2015	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Undistributed earnings (loss)			(0.10)	(0.10)
Total	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
Distributed earnings	\$ 2,566	\$ 259	\$ 7,699	\$ 776
Undistributed earnings (loss)	14	2	(2,657)	(268)
Total	\$ 2,580	\$ 261	\$ 5,042	\$ 508
Basic weighted average common shares outstanding	25,652	2,587	25,660	2,587

	Three Months Ended January 31, 2014		Nine Months Ended January 31, 2014	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
Undistributed (loss) earnings	(0.01)	(0.01)	0.08	0.08
Total	\$ 0.09	\$ 0.09	\$ 0.28	\$ 0.28
Distributed earnings	\$ 2,529	\$ 259	\$ 5,021	\$ 518
Undistributed (loss) earnings	(282)	(29)	2,015	209
Total	\$ 2,247	\$ 230	\$ 7,036	\$ 727
Basic weighted average common shares outstanding	25,099	2,587	24,912	2,587

Diluted EPS for Class A Common Shares Using the If-Converted Method**Three Months Ended January 31, 2015**

Undistributed & Distributed Earnings to Class A	Class A Common Shares	EPS
------------------------------------------------------------------------	--------------------------------------	------------

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

	Common		
Per Basic	\$ 2,580	25,652	\$ 0.10
Common Stock Equivalents		315	
	2,580	25,967	0.10
Class B Conversion	261	2,587	
Diluted EPS for Class A	\$ 2,841	28,554	\$ 0.10

Nine Months Ended January 31, 2015

	Undistributed & Distributed Earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 5,042	25,660	\$ 0.20
Common Stock Equivalents		333	
	5,042	25,993	0.19
Class B Conversion	508	2,587	
Diluted EPS for Class A	\$ 5,550	28,580	\$ 0.19

Table of Contents**Three Months Ended January 31, 2014**

	Undistributed & Distributed Earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 2,247	25,099	\$ 0.09
Common Stock Equivalents		501	
	2,247	25,600	0.09
Class B Conversion	230	2,587	
Diluted EPS for Class A	\$ 2,477	28,187	\$ 0.09

Nine Months Ended January 31, 2014

	Undistributed & Distributed Earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 7,036	24,912	\$ 0.28
Common Stock Equivalents		473	
	7,036	25,385	0.28
Class B Conversion	727	2,587	
Diluted EPS for Class A	\$ 7,763	27,972	\$ 0.28

Diluted EPS for Class B Common Shares Using the Two-Class Method**Three Months Ended January 31, 2015**

	Undistributed & Distributed Earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 261	2,587	\$ 0.10
	(1)		

Reallocation of undistributed loss to Class A shares
from Class B shares

Diluted EPS for Class B	\$	260	2,587	\$ 0.10
-------------------------	----	-----	-------	---------

Nine Months Ended January 31, 2015

		Undistributed & Distributed Earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$	508	2,587	\$ 0.20
Reallocation of undistributed earnings to Class A shares from Class B shares		3		
Diluted EPS for Class B	\$	511	2,587	\$ 0.20

Table of Contents**Three Months Ended January 31, 2014**

	Undistributed & Distributed Earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 230	2,587	\$ 0.09
Reallocation of undistributed earnings to Class A shares from Class B shares	1		
Diluted EPS for Class B	\$ 231	2,587	\$ 0.09

Nine Months Ended January 31, 2014

	Undistributed & Distributed Earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 727	2,587	\$ 0.28
Reallocation of undistributed loss to Class A shares from Class B shares	(4)		
Diluted EPS for Class B	\$ 723	2,587	\$ 0.28

For the three and nine months ended January 31, 2015, we excluded options to purchase 952,761 and 847,539 Class A Common Shares, respectively, and for the three and nine months ended January 31, 2014, we excluded options to purchase 440,196 and 979,764 Class A Common Shares, respectively, from the computation of diluted earnings per Class A Common Shares. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the Class A Common Shares during the applicable period. As of January 31, 2015, we had a total of 3,056,335 options outstanding and, as of January 31, 2014, we had a total of 3,223,966 options outstanding.

E. Acquisitions

We account for business combinations using the acquisition method of accounting and accordingly, the identifiable assets acquired and liabilities assumed are recorded based upon management's estimates of current fair values as of the acquisition date. The estimation process includes analyses based on income and market approaches. Goodwill represents the excess purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The goodwill generated is due in part to the synergies that are not included in the fair value of

identifiable intangible assets. Goodwill recorded in an acquisition is assigned to applicable reporting units based on expected revenues. Identifiable intangible assets with finite lives are amortized over their useful lives. Amortization of current technology is recorded in Cost of Revenue-License and amortization of all other intangible assets is recorded in Amortization of acquisition-related intangibles. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs, are expensed in general and administrative expenses in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

Effective May 30, 2014, the Company entered into an Asset Purchase Agreement (Purchase Agreement) with privately-held MID Retail, Inc., an Indiana corporation (MRI). Pursuant to the Purchase Agreement, the Company acquired 100% of the total issued and outstanding shares of capital stock of MRI, a provider of retail allocation and merchandise planning solutions. This acquisition will expand and complement the products and services offered by Logility.

Under the terms of the Purchase Agreement, the Company acquired the capital stock for an effective purchase price of approximately \$8,507,000 in cash plus a \$678,000 working capital adjustment. Additional consideration is payable at the end of each 12-month period in the 24-month period following the closing date (such 24-month period being the Earnout Period) equal to 15% of the license fee revenues contracted for and recorded as revenue in accordance with GAAP by either MRI or the Company from the sale of MRI Software during such 12-month period, up to a maximum aggregate amount of \$1.5 million over the Earnout Period. This additional consideration will be accounted for as post-combination services and, therefore, will be expensed as incurred. The Company incurred acquisition costs of approximately \$66,800 during the three months ended July 31, 2014. The operating results of MRI are not material for proforma disclosure. We allocated \$4,930,000 of the total purchase price to goodwill, which has been assigned to the Supply Chain Management segment and is deductible for income tax purposes.

Table of Contents

The following preliminary allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of May 30, 2014 (in thousands):

		Useful Life
Current assets	\$ 1,858	
Property and equipment, net	32	
Other assets	505	
Goodwill	4,930	
Non-compete	290	3 years
Customer relationships	1,400	8 years
Current technology	1,500	3 years
Total Assets Acquired	10,515	
Current liabilities	(825)	
Long-term liabilities	(505)	
Total liabilities assumed	(1,330)	
Net assets acquired	\$ 9,185	

Non-compete agreements, customer relationships and current technology are being amortized on a straight-line basis over the remaining estimated economic life of the assets, including the period being reported. The fair value of deferred revenues in a business combination is considered to be an assumed liability (which must arise from a legal performance obligation) and, accordingly, is estimated based on the direct cost of fulfilling the obligation plus a normal profit margin, which approximates fair value. 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).

