

AMERICAN SOFTWARE INC
Form 10-Q
December 07, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2012

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)

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

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)

30305
(Zip Code)

(404) 261-4381

(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	Outstanding at December 3, 2012
Class A Common Stock, \$.10 par value	24,583,364 Shares
Class B Common Stock, \$.10 par value	2,587,086 Shares

Table of Contents

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Form 10-Q

Quarter ended October 31, 2012

Index

	Page No.
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of October 31, 2012 and April 30, 2012</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months ended October 31, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months ended October 31, 2012 and 2011</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>	16
<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)

	October 31, 2012	April 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,557	\$ 39,111
Investments	18,668	20,251
Trade accounts receivable, less allowance for doubtful accounts of \$449 at October 31, 2012 and \$171 at April 30, 2012:		
Billed	12,526	15,205
Unbilled	5,850	4,607
Deferred income taxes	34	34
Prepaid expenses and other current assets	3,275	3,184
Total current assets	79,910	82,392
Investments - Noncurrent	6,546	7,508
Property and equipment, net of accumulated depreciation of \$29,083 at October 31, 2012 and \$28,613 at April 30, 2012	4,872	4,912
Capitalized software, net of accumulated amortization of \$6,414 at October 31, 2012 and \$5,163 at April 30, 2012	8,351	7,791
Goodwill	12,601	12,601
Other intangibles, net of accumulated amortization of \$1,969 at October 31, 2012 and \$1,681 at April 30, 2012	974	1,263
Other assets	86	86
Total assets	\$ 113,340	\$ 116,553
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,149	\$ 1,042
Accrued compensation and related costs	2,774	5,169
Dividends payable	2,446	2,433
Other current liabilities	3,204	4,198
Deferred revenue	17,967	19,441
Total current liabilities	27,540	32,283
Deferred income taxes	946	1,240
Total liabilities	28,486	33,523
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 28,966,194 shares at October 31, 2012 and 28,798,490 shares at April 30, 2012	2,897	2,880
Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,587,086 shares at October 31, 2012 and April 30, 2012; convertible into Class A shares on a one-for-one basis	259	259
Additional paid-in capital	97,142	95,386

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

Retained earnings	8,329	8,024
Class A treasury stock, 4,379,815 shares at October 31, 2012 and 4,348,663 April 30, 2012, at cost	(23,773)	(23,519)
Total shareholders' equity	84,854	83,030
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 113,340	\$ 116,553

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 October 31,		Six Months Ended October 31,	
	2012	2011	2012	2011
Revenues:				
License	\$ 5,504	\$ 7,048	\$ 10,586	\$ 13,736
Services and other	12,312	10,535	24,807	19,802
Maintenance	8,447	8,015	16,784	15,769
Total revenues	26,263	25,598	52,177	49,307
Cost of revenues:				
License	1,443	1,487	2,812	3,322
Services and other	8,142	7,589	16,765	14,506
Maintenance	1,998	1,888	3,910	3,653
Total cost of revenues	11,583	10,964	23,487	21,481
Gross margin	14,680	14,634	28,690	27,826
Research and development	2,303	1,949	4,409	3,899
Sales and marketing	4,937	4,795	9,758	9,101
General and administrative	2,939	3,010	6,049	6,126
Amortization of acquisition-related intangibles	125	135	250	270
Provision for doubtful accounts	140	29	267	120
Total operating expenses	10,444	9,918	20,733	19,516
Operating income	4,236	4,716	7,957	8,310
Other income (expense):				
Interest income	278	331	584	694
Other, net	31	(228)	(2)	(604)
Earnings before income taxes	4,545	4,819	8,539	8,400
Income tax expense	1,774	1,838	3,346	3,131
Net earnings	\$ 2,771	\$ 2,981	\$ 5,193	\$ 5,269
Earnings per common share ^(a):				
Basic	\$ 0.10	\$ 0.11	\$ 0.19	\$ 0.20
Diluted	\$ 0.10	\$ 0.11	\$ 0.19	\$ 0.20
Cash dividends declared per common share	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18
Shares used in the calculation of earnings per common share:				
Basic	27,151	26,263	27,112	26,197

Diluted	27,627	26,825	27,596	26,802
---------	--------	--------	--------	--------

- (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 \$0.11 for the three months ended October 31, 2012 and 2011 and \$0.19 and \$0.20 for the six months ended October 31, 2012 and 2011, 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)

