

AMERICAN SOFTWARE INC
Form 10-Q
March 06, 2013
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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, 2013

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)

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

58-1098795
 (IRS Employer
 Identification Number)

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 March 1, 2013
Class A Common Stock, \$.10 par value	24,647,677 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, 2013

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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, 2013	April 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,292	\$ 39,111
Investments	18,836	20,251
Trade accounts receivable, less allowance for doubtful accounts of \$347 at January 31, 2013 and \$171 at April 30, 2012:		
Billed	14,333	15,205
Unbilled	4,562	4,607
Deferred income taxes		34
Prepaid expenses and other current assets	3,192	3,184
Total current assets	74,215	82,392
Investments - Noncurrent	5,516	7,508
Property and equipment, net of accumulated depreciation of \$29,347 at January 31, 2013 and \$28,613 at April 30, 2012	4,633	4,912
Capitalized software, net of accumulated amortization of \$7,039 at January 31, 2013 and \$5,163 at April 30, 2012	8,562	7,791
Goodwill	12,601	12,601
Other intangibles, net of accumulated amortization of \$2,113 at January 31, 2013 and \$1,681 at April 30, 2012	831	1,263
Other assets	118	86
Total assets	\$ 106,476	\$ 116,553
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 506	\$ 1,042
Accrued compensation and related costs	2,680	5,169
Dividends payable		2,433
Other current liabilities	3,050	4,198
Deferred revenue	19,752	19,441
Total current liabilities	25,988	32,283
Deferred income taxes	1,068	1,240
Total liabilities	27,056	33,523
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 29,092,496 shares at January 31, 2013 and 28,798,490 shares at April 30, 2012	2,909	2,880
	259	259

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Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,587,086 shares at January 31, 2013 and April 30, 2012; convertible into Class A shares on a one-for-one basis		
Additional paid-in capital	98,210	95,386
Retained earnings	2,319	8,024
Class A treasury stock, 4,444,815 shares at January 31, 2013 and 4,348,663 April 30, 2012, at cost	(24,277)	(23,519)
Total shareholders equity	79,420	83,030
Commitments and contingencies		
Total liabilities and shareholders equity	\$ 106,476	\$ 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 January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
Revenues:				
License	\$ 4,926	\$ 6,803	\$ 15,512	\$ 20,539
Services and other	9,564	10,289	34,371	30,091
Maintenance	8,586	8,305	25,370	24,074
Total revenues	23,076	25,397	75,253	74,704
Cost of revenues:				
License	1,797	2,148	4,609	5,469
Services and other	7,354	7,876	24,119	22,382
Maintenance	1,893	1,871	5,803	5,524
Total cost of revenues	11,044	11,895	34,531	33,375
Gross margin	12,032	13,502	40,722	41,329
Research and development	2,209	2,080	6,618	5,979
Sales and marketing	4,868	4,536	14,626	13,637
General and administrative	2,590	3,362	8,639	9,488
Amortization of acquisition-related intangibles	125	135	375	404
(Recovery)/Provision for doubtful accounts	(51)	96	216	217
Total operating expenses	9,741	10,209	30,474	29,725
Operating income	2,291	3,293	10,248	11,604
Other income (expense):				
Interest income	293	303	877	997
Other, net	164	182	162	(423)
Earnings before income taxes	2,748	3,778	11,287	12,178
Income tax expense	608	1,186	3,954	4,316
Net earnings	\$ 2,140	\$ 2,592	\$ 7,333	\$ 7,862
Earnings per common share:(a)				
Basic	\$ 0.08	\$ 0.10	\$ 0.27	\$ 0.30
Diluted	\$ 0.08	\$ 0.10	\$ 0.27	\$ 0.29
Cash dividends declared per common share	\$ 0.10	\$ 0.09	\$ 0.28	\$ 0.27
Shares used in the calculation of earnings per common share:				
Basic	27,193	26,531	27,139	26,308