On August 14, 2013, the Company completed the acquisition of certain assets of privately-held Taylor Manufacturing Systems, USA, LLC (TMS) an Atlanta-based provider in the advance planning systems (APS) area. The acquisition of TMS will allow the Company to expand its software product offerings.

Under the terms of the purchase agreement, the Company acquired the assets in exchange for a purchase price of \$1,841,000. The purchase price consisted of \$1,191,000 paid in cash at closing, subject to certain adjustments, and three additional cash payments of \$200,000, generally payable on the anniversary date of the transaction in each of the three years following closing. The additional cash payments resulted in the Company recording a short-term liability of \$200,000 for the payment due on the first anniversary and a long-term liability of \$366,000 for the payments due on the second and third anniversaries. As of January 31, 2015, the Company has a short-term liability of \$200,000 for the payment due on the second anniversary and long-term liability of approximately \$183,000 for the payment due on the third anniversary. The Company incurred acquisition costs of approximately \$68,500 during the three and six months ended October 31, 2013. The operating results of TMS are not material for proforma disclosure. We allocated \$1,218,000 of the total purchase price to goodwill, which has been assigned to the Supply Chain Management segment and is deductible for income tax purposes.

The following allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of August 14, 2013 (in thousands):

Current Assets	\$ 130
Goodwill	1,218
Current Technology	472
Total Assets Acquired	1,820
Current Liabilities	(213)
Long Term liabilities	(366)
Net Assets Acquired	\$ 1,241

Current technology is being amortized on a straight line basis over the remaining estimated economic life of the product (4 years), including the period being reported. The fair value of deferred revenues in a business combination is considered to be an assumed liability (which must arise from a legal performance obligation) and, accordingly, is estimated based on the direct cost of fulfilling the obligation plus a normal profit margin, which approximates fair value. 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).

Table of Contents

F. Stock-Based Compensation

During the nine months ended January 31, 2015 and 2014, we granted options for 337,000 and 632,500 shares of common stock, respectively. We recorded stock option compensation cost of approximately \$386,000 and \$382,000 and related income tax benefits of approximately \$141,000 and \$125,000 during the three months ended January 31, 2015 and 2014, respectively. We recorded stock option compensation cost of approximately \$1.2 million and \$1.1 million and related income tax benefits of approximately \$413,000 and \$353,000 during the nine months ended January 31, 2015 and 2014, respectively. We record stock-based compensation expense on a straight-line basis over the vesting period directly to additional paid-in capital.

We classify cash flows resulting from the tax deductions in excess of the tax benefits initially recognized for those options (excess tax benefits) as financing cash flows. During the nine months ended January 31, 2015 and 2014, we realized excess tax benefits of approximately \$87,000 and \$349,000, respectively.

During the nine months ended January 31, 2015 and 2014, we issued 149,646 and 549,804 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the nine months ended January 31, 2015 and 2014 based on market value at the exercise dates was approximately \$575,000 and \$2.0 million, respectively. As of January 31, 2015, unrecognized compensation cost related to unvested stock option awards approximated \$3.3 million, which we expect to recognize over a weighted average period of 1.61 years.

G. Fair Value of Financial Instruments

We measure our investments based on a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. A number of factors affect market price observability, including the type of asset or liability and its characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following is a general description of the valuation methodologies we use for financial assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Cash Equivalents Cash equivalents include investments in government obligation based money-market funds, other money market instruments and interest-bearing deposits with initial terms of three months or less. The fair value of cash equivalents approximates its carrying value due to the short-term nature of these instruments.

Marketable Securities Marketable securities utilizing Level 1 inputs include active exchange-traded equity securities and equity index funds, and most U.S. Government debt securities, as these securities all have quoted prices in active markets. Marketable securities utilizing Level 2 inputs include municipal bonds. We value these securities using market-corroborated pricing or other models that use observable inputs such as yield curves.

The following tables present our assets and liabilities that we measured at fair value on a recurring basis as of January 31, 2015 and April 30, 2014, respectively, and indicates the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

	January 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 38,990	\$	\$	\$ 38,990
Marketable securities	8,434	21,299		29,733
Total	\$ 47,424	\$ 21,299	\$	\$ 68,723

Table of Contents

	April 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 51,561	\$	\$	\$ 51,561
Marketable securities	8,338	15,167		23,505
Total	\$ 59,899	\$ 15,167	\$	\$ 75,066

In addition to cash equivalents and marketable securities classified as trading securities, we also have an equity method investment valued at approximately \$240,000 and \$266,000 as of January 31, 2015 and April 30, 2014, respectively, that is not recorded at fair value and thus is not included in the tables above.

H. Stock Repurchases

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to an additional 2.0 million shares of our Class A common stock. We have made and will make these repurchases through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. Under this repurchase plan, through January 31, 2015, we have repurchased 1,033,344 shares of common stock at a cost of approximately \$6.0 million. As of January 31, 2015, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,568,297 shares of common stock at a cost of approximately \$25.4 million.

I. Comprehensive Income

We have not included condensed consolidated statements of comprehensive income in the accompanying unaudited condensed consolidated financial statements since comprehensive income and net earnings presented in the accompanying condensed consolidated statements of operations would be substantially the same.

J. Industry Segments

We provide our software solutions through three major business segments, which are further broken down into a total of four major product and service groups. The three business segments are (1) Supply Chain Management (SCM), (2) Enterprise Resource Planning (ERP), and (3) Information Technology (IT) Consulting.

The SCM segment consists of Logility, a wholly-owned subsidiary, as well as its subsidiary, DMI, which provide collaborative supply chain solutions to streamline and optimize the forecasting, production, distribution and management of products between trading partners. The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry-specific business

software to both retailers and manufacturers in the apparel, sewn products and furniture industries. The IT Consulting segment consists of The Proven Method, Inc., an IT staffing and consulting services firm. We also provide support for our software products, such as software enhancements, documentation, updates, customer education, consulting, systems integration services, and maintenance.

Our chief operating decision maker is the President and Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, we manage our business primarily on a segment basis, with the CEO evaluating performance based upon segment operating profit or loss that includes an allocation of common expenses, but excludes certain unallocated expenses.