	Six Months Ended October 31,	
	2012	2011
Cash flows from operating activities:		
Net earnings	\$ 5,193	\$ 5,269
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,085	2,176
Stock-based compensation expense	775	586
Bond amortization	11	84
Tax benefit of stock options exercised	86	104
Excess tax benefits from stock-based compensation	(70)	(87)
Net loss on investments	183	651
Retirement of property and equipment	15	
Deferred income taxes	(294)	(601)
Changes in operating assets and liabilities:		
Purchases of trading securities	(8,074)	(9,773)
Proceeds from maturities and sales of trading securities	9,732	7,423
Accounts receivable, net	1,436	(1,857)
Prepaid expenses and other assets	(91)	(111)
Accounts payable and other liabilities	(3,269)	(469)
Deferred revenue	(1,474)	(1,369)
Net cash provided by operating activities	6,244	2,026
Cash flows from investing activities:		
Capitalized computer software development costs	(1,811)	(1,265)
Purchases of property and equipment, net of disposals	(521)	(222)
Proceeds from maturities of investments	693	3,300
Net cash (used in) provided by investing activities	(1,639)	1,813
Cash flows from financing activities:		
Repurchase of common stock	(254)	
Excess tax benefits from stock based compensation	70	87
Proceeds from exercise of stock options	912	1,309
Dividends paid	(4,887)	(4,708)
Net cash used in financing activities	(4,159)	(3,312)
Net change in cash and cash equivalents	446	527
Cash and cash equivalents at beginning of period	39,111	23,928
Cash and cash equivalents at end of period	\$ 39,557	\$ 24,455

See accompanying notes to condensed consolidated financial statements unaudited.

Table of Contents

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited

October 31, 2012

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 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 October 31, 2012, the results of operations for the three and six months ended October 31, 2012 and 2011 and cash flows for the six months ended October 31, 2012 and 2011. The results for the three and six months ended October 31, 2012 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, 2012.

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, 2012, 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.

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

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 \$682,000 and \$1.2 million for the three and six months ended October 31, 2012, respectively, and \$472,000 and \$892,000 for the three and six months ended October 31, 2011, 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 October 31, 2012 and April 30, 2012, unbilled license fees were approximately \$3.1 million and \$1.0 million, respectively, and unbilled services revenues were approximately \$2.7 million and \$3.6 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 August 21, 2012, our Board of Directors declared a quarterly cash dividend of \$0.09 per share of our Class A and Class B common stock. The cash dividend is payable on December 7, 2012 to Class A and Class B shareholders of record at the close of business on November 16, 2012.

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 shall receive a \$.05 dividend per share prior to the Class B Common Shares receiving any dividend and holders of Class A Common Shares shall 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 \$.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 October 31, 2012		Six Months Ended October 31, 2012	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18
Undistributed earnings	0.01	0.01	0.01	0.01
Total	\$ 0.10	\$ 0.10	\$ 0.19	\$ 0.19
Distributed earnings	\$ 2,211	\$ 233	\$ 4,420	\$ 466
Undistributed earnings	296	31	278	29
Total	\$ 2,507	\$ 264	\$ 4,698	\$ 495
Basic weighted average common shares outstanding	24,564	2,587	24,525	2,587
	Three Months Ended October 31, 2011		Six Months Ended October 31, 2011	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18
Undistributed earnings	0.02	0.02	0.02	0.02
Total	\$ 0.11	\$ 0.11	\$ 0.20	\$ 0.20
Distributed earnings	\$ 2,137	\$ 233	\$ 4,264	\$ 466
Undistributed earnings	551	60	485	54
Total	\$ 2,688	\$ 293	\$ 4,749	\$ 520
Basic weighted average common shares outstanding	23,676	2,587	23,555	2,642

Diluted EPS for Class A Common Shares Using the If-Converted Method**Three Months Ended October 31, 2012**

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic Common Stock Equivalents	\$ 2,507	24,564	\$ 0.10
		476	
	2,507	25,040	0.10
Class B Conversion	264	2,587	
Diluted EPS for Class A	\$ 2,771	27,627	\$ 0.10

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

Six Months Ended October 31, 2012

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 4,698	24,525	\$ 0.19
Common Stock Equivalents		484	
	4,698	25,009	0.19
Class B Conversion	495	2,587	
Diluted EPS for Class A	\$ 5,193	27,596	\$ 0.19

Table of Contents

Three Months Ended October 31, 2011

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 2,688	23,676	\$ 0.11
Common Stock Equivalents		562	
	2,688	24,238	0.11
Class B Conversion	293	2,587	
Diluted EPS for Class A	\$ 2,981	26,825	\$ 0.11

Six Months Ended October 31, 2011

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 4,749	23,555	\$ 0.20
Common Stock Equivalents		605	
	4,749	24,160	0.20
Class B Conversion	520	2,642	
Diluted EPS for Class A	\$ 5,269	26,802	\$ 0.20

Diluted EPS for Class B Common Shares Using the Two-Class Method

Three Months Ended October 31, 2012

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 264	2,587	\$ 0.10
Reallocation of undistributed earnings to Class A shares from Class B shares	(1)		
Diluted EPS for Class B	\$ 263	2,587	\$ 0.10

Six Months Ended October 31, 2012

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 495	2,587	\$ 0.19
Reallocation of undistributed earnings to Class A shares from Class B shares	(1)		
Diluted EPS for Class B	\$ 494	2,587	\$ 0.19

