AMERICAN SOFTWARE INC
Form 10-Q
March 10, 2008
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended January 31, 2008**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ______ to ______**

**Commission File Number: 0-12456**

# AMERICAN SOFTWARE, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Georgia**<br>**(State or other jurisdiction of**<br>**incorporation or organization)** | **58-1098795**<br>**(IRS Employer**<br>**Identification Number)** |
| **470 East Paces Ferry Road, N.E., Atlanta, Georgia**<br>**(Address of principal executive offices)** | **30305**<br>**(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 x 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

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 March 7, 2008** |
|---|---|
| Class A Common Stock, $.10 par value | 22,654,436 Shares |
| Class B Common Stock, $.10 par value | 2,886,586 Shares |

**Table of Contents**

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Form 10-Q

Quarter ended January 31, 2008

Index

**Page No.**

**Part I - Financial Information**

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets January 31, 2008 and April 30, 2007 3

Condensed Consolidated Statements of Operations Three and Nine Months ended January 31, 2008 and 2007 4

Condensed Consolidated Statements of Cash Flows Nine Months ended January 31, 2008 and 2007 5

Notes to Condensed Consolidated Financial Statements 6

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures About Market Risk 28

Item 4. Controls and Procedures 29

**Part II - Other Information**

Item 1. Legal Proceedings 29

Item 1A. Risk Factors 29

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 29

Item 3. Defaults Upon Senior Securities 30

Item 4. Submission of Matters to a Vote of Security Holders 30

Item 5. Other Information 30

Item 6. Exhibits 31

Table of Contents

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**American Software, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets (unaudited)**

**(in thousands, except share data)**

| | January 31, 2008 | April 30, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 67,106 | $ 45,627 |
| Investments | 7,790 | 27,142 |
| Trade accounts receivable, less allowance for doubtful accounts of $225 at January 31, 2008 and $162 at April 30, 2007: | | |
| Billed | 12,559 | 12,489 |
| Unbilled | 4,815 | 3,860 |
| Prepaid expenses and other current assets | 3,251 | 2,560 |
| Total current assets | 95,521 | 91,678 |
| Property and equipment, net | 7,032 | 7,080 |
| Capitalized software, net | 4,652 | 6,137 |
| Goodwill | 11,503 | 11,210 |
| Other intangibles, net | 1,157 | 1,472 |
| Other assets | 249 | 239 |
| Total assets | $ 120,114 | $ 117,816 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,358 | $ 1,138 |
| Accrued compensation and related costs | 1,857 | 3,308 |
| Dividends payable | 2,301 | 1,984 |
| Other current liabilities | 3,185 | 5,545 |
| Deferred income taxes | 697 | 911 |
| Deferred revenue | 15,432 | 15,441 |
| Total current liabilities | 24,830 | 28,327 |
| Deferred income taxes | 1,224 | 1,697 |
| Total liabilities | 26,054 | 30,024 |
| Minority interest | 5,888 | 5,061 |
| Shareholders equity: | | |
| Common stock: | | |
| Class A, $.10 par value. Authorized 50,000,000 shares: | | |
| Issued 26,464,642 shares at January 31, 2008 and 25,418,913 shares at April 30, 2007 | 2,646 | 2,542 |
| Class B, $.10 par value. Authorized 10,000,000 shares: | | |

| | | |
|---|---|---|
| Issued and outstanding 2,886,586 shares at January 31, 2008 and 3,157,294 shares at April 30, 2007; convertible into Class A shares on a one-for-one basis | 288 | 315 |
| Additional paid-in capital | 86,563 | 81,614 |
| Accumulated other comprehensive income | 68 | 67 |
| Retained earnings | 19,112 | 18,698 |
| Class A treasury stock, 3,782,185 shares at January 31, 2008 and April 30, 2007 | (20,505) | (20,505) |
| Total shareholders equity | 88,172 | 82,731 |
| Commitments and contingencies | | |
| Total liabilities and equity | $ 120,114 | $ 117,816 |

See accompanying notes to condensed consolidated financial statements - unaudited.

