

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended October 31, 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**  
(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 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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

(Do not check if a 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.

<b>Classes</b>	<b>Outstanding at December 10, 2008</b>
Class A Common Stock, \$.10 par value	22,519,121 Shares
Class B Common Stock, \$.10 par value	2,886,586 Shares

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Form 10-Q

Quarter ended October 31, 2008

Index

	<u>Page No.</u>
<b><u>Part I—Financial Information</u></b>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets October 31, 2008 and April 30, 2008</u>	3
<u>Condensed Consolidated Statements of Operations Three and Six Months ended October 31, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six Months ended October 31, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements—Unaudited</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	26
<b><u>Part II—Other Information</u></b>	
<u>Item 1. Legal Proceedings</u>	26
<u>Item 1A. Risk Factors</u>	26
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 3. Defaults Upon Senior Securities</u>	27
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	27
<u>Item 5. Other Information</u>	28
<u>Item 6. Exhibits</u>	28

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**American Software, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets (unaudited)**  
**(in thousands, except share data)**

	<u>October 31,</u> <u>2008</u>	<u>April 30,</u> <u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,683	\$ 59,236
Investments	24,274	16,905
Trade accounts receivable, less allowance for doubtful accounts of \$209 at October 31, 2008 and \$215 at April 30, 2008:		
Billed	9,190	12,563
Unbilled	2,951	3,311
Prepaid expenses and other current assets	3,453	2,946
Total current assets	<u>75,551</u>	<u>94,961</u>
Investments – Noncurrent	11,099	—
Property and equipment, net of accumulated depreciation of \$24,534 at October 31, 2008 and \$23,966 at April 30, 2008	7,240	6,903
Capitalized software, net of accumulated amortization of \$6,380 at October 31, 2008 and \$5,220 at April 30, 2008	4,502	4,657
Goodwill	11,709	11,912
Other intangibles, net of accumulated amortization of \$1,986 at October 31, 2008 and \$1,752 at April 30, 2008	1,196	1,586
Other assets	190	198
Total assets	<u>\$111,487</u>	<u>\$120,217</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 657	\$ 1,578
Accrued compensation and related costs	1,592	2,260
Dividends payable	2,278	2,286
Other current liabilities	2,807	3,694
Deferred income taxes	450	640
Deferred revenue	14,420	16,441
Total current liabilities	<u>22,204</u>	<u>26,899</u>
Deferred income taxes	1,074	1,202
Minority interest	5,908	5,621
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 26,570,027 shares at October 31, 2008 and 26,467,534 shares at April 30, 2008	2,656	2,647
Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,886,586 shares at October 31, 2008 and April 30, 2008; convertible into Class A shares on a one-for-one basis	288	288
Additional paid-in capital	87,594	87,256
Accumulated other comprehensive income	67	67
Retained earnings	14,239	17,725
Class A treasury stock, 4,141,588 shares at October 31, 2008 and 3,955,849 shares at April 30, 2008	<u>(22,543)</u>	<u>(21,488)</u>
Total shareholders' equity	<u>82,301</u>	<u>86,495</u>
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$111,487</u>	<u>\$120,217</u>

See accompanying notes to condensed consolidated financial statements—unaudited.

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2008	2007	2008	2007
<b>Revenues:</b>				
License	\$ 3,794	\$ 4,806	\$ 6,536	\$ 9,926
Services and other	9,012	11,634	18,343	21,421
Maintenance	7,042	7,179	14,167	13,994
Total revenues	<u>19,848</u>	<u>23,619</u>	<u>39,046</u>	<u>45,341</u>
<b>Cost of revenues:</b>				
License	1,518	1,550	2,806	3,235
Services and other	6,290	8,450	12,298	15,273
Maintenance	1,808	1,880	3,622	3,641
Total cost of revenues	<u>9,616</u>	<u>11,880</u>	<u>18,726</u>	<u>22,149</u>
Gross margin	<u>10,232</u>	<u>11,739</u>	<u>20,320</u>	<u>23,192</u>
Research and development	1,842	1,829	3,671	3,739
Sales and marketing	3,472	3,820	7,268	7,212
General and administrative	2,780	3,204	5,875	6,687
Amortization of acquisition-related intangibles	87	87	174	174
Provision for doubtful accounts	54	40	54	75
Total operating expenses	<u>8,235</u>	<u>8,980</u>	<u>17,042</u>	<u>17,887</u>
Operating income	1,997	2,759	3,278	5,305
<b>Other income (expense):</b>				
Interest income	455	825	827	1,679
Other, net	(1,642)	839	(2,150)	901
Earnings before income taxes	810	4,423	1,955	7,885
Income tax expense	152	1,665	600	2,936
Minority interest expense	188	214	275	450
Net earnings	<u>\$ 470</u>	<u>\$ 2,544</u>	<u>\$ 1,080</u>	<u>\$ 4,499</u>
<b>Earnings per common share<sup>(a)</sup>:</b>				
Basic	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.04</u>	<u>\$ 0.18</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.04</u>	<u>\$ 0.17</u>
Cash dividends declared per common share	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.18</u>	<u>\$ 0.17</u>
<b>Shares used in the calculation of earnings per common share:</b>				
Basic	<u>25,357</u>	<u>25,530</u>	<u>25,375</u>	<u>25,328</u>
Diluted	<u>25,860</u>	<u>26,658</u>	<u>25,931</u>	<u>27,080</u>