Table of Contents**Three Months Ended October 31, 2011**

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 293	2,587	\$ 0.11
Reallocation of undistributed earnings to Class A shares from Class B shares	(1)		
Diluted EPS for Class B	\$ 292	2,587	\$ 0.11

Six Months Ended October 31, 2011

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 520	2,642	\$ 0.20
Reallocation of undistributed earnings to Class A shares from Class B shares	(1)		
Diluted EPS for Class B	\$ 519	2,642	\$ 0.20

For the three and six months ended October 31, 2012, we excluded options to purchase 1,516,668 and 1,428,223 Class A Common Shares, respectively, and for the three and six months ended October 31, 2011, we excluded options to purchase 1,159,699 and 1,011,864 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 October 31, 2012, we had a total of 3,681,440 options outstanding and, as of October 31, 2011, we had a total of 3,917,577 options outstanding.

E. Stock-Based Compensation

During the six months ended October 31, 2012 and 2011, we granted options for 343,000 and 350,000 shares of common stock, respectively. We recorded stock option compensation cost of approximately \$384,000 and \$302,000 and related income tax benefits of approximately \$110,000 and \$82,000 during the three months ended October 31, 2012 and 2011, respectively. We recorded stock option compensation cost of approximately \$775,000 and \$586,000 and related income tax benefits of approximately \$215,000 and \$153,000 during the six months ended October 31, 2012 and 2011, 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 six months ended October 31, 2012 and 2011, we realized excess tax benefits of approximately \$70,000 and \$87,000, respectively.

During the six months ended October 31, 2012 and 2011, we issued 167,704 and 264,105 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the six months ended October 31, 2012 and 2011 based on market value at the exercise dates was approximately \$472,000 and \$751,000, respectively. As of October 31, 2012, unrecognized compensation cost related to unvested stock option awards approximated \$3.6 million, which we expect to recognize over a weighted average period of 1.9 years.

F. 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.

Table of Contents

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 October 31, 2012 and April 30, 2012, respectively, and indicates the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

	October 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 35,555			\$ 35,555
Marketable securities	9,167	15,047		24,214
Total	\$ 44,722	\$ 15,047	\$	\$ 59,769

	April 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 36,831			\$ 36,831
Marketable securities	7,930	18,126		26,056
Total	\$ 44,761	\$ 18,126	\$	\$ 62,887

Table of Contents

In addition to cash equivalents and marketable securities classified as trading securities, we also have an equity method investment valued at approximately \$276,000 and \$275,000 as of October 31, 2012 and April 30, 2012, respectively, and approximately \$725,000 and \$1.4 million in held-to-maturity investments as of October 31, 2012 and April 30, 2012, respectively, which are not recorded at fair value and thus are not included in the tables above. The held-to-maturity investments consist of certificates of deposits and tax-exempt state and municipal bonds and are recorded at amortized cost. We obtain fair values for these securities from third-party broker statements. We derive the fair value amounts primarily from 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. These investments consisted of the following at October 31, 2012 and April 30, 2012 (in thousands):

	Carrying value	October 31, 2012		Fair value
		Unrealized Gain	Unrealized Loss	
Held-to-maturity:				
Certificates of Deposit	\$ 95			\$ 95
Tax-exempt state and municipal bonds	630	7	1	636
	\$ 725	\$ 7	\$ 1	\$ 731
April 30, 2012				
	Carrying value	Unrealized Gain	Unrealized Loss	Fair value
Held-to-maturity:				
Certificates of Deposit	\$ 95			\$ 95
Tax-exempt state and municipal bonds	1,333	16		1,349
	\$ 1,428	\$ 16	\$	\$ 1,444

The contractual maturities of debt securities classified as held to maturity at October 31, 2012 and April 30, 2012 were as follows (in thousands):

	October 31, 2012	April 30, 2012
Due within one year	\$ 725	\$ 1,198
Due within two years		230
Due within three years		
Due after three years		
	\$ 725	\$ 1,428

G. 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 October 31, 2012, we have repurchased 844,862 shares of common stock at a cost of approximately \$4.4 million. As of October 31, 2012, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,379,815 shares of common stock at a cost of approximately \$23.8 million.