Table of Contents

In the following table, we have broken down the intersegment transactions applicable to the three and nine months ended January 31, 2015 and 2014:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2015	2014	2015	2014
Revenues:				
Enterprise Resource Planning	\$ 2,997	\$ 2,630	\$ 8,607	\$ 8,678
Supply Chain Management	16,302	15,908	48,033	47,043
IT Consulting	6,540	5,889	18,633	18,955
	\$ 25,839	\$ 24,427	\$ 75,273	\$ 74,676
Operating income (loss) before intersegment eliminations:				
Enterprise Resource Planning	\$ (1,192)	\$ (1,522)	\$ (3,792)	\$ (3,682)
Supply Chain Management	3,064	4,716	8,076	13,352
IT Consulting	503	345	1,633	1,644
	\$ 2,375	\$ 3,539	\$ 5,917	\$ 11,314
Intersegment eliminations:				
Enterprise Resource Planning	\$ (520)	\$ (487)	\$ (1,605)	\$ (1,380)
Supply Chain Management	491	463	1,527	1,307
IT Consulting	29	24	78	73
	\$	\$	\$	\$
Operating income (loss) after intersegment eliminations:				
Enterprise Resource Planning	\$ (1,712)	\$ (2,009)	\$ (5,397)	\$ (5,062)
Supply Chain Management	3,555	5,179	9,603	14,659
IT Consulting	532	369	1,711	1,717
	\$ 2,375	\$ 3,539	\$ 5,917	\$ 11,314
Capital expenditures:				
Enterprise Resource Planning	\$ 703	\$ 24	\$ 769	\$ 117
Supply Chain Management	37	26	203	78
IT Consulting				10
	\$ 740	\$ 50	\$ 972	\$ 205
Capitalized software:				
Enterprise Resource Planning	\$	\$	\$	\$
Supply Chain Management	879	761	1,725	2,402
IT Consulting				

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

\$ 879 \$ 761 \$ 1,725 \$ 2,402

Depreciation and amortization:

Enterprise Resource Planning	\$ 241	\$ 222	\$ 698	\$ 663
Supply Chain Management	1,229	210	3,605	1,225
IT Consulting	2	3	8	9

\$ 1,472 \$ 435 \$ 4,311 \$ 1,897

Earnings (loss) before income taxes:

Enterprise Resource Planning	\$ (1,032)	\$ (1,224)	\$ (2,695)	\$ (2,961)
Supply Chain Management	2,824	4,616	7,694	13,293
IT Consulting	503	345	1,633	1,641

\$ 2,295 \$ 3,737 \$ 6,632 \$ 11,973

Table of Contents

Major Customer

For the three and nine months ended January 31, 2015, there were no major customers that accounted for more than 10% of total revenues. No one customer accounted for more than 10% of total revenues for the three and nine months ended January 31, 2014.

K. Contingencies

We more often than not indemnify our customers against damages and costs resulting from claims of patent, copyright or trademark infringement associated with use of our products. We have historically not been required to make any payments under such indemnifications. However, we continue to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the indemnifications when those losses are estimable. In addition, we warrant to our customers that our products operate substantially in accordance with the software products' specifications. Historically, we have incurred no costs related to software product warranties and we do not expect to incur such costs in the future, and as such we have made no accruals for software product warranty costs. Additionally, we are involved in various claims arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position or results of operations.

L. Subsequent Event

On February 11, 2015, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of our Class A and Class B common stock. The cash dividend is payable on May 22, 2015 to Class A and Class B shareholders of record at the close of business on May 8, 2015.

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, seek, estimate, believe, expect, and similar expressions that convey 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;

viability and effectiveness of strategic alliances;

industry conditions and market conditions;

acquisition activities and the effect of completed acquisitions; 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 U.S. and global economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, dependence on particular market segments or customers, competitive pressures, delays, product liability and warranty claims and other risks associated with new product development, undetected software errors, market acceptance of our products, technological complexity, the challenges and risks associated with integration of acquired product lines, companies and services, as well as a number of other risk factors that could affect our future performance. All forward-looking statements included in this Form 10-Q are based upon information available to us as of the filing date of this Form 10-Q. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. We discuss certain factors in greater detail in [Business Overview](#) below. The terms [fiscal 2015](#) and [fiscal 2014](#) refer to our fiscal years ending April 30, 2015 and 2014, respectively.

Table of Contents

ECONOMIC OVERVIEW

Corporate capital spending trends and commitments are the primary determinants of the size of the market for business software. Corporate capital spending is, in turn, a function of general economic conditions in the U.S. and abroad and in particular may be affected by conditions in global credit markets.

In January 2015, the International Monetary Fund (IMF) provided an update to the World Economic Outlook (WEO) for the 2015 and 2016 world economic growth forecast. The update noted that, *Global growth in 2015-16 is projected at 3.5 and 3.7 percent, downward revisions of 0.3 percent relative to the October 2014 World Economic Outlook (WEO). The revisions reflect a reassessment of prospects in China, Russia, the euro area, and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices. The United States is the only major economy for which growth projections have been raised.*

The report continued, *The distribution of risks to global growth is more balanced than in October. The main upside risk is a greater boost from lower oil prices, although there is uncertainty about the persistence of the oil supply shock. Downside risks relate to shifts in sentiment and volatility in global financial markets, especially in emerging market economies, where lower oil prices have introduced external and balance sheet vulnerabilities in oil exporters. Stagnation and low inflation are still concerns in the euro area and in Japan.*

For the remainder of fiscal 2015 and fiscal 2016, we expect the world economy to continue to be generally weak, which could result in a difficult selling environment, especially in international markets. Overall information technology spending continues to be relatively weak as a result of the current global economic environment when compared to the period prior to the last recession. While we had a decline in software sales during the current quarter, we see some improvement in sales pipeline activity. We believe information technology spending will incrementally improve over the long term as increased global competition forces companies to improve productivity by upgrading their technology systems. Although this improvement could slow or regress at any time, due in part to concerns in global capital markets and general economic conditions, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. Customers continue to take long periods to evaluate discretionary software purchases.

We believe weak economic conditions may be driving some businesses to focus on achieving more process and efficiency improvements in their operations and to invest in solutions that improve operating margins, rather than make large infrastructure-type technology purchases. If this trend continues, we believe it may tend to favor solutions such as our Logility supply chain solutions, which are designed to provide a more rapid return on investment and are targeted at some of the largest profit drivers in a customer's business. While the recent economic crisis has had a particularly adverse impact on the weaker companies in our target markets, we believe a larger percentage of our customers are seeking to make investments to strengthen their operations, and some are taking advantage of current economic conditions to gain market share.

BUSINESS OVERVIEW

American Software was incorporated as a Georgia corporation in 1970. We develop, market and support a portfolio of software and services that deliver enterprise management and collaborative supply chain solutions to the global marketplace. We have designed our software and services to bring business value to enterprises by supporting their operations over intranets, extranets, client/servers or the Internet. References to the Company, our products, our software, our services and similar references include the appropriate business unit actually providing the product or service.

We provide our software solutions through three major business segments, which are further broken down into a total of four major product and service groups. The three business segments are (1) Supply Chain Management (SCM), (2) Enterprise Resource Planning (ERP) and (3) Information Technology (IT) Consulting. The SCM segment consists of Logility, a wholly-owned subsidiary that provides collaborative supply chain solutions to streamline and optimize the production, distribution and management of products between trading partners. The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry-specific business software to both retailers and manufacturers in the apparel, sewn products and furniture industries. The IT Consulting segment consists of The Proven Method, an IT staffing and consulting services firm.

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 primarily bill under time and materials arrangements and recognize revenues as we perform services. We typically enter into maintenance agreements for a one- to three-year term at the time of the initial product license. We generally bill maintenance fees annually in advance 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.

