

AMERICAN SOFTWARE INC
Form 10-Q
September 05, 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 July 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)**

58-1098795
**(IRS Employer
 Identification Number)**

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

30305
(Zip Code)

(404) 261-4381

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

Classes	Outstanding at September 1, 2014
Class A Common Stock, \$.10 par value	25,682,780 Shares

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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 July 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)

	July 31, 2014	April 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,209	\$ 55,803
Investments	14,399	14,796
Trade accounts receivable, less allowance for doubtful accounts of \$264 at July 31, 2014 and \$222 at April 30, 2014:		
Billed	12,914	15,422
Unbilled	3,826	3,234
Prepaid expenses and other current assets	3,168	4,092
Total current assets	80,516	93,347
Investments Noncurrent	11,831	8,975
Property and equipment, net of accumulated depreciation of \$30,828 at July 31, 2014 and \$30,545 at April 30, 2014	3,488	3,681
Capitalized software, net of accumulated amortization of \$9,485 at July 31, 2014 and \$8,589 at April 30, 2014	10,013	10,732
Goodwill	18,749	13,819
Other intangibles, net of accumulated amortization of \$3,083 at July 31, 2014 and \$2,881 at April 30, 2014	3,522	534
Other assets	630	132
Total assets	\$ 128,749	\$ 131,220
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 745	\$ 1,382
Accrued compensation and related costs	2,248	3,532
Dividends payable	2,825	2,822
Other current liabilities	2,743	2,735
Deferred income taxes	402	418
Deferred revenue	23,614	23,638
Total current liabilities	32,577	34,527

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Deferred income taxes	1,671	1,936
Long-term deferred revenue	575	670
Other long-term liabilities	2,035	1,527
Total liabilities	36,858	38,660
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 30,112,049 shares at July 31, 2014 and 30,075,187 shares at April 30, 2014	3,011	3,008
Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,587,086 shares at July 31, 2014 and April 30, 2014; convertible into Class A shares on a one-for-one basis	259	259
Additional paid-in capital	106,823	106,203
Retained earnings	6,076	7,368
Class A treasury stock, 4,444,815 shares at July 31, 2014 and April 30, 2014, at cost	(24,278)	(24,278)
Total shareholders' equity	91,891	92,560
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 128,749	\$ 131,220

See accompanying notes to condensed consolidated financial statements unaudited.

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

	Three Months Ended July 31,	
	2014	2013
Revenues:		
License	\$ 4,368	\$ 3,218
Services and other	10,992	11,228
Maintenance	9,497	8,872
Total revenues	24,857	23,318
Cost of revenues:		
License	1,736	1,161
Services and other	7,795	8,040
Maintenance	1,981	1,962
Total cost of revenues	11,512	11,163
Gross margin	13,345	12,155
Research and development	3,196	2,100
Sales and marketing	4,644	4,394
General and administrative	3,215	3,153
Amortization of acquisition-related intangibles	85	125
Provision for doubtful accounts	42	
Total operating expenses	11,182	9,772
Operating income	2,163	2,383
Other income (expense):		
Interest income	280	251
Other, net	26	(207)
Earnings before income taxes	2,469	2,427
Income tax expense	935	834
Net earnings	\$ 1,534	\$ 1,593
Earnings per common share ^(a) :		
Basic	\$ 0.05	\$ 0.06

Diluted	\$ 0.05	\$ 0.06
Cash dividends declared per common share	\$ 0.10	\$ 0.00
Shares used in the calculation of earnings per common share:		
Basic	28,233	27,363
Diluted	28,606	27,815

- (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 \$0.05 and \$0.06 for the three months ended July 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)**

	Three Months Ended July 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	\$ 1,534	\$ 1,593
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,382	1,029
Stock-based compensation expense	404	338
Bond amortization		2
Accretion of liability from purchase of business	3	
Tax benefit of stock options exercised	36	10
Excess tax benefits from stock-based compensation	(41)	(27)
Net loss on investments	159	361
Deferred income taxes	(281)	(194)
Changes in operating assets and liabilities, net of effects of acquisition:		
Purchases of trading securities	(6,003)	(3,640)
Proceeds from maturities and sales of trading securities	3,385	8,157
Accounts receivable, net	2,463	3,683
Prepaid expenses and other assets	965	316
Accounts payable and other liabilities	(2,362)	(692)
Deferred revenue	(519)	(1,685)
Net cash provided by operating activities	1,125	9,251
Cash flows from investing activities:		
Capitalized computer software development costs	(178)	(717)
Purchases of property and equipment, net of disposals	(58)	(34)
Proceeds from maturities of investments		200
Purchase of business, net of cash acquired	(7,881)	
Net cash used in investing activities	(8,117)	(551)
Cash flows from financing activities:		
Excess tax benefits from stock based compensation	41	27
Proceeds from exercise of stock options	183	487
Dividends paid	(2,826)	
Net cash (used in) provided by financing activities	(2,602)	514

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Net change in cash and cash equivalents	(9,594)	9,214
Cash and cash equivalents at beginning of period	55,803	41,164
Cash and cash equivalents at end of period	\$ 46,209	\$ 50,378

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

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of American Software, Inc. 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 \$623,000 and \$640,000 for the three months ended July 31, 2014 and 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, 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 July 31, 2014 and April 30, 2014, unbilled license fees were approximately \$1.6 million and \$1.1 million, respectively, and unbilled services revenues were approximately \$2.3 million and \$2.2 million, respectively. Unbilled license fee accounts receivable represents revenue that has been recognized, but under the terms of the license agreement, which include specified payment terms that are considered normal and customary, certain payments have not yet been invoiced to the customers. Unbilled services revenues primarily occur due to the timing of the respective billings, which occur subsequent to the end of each reporting period.

C. Declaration of Dividend Payable

On May 14, 2014, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of our Class A and Class B common stock. The cash dividend is payable on August 22, 2014 to Class A and Class B shareholders of record at the close of business on August 8, 2014.

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 \$0.05 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 \$0.05 per share. This allocation is based on management's judgment after considering the dividend rights of the two classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B shares to Class A shares.

The calculation of diluted earnings per share is similar to the calculation of basic earnings per share, except that the calculation includes the dilutive effect of the assumed exercise of options issuable under our stock incentive plans. For our diluted earnings per share calculation for Class A shares, we use the if-converted method. This calculation assumes that all Class B Common Shares are converted into Class A Common Shares (if antidilutive) 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.

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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 July 31, 2014		Three Months Ended July 31, 2013	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.10	\$ 0.10	\$	\$
Undistributed earnings	(0.05)	(0.05)	0.06	0.06
Total	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.06
Distributed earnings	\$ 2,567	\$ 259	\$	\$
Undistributed earnings	(1,173)			