H. 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.

Table of Contents

I. 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 provides 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 six months ended October 31, 2012 and 2011:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2012	2011	2012	2011
Revenues:				
Enterprise Resource Planning	\$ 3,470	\$ 3,962	\$ 6,908	\$ 6,480
Collaborative Supply Chain Management	16,356	15,390	31,805	30,681
IT Consulting	6,437	6,246	13,464	12,146
	\$ 26,263	\$ 25,598	\$ 52,177	\$ 49,307
Operating income (loss) before intersegment eliminations:				
Enterprise Resource Planning	\$ (947)	\$ (284)	\$ (2,180)	\$ (2,209)
Collaborative Supply Chain Management	4,708	4,524	9,131	9,619
IT Consulting	475	476	1,006	900
	\$ 4,236	\$ 4,716	\$ 7,957	\$ 8,310
Intersegment eliminations:				
Enterprise Resource Planning	\$ (600)	\$ (374)	\$ (996)	\$ (741)
Collaborative Supply Chain Management	570	374	943	750
IT Consulting	30		53	(9)
Operating income (loss) after intersegment eliminations:				
Enterprise Resource Planning	\$ (1,547)	\$ (658)	\$ (3,176)	\$ (2,950)
Collaborative Supply Chain Management	5,278	4,898	10,074	10,369
IT Consulting	505	476	1,059	891
	\$ 4,236	\$ 4,716	\$ 7,957	\$ 8,310
Capital expenditures:				
Enterprise Resource Planning	\$ 40	\$ 37	\$ 317	\$ 93
Collaborative Supply Chain Management	141	51	177	124
IT Consulting		5	27	5
	\$ 181	\$ 93	\$ 521	\$ 222
Capitalized Software:				
Enterprise Resource Planning	\$	\$	\$	\$
Collaborative Supply Chain Management	948	661	1,811	1,265
IT Consulting				
	\$ 948	\$ 661	\$ 1,811	\$ 1,265
Depreciation and amortization:				
Enterprise Resource Planning	\$ 232	\$ 267	\$ 469	\$ 550
Collaborative Supply Chain Management	808	814	1,612	1,624
IT Consulting	2	1	4	2

\$ 1,042	\$ 1,082	\$ 2,085	\$ 2,176
----------	----------	----------	----------

Major Customer

For the three and six months ended October 31, 2012, we had one major customer, The Home Depot, which accounted for approximately 10.6%, or \$2.8 million, and 12.2%, or \$6.4 million, of total revenues, respectively. For the three and six months ended October 31, 2011, this major customer accounted for approximately 13.8%, or \$3.5 million, and 14.0%, or \$6.9 million, of total revenues, respectively. Revenues from our major customer for the periods reported are primarily attributable to our IT consulting segment. The related accounts receivable balance for this customer was approximately \$1.4 million as of October 31, 2012, and \$1.6 million as of April 30, 2012.

Table of Contents

J. 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.

We are involved in various claims arising in the ordinary course of business. On November 12, 2012, one of the operating units of the Company entered into a contractual agreement with a customer which, depending upon the customer's election, may result in the return of certain previously licensed products by that customer which would result in a loss of up to \$1.1 million in excess of the amounts which are accrued and reflected in the financial statements contained in this report. The customer has until January 11, 2013 to make this election, which election would be reflected in the next quarter's financial statements. The Company maintains a reserve on its books for losses of this nature and we believe that such reserves are adequate to cover amounts that are deemed to be probable at the end of the period. Management believes that the likelihood of an unfavorable outcome does not reach a level that would require any additional accrual; as such the Company has not recorded any additional liabilities during the period.

K. Subsequent Event

On November 14, 2012, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of our Class A and Class B common stock. In addition, our Board of Directors declared a special accelerated dividend of \$0.20 per share of our Class A and Class B common stock. This accelerated dividend is intended to be in lieu of the regular quarterly dividends that have historically been declared in February and May of each year. Both the regular quarterly dividend and the accelerated dividend are payable on December 21, 2012 to Class A and Class B shareholders of record at the close of business on December 8, 2012.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations **FORWARD-LOOKING STATEMENTS**

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

results of operations;

liquidity, cash flow and capital expenditures;

demand for and pricing of our products and services;

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 2013](#) and [fiscal 2012](#) refer to our fiscal years ending April 30, 2013 and 2012, respectively.

ECONOMIC OVERVIEW

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

In October 2012, the International Monetary Fund (IMF) provided an update to the World Economic Outlook (WEO) for the 2012 world economic growth forecast. The update noted that, *The global economy has deteriorated further since the release of the July 2012 WEO Update, and growth projections have been marked down. Downside risks are now judged to be more elevated than in the April 2012 and September 2011 World Economic Outlook (WEO) reports.* The IMF also noted: *Indicators of activity and unemployment show increasing and broad-based*

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

economic sluggishness in the first half of 2012 and no significant improvement in the third quarter. Global manufacturing has slowed sharply.

For the remainder of fiscal 2013, we expect the world economy to continue to be weak, which could result in a difficult selling environment. Overall information technology spending continues to be relatively weak as a result of the current global economic environment, particularly in the United States, when compared to the period prior to the last recession. 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 current 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.

Table of Contents

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.

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 channel, primarily from Demand Management, Inc. (DMI). 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 Financial Accounting Standards Board's (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.

Table of Contents

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, 2012.