Table of Contents

Our cost of revenue for licenses includes amortization of capitalized computer software development costs, royalties paid to third-party software vendors, and agent commission expenses related to license revenues generated by the indirect sales channel, primarily from Demand Management, Inc. (DMI), a subsidiary of Logility. Costs for maintenance and services include the cost of personnel to conduct implementations and customer support, consulting, other personnel-related expenses, and agent commission expenses related to maintenance revenues generated by the indirect channel, primarily from DMI. We account for the development costs of software intended for sale in accordance with the Intangibles Goodwill and Other topic of the FASB Accounting Standards Codification. We monitor the net realizable value of our capitalized software on a quarterly basis based on an estimate of future product revenues. We currently expect to fully recover the value of the capitalized software asset recorded on our consolidated balance sheet; however, if future product revenues are less than management's current expectations, we may incur a write-down of capitalized software costs.

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 facilities-related costs, utilities, communications expenses, and various professional fees.

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

Dependence on Capital Spending Patterns. There is risk associated with our dependence on 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.

Acquisition Opportunities. There are opportunities for selective 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.

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

Competitive Technologies. There is a risk that our competitors may develop technologies that are substantially equivalent or superior to our technology.

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

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on May 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, to change the criteria for determining which disposals can be presented as discontinued operations and enhanced the related disclosure requirements. The new standard is effective for annual periods beginning on or after December 15, 2014 and interim periods within that year. The standard is applied prospectively, with early adoption permitted for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. The Company does not expect the standard to have a material impact on its consolidated financial statements.

Table of Contents

In July 2013, the FASB issued an accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update amends existing GAAP that required in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when such items exist in the same taxing jurisdiction. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, and retrospective application is permitted. The Company adopted this update on May 1, 2014 and it did not have a material impact on our consolidated financial statements.

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 January 31, 2015 and 2014:

	Three Months Ended January 31,		Pct. Change in Dollars 2015 vs. 2014
	Percentage of Total Revenues 2015	2014	
Revenues:			
License	17%	20%	(13)%
Services and other	45	42	15
Maintenance	38	38	6
Total revenues	100	100	6
Cost of revenues:			
License	8	3	174
Services and other	34	32	14
Maintenance	8	8	8
Total cost of revenues	50	43	24
Gross margin	50	57	(8)
Research and development	10	9	11
Sales and marketing	18	21	(10)
General and administrative	12	12	9
Amortization of acquisition-related intangibles	1	1	(14)
Provision for doubtful accounts			51
Total operating expenses	41	43	
Operating income	9	14	(33)
Other income (expense):			

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

Interest income	1	1	41
Other, net	(1)		nm
Earnings before income taxes	9	15	(39)
Income tax benefit (expense)	2	(5)	nm
Net earnings	11%	10%	15%

nm not meaningful

Table of Contents

Nine-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the nine months ended January 31, 2015 and 2014:

	Nine Months Ended January 31, Percentage of Total Revenues		Pct. Change in Dollars 2015 vs. 2014
	2015	2014	
Revenues:			
License	15%	19%	(19)%
Services and other	46	44	4
Maintenance	39	37	7
Total revenues	100	100	1
Cost of revenues:			
License	7	4	76
Services and other	33	32	5
Maintenance	9	8	6
Total cost of revenues	49	44	12
Gross margin	51	56	(8)
Research and development	11	9	34
Sales and marketing	18	19	(5)
General and administrative	13	12	5
Amortization of acquisition-related intangibles	1	1	(20)
Provision for doubtful accounts			nm
Total operating expenses	43	41	7
Operating income	8	15	(48)
Other income (expense):			
Interest income	1	1	27
Other, net			nm
Earnings before income taxes	9	16	(45)
Income tax expense	(2)	(6)	(74)
Net earnings	7%	10%	(29)%

nm not meaningful

**COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED
JANUARY 31, 2015 AND 2014**

Revenues

	Three Months Ended January 31,			% of Total Revenues	
	2015	2014	% Change	2015	2014
	(in thousands)				
License	\$ 4,338	\$ 5,002	(13)%	17%	20%
Services and other	11,662	10,167	15%	45%	42%
Maintenance	9,839	9,258	6%	38%	38%
Total revenues	\$ 25,839	\$ 24,427	6%	100%	100%

Table of Contents

	Nine Months Ended January 31,			% of Total Revenues	
	2015 (in thousands)	2014	% Change	2015	2014
License	\$ 11,718	\$ 14,412	(19)%	15%	19%
Services and other	34,448	33,057	4%	46%	44%
Maintenance	29,107	27,207	7%	39%	37%
Total revenues	\$ 75,273	\$ 74,676	1%	100%	100%

For the three months ended January 31, 2015, the 6% increase in revenues over the three months ended January 31, 2014 was attributable to a 15% increase in services and other revenues and a 6% increase in maintenance revenues. This was partially offset by a 13% decrease in license fee revenues. For the nine months ended January 31, 2015, the 1% increase in revenues over the nine months ended January 31, 2014 was attributable to a 7% increase in maintenance revenues and a 4% increase in services and other revenues. This was partially offset by a 19% decrease in license fee revenues. The primary reason for the decrease in license fee revenues was a decrease in software sales at Logility, which decreased 18% and 21%, during the three and nine months ended January 31, 2015 compared to the three and nine months ended January 31, 2014, respectively. We believe this decrease was due to uncertain capital spending environment resulting in sales cycles lengthening and causing delays in closing transactions. Also, to a lesser extent some customer sales included hosting services which require the revenue recognition to be spread over the life of the contract.

Due to intensely competitive markets, we do discount license fees from our published list price due to pricing pressure in our industry. Numerous factors contribute to the amount of the discounts provided, such as previous customer purchases, the number of customer sites utilizing the software, the number of modules purchased and the number of users, as well as the overall size of the contract. While all these factors may affect the discount amount of a particular contract, the overall percentage discount has not materially changed in the recent reported fiscal periods.

The change in our revenues from period to period is primarily due to the volume of products and related services sold in any period and the amount of products or modules purchased with each sale.

International revenues represented approximately 15% and 16% of total revenues in the three and nine months ended January 31, 2015, respectively, and represented approximately 17% of total revenues in the three and nine months ended January 31, 2014. Our revenues, in particular our international revenues, may fluctuate substantially from period to period primarily because we derive most of our license fee revenues from a relatively small number of customers in a given period.

License Revenues

	Three Months Ended January 31,		
	2015 (in thousands)	2014	% Change
Enterprise Resource Planning	\$ 569	\$ 421	35%
Supply Chain Management	3,769	4,581	(18)%
Total license revenues	\$ 4,338	\$ 5,002	(13)%

	Nine Months Ended January 31,		
	2015	2014	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,824	\$ 1,821	0%
Supply Chain Management	9,894	12,591	(21)%
Total license revenues	\$ 11,718	\$ 14,412	(19)%

Table of Contents

For the three and nine months ended January 31, 2015, license fee revenues decreased 13% and 19%, respectively, when compared to the same periods in the prior year. While we expect a degree of quarterly fluctuation due to the timing of signing license fee agreements, our SCM segment experienced a decrease in license fee close rates in the current quarter when compared to the same period last year due to the timing of closing software sales, as we had several potential sales delays toward the end of the quarter. Also, to a lesser extent some customer sales included hosting services which require the revenue recognition to be spread over the life of the contract. In the nine months ended January 31, 2015, license fee revenues from our SCM segment decreased 21% when compared to the corresponding periods in the prior year due to overall uncertainty in global economic markets. Our SCM segment constituted 87% and 84% of total license fee revenues for the three and nine months ended January 31, 2015, respectively, compared to 92% and 87% for the three and nine months ended January 31, 2014, respectively. Our ERP business unit license fee revenues increased by 35% for the three months ended January 31, 2015 and were the same for the nine months ended January 31, 2015, when compared to the same periods in the prior year, primarily due to an increase in license fee sales to the apparel and retail industries due to improved sales execution and sales environment for those vertical industries.