**Table of Contents**

**American Software, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Operations (unaudited)**

**(in thousands, except earnings per share data)**

| | Three Months Ended January 31, | | Nine Months Ended January 31, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | |
| License | $ 4,336 | $ 5,726 | $ 14,261 | $ 14,432 |
| Services and other | 10,611 | 8,577 | 32,032 | 27,120 |
| Maintenance | 7,126 | 7,175 | 21,121 | 20,332 |
| Total revenues | 22,073 | 21,478 | 67,414 | 61,884 |
| Cost of revenues: | | | | |
| License | 1,386 | 1,415 | 4,620 | 4,474 |
| Services and other | 7,246 | 6,022 | 22,520 | 18,965 |
| Maintenance | 1,940 | 1,823 | 5,582 | 5,391 |
| Write-down of capitalized computer software | 1,196 | | 1,196 | |
| Total cost of revenues | 11,768 | 9,260 | 33,918 | 28,830 |
| Gross margin | 10,305 | 12,218 | 33,496 | 33,054 |
| Research and development | 1,757 | 1,913 | 5,496 | 5,358 |
| Sales and marketing | 4,086 | 3,560 | 11,298 | 10,600 |
| General and administrative | 2,705 | 3,694 | 9,391 | 10,430 |
| Amortization of acquisition-related intangibles | 87 | 88 | 263 | 263 |
| Provision for doubtful accounts | 108 | | 183 | |
| Total operating expenses | 8,743 | 9,255 | 26,631 | 26,651 |
| Operating income | 1,562 | 2,963 | 6,865 | 6,403 |
| Other income: | | | | |
| Interest income | 823 | 765 | 2,502 | 2,031 |
| Other, net | (680) | 658 | 220 | 1,463 |
| Earnings before income taxes | 1,705 | 4,386 | 9,587 | 9,897 |
| Income tax expense | 461 | 1,635 | 3,397 | 3,813 |
| Minority interest | 107 | 248 | 557 | 513 |
| Net earnings | $ 1,137 | $ 2,503 | $ 5,633 | $ 5,571 |
| Earnings per common share (a): | | | | |
| Basic | $ 0.04 | $ 0.10 | $ 0.22 | $ 0.23 |
| Diluted | $ 0.04 | $ 0.10 | $ 0.21 | $ 0.22 |
| Cash dividends declared per common share | $ 0.09 | $ 0.08 | $ 0.26 | $ 0.23 |
| Shares used in the calculation of earnings per common share: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | 25,562 | 24,676 | 25,406 | 24,573 |
| Diluted | 26,449 | 25,859 | 27,125 | 25,693 |

(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 $0.04 and $0.10 for the three months ended January 31, 2008 and 2007 and $0.22 and $0.23 for the nine months ended January 31, 2008 and 2007, respectively. See Note F to the Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements - unaudited.

**American Software, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows (unaudited)**

**(in thousands)**

| | Nine Months Ended January 31, | |
|---|---|---|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net earnings | $ 5,633 | $ 5,571 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Write-down of computer software development costs | 1,196 | |
| Depreciation and amortization | 3,069 | 3,294 |
| Stock-based compensation expense | 581 | 636 |
| Bond amortization | 4 | (228) |
| Tax benefit of stock options exercised | 1,640 | 423 |
| Excess tax benefits from stock-based compensation | (1,374) | (812) |
| Net loss (gain) on investments | 520 | (537) |
| Minority interest in net earnings of subsidiary | 557 | 513 |
| Deferred income taxes | (687) | 1,685 |
| Changes in operating assets and liabilities: | | |
| Purchases of trading securities | (10,624) | (17,937) |
| Proceeds from sale of trading securities | 865 | 18,044 |
| Proceeds from maturities of trading securities | 12,423 | 1,900 |
| Accounts receivable, net | (1,025) | (329) |
| Prepaid expenses and other assets | (701) | (182) |
| Accounts payable and other liabilities | (2,160) | 599 |
| Deferred revenue | (9) | 749 |
| Other | | (3) |
| Net cash provided by operating activities | 9,908 | 13,386 |
| Cash flows from investing activities: | | |
| Capitalized computer software development costs | (1,661) | (1,678) |
| Intangible assets | (46) | (110) |
| Goodwill | (293) | (91) |
| Purchases of property and equipment, net of disposals | (710) | (271) |
| Purchases of investments | (25,893) | (81,964) |
| Proceeds from maturities of investments | 42,057 | 82,741 |
| Proceeds from exercise of stock options by subsidiary | 278 | 115 |
| Proceeds of cash surrender life insurance | | 1,097 |
| Net cash provided by (used in) investing activities | 13,732 | (161) |
| Cash flows from financing activities: | | |
| Proceeds from Dividend Reinvestment Plan and Stock Purchase Plan | 39 | 20 |
| Excess tax benefits from stock based compensation | 1,374 | 812 |
| Proceeds from exercise of stock options | 2,761 | 726 |
| Dividends paid | (6,335) | (5,494) |
| Net cash used in financing activities | (2,161) | (3,936) |
| Net change in cash and cash equivalents | 21,479 | 9,289 |

| | | |
|---|---|---|
| Cash and cash equivalents at beginning of period | 45,627 | 29,425 |
| Cash and cash equivalents at end of period | $ 67,106 | $ 38,714 |