COMPARISON OF RESULTS OF OPERATIONS

Three-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the three months ended October 31, 2012 and 2011:

	Three Months Ended October 31,		
	Percentage of Total Revenues		Pct. Change in Dollars
	2012	2011	2012 vs 2011
Revenues:			
License	21%	28%	(22)%
Services and other	47	41	17
Maintenance	32	31	5
Total revenues	100	100	3
Cost of revenues:			
License	5	6	(3)
Services and other	31	30	7
Maintenance	8	7	6
Total cost of revenues	44	43	6
Gross margin	56	57	
Research and development	9	8	18
Sales and marketing	19	19	3
General and administrative	11	12	(2)
Amortization of acquisition-related intangibles		1	(7)
Provision for doubtful accounts	1		nm
Total operating expenses	40	39	5
Operating income	16	18	(10)
Other income (expense):			
Interest income	1	1	(16)
Other, net		(1)	nm
Earnings before income taxes	17	19	(6)
Income tax expense	(7)	(7)	(3)
Net earnings	11%	12%	(7)%

nm not meaningful

Table of Contents

Six-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the six months ended October 31, 2012 and 2011:

	Six Months Ended October 31, Percentage of Total Revenues		Pct. Change in Dollars 2012 vs 2011
	2012	2011	
Revenues:			
License	20%	28%	(23)%
Services and other	48	40	25
Maintenance	32	32	6
Total revenues	100	100	6
Cost of revenues:			
License	5	7	(15)
Services and other	32	29	16
Maintenance	8	7	7
Total cost of revenues	45	44	9
Gross margin	55	56	3
Research and development	8	8	13
Sales and marketing	19	18	7
General and administrative	12	12	(1)
Amortization of acquisition-related intangibles		1	(7)
Provision for doubtful accounts	1		123
Total operating expenses	40	39	6
Operating income	15	17	(4)
Other income (expense):			
Interest income	1	1	(16)
Other, net		(1)	nm
Earnings before income taxes	16	17	2
Income tax expense	(6)	(6)	7
Net earnings	10%	11%	(1)%

nm not meaningful

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2012 AND 2011

Revenue

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

	Three Months Ended October 31,			% of Total Revenue	
	2012 (in thousands)	2011	% Change	2012	2011
License	\$ 5,504	\$ 7,048	(22)%	21%	28%
Services and other	12,312	10,535	17%	47%	41%
Maintenance	8,447	8,015	5%	32%	31%
Total revenues	\$ 26,263	\$ 25,598	3%	100%	100%

Table of Contents

	Six Months Ended October 31,			% of Total Revenue	
	2012 (in thousands)	2011	% Change	2012	2011
License	\$ 10,586	\$ 13,736	(23)%	20%	28%
Services and other	24,807	19,802	25%	48%	40%
Maintenance	16,784	15,769	6%	32%	32%
Total revenues	\$ 52,177	\$ 49,307	6%	100%	100%

For the three months ended October 31, 2012, the 3% increase in revenues over the three months ended October 31, 2011 was attributable primarily to a 17% increase in services and other revenues and, to a lesser extent, a 5% increase in maintenance revenues. This was partially offset by a 22% decrease in license fee revenues. For the six months ended October 31, 2012, the 6% increase in revenues over the six months ended October 31, 2011 was attributable primarily to a 25% increase in services and other revenues and, to a lesser extent, a 6% increase in maintenance revenues which was partially offset by a 23% decrease in license revenues. The primary reason for the increase in services and other revenues in the three and six months ended October 31, 2012 was an increase in the level of implementation services at our SCM and ERP business units resulting from increased sales in recent quarters and, to a lesser extent, an improvement in our IT consulting services due to increased demand for IT temporary staff and project services.

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 12% of total revenues in the three and six months ended October 31, 2012, and represented approximately 13% and 15% of total revenues in the three and six months ended October 31, 2011, respectively. 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 Revenue

	Three Months Ended October 31,		
	2012 (in thousands)	2011	% Change
Enterprise Resource Planning	\$ 567	\$ 1,346	(58)%
Supply Chain Management	4,937	5,702	(13)%
Total license revenues	\$ 5,504	\$ 7,048	(22)%

	Six Months Ended October 31,		
	2012 (in thousands)	2011	% Change
Enterprise Resource Planning	\$ 992	\$ 1,684	(41)%
Supply Chain Management	9,594	12,052	(20)%
Total license revenues	\$ 10,586	\$ 13,736	(23)%

For the three and six months ended October 31, 2012, license fee revenues decreased 22% and 23%, 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 and ERP units experienced a decline in license fee close rates in the first half of the current fiscal year when compared to the same period last year due to cancellation and/or delays in business investment as a result of an uncertainty in the direction of the global economy. In the three and six

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

months ended October 31, 2012, license fee revenues from our SCM business unit decreased 13% and 20%, respectively, when compared to the corresponding periods in the prior year. Our SCM business unit constituted 90% and 91% of total license fee revenues for the three and six months ended October 31, 2012, respectively, compared to 81% and 88% for the three and six months ended October 31, 2011, respectively. Our ERP business unit license fee revenues decreased by 58% and 41% for the three and six months ended October 31, 2012, respectively, when compared to the same periods in the prior year, primarily due to a decrease in license fee sales to the apparel and retail industries.