The direct sales channel provided approximately 77% and 71% of license fee revenues for the three and nine months ended January 31, 2015, respectively, compared to approximately 79% and 69% of license fee revenues for the three and nine months ended January 31, 2014, respectively. The decrease in the proportion of sales by our direct sales channel, which tends to target larger companies, for the current quarter when compared to the prior year period is primarily due to fewer larger sales compared with the same time last year. Also, to a lesser extent some larger customer sales included hosting services which require the revenue recognition to be spread over the life of the contract. In general, large and mid-sized companies do not require access to capital markets to fund expenditures to the same degree as do smaller companies. Thus, our indirect sales channel faces relatively greater challenges in the current economy, as the indirect channel tends to target smaller companies. For the three and nine months ended January 31, 2015, our margins after commissions on direct sales were approximately 87% compared to 83% and 84% for the three and nine months ended January 31, 2014, respectively. For the three months ended January 31, 2015 compared to the same period in the prior year, our direct margins increased due to the concentration (or mix) of sales staff achieving certain commission rate levels when compared to the same period last year. For the three and nine months ended January 31, 2015, our margins after commissions on indirect sales were approximately 32% and 39%, respectively, compared to 45% and 52% for the three and nine months ended January 31, 2014, respectively. The indirect channel margins decreased for the three and nine months ended January 31, 2015 when compared to the same periods in the prior year due to the mix of value-added reseller (VAR) commission rates. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

Services and Other Revenues

	Three Months Ended January 31,		
	2015	2014	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,168	\$ 1,009	16%
Supply Chain Management	3,954	3,269	21%
IT Consulting	6,540	5,889	11%
Total services and other revenues	\$ 11,662	\$ 10,167	15%

	Nine Months Ended January 31,		
	2015	2014	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 3,029	\$ 3,338	(9)%
Supply Chain Management	12,786	10,764	19%
IT Consulting	18,633	18,955	(2)%
 Total services and other revenues	 \$ 34,448	 \$ 33,057	 4%

For the three months ended January 31, 2015, services and other revenues increased by 15% when compared to the same period in the prior year, primarily due to an increase in services and other revenues from all of our business segments. For the nine months ended January 31, 2015, services and other revenues increased by 4% when compared to the same period in the prior year, primarily due to an increase in services and other revenues from our SCM segment, which was partially offset by decreases in our ERP and IT Consulting business segments. For the three and nine months ended January 31, 2015, services and other revenues from Logility (SCM) increased by 21% and 19%, respectively, when compared to the prior year periods. Logility services and other revenues increased due to an increase in project implementation work from higher license fee sales in the first quarter of fiscal 2015, which tend to increase services implementation revenue with a one to three quarter lag. For the three and nine months ended January 31, 2015,

Table of Contents

our ERP segment's revenues increased 16% and decreased 9%, respectively, when compared to the prior year periods. The increase in the current quarter is due to an increase in license fee revenues in the apparel industry in recent quarters. For the three and nine months ended January 31, 2015, our IT Consulting segment's revenues increased 11% and decreased 2%, respectively, when compared to the prior year periods. The increase in the current quarter was due to an increase in IT staffing and project work from customers as a result of timing of project work.

We have observed that there is a tendency for services and other revenues, other than from IT Consulting, 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 Revenues

	Three Months Ended January 31,		
	2015	2014	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,260	\$ 1,200	5%
Supply Chain Management	8,579	8,058	6%
Total maintenance revenues	\$ 9,839	\$ 9,258	6%

	Nine Months Ended January 31,		
	2015	2014	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 3,754	\$ 3,519	7%
Supply Chain Management	25,353	23,688	7%
Total maintenance revenues	\$ 29,107	\$ 27,207	7%

For the three and nine months ended January 31, 2014, maintenance revenues increased 6% and 7%, respectively, when compared to the same periods in the prior year due primarily to license fee sales in recent quarters and improved renewal rates in our SCM unit, which experienced a 6% and 7% increase in maintenance revenue for the three and nine months ended January 31, 2015, respectively, when compared to the same periods last year. Our legacy ERP unit experienced an increase of 5% and 7%, for the three and nine months ended January 31, 2015, respectively, when compared to the same periods in the prior year due to increased license fees in recent quarters and improved renewal rates. Logility accounted for 87% of total maintenance revenues for both the three- and nine-month periods ended January 31, 2015, respectively, compared to 87% of total maintenance revenues for both the three- and nine-month periods ended January 31, 2014. Typically, our maintenance revenues have had a direct relationship to current and historic license fee revenues, since new licenses are the potential source of new maintenance customers.

GROSS MARGIN

The following table provides both dollar amounts (in thousands) and percentage measures of gross margin:

	Three months ended January 31,				Nine months ended January 31,			
	2015		2014		2015		2014	
Gross margin on license fees	\$ 2,349	54%	\$ 4,275	85%	\$ 6,230	53%	\$ 11,290	78%
Gross margin on services and other	2,870	25%	2,472	24%	9,318	27%	9,141	28%
Gross margin on maintenance	7,630	78%	7,216	78%	22,742	78%	21,213	78%
Total gross margin	\$ 12,849	50%	\$ 13,963	57%	\$ 38,290	51%	\$ 41,644	56%

For the three and nine months ended January 31, 2014, total gross margin percentage decreased when compared to the same periods in the prior year due to a decrease in the gross margin on license fees.

Gross Margin on License Fees

License fee gross margin percentage for the three and nine months ended January 31, 2015 decreased 31 and 25 percentage points, respectively, when compared to the same periods in the prior year primarily due to a decrease in the license fee and higher capitalized software amortization expense (approximately \$897,000 for Q3 15 vs \$0 in Q3 14 and approximately \$2,691,000 for the nine months ended as of January 31, 2015 vs \$625,000 for the nine months ended as of January 31, 2014) which increased due to the

Table of Contents

release of our Voyager 8.5 product at the end of the fourth quarter of fiscal 2014. 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, amortization of acquired software and the sales mix between our direct and indirect channels.

Gross Margin on Services and Other

For the three months ended January 31, 2015, the gross margin percentage on services and other revenues increased one percentage point, when compared to the same period in the prior year, primarily due to improved margins at our ERP business unit from increased sales and improved billing rates. For the nine months ended January 31, 2015, the gross margin percentage on services and other revenues decreased one percentage point, when compared to the same period in the prior year, primarily due to a decrease in gross margin on services at our IT consulting business unit as a result of the mix of lower margin business compared to the same period in the prior year. Services and other gross margin are 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 inelastic in the short term.