See accompanying notes to condensed consolidated financial statements - unaudited.

## AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements - Unaudited

**January 31, 2008**

### A. Basis of Presentation

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

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 reported period. Note 1 in the Notes to the Consolidated Financial Statements for the fiscal year ended April 30, 2007, describes the significant accounting policies that we 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 object evidence (VSOE), bad debts, capitalized software costs, goodwill, intangible asset impairment, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

### B. Principles of Consolidation

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

### C. Revenue Recognition

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

***License***. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and VSOE exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, we recognize revenue under the residual method as permitted by SOP 98-9, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized in accordance with SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. We record revenues from sales of third-party products in accordance with Emerging Issues Task Force Issue 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (EITF 99-19). Furthermore, in accordance with EITF 99-19, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we: 1) act as principal in the transaction, 2) take title to the products, 3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, in most cases we record our revenues through the DMI channel on a gross basis.

***Maintenance***. Revenue derived from maintenance contracts primarily includes telephone consulting, product updates, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. Typically, we sell maintenance contracts for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. We generally bill maintenance fees annually in advance. 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.

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

***Services***. Revenue derived from services primarily includes consulting, implementation, and training. We primarily bill fees under time and materials arrangements and recognize them as services are performed. In accordance with the FASB s Emerging Issues Task Force Issue No. 01-14: Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF No. 01-14), we recognize amounts received for reimbursement of travel and other out-of-pocket expenses incurred as revenue in the consolidated statements of operations under Services and Other. Reimbursements received from customers for out-of-pocket expenses totaled approximately $383,000 and $1.5 million for the three and nine months ended January 31, 2008, respectively, and $336,000 and $925,000 for the three and nine months ended January 31, 2007, respectively.

***Indirect Channel Revenue.*** We recognized revenues for sales made through indirect channels principally when the distributor makes the sale to an end-user, when the license fee is fixed or determinable, the license fee is nonrefundable, and the sale meets all other conditions of SOP 97-2 and SOP 98-9.

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

### D. Major Customer

One customer accounted for approximately 14% and 13% of our total revenues for the three and nine months ended January 31, 2008, respectively. No single customer accounted for more than 10% of out total revenues during the three and nine months ended January 31, 2007. The related accounts receivable balance for this customer as of January 31, 2008 was approximately $1.4 million.

### E. Declaration of Dividend Payable

On November 20, 2007, our Board of Directors declared a quarterly cash dividend of $0.09 per share of American Software Class A and Class B common stock. The cash dividend is payable on March 10, 2008 to Class A and Class B shareholders of record at the close of business on February 22, 2008.

### F. Earnings Per Common Share

The Company has 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 the Company s Articles of Incorporation, if dividends are declared, holders of Class A common shares shall receive a $0.05 dividend per share prior to the Class B common stock receiving any dividend and holders of Class A common stock shall receive a dividend at least equal to Class B common stock dividends on a per share basis. As a result, the Company has computed the earnings per share in compliance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share , which requires companies that have multiple classes of equity securities to use the two-class method in computing earnings per share.

For the Company s basic earnings per share calculation, the Company uses 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 stock in the earnings per share calculation to the extent that earnings equal or exceed $0.05 per share. This allocation is based on management s judgment after considering the dividend rights of the two classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B shares to Class A shares. Due to Class B shares converting to Class A shares during the period, the distributed net earnings for Class B shares is calculated using the weighted average common shares outstanding during the period.

Diluted earnings per share is calculated similar to basic earnings per share, except that the calculation includes the dilutive effect of the assumed exercise of options issuable under the Company s stock incentive plans. For the Company s diluted earnings per share calculation for Class A shares, the Company uses 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.

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

For the Company s diluted earnings per share calculation for Class B shares, the Company uses 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 of Class A stock options 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.