Table of Contents

The direct sales channel provided approximately 75% and 74% of license fee revenues for the three and six months ended October 31, 2012, respectively, compared to approximately 81% and 74% of license fee revenues for the three and six months ended October 31, 2011, 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 the delay of several larger sales compared with the same time last year. 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 six months ended October 31, 2012, our margins after commissions on direct sales were approximately 87% compared to 83% for the three and six months ended October 31, 2011, respectively. The margins increased in the current periods due to the concentration (or mix) of sales staff achieving certain commission rate levels when compared to the same periods last year. For the three and six months ended October 31, 2012, our margins after commissions on indirect sales were approximately 43% and 46%, respectively, compared to 43% and 45% for the three and six months ended October 31, 2011, respectively. The indirect channel margins for the six months ended October 31, 2012 increased slightly when compared to the same period 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 Revenue

	Three Months Ended October 31,		
	2012	2011	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,844	\$ 1,502	23%
Supply Chain Management	4,031	2,787	45%
IT Consulting	6,437	6,246	3%
Total services and other revenues	\$ 12,312	\$ 10,535	17%

	Six Months Ended October 31,		
	2012	2011	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 3,768	\$ 2,601	45%
Supply Chain Management	7,575	5,055	50%
IT Consulting	13,464	12,146	11%
Total services and other revenues	\$ 24,807	\$ 19,802	25%

For the three and six months ended October 31, 2012, services revenue increased by 17% and 25%, respectively, primarily due to increased services revenues from our SCM and ERP business segment implementation services and, to a lesser extent, IT Consulting business segments. For the three and six months ended October 31, 2012, services and other revenues from Logility (SCM) increased by 45% and 50%, respectively, when compared to the prior year periods. Logility services revenues increased for the current quarter due to improved license fee sales in recent periods, which tend to increase services implementation revenue. For the three and six months ended October 31, 2012, our ERP segment's revenues increased 23% and 45%, respectively, when compared to the prior year periods due to increased implementation project work particularly in the apparel industry. For the three and six months ended October 31, 2012, our IT Consulting segment's revenues increased 3% and 11%, respectively, when compared to the prior year periods due to an increase in IT staffing and project work from customers. This typically occurs in the early stages of an economic recovery since companies are more inclined to hire temporary staff than permanent staff.

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.

Table of Contents**Maintenance Revenue**

	Three months Ended October 31,		
	2012	2011	% Change
(in thousands)			
Enterprise Resource Planning	\$ 1,059	\$ 1,114	(5)%
Supply Chain Management	7,388	6,901	7%
Total maintenance revenues	\$ 8,447	\$ 8,015	5%

	Six months Ended October 31,		
	2012	2011	% Change
(in thousands)			
Enterprise Resource Planning	\$ 2,148	\$ 2,195	(2)%
Supply Chain Management	14,636	13,574	8%
Total maintenance revenues	\$ 16,784	\$ 15,769	6%

For the three and six months ended October 31, 2012, maintenance revenues increased 5% and 6%, respectively when compared to the same periods in the prior year due primarily to higher license fee sales in recent quarters and improved renewal rates in our SCM unit, which experienced a 7% and 8% increase in maintenance revenue for the three and six months ended October 31, 2012, respectively, when compared to the same periods last year. Our legacy ERP unit experienced a decrease of 5% and 2%, respectively, for the three and six months ended October 31, 2012 compared to the same periods in the prior year due to lower renewal rates when compared to the same periods in the prior year. Logility accounted for 87% of total maintenance revenues for both the three- and six-month periods ended October 31, 2012, respectively, compared to 86% of total maintenance revenues for both the three- and six-month periods ended October 31, 2011. 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 October 31,				Six months ended October 31,			
	2012		2011		2012		2011	
Gross margin on license fees:	\$ 4,061	74%	\$ 5,561	79%	\$ 7,774	73%	\$ 10,414	76%
Gross margin on services and other:	4,170	34%	2,946	28%	8,042	32%	5,296	27%
Gross margin on maintenance:	6,449	76%	6,127	76%	12,874	77%	12,116	77%
Total gross margin:	\$ 14,680	56%	\$ 14,634	57%	\$ 28,690	55%	\$ 27,826	56%

For the three and six months ended October 31, 2012, total gross margin percentage decreased when compared to the same period in the prior year primarily due to a larger portion (28% of our gross margin) being generated from our lower margin services and other revenue compared to the same period last year (20% and 19% of our gross margin for the three and six months ended October 31, 2011, respectively).

Gross Margin on License Fees

For the three and six months ended October 31, 2012, gross margin on license fees decreased when compared to the same periods in the prior year due to lower license fee revenue. The decrease was also due to a lower mix from our direct sales channel. 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 and six months ended October 31, 2012, the gross margin percentage on services and other revenue increased by 6 and 5 percentage points, respectively, when compared to the same periods in the prior fiscal year due to improved staff utilization and billing rates per project. 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.