Gross Margin on Maintenance

Maintenance gross margin percentage for the three and nine months ended January 31, 2015 were the same when compared to the same periods in the prior year. Maintenance gross margin normally is directly related to the level of maintenance revenues. The primary component of cost of maintenance revenue is maintenance staffing, which is relatively inelastic in the short term.

Expenses

	Three Months Ended				Nine Months Ended January 31,			
	January 31,		% of Revenues		January 31,		% of Revenues	
	2015	2014	2015	2014	2015	2014	2015	2014
	(in thousands)				(in thousands)			
Research and development	\$ 2,603	\$ 2,338	10%	9%	\$ 8,609	\$ 6,442	11%	9%
Sales and marketing	\$ 4,540	\$ 5,032	18%	21%	\$ 13,758	\$ 14,444	18%	19%
General and administrative	\$ 3,224	\$ 2,929	12%	12%	\$ 9,707	\$ 9,069	13%	12%
Amortization of acquisition-related intangible assets	\$ 107	\$ 125	1%	1%	\$ 299	\$ 375	1%	1%
Other (expense) income, net	\$ (80)	\$ 198	0%	1%	\$ 715	\$ 659	1%	1%
Income tax (benefit) expense	\$ (546)	\$ 1,260	(2)%	5%	\$ 1,082	\$ 4,210	2%	6%

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
(in thousands)

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

	January 31, 2015	Percent Change	January 31, 2014
Total capitalized computer software development costs	\$ 879	16%	\$ 761
Percentage of gross product research and development costs	25%		25%
Total research and development expense	2,603	11%	2,338
Percentage of total revenues	10%		9%
Total research and development expense and capitalized computer software development costs	\$ 3,482	12%	\$ 3,099
Percentage of total revenues	13%		13%
Total amortization of capitalized computer software development costs *	\$ 897	100%	\$

Table of Contents

	Nine Months Ended (in thousands)		
	January 31, 2015	Percent Change	January 31, 2014
Total capitalized computer software development costs	\$ 1,725	(28)%	\$ 2,402
Percentage of gross product research and development costs	17%		27%
Total research and development expense	8,609	34%	6,442
Percentage of total revenues	11%		9%
Total research and development expense and capitalized computer software development costs	\$ 10,334	17%	\$ 8,844
Percentage of total revenues	14%		12%
Total amortization of capitalized computer software development costs *	\$ 2,691	331%	\$ 625

* Included in cost of license fees

For the three and nine months ended January 31, 2015, gross product research and development costs increased when compared to the same periods in the previous fiscal year primarily due to the May 29, 2014 acquisition of MRI, which added approximately \$374,000 and \$1,073,000, respectively, in costs. To a lesser extent, the increase was due to increased hiring in our Voyager product area. Capitalized software development costs increased for the three months ended January 31, 2015 and decreased for the nine months ended January 31, 2015 when compared to the same periods last year due to timing of capitalizable project work. We expect capitalized product development costs to increase as new projects reach technological feasibility and we expect capitalized software amortization expense to be relatively stable in coming quarters. Costs included in gross product development are salaries of product development personnel, hardware lease expense, computer software expense, telephone expense and rent.

Sales and Marketing

For the three and nine months ended January 31, 2015, sales and marketing expenses decreased 10% and 5%, respectively, when compared to the same periods a year ago primarily due to a decrease in sales commissions as a result of lower license fees. This was partially offset by an increase in marketing related fees and the May 29, 2014 acquisition of MRI. We generally include commissions on indirect sales in cost of sales.

General and Administrative and Provision for (Recovery of) Doubtful Accounts

For the three months ended January 31, 2015, the 10% increase when compared to the same period last year was primarily due to general office expenses related to the purchase of MRI and an increase in the allowance for doubtful accounts. For the nine months ended January 31, 2015, the 7% increase compared to the same period last year was primarily due to general office expenses and audit related expenses to the purchase of MRI and an increase in the allowance for doubtful accounts compared to a recovery for doubtful accounts in the same period last year.

At January 31, 2015, the total number of employees was 399, compared to 360 at January 31, 2014.

Operating Income/(Loss)

	Three Months Ended January 31,			Nine Months Ended		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Enterprise Resource Planning	\$ (1,192)	\$ (1,522)	22%	\$ (3,792)	\$ (3,682)	(3)%
Collaborative Supply Chain Management	3,064	4,716	(35)%	8,076	13,352	(40)%
IT Consulting	503	345	46%	1,633	1,644	(1)%
Total Operating Income	\$ 2,375	\$ 3,539	(33)%	\$ 5,917	\$ 11,314	(48)%

Our ERP segment operating loss in the three months ended January 31, 2015 decreased from the same period in the prior year due to higher license fee, services and maintenance revenues. Our ERP segment operating loss increased in the nine months ended January 31, 2015 due to lower services and other revenues and an increase in general and administrative expenses.

Table of Contents

Our SCM segment's contribution to operating income decreased by 35% and 40% for the three and nine months ended January 31, 2015 compared to same periods last year, primarily as a result of decreased license fee revenues, higher software amortization expense and expense related to the MRI acquisition.

Our IT consulting segment operating income increased 46% for the three months ended January 31, 2015 compared to same period last year as a result of higher revenue and improved cost management. Our IT consulting segment operating income decreased 1% for the nine months ended January 31, 2015 due to a decrease in revenue.

Other Income (Expense)

Other income (expense) is comprised of net interest and dividend income, rental income net of related depreciation expenses, exchange rate gains and losses, and realized and unrealized gains and losses from investments. For the three months ended January 31, 2015, the increase in other loss compared to other income was due primarily to: 1) a higher unrealized loss on investments when compared to the same period last year and 2) an increase in exchange rate losses to approximately \$262,000 and 3) lower rental income when compared to the same period last year. This increase in losses was partially offset by an increase in interest income as a result of higher market yields for the three months ended January 31, 2015. We recorded a loss of approximately \$364,000 for the three months ended January 31, 2015 compared to a loss of approximately \$135,000 for the three months ended January 31, 2014 from our trading securities portfolio. We recorded a loss of approximately \$381,000 for the nine months ended January 31, 2015 compared to a loss of approximately \$485,000 for the nine months ended January 31, 2014 from our trading securities portfolio.

For the three and nine months ended January 31, 2015, our investments generated an annualized yield of approximately 1.86% and 1.67% respectively, compared to approximately 1.33% and 1.39% for the three and nine months ended January 31, 2014, respectively.