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

Basic earnings per common share:

| | Three Months Ended January 31, 2008 | | Nine Months Ended January 31, 2008 | |
|---|---|---|---|---|
| | **Class A** | **Class B** | **Class A** | **Class B** |
| Distributed earnings per share | $ 0.09 | $ 0.09 | $ 0.26 | $ 0.26 |
| Undistributed loss per share | (0.05) | (0.05) | (0.04) | (0.04) |
| Total | $ 0.04 | $ 0.04 | $ 0.22 | $ 0.22 |
| Distributed net earnings | $ 2,041 | $ 260 | $ 5,885 | $ 757 |
| Undistributed net loss | (1,033) | (131) | (891) | (118) |
| Total | $ 1,008 | $ 129 | $ 4,994 | $ 639 |
| Basic weighted average common shares | 22,672 | 2,890 | 22,439 | 2,967 |

| | Three Months Ended January 31, 2007 | | Nine Months Ended January 31, 2007 | |
|---|---|---|---|---|
| | **Class A** | **Class B** | **Class A** | **Class B** |
| Distributed earnings per share | $ 0.08 | $ 0.08 | $ 0.23 | $ 0.23 |
| Undistributed earnings per share | 0.02 | 0.02 | | |
| Total | $ 0.10 | $ 0.10 | $ 0.23 | $ 0.23 |
| Distributed net earnings | $ 1,726 | $ 253 | $ 4,920 | $ 743 |
| Undistributed net earnings (loss) | 456 | 68 | (80) | (12) |
| Total | $ 2,182 | $ 321 | $ 4,840 | $ 731 |
| Basic weighted average common shares | 21,466 | 3,210 | 21,293 | 3,280 |

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

**Diluted EPS for Class A common shares using the If-Converted Method**

**Three Months Ended January 31, 2008**

| | Undistributed &<br>Distributed earnings<br>to Class A<br>Common | Class A<br>Common<br>Shares | EPS |
|---|---|---|---|
| Per basic earnings per share | $ 1,008 | 22,672 | $ 0.04 |
| Common stock equivalents | | 887 | |
| | 1,008 | 23,559 | 0.04 |
| Class B Conversion | 129 | 2,890 | |
| Diluted EPS for Class A | $ 1,137 | 26,449 | $ 0.04 |

**Nine Months Ended January 31, 2008**

| | Undistributed &<br>Distributed earnings<br>to Class A<br>Common | Class A<br>Common<br>Shares | EPS |
|---|---|---|---|
| Per basic earnings per share | $ 4,994 | 22,439 | $ 0.22 |
| Common stock equivalents | | 1,719 | |
| | 4,994 | 24,158 | 0.21 |
| Class B Conversion | 639 | 2,967 | |
| Diluted EPS for Class A | $ 5,633 | 27,125 | $ 0.21 |

**Three Months Ended January 31, 2007**

| | Undistributed &<br>Distributed earnings<br>to Class A<br>Common | Class A<br>Common<br>Shares | EPS |
|---|---|---|---|
| Per basic earnings per share | $ 2,182 | 21,466 | $ 0.10 |
| Common stock equivalents | | 1,183 | |

| | | | | |
|---|---|---|---|---|
| | | 2,182 | 22,649 | 0.10 |
| Class B Conversion | | 321 | 3,210 | |
| Diluted EPS for Class A | $ | 2,503 | 25,859 | $ 0.10 |

**Nine Months Ended January 31, 2007**

| | | Undistributed &<br>Distributed earnings<br>to Class A<br>Common | Class A<br>Common<br>Shares | EPS |
|---|---|---|---|---|
| Per basic earnings per share | $ | 4,840 | 21,293 | $ 0.23 |
| Common stock equivalents | | | 1,120 | |
| | | 4,840 | 22,413 | 0.22 |
| Class B Conversion | | 731 | 3,280 | |
| Diluted EPS for Class A | $ | 5,571 | 25,693 | $ 0.22 |

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

**Diluted EPS for Class B common shares using the Two-Class Method**

**Three Months Ended January 31, 2008**

| | Undistributed & Distributed earnings to Class B Common | Class B Common Shares | EPS* |
|---|---|---|---|
| Per basic earnings per share | $ 129 | 2,890 | $ 0.04 |
| Reallocation of undistributed earnings to Class A shares from Class B shares | 4 | | |
| Diluted EPS for Class B | $ 133 | 2,890 | $ 0.04 |