Table of Contents**Gross Margin on Maintenance**

Maintenance gross margin percentage for the three months ended October 31, 2012 and 2011 were essentially the same. 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 October 31,				Six Months Ended October 31,			
	(in thousands)		% of Revenue		(in thousands)		% of Revenue	
	2012	2011	2012	2011	2012	2011	2012	2011
Research and development	\$ 2,303	\$ 1,949	9%	8%	\$ 4,409	\$ 3,899	8%	8%
Sales and marketing	4,937	4,795	19%	19%	9,758	9,101	19%	18%
General and administrative	3,079	3,039	12%	12%	6,316	6,246	12%	13%
Amortization of acquisition-related intangible assets	125	135	0%	1%	250	270	0%	1%
Other income (expense), net	309	103	1%	0%	582	90	1%	0%
Income tax expense	1,774	1,838	7%	7%	3,346	3,131	6%	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)		
	October 31, 2012	Percent Change	October 31, 2011
Total capitalized computer software development costs	\$ 948	43%	\$ 661
Percentage of gross product research and development costs	29%		25%
Total research and development expense	2,303	18%	1,949
Percentage of total revenues	9%		8%
Total research and development expense and capitalized computer software development costs	\$ 3,251	25%	\$ 2,610
Percentage of total revenues	12%		10%
Total amortization of capitalized computer software development costs *	\$ 625	0%	\$ 626
	Six months ended (in thousands)		
	October 31, 2012	Percent Change	October 31, 2011
Total capitalized computer software development costs	\$ 1,811	43%	\$ 1,265
Percentage of gross product research and development costs	29%		25%
Total research and development expense	4,409	13%	3,899
Percentage of total revenues	8%		8%
Total research and development expense and capitalized computer software development costs	\$ 6,220	20%	\$ 5,164
Percentage of total revenues	12%		10%
Total amortization of capitalized computer software development costs *	\$ 1,251	0%	\$ 1,252

* Included in cost of license fees

Table of Contents

For the three and six months ended October 31, 2012, gross product research and development costs increased when compared to the same periods in the previous fiscal year due to an increase in research and development spending on enhancement of several software products. Capitalized software development costs increased for the three and six months ended October 31, 2012 when compared to the same period last year due to timing of capitalizable project work. We expect capitalized product development costs to be lower in coming quarters as a result of fewer capitalizable research and development projects and we expect capitalized software amortization expense to remain relatively the same for the remainder of the fiscal year. 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 six months ended October 31, 2012, sales and marketing expenses increased 3% and 7%, respectively, when compared to the same periods a year ago primarily due to increases in sales headcount and expenses related to the annual customer conference that was not held during the same quarter last year. We generally include commissions on indirect sales in cost of sales.

General and Administrative

For the three and six months ended October 31, 2012, the 2% and 1% increase, respectively, in general and administrative expenses was primarily due to higher variable compensation.

At October 31, 2012, the total number of employees was 365 compared to 320 at October 31, 2011.

Operating Income/(Loss)

	Three Months Ended October 31,			Six Months Ended October 31,		
	2012	2011	% Change	2012	2011	% Change
	(in thousands)			(in thousands)		
Enterprise Resource Planning	\$ (947)	\$ (284)	233%	\$ (2,180)	\$ (2,209)	(1)%
Collaborative Supply Chain Management	4,708	4,524	4%	9,131	9,619	(5)%
IT Consulting	475	476	0%	1,006	900	12%
Total Operating Income	\$ 4,236	\$ 4,716	(10)%	\$ 7,957	\$ 8,310	(4)%

Our ERP segment operating loss in the three months ended October 31, 2012 increased from the loss in the same period in the prior year due to lower license fee revenues. Our ERP segment operating loss in the six months ended October 31, 2012 decreased by 1% from the loss in the same period.

Our SCM segment's contribution to operating income increased by 4% for the three months ended October 31, 2012 compared to same period last year as a result of increased revenue. Operating income decreased by 5% for the six months ended October 31, 2012 compared to same period last year primarily due to additional headcount in the sales and research and development area.

Our IT consulting segment operating income was approximately the same for the three months ended October 31, 2012 compared to same period last year and increased 12% for the six months ended October 31, 2012. This increased income is a result of more IT staffing and project work from our customers, especially the IT consulting segment's principal customer, The Home Depot.

Other Income

Other income 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 and six months ended October 31, 2012, the increase in other income was due primarily to: higher rental income, smaller realized and unrealized losses on investments as a result of stronger financial market conditions and less exchange rate losses when compared to the same periods of the prior year. This increase was partially offset by a decrease in interest income on an investment portfolio consisting of a greater proportion of certificates of deposit and municipal bonds when compared to the same periods last year. We recorded losses of approximately \$93,000 and \$183,000 for the three and six months ended October 31, 2012, respectively, compared to losses of approximately \$240,000 and \$651,000 for the three and six months ended October 31,

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

2011, respectively, from our trading securities.