Income Taxes

We recognize deferred tax assets and liabilities based on 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 the Income Tax Topic of the FASB Accounting Standards Codification, 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 the deferred tax asset would be realized. During the three months ended January 31, 2015, our effective tax rate was (23.8%) compared to our effective tax rate of 33.7% in the three months ended January 31, 2014. The effective tax rate for the current quarter is lower compared to the third quarter of fiscal 2014 due to 1) the reversal of a FIN 48 Reserve (\$973,000) due to the lapse in the statute of limitations and 2) the extension of the research and development tax credit during the third quarter of fiscal 2015 which resulted in a catch-up credit adjustment for the period January 1, 2014 through December 31, 2014. During the nine months ended January 31, 2015, our effective rate was 16.3% compared to our effective rate of 35.2% in the nine months ended January 31, 2014. We expect our effective rate will be between 22% and 25% during fiscal 2015.

Operating Pattern

We experience irregular fluctuations in quarterly operating results, caused primarily by changes in both the number and size of software license contracts received and delivered from quarter to quarter and our ability to recognize revenues in that quarter in accordance with our revenue recognition policies. We expect these fluctuations to continue.

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 our operating activities provide generally reflect the changes in net earnings and non-cash operating items plus the effect of changes in operating assets and liabilities, such as investment trading securities, 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 used no cash for debt service purposes.

The following table shows information about our cash flows and liquidity positions during the nine months ended January 31, 2015 and 2014. 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, 2014.

Table of Contents

	Nine Months Ended January 31, (in thousands)	
	2015	2014
Net cash provided by operating activities	\$ 4,714	\$ 14,431
Net cash used in investing activities	(10,606)	(3,623)
Net cash (used in) provided by in financing activities	(8,888)	950
Net change in cash and cash equivalents	\$ (14,780)	\$ 11,758

For the nine months ended January 31, 2015, the decrease in cash provided by operating activities compared to the same period last year was due primarily to: 1) lower proceeds from the maturity and sales of trading securities, 2) an increase in purchases of trading securities, 3) a decrease in net earnings, 4) a decrease in accounts payable and other accruals compared to an increase in the same period last year due to timing of payments, 5) an increase in deferred income taxes compared to a decrease in the same period last year due to timing, 6) a higher increase in prepaid expenses when compared to the same period last year due to the timing of purchases, 7) a lower increase in the tax benefit of stock options exercised compared to the prior year due to the mix of options exercised and 8) a decrease in unrealized losses on investments compared to the same period last year.

This increase was partially offset by: 1) a decrease in customer accounts receivable compared to an increase in the same period last year caused by the timing of closing customer sales and related collections, 2) an increase in depreciation and amortization, 3) lower excess tax benefits from stock-based compensation compared to the prior year due to the mix of options exercised, 4) higher stock-based compensation expense and 4) a higher increase in deferred revenues due to timing of revenue recognition.

The increase in cash used in investing activities when compared to the same period in the prior year was due primarily to the acquisition of MRI during the first quarter of fiscal 2015, an increase in purchases of property and equipment and lower proceeds from the maturities of investments that was partially offset by a decrease in capitalized computer software development costs due to the timing of project work.

Cash used in financing activities compared to cash provided by financing activities in the prior year was due primarily to 1) an increase in dividends paid, 2) lower proceeds from exercise of stock options, 3) an increase in repurchases of the Company's common stock 4) a decrease in excess tax benefits from stock-based compensation and 5) an increase in payment for accrued acquisition consideration.

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

	As of January 31, (in thousands)	
	2015	2014
Cash and cash equivalents	\$ 41,023	\$ 52,922
Short and long-term investments	29,973	21,539
Total cash and short and long-term investments	\$ 70,996	\$ 74,461

Net (decrease) increase in total cash and investments (nine months ended January 31)	\$ (8,578)	\$ 8,037
--------------------------------------------------------------------------------------	------------	----------

Our total activities used more cash and investments during the nine months ended January 31, 2015, when compared to the prior year period, due primarily to the changes in operating assets and liabilities noted above, the payment of quarterly dividends, the acquisition of MRI and repurchase of the Company's common stock.

Days Sales Outstanding in accounts receivable were 62 days as of January 31, 2015, compared to 67 days as of January 31, 2014. This increase is primarily due to the timing of collection activity. Our current ratio on January 31, 2015 was 2.2 to 1 and on January 31, 2014 was 2.7 to 1.

Our business in recent periods has generated substantial positive cash flow from operations, excluding purchases and proceeds of sale of trading securities. For this reason, and because we had \$71.0 million in cash and investments with no debt as of January 31, 2015, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, at some future date, we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. We do not 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.

Table of Contents

On December 17, 1997, our Board of Directors approved a resolution authorizing the repurchase of up to 1.5 million of our Class A Common Shares. On March 11, 1999, our Board of Directors approved a resolution authorizing us to repurchase an additional 700,000 shares for a total of up to 2.2 million of our Class A Common Shares. On August 19, 2002, our Board of Directors approved a resolution authorizing us to repurchase an additional 2.0 million shares for a total of up to 4.2 million of our Class A Common Shares. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchases will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. Under these three repurchase plans, as of February 20, 2015 we have repurchased a total of approximately 3.2 million shares of common stock at a cost of approximately \$13.4 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have based the following discussion and analysis of financial condition and results of operations on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014 describes the significant accounting policies that we have used in preparing our financial statements. On an ongoing basis, we evaluate our estimates, including, but not limited to those related to vendor specific objective evidence (VSOE), bad debts, capitalized software costs, goodwill, intangible asset impairment, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

We believe the critical accounting policies listed below affect significant judgments and estimates used in the preparation of the financial statements.

Revenue Recognition. We recognize revenue in accordance with the Software Revenue Recognition Topic of FASB's Accounting Standards Codification. We recognize license revenues in connection with license agreements for standard proprietary software upon delivery of the software, provided we deem collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and VSOE exists with respect to any undelivered elements of the arrangement. We generally bill maintenance fees annually in advance and recognize the resulting revenues ratably over the term of the maintenance agreement. We derive revenues from services which primarily include consulting, implementation, and training. We bill for these services primarily under time and materials arrangements and recognize fees as we perform the services. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the time we recognize revenues. We record revenues from sales of third-party products in accordance with Principal Agent Considerations within the Revenue Recognition Topic of the FASB's Accounting Standards Codification. Furthermore, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we 1) act as principal in the transaction, 2) take title to the products, 3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, our sales through the DMI channel are typically recorded on a gross basis.

Generally, our software products do not require significant modification or customization. Installation of the products is routine and is not essential to their functionality. Our sales frequently include maintenance contracts and

professional services with the sale of our software licenses. We have established VSOE for our maintenance contracts and professional services. We determine fair value based upon the prices we charge to customers when we sell these elements separately. We defer maintenance revenues, including those sold with the initial license fee, based on VSOE, and recognize the revenue ratably over the maintenance contract period. We recognize consulting and training service revenues, including those sold with license fees, as we perform the services based on their established VSOE. We determine the amount of revenue we allocate to the licenses sold with services or maintenance using the residual method of accounting. Under the residual method, we allocate the total value of the arrangement first to the undelivered elements based on their VSOE and allocate the remainder to license fees.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of these customers were to deteriorate, resulting in an impairment of their ability to make payments, we may require additional allowances or we may defer revenue until we determine that collectability is probable. We specifically analyze accounts receivable and historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when we evaluate the adequacy of the allowance for doubtful accounts.