**Nine Months Ended January 31, 2008**

| | Undistributed & Distributed earnings to Class B Common | Class B Common Shares | EPS |
|---|---|---|---|
| Per basic earnings per share | $ 639 | 2,966 | $ 0.22 |
| Reallocation of undistributed earnings to Class A shares from Class B shares | 7 | | |
| Diluted EPS for Class B | $ 646 | 2,966 | $ 0.22 |

**Three Months Ended January 31, 2007**

| | Undistributed & Distributed earnings to Class B Common | Class B Common Shares | EPS |
|---|---|---|---|
| Per basic earnings per share | $ 321 | 3,210 | $ 0.10 |
| Reallocation of undistributed earnings to Class A shares from Class B shares | (3) | | |
| Diluted EPS for Class B | $ 318 | 3,210 | $ 0.10 |

**Nine Months Ended January 31, 2007**

| | Undistributed & Distributed earnings to Class B Common | Class B Common Shares | EPS* |
|---|---|---|---|
| Per basic earnings per share | $ 731 | 3,280 | $ 0.23 |
| Reallocation of undistributed earnings to Class A shares from Class B shares | 1 | | |
| Diluted EPS for Class B | $ 732 | 3,280 | $ 0.23 |

* Adjusted for rounding

For the three and nine months ended January 31, 2008, we excluded options to purchase 665,360 and 72,647 Class A Common Shares, respectively, and for the three and nine months ended January 31, 2007, we excluded options to purchase 154,050 and 252,050 Class A Common Shares, respectively, from the computation of diluted earnings per Class A common stock. 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 stock during the applicable period. As of January 31, 2008, we had a total of 2,913,360 options outstanding and as of January 31, 2007 we had a total of 3,145,510 options outstanding.

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited

January 31, 2008

## G. Acquisitions

*Logility Share Repurchase*

On June 28, 2007, Logility, Inc., our approximately 87% owned subsidiary, purchased 30,000 shares of its common stock for $337,800. In accordance with SFAS No. 141,  Business Combinations,  we have accounted for this transaction under the purchase method of accounting. The total amount allocated from this transaction was $365,289, which includes approximately $27,000 related to the non-cash tax effects of this treasury stock purchase. We have allocated the $365,289 to capitalized software development costs, totaling approximately $27,000, intangible assets, totaling approximately $45,000, and goodwill, totaling approximately $293,000, based on management s estimates of fair value at the date of the transaction. The costs allocated to capitalized software development costs and intangible assets are being amortized ratably based on the projected revenues associated with the related assets of Logility, Inc. or on a straight-line basis over three to six years, whichever method results in a higher level of amortization. Amortization of these capitalized costs is included in the cost of license revenues and general and administrative costs in the accompanying consolidated statements of operations for capitalized software development costs and intangible assets, respectively.

## H. Stock-Based Compensation

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

During the nine months ended January 31, 2008 and 2007, we granted options for 605,197 and 385,000 shares of common stock, respectively. During the nine months ended January 31, 2008 and 2007, our subsidiary granted options for 20,000 and 114,000 shares of common stock, respectively.

We recorded stock option compensation cost of approximately $218,000 and $194,000 and related income tax benefits of approximately $5,000 and income tax expense of $15,000 during the three months ended January 31, 2008 and 2007, respectively. The additional expense of $15,000 recorded during the three months ended January 31, 2007 resulted from a correction of previously recorded amounts. For the nine months ended January 31, 2008 and 2007, we recorded stock option compensation cost of approximately $581,000 and $636,000 and related income tax benefits of approximately $66,000 and $139,000, respectively. We record stock-based compensation expense on a straight-line basis over the vesting period directly to additional paid-in capital.

SFAS 123(R) requires that cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. During the nine months ended January 31, 2008 and 2007, we realized excess tax benefits of approximately $1,374,000 and $812,000, respectively.

During the nine months ended January 31, 2008 and 2007, we issued 759,299 and 249,446 shares of common stock, respectively, resulting from the exercise of stock options. During the nine months ended January 31, 2008 and 2007, our subsidiary issued 83,276 and 34,961 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the nine months ended January 31, 2008 and 2007 based on market value at the exercise dates was $5,017,378 and $1,125,318, respectively. The total intrinsic value of options exercised at our subsidiary during the nine months ended January 31, 2008 and 2007 based on market value at the exercise dates was $685,946 and $201,609, respectively. As of January 31, 2008, unrecognized compensation cost related to unvested stock option awards approximated $2.3 million and is expected to be recognized over a weighted average period of 2.1 years. As of January 31, 2008, unrecognized compensation cost related to unvested stock option awards at our subsidiary approximated $1.2 million and is expected to be recognized over a weighted average period of 2.1 years.