For the three and six months ended October 31, 2012, our investments generated an annualized yield of approximately 2.01% and 2.06% respectively, compared to approximately 2.57% and 2.67% for the three and six months ended October 31, 2011, respectively.

Table of Contents**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 October 31, 2012, our effective tax rate was 39.0% compared to our effective tax rate of 38.1% in the three months ended October 31, 2011. We expect our effective rate will be between 36% and 39% during fiscal 2013.

Operating Pattern

We experience an irregular pattern of quarterly operating results, caused primarily by fluctuations 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 this pattern 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 six months ended October 31, 2012 and 2011. 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, 2012.

	Six Months Ended October 31, (in thousands)	
	2012	2011
Net cash provided by operating activities	\$ 6,244	\$ 2,026
Net cash (used in) provided by investing activities	(1,639)	1,813
Net cash used in financing activities	(4,159)	(3,312)
Net change in cash and cash equivalents	\$ 446	\$ 527

For the six months ended October 31, 2012, the net increase in cash provided by operating activities when compared to the same period last year was due primarily to: 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) higher proceeds from the maturity and sales of trading securities, 3) a decrease in purchases of trading securities, 4) a lesser decrease in deferred income taxes due to timing, 5) higher stock-based compensation expense, 6) a lesser increase in prepaid expenses when compared to the same period last year due to the timing of purchases, and 7) an increase to the retirement of property.

This increase was partially offset by: 1) a decrease in accounts payable and other accruals due to timing of payments, 2) lower unrealized losses on investments due to improved conditions in financial markets compared to the same period last year, 3) a decrease in deferred revenues due to timing of revenue recognition, 4) a decrease in depreciation and amortization, 5) a decrease in net earnings, 6) a decrease in bond amortization, and 7) lower excess tax benefits from stock-based compensation.

The increase in cash used in investing activities when compared to cash provided by investing activities in the same period in the prior year was due primarily to a decrease in the proceeds from the maturities of investments, an increase in capitalized computer software development costs

Edgar Filing: AMERICAN SOFTWARE INC - Form 10-Q

as a result of increased investment in R&D efforts and an increase in the purchases of property and equipment due to timing of company spending.

Cash used in financing activities increased due primarily to 1) a decrease in proceeds from exercise of stock options , 2) an increase in repurchase of our common stock in the current period when compared to the same period last year, 3) an increase in dividends paid, and 4) a decrease in excess tax benefits from stock-based compensation.

Table of Contents

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

	As of October 31, (in thousands)	
	2012	2011
Cash and cash equivalents	\$ 39,557	\$ 24,455
Short and long-term investments	25,214	29,798
Total cash and short and long-term investments	\$ 64,771	\$ 54,253
Net decrease in total cash and investments (six months ended October 31)	\$ (2,099)	\$ (1,158)

Our total activities used more cash and investments during the six months ended October 31, 2012, when compared to the prior year period, due primarily to the changes in operating assets and liabilities noted above and the payment of the quarterly dividend.

Days Sales Outstanding in accounts receivable were 65 days as of October 31, 2012, compared to 73 days as of October 31, 2011. This decrease is primarily due to a decrease in sales in recent quarters. Our current ratio on October 31, 2012 was 2.9 to 1 and on October 31, 2011 was 2.5 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 \$64.8 million in cash and investments with no debt as of October 31, 2012, 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.

On December 17, 1997, our Board of Directors approved a resolution authorizing the repurchase 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 December 3, 2012 we have repurchased a total of approximately 3.1 million shares of common stock at a cost of approximately \$12.1 million.

Table of Contents**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, 2012 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.

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

Table of Contents

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 October 31, 2012, our goodwill balance was \$12.6 million and our intangible assets with definite lives balance was approximately \$974,000, 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three and six months ended October 31, 2012, we generated approximately 12% 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 \$7,000 and \$112,000 for the three and six months ended October 31, 2012, respectively, compared to exchange rate losses of approximately \$92,000 and \$123,000 for the three and six months ended October 31, 2011, respectively. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$179,000 exchange gain or loss for the six months ended October 31, 2012. 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 and held-to-maturity 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 October 31, 2012 was approximately \$60.8 million compared to \$52.5 million as of October 31, 2011.

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.

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.

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

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

Item 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, 2012. 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 October 31, 2012:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*
August 1, 2012 through August 31, 2012	0	\$ 0.00	0	1,184,290
September 1, 2012 through September 30, 2012	524	8.02	0	1,183,766
October 1, 2012 through October 31, 2012	28,628	8.15	0	1,155,138
Total Fiscal 2013 Second Quarter	29,152	\$ 8.15	0	1,155,138

* 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: December 7, 2012

By: /s/ James C. Edenfield
James C. Edenfield
President, Chief Executive Officer and Treasurer

Date: December 7, 2012

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

Date: December 7, 2012

By: /s/ Herman L. Moncrief
Herman L. Moncrief
Controller and Principal Accounting Officer