

AMERICAN SOFTWARE INC
Form 10-Q
March 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)
470 East Paces Ferry Road, N.E.,
Atlanta, Georgia
(Address of principal executive offices)
(404) 261-4381

58-1098795
(IRS Employer
Identification Number)
30305
(Zip Code)

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

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Classes	Outstanding at March 7, 2014
Class A Common Stock, \$.10 par value	25,360,909 Shares
Class B Common Stock, \$.10 par value	2,587,086 Shares

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American Software, Inc. and Subsidiaries

FORM 10-Q

Quarter ended January 31, 2014

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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, 2014	April 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,922	\$ 41,164
Investments	12,874	18,602
Trade accounts receivable, less allowance for doubtful accounts of \$174 at January 31, 2014 and \$337 at April 30, 2013:		
Billed	14,082	13,179
Unbilled	4,027	3,741
Prepaid expenses and other current assets	3,514	3,162
Total current assets	87,419	79,848
Investments Noncurrent	8,665	6,658
Property and equipment, net of accumulated depreciation of \$30,277 at January 31, 2014 and \$29,489 at April 30, 2013	3,899	4,482
Capitalized software, net of accumulated amortization of \$8,289 at January 31, 2014 and \$7,664 at April 30, 2013	10,484	8,708
Goodwill	13,819	12,601
Other intangibles, net of accumulated amortization of \$2,740 at January 31, 2014 and \$2,256 at April 30, 2013	675	687
Other assets	124	86
Total assets	\$ 125,085	\$ 113,070
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 993	\$ 1,207
Accrued compensation and related costs	3,019	2,961
Dividends payable	2,788	
Other current liabilities	3,394	2,969
Deferred income taxes	56	332
Deferred revenue	21,977	21,291
Total current liabilities	32,227	28,760

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Deferred income taxes	1,696	1,066
Long-term deferred revenue	740	
Other long-term liabilities	366	
Total liabilities	35,029	29,826
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 29,734,650 shares at January 31, 2014 and 29,184,846 shares at April 30, 2013	2,974	2,918
Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,587,086 shares at January 31, 2014 and April 30, 2013; convertible into Class A shares on a one-for-one basis	259	259
Additional paid-in capital	103,480	98,947
Retained earnings	7,621	5,398
Class A treasury stock, 4,444,815 shares at January 31, 2014 and April 30, 2013, at cost	(24,278)	(24,278)
Total shareholders' equity	90,056	83,244
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 125,085	\$ 113,070

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		Nine Months Ended	
	January 31,		January 31,	
	2014	2013	2014	2013
Revenues:				
License	\$ 5,002	\$ 4,926	\$ 14,412	\$ 15,512
Services and other	10,167	9,564	33,057	34,371
Maintenance	9,258	8,586	27,207	25,370
Total revenues	24,427	23,076	74,676	75,253
Cost of revenues:				
License	727	1,797	3,122	4,609
Services and other	7,695	7,354	23,916	24,119
Maintenance	2,042	1,893	5,994	5,803
Total cost of revenues	10,464	11,044	33,032	34,531
Gross margin	13,963	12,032	41,644	40,722
Research and development	2,338	2,209	6,442	6,618
Sales and marketing	5,032	4,868	14,444	14,626
General and administrative	2,882	2,590	9,106	8,639
Amortization of acquisition-related intangibles	125	125	375	375
Provision/(recovery) for doubtful accounts	47	(51)	(37)	216
Total operating expenses	10,424	9,741	30,330	30,474
Operating income	3,539	2,291	11,314	10,248
Other income (expense):				
Interest income	231	293	697	877
Other, net	(33)	164	(38)	162
Earnings before income taxes	3,737	2,748	11,973	11,287
Income tax expense	1,260	608	4,210	3,954
Net earnings	\$ 2,477	\$ 2,140	\$ 7,763	\$ 7,333
Earnings per common share:(a)				
Basic	\$ 0.09	\$ 0.08	\$ 0.28	\$ 0.27

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Diluted	\$ 0.09	\$ 0.08	\$ 0.28	\$ 0.27
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.28
Shares used in the calculation of earnings per common share:				
Basic	27,686	27,193	27,499	27,139
Diluted	28,187	27,614	27,972	27,601

- (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 \$0.09 and \$0.08 for the three months ended January 31, 2014 and 2013 and \$0.28 and \$0.27 for the nine months ended January 31, 2014 and 2013, respectively. See Note D to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements unaudited.

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

	Nine Months Ended January 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	\$ 7,763	\$ 7,333
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,897	3,118
Stock-based compensation expense	1,081	1,117
Bond amortization	1	14
Tax benefit of stock options exercised	409	124
Excess tax benefits from stock-based compensation	(349)	(108)
Net loss on investments	485	118
Retirement of property and equipment		15
Deferred income taxes	101	(138)
Changes in operating assets and liabilities, net of effects of acquisition:		
Purchases of trading securities	(10,291)	(10,763)
Proceeds from maturities and sales of trading securities	13,301	13,070
Accounts receivable, net	(1,062)	917
Prepaid expenses and other assets	(387)	(40)
Accounts payable and other liabilities	69	(4,173)
Deferred revenue	1,413	311
Net cash provided by operating activities	14,431	10,915
Cash flows from investing activities:		
Capitalized computer software development costs	(2,402)	(2,647)
Purchases of property and equipment, net of disposals	(205)	(546)
Proceeds from maturities of investments	225	968
Purchases of business, net of cash acquired	(1,241)	
Net cash used in investing activities	(3,623)	(2,225)
Cash flows from financing activities:		
Repurchase of common stock		(758)
Excess tax benefits from stock based compensation	349	108
Proceeds from exercise of stock options	3,352	1,612
Dividends paid	(2,751)	(15,471)
Net cash provided by (used in) financing activities	950	(14,509)

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Net change in cash and cash equivalents	11,758	(5,819)
Cash and cash equivalents at beginning of period	41,164	39,111
Cash and cash equivalents at end of period	\$ 52,922	\$ 33,292

See accompanying notes to condensed consolidated financial statements unaudited.

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American Software, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements Unaudited

January 31, 2014

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 January 31, 2014, the results of operations for the three and nine months ended January 31, 2014 and 2013 and cash flows for the nine months ended January 31, 2014 and 2013. The results for the three and nine months ended January 31, 2014 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, 2013.

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, 2013 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. and its wholly-owned subsidiaries (American Software or the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

B. Revenue Recognition

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

License. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and VSOE exists with respect to any undelivered elements of the arrangement. For

multiple-element arrangements, we recognize revenue under the residual method, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. We record revenues from sales of third-party products in accordance with Principal Agent Considerations within the Revenue Recognition Topic of the FASB's Accounting Standards Codification. Furthermore, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we: (1) act as principal in the transaction, (2) take title to the products, (3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and (4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, in most cases we record our sales through the Demand Management, Inc. (DMI) channel on a gross basis.

Maintenance. Revenue derived from maintenance contracts primarily includes telephone consulting, product updates, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. Maintenance contracts are typically sold for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. Maintenance fees are generally billed annually in advance. We recognize maintenance revenue ratably over the term of the maintenance agreement. In situations where we bundle all or a portion of the maintenance fee with the license fee, VSOE for maintenance is determined based on prices when sold separately.

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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 \$450,000 and \$1.7 million for the three and nine months ended January 31, 2014, respectively, and \$476,000 and \$1.7 million for the three and nine months ended January 31, 2013, 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, a