On May 15, 2007, the Logility Board of Directors adopted the Logility, Inc. 2007 Stock Plan. The 2007 Stock Plan was approved by Logility s Shareholders on August 21, 2007, at the Logility annual meeting of Shareholders. The 2007 Stock

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

Plan replaced Logility s 1997 Stock Plan, which expired on August 7, 2007 and provides for the granting of options to purchase up to 500,000 shares of common stock and up to 300,000 stock appreciation rights units, on terms similar to those in the 1997 Stock Plan. Options previously granted under the 1997 Stock Plan will continue to be exercisable in accordance with their terms.

On June 21, 2007, our Board of Directors approved an increase in authorized shares under the 2001 Stock Plan for the granting of options to purchase an additional 800,000 shares of common stock. This motion was approved by Shareholders on August 20, 2007 at the annual meeting of Shareholders.

On July 17, 2007, we exercised our right to extend the term of the Stock Option Agreement between the Company and Logility, Inc. for an additional ten years, expiring August 7, 2017.

### I. Comprehensive Income

We have adopted Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. We have not included condensed consolidated statements of comprehensive income in the accompanying unaudited condensed consolidated financial statements since comprehensive income and net earnings presented in the accompanying condensed consolidated statements of operations would be substantially the same.

### J. Industry Segments

We have adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. We operate and manage our business in three segments based on software and services provided in three key product markets: (i) Enterprise Resource Planning (ERP), which automates customers internal financing, human resources, and manufacturing functions; (ii) Collaborative Supply Chain Management, which provides collaborative supply chain solutions to streamline and optimize the production, distribution and management of products between trading partners; and (iii) IT Consulting, which consists of IT staffing and consulting services. The Collaborative Supply Chain Management segment represents the business of our 88%-owned subsidiary Logility, Inc., including its subsidiary, DMI. In the following table, we have broken down the intersegment transactions applicable to the three and nine months ended January 31, 2008 and 2007 (in thousands):

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

| | Three Months Ended January 31, | | Nine Months Ended January 31, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | |
| Enterprise Resource Planning | $ 6,319 | $ 5,797 | $ 16,327 | $ 16,692 |
| Collaborative Supply Chain Management | 9,931 | 11,296 | 33,030 | 30,908 |
| IT Consulting | 5,823 | 4,385 | 18,057 | 14,284 |
| | $ 22,073 | $ 21,478 | $ 67,414 | $ 61,884 |
| Operating income before intersegment eliminations: | | | | |
| Enterprise Resource Planning | $ 679 | $ 161 | $ 248 | $ 393 |
| Collaborative Supply Chain Management | 675 | 2,650 | 5,874 | 5,364 |
| IT Consulting | 208 | 152 | 743 | 646 |
| | $ 1,562 | $ 2,963 | $ 6,865 | $ 6,403 |
| Intersegment eliminations: | | | | |
| Enterprise Resource Planning | $ (402) | $ (396) | $ (1,241) | $ (1,230) |
| Collaborative Supply Chain Management | 402 | 396 | 1,241 | 1,230 |
| IT Consulting | | | | |
| | $ | $ | $ | $ |
| Operating income (loss) after intersegment eliminations: | | | | |
| Enterprise Resource Planning | $ 277 | $ (235) | $ (993) | $ (837) |
| Collaborative Supply Chain Management | 1,077 | 3,046 | 7,115 | 6,594 |
| IT Consulting | 208 | 152 | 743 | 646 |
| | $ 1,562 | $ 2,963 | $ 6,865 | $ 6,403 |
| Capital expenditures: | | | | |
| Enterprise Resource Planning | $ 314 | $ 35 | $ 521 | $ 119 |
| Collaborative Supply Chain Management | 64 | 46 | 189 | 152 |
| IT Consulting | | | | |
| | $ 378 | $ 81 | $ 710 | $ 271 |
| Capitalized Software: | | | | |
| Enterprise Resource Planning | $ | $ | $ 26 | $ |
| Collaborative Supply Chain Management | 480 | 495 | 1,635 | 1,678 |
| IT Consulting | | | | |
| | $ 480 | $ 495 | $ 1,661 | $ 1,678 |
| Depreciation and amortization: | | | | |
| Enterprise Resource Planning | $ 230 | $ 109 | $ 687 | $ 819 |

| | | | | |
|---|---|---|---|---|
| Collaborative Supply Chain Management | 762 | 896 | 2,381 | 2,474 |
| IT Consulting | | | 1 | 1 |
| | $ 992 | $ 1,005 | $ 3,069 | $ 3,294 |