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Diluted	27,614	27,271	27,601	26,959
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- (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 \$0.08 and \$0.10 for the three months ended January 31, 2013 and 2012 and \$0.27 and \$0.29 for the nine months ended January 31, 2013 and 2012, 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,	
	2013	2012
Cash flows from operating activities:		
Net earnings	\$ 7,333	\$ 7,862
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,118	3,248
Stock-based compensation expense	1,117	932
Bond amortization	14	100
Tax benefit of stock options exercised	124	674
Excess tax benefits from stock-based compensation	(108)	(468)
Net loss on investments	118	479
Retirement of property and equipment	15	
Deferred income taxes	(138)	(483)
Changes in operating assets and liabilities:		
Purchases of trading securities	(10,763)	(13,515)
Proceeds from maturities and sales of trading securities	13,070	11,102
Accounts receivable, net	917	(347)
Prepaid expenses and other assets	(40)	133
Accounts payable and other liabilities	(4,173)	(560)
Deferred revenue	311	495
Net cash provided by operating activities	10,915	9,652
Cash flows from investing activities:		
Capitalized computer software development costs	(2,647)	(1,955)
Purchases of property and equipment, net of disposals	(546)	(257)
Proceeds from maturities of investments	968	4,935
Net cash (used in) provided by investing activities	(2,225)	2,723
Cash flows from financing activities:		
Repurchase of common stock	(758)	
Excess tax benefits from stock based compensation	108	468
Proceeds from exercise of stock options	1,612	3,459
Dividends paid	(15,471)	(7,077)
Net cash used in financing activities	(14,509)	(3,150)
Net change in cash and cash equivalents	(5,819)	9,225
Cash and cash equivalents at beginning of period	39,111	23,928
Cash and cash equivalents at end of period	\$ 33,292	\$ 33,153

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, 2013

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, 2013, the results of operations for the three and nine months ended January 31, 2013 and 2012 and cash flows for the nine months ended January 31, 2013 and 2012. The results for the three and nine months ended January 31, 2013 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

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American Software, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements Unaudited (Continued)

January 31, 2013

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.

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 \$476,000 and \$1.7 million for the three and nine months ended January 31, 2013, respectively, and \$434,000 and \$1.3 million for the three and nine months ended January 31, 2012, respectively.

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

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

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

Unbilled Accounts Receivable. The unbilled receivable balance consists of amounts generated from license fee and services revenues. At January 31, 2013 and April 30, 2012, unbilled license fees were approximately \$2.0 million and \$1.0 million, respectively, and unbilled services revenues were approximately \$2.5 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 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 were paid 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**American Software, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****January 31, 2013****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.

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, 2013		Nine Months Ended January 31, 2013	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.30	\$ 0.30	\$ 0.48	\$ 0.48
Undistributed earnings	(0.22)	(0.22)	(0.21)	(0.21)
Total	\$ 0.08	\$ 0.08	\$ 0.27	\$ 0.27
Distributed earnings	\$ 7,376	\$ 776	\$ 11,796	\$ 1,242
Undistributed earnings	(5,440)	(572)	(5,161)	(544)
Total	\$ 1,936	\$ 204	\$ 6,635	\$ 698
Basic weighted average common shares outstanding	24,606	2,587	24,552	2,587

Table of Contents**American Software, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****January 31, 2013**

	Three Months Ended January 31, 2012		Nine Months Ended January 31, 2012	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Undistributed earnings	0.01	0.01	0.03	0.03
Total	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Distributed earnings	\$ 2,177	\$ 233	\$ 6,442	\$ 698
Undistributed earnings	164	18	650	72
Total	\$ 2,341	\$ 251	\$ 7,092	\$ 770
Basic weighted average common shares outstanding	23,944	2,587	23,684	2,624
Diluted EPS for Class A Common Shares Using the If-Converted Method				

Three Months Ended January 31, 2013

	Undistributed & distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 1,936	24,606	\$ 0.08
Common Stock Equivalents		421	
	1,936	25,027	0.08
Class B Conversion	204	2,587	
Diluted EPS for Class A	\$ 2,140	27,614	\$ 0.08

Nine Months Ended January 31, 2013

	Undistributed & distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 6,635	24,552	\$ 0.27
Common Stock Equivalents		462	
	6,635	25,014	0.27
Class B Conversion	698	2,587	
Diluted EPS for Class A	\$ 7,333	27,601	\$ 0.27

Table of Contents**American Software, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements Unaudited (Continued)****January 31, 2013****Three Months Ended January 31, 2012**

	Undistributed & distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 2,341	23,944	\$ 0.10
Common Stock Equivalents		740	
	2,341	24,684	0.10
Class B Conversion	251	2,587	
Diluted EPS for Class A	\$ 2,592	27,271	\$ 0.10

Nine Months Ended January 31, 2012

	Undistributed & distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 7,092	23,684	\$ 0.30
Common Stock Equivalents		651	
	7,092	24,335	0.29
Class B Conversion	770	2,624	
Diluted EPS for Class A	\$ 7,862	26,959	\$ 0.29

Diluted EPS for Class B Common Shares Using the Two-Class Method**Three Months Ended January 31, 2013**

	Undistributed & distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 204	2,587	\$ 0.08
Reallocation of undistributed earnings from Class A shares to Class B shares	9		
Diluted EPS for Class B	\$ 213	2,587	\$ 0.08

Nine Months Ended January 31, 2013

	Undistributed & distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 698	2,587	\$ 0.27