Table of Contents

Valuation of Long-Lived and Intangible Assets. In accordance with the Intangibles-Goodwill and Other Topic of the FASB's Accounting Standards Codification, we do not amortize goodwill and other intangible assets with indefinite lives. Our goodwill is subject to annual impairment tests, which require us to estimate the fair value of our business compared to the carrying value. The impairment reviews require an analysis of future projections and assumptions about our operating performance. Should such review indicate the assets are impaired, we would record an expense for the impaired assets.

In accordance with the Property, Plant, and Equipment Topic of the FASB's Accounting Standards Codification, long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability would be measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, we recognize an impairment charge in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The determination of estimated future cash flows, however, requires management to make estimates. Future events and changes in circumstances may require us to record a significant impairment charge in the period in which such events or changes occur. Impairment testing requires considerable analysis and judgment in determining results. If other assumptions and estimates were used in our evaluations, the results could differ significantly.

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill and intangible assets had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill or intangible assets that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At January 31, 2015, our goodwill balance was \$18.7 million and our intangible assets with definite lives balance was approximately \$3.0 million, net of accumulated amortization.

Valuation of Capitalized Software Assets. We capitalize certain computer software development costs in accordance with the Intangibles-Goodwill and Other Topic of the FASB's Accounting Standards Codification. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, we capitalize all software development costs and report those costs at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers. We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the amount by which the unamortized software development costs exceed net realizable value. We amortize capitalized computer software development costs ratably based on the projected revenues associated with the related software or on a straight-line basis over three years, whichever method results in a higher level of amortization. Amortization of capitalized computer software development costs is included in the cost of license revenues in the condensed consolidated statements of operations.

Stock-Based Compensation. We estimate the value of options granted on the date of grant using the Black-Scholes option pricing model. Management's judgments and assumptions related to volatility, the expected term and the forfeiture rate are made in connection with the calculation of stock compensation expense. We periodically review all assumptions used in our stock option pricing model. Changes in these assumptions could have a significant impact on the amount of stock compensation expense.

Income Taxes. We provide for the effect of income taxes on our financial position and results of operations in accordance with the Income Tax Topic of the FASB's Accounting Standards Codification. Under this accounting guidance, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, and projected tax credits. Changes in tax law or our interpretation of tax laws could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our deferred tax assets take into account our expectations of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years, which could significantly increase tax expense, could render inaccurate our current assumptions, judgments and estimates of recoverable net deferred taxes.

Business Combinations and Intangible Assets Including Goodwill. We account for business combinations using the acquisition method of accounting and accordingly, the identifiable assets acquired and liabilities assumed are recorded based upon management's estimates of current fair values as of the acquisition date. The estimation process includes analyses based on income and market approaches. Goodwill represents the excess purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The goodwill generated is due in part to the synergies that are not included in the fair value of

Table of Contents

identifiable intangible assets. Goodwill recorded in an acquisition is assigned to applicable reporting units based on expected revenues. Identifiable intangible assets with finite lives are amortized over their useful lives. Amortization of current technology is recorded in Cost of Revenue-License and amortization of all other intangible assets is recorded in Amortization of acquisition-related intangibles. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs, are expensed in general and administrative expenses in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three and nine months ended January 31, 2015, we generated approximately 15% and 16%, respectively, of our revenues outside the United States. We typically make international sales through our foreign subsidiaries or our Logility subsidiary and denominate those sales typically in U.S. Dollars, British Pounds Sterling or Euros. However, expenses incurred in connection with these sales are typically denominated in the local currencies. We recorded exchange rate losses of approximately \$262,000 and \$455,000 for the three and nine months ended January 31, 2015, respectively, compared to exchange rate losses of approximately \$133,000 and \$173,000 for the three and nine months ended January 31, 2014. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$272,000 exchange gain or loss for the nine months ended January 31, 2015. We have not engaged in any hedging activities.

Interest Rates and Other Market Risks. We have no debt, and therefore limit our discussion of interest rate risk to risk associated with our investment profile. We manage our interest rate risk by maintaining an investment portfolio of trading investments 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 an investment policy approved by our Board of Directors. These instruments are denominated in U.S. Dollars. The fair market value of these instruments as of January 31, 2015 was approximately \$69.0 million compared to \$70.6 million as of January 31, 2014.

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 the local bank. Such operating cash balances held at banks outside the United States are denominated in the local currency and are minor.

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. In addition, our investments in equity securities are subject to stock market volatility. Due in part to these factors, our future investment income may fall short of expectations or we may suffer losses in principal if forced to sell securities, which have seen a decline in market value due to changes in interest rates. We attempt to mitigate risk by holding fixed-rate securities to maturity, but, if our liquidity needs force us to sell fixed-rate securities prior to maturity, we may experience a loss of principal.

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

Item 4. Controls and Procedures
Management's Report on Internal Control Over Financial Reporting

As of the end of the period covered by this report, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) under the supervision and with the participation of our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, the aforementioned officers have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

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 the end of the period covered by this quarterly report. 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 our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Table of Contents**Changes in Internal Control over Financial Reporting**

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

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended April 30, 2014. There have been no material changes to the risk factors as previously disclosed in such Annual Report on Form 10-K,

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

(a) Not applicable

(b) Not applicable

(c) The following table summarizes repurchases of our stock in the three months ended January 31, 2015:

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*
November 1, 2014 through November 30, 2014	10,000	\$ 9.25		992,373
	25,717	8.85		966,656

December 1, 2014 through December 31, 2014			
January 1, 2015 through January 31, 2015			966,656
Total Fiscal 2015 Third Quarter	35,717	\$ 8.96	966,656

* Our Board of Directors approved the above share purchase authority on August 19, 2002, when the Board approved a resolution authorizing us to repurchase up to 2.0 million shares of Class A common stock. This action was announced on August 22, 2002. The authorization has no expiration date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit 3.1	Amended and Restated Articles of Incorporation, and amendments thereto (1)
Exhibit 3.2	Amended and Restated By-Laws dated May 18, 2009 (2)
Exhibits 31.1-31.2.	Rule 13a-14(a)/15d-14(a) Certifications
Exhibit 32.1.	Section 906 Certifications
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

- (1) Incorporated by reference herein. Filed by the Company as an exhibit to its quarterly report filed on Form 10-Q for the quarter ended October 31, 1990.
- (2) Incorporated by reference herein. Filed by the Company as an exhibit to its quarterly report filed on Form 10-Q for the quarter ended January 31, 2010.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN SOFTWARE, INC.

Date: March 6, 2015

By: /s/ J. Michael Edenfield
J. Michael Edenfield
President, Chief Executive Officer, Director and Chief Operating Officer

Date: March 6, 2015

By: /s/ Vincent C. Klinges
Vincent C. Klinges
Chief Financial Officer

Date: March 6, 2015

By: /s/ Bryan L. Sell
Bryan L. Sell
Controller and Principal Accounting Officer