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

### K. Contingencies

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

### L. Recent Accounting Pronouncements

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

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

An allocation or a shift of income between taxing jurisdictions,

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

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

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

On May 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). As a result of the implementation of FIN 48, we recognized a decrease of approximately $1.4 million to current income taxes payable and recorded a corresponding increase to the May 1, 2007 balance of retained earnings. As of the date of adoption, our unrecognized tax benefits totaled $120,000, inclusive of interest and penalties of approximately $52,000, mainly related to state income taxes, all of which, if recognized, would affect the effective tax rate. An additional accrual of $34,000, inclusive of interest and penalties of approximately $1,000, was made for the nine months ended January 31, 2008.

We recognize potential accrued interest and penalties related to unrecognized tax benefits within its operations in income taxes. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

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

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

In June 2006, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-03: *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross Versus Net*

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**January 31, 2008**

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

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

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

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* , which becomes effective for fiscal periods beginning after December 15, 2008. SFAS No. 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values of the identifiable assets acquired, liabilities assumed, and any non-controlling interests in the acquiree. In the case of a bargain purchase the acquirer is required to re-evaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. We do not expect this issue to have a material impact on our 2010 consolidated financial statements.

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

### L. Subsequent Event

On February 19, 2008, our Board of Directors declared a quarterly cash dividend of $0.09 per share of American Software Class A and Class B common stock. The cash dividend is payable on May 30, 2008 to Class A and Class B shareholders of record at the close of business on May 16, 2008.

On March 7, 2008 we purchased 30,000 shares of common stock for approximately $170,000 under the current authorized share buy-back program.

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

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

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

results of operations

liquidity, cash flow and capital expenditures

demand for and pricing of our products and services

acquisition activities and the effect of completed acquisitions

industry conditions and market conditions

general economic conditions

Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, competitive pressures, delays and other risks associated with new product development, the difficulty of predicting the effectiveness and duration of third-party marketing agreements, undetected software errors, and risks associated with market acceptance of our products and services. We discuss certain factors in greater detail in Business Overview , below. The terms fiscal 2008 and fiscal 2007 refer to our fiscal years ending April 30, 2008 and 2007, respectively.

**ECONOMIC OVERVIEW**

Corporate capital spending trends and commitments are the primary determinants of the size of the market for business software. Corporate capital spending is, in turn, a function of general economic conditions in the U.S. and abroad, and in particular may be affected by conditions in U.S. and global credit markets. In the recent period, the weakness in the overall world economy and the U.S. economy in particular, has resulted in reduced expenditures in the business software market. Overall information technology spending continues to be relatively weak when compared to the period prior to the last economic downturn.

However, we believe over the long-term information technology spending should incrementally improve as increased global competition forces companies to improve productivity by upgrading their technology environment systems. Although this improvement could slow or regress at any time due in part to the recent concerns in the global capital markets, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. While our sales pipelines have been improving, customers continue to take long periods to evaluate discretionary software purchases.

**BUSINESS OVERVIEW**

American Software, Inc. ( American Software or the Company ) 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) Enterprise Resource Planning ( ERP ), (2) Collaborative Supply Chain Management ( SCM ), and (3) Information Technology ( IT ) Consulting. The Collaborative Supply Chain Management segment consists of Logility, Inc., an 87% 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, Flow Manufacturing 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.

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

We derive revenue primarily from three sources: software licenses, services and other, and maintenance. We generally determine software license fees based on the number of modules, servers, users and/or sites licensed. Services and other revenues consist primarily of fees from software implementation, training, consulting and customization services. We primarily bill under time and materials arrangements and recognize revenue as we perform services. 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 revenue ratably over the term of the maintenance agreement. Deferred revenue represents advance payments or billings for software licenses, services and maintenance billed in advance of the time we recognize the related revenues.

Our cost of revenue for licenses includes amortization of capitalized computer software development costs, salaries and benefits, and royalties paid to third-party software vendors as well as agent commission expenses related to license revenues generated by the indirect channel primarily from DMI. Costs for maintenance and services include the cost of personnel to conduct implementations and customer support, consulting, and other personnel-related expenses as well as agent commission expenses related to maintenance revenues generated by the indirect channel primarily from DMI. We account for the development costs of software intended for sale in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* We monitor the net realizable value of our capitalized software on a quarterly basis based on an estimate of future product revenues. We currently expect to fully recover the value of the capitalized software asset recorded on our consolidated balance sheet; however, if future product revenues are less than management s current expectations, we may incur a write-down of capitalized software costs.

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. DMI sells its products primarily through indirect channels.

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

Strategic Relationships. We intend to expand the depth and number of strategic relationships with leading enterprise software, systems integrators and service providers to integrate our solutions into their services and products and to create joint marketing opportunities. We have a number of marketing alliances, including those with SAP and IBM. In addition, we have developed a network of international agents who assist in the sale and support of our products. We intend to utilize these and future relationships with software and service organizations to enhance our sales and marketing position.

Dependence on Capital Spending Patterns. There is risk associated with our dependence on, and the risks associated with, the capital spending patterns of U.S. and international businesses, which in turn are functions of economic trends and conditions over which we have no control.

Acquisition Opportunities. There are opportunities for select acquisitions or investments to provide opportunities to expand our sales distribution channels and/or broaden our product offering by providing additional solutions for our target markets.

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.

Sarbanes-Oxley Section 404. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to audit our internal control over financial reporting and to separately report on whether or not they believe that we have an effective internal control over financial reporting, in all material respects. If for any fiscal year we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely audit our internal control over financial reporting, we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure, as well as difficulties in implementing required new or improved controls, could result in our inability to provide timely and reliable financial information and could adversely affect our business.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2007.

Table of Contents

**COMPARISON OF RESULTS OF OPERATIONS**

**Three-Month Comparisons.** The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the three months ended January 31, 2008 and 2007:

**QTR**

| | **Percentage of Total Revenues** | | **Pct. Change in Dollars** |
|---|---|---|---|
| | **2008** | **2007** | **2008 vs 2007** |
| Revenues: | | | |
| License | 20% | 27% | (24)% |
| Services and other | 48 | 40 | 24 |
| Maintenance | 32 | 33 | (1) |
| Total revenues | 100 | 100 | 3 |
| Cost of revenues: | | | |
| License | 6 | 7 | (2) |
| Services and other | 33 | 28 | 20 |
| Maintenance | 9 | 8 | 6 |
| Write-down of capitalized computer software | 5 | | nm |
| Total cost of revenues | 53 | 43 | 27 |
| Gross margin | 47 | 57 | (16) |
| Research and development | 8 | 9 | (8) |
| Sales and marketing | 19 | 17 | 15 |
| General and administrative | 12 | 17 | (27) |
| Amortization of acquisition-related intangibles | | | nm |
| Provision for doubtful accounts | | | nm |
| Total operating expenses | 39 | 43 | (6) |
| Operating income | 8 | 14 | (47) |
| Other income: | | | |
| Interest income | 4 | 4 | 8 |
| Other, net | (3) | 3 | (203) |
| Earnings before income taxes | 8 | 21 | (61) |
| Income tax expense | (2) | (8) | (72) |
| Minority interest | | (1) | (143) |
| Net earnings | 5% | 12% | (46)% |

nm - not meaningful

Subtotals may not total due to rounding.

**Table of Contents**

**Nine-Month Comparisons.** The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the nine months ended January 31, 2008 and 2007:

**YTD**

| | Percentage of Total Revenues | | Pct. Change in Dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 vs 2007 |
| Revenues: | | | |
| License | 21% | 23% | (1)% |
| Services and other | 48 | 44 | 18 |
| Maintenance | 31 | 33 | 4 |
| Total revenues | 100 | 100 | 9 |
| Cost of revenues: | | | |
| License | 7 | 7 | 3 |
| Services and other | 33 | 31 | 19 |
| Maintenance | 8 | 9 | 4 |
| Write-down of capitalized computer software | 2 | | nm |
| Total cost of revenues | 50 | 47 | 18 |
| Gross margin | 50 | 53 | 1 |
| Research and development | 8 | 9 | 3 |
| Sales and marketing | 17 | | |