(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 \$0.02 and \$0.10 for the three months ended October 31, 2008 and 2007 and \$0.04 and \$0.18 for the six months ended October 31, 2008 and 2007, respectively. See Note G to the Condensed 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)**

	Six Months Ended October 31,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 1,080	\$ 4,499
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,962	2,077
Stock-based compensation expense	418	363
Bond amortization	166	4
Tax benefit of stock options exercised	194	1,453
Excess tax benefits from stock based compensation	(69)	(1,210)
Net loss/(gain) on investments	1,995	(453)
Minority interest in net earnings of subsidiary	275	450
Deferred income taxes	(253)	(183)
Changes in operating assets and liabilities:		
Purchases of trading securities	(5,742)	(7,417)
Proceeds from sale of trading securities	1,608	256
Proceeds from maturities of trading securities	607	9,349
Accounts receivable, net	3,733	(916)
Prepaid expenses and other assets	(499)	(414)
Accounts payable and other liabilities	(2,915)	(594)
Deferred revenue	(2,021)	(172)
Net cash provided by operating activities	<u>539</u>	<u>7,092</u>
<b>Cash flows from investing activities:</b>		
Capitalized computer software development costs	(1,039)	(1,181)
Intangible assets	(145)	(46)
Goodwill	(72)	(293)
Purchases of property and equipment, net of disposals	(466)	(332)
Proceeds from maturities of investments	55,571	42,057
Purchases of investments	(72,673)	(25,892)
Net change in minority interest resulting from changes in subsidiary equity	(245)	—
Proceeds from exercise of stock options of subsidiary	233	232
Net cash (used in) provided by investing activities	<u>(18,836)</u>	<u>14,545</u>
<b>Cash flows from financing activities:</b>		
Proceeds from Dividend Reinvestment Plan and Stock Purchase Plan	34	27
Repurchase of common stock	(1,055)	—
Excess tax benefits from stock based compensation	69	1,210
Proceeds from exercise of stock options	268	2,709
Dividends paid	(4,572)	(4,036)
Net cash used in financing activities	<u>(5,256)</u>	<u>(90)</u>
Net change in cash and cash equivalents	<u>(23,553)</u>	<u>21,547</u>
Cash and cash equivalents at beginning of period	59,236	45,627
Cash and cash equivalents at end of period	<u>\$ 35,683</u>	<u>\$ 67,174</u>

See accompanying notes to condensed consolidated financial statements—unaudited.

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—Unaudited**  
**October 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 October 31, 2008, the results of operations for the three and six months ended October 31, 2008 and 2007 and cash flows for the six months ended October 31, 2008 and 2007. The results for the three and six months ended October 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, 2008.

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, 2008, 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 object 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.

**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.

*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 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 condensed consolidated statements of operations under services and other. These amounts totaled approximately \$334,000 and \$711,000 for the three and six months ended October 31, 2008, respectively, and \$629,000 and \$1.1 million for the three and six months ended October 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.

*Sales Taxes.* We account for sales taxes on a net basis in accordance with EITF No. 06-3, *How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*.

#### **D. Reclassification**

Certain prior year amounts have been reclassified for presentation purposes.

#### **E. Major Customer**

One customer, The Home Depot, accounted for approximately 11% of our total revenues for the three and six months ended October 31, 2008, principally from our IT consulting segment (see footnote M). The related accounts receivable balance for this customer as of October 31, 2008 was approximately \$1.4 million. This one customer accounted for approximately 15% and 12% of total revenues for the three and six months ended October 31, 2007, respectively. The related accounts receivable balance for this customer as of October 31, 2007 was approximately \$2.0 million.

#### **F. Declaration of Dividend Payable**

On August 19, 2008, our Board of Directors declared a quarterly cash dividend of \$0.09 per share of our Class A and Class B common stock. The cash dividend is payable on December 2, 2008 to Class A and Class B shareholders of record at the close of business on November 10, 2008.

#### **G. 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 dividends are declared, holders of Class A common shares shall receive a \$.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, we have 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 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 stock 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.

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 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 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 October 31, 2008		Six Months Ended October 31, 2008	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18
Undistributed loss	(0.07)	(0.07)	(0.14)	(0.14)
Total	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04
Distributed earnings	\$ 2,019	\$ 260	\$ 4,044	\$ 520
Undistributed loss	(1,603)	(206)	(3,086)	(398)
Total	\$ 416	\$ 54	\$ 958	\$ 122
Basic weighted average common shares	22,471	2,886	22,488	2,887

	Three Months Ended October 31, 2007		Six Months Ended October 31, 2007	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.17	\$ 0.17
Undistributed earnings	0.01	0.01	0.01	0.01
Total	\$ 0.10	\$ 0.10	\$ 0.18	\$ 0.18
Distributed earnings	\$ 2,039	\$ 260	\$ 3,830	\$ 511
Undistributed earnings	216	29	139	19
Total	\$ 2,255	\$ 289	\$ 3,969	\$ 530
Basic weighted average common shares	22,602	2,928	22,323	3,005

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

#### Three Months Ended October 31, 2008

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 416	22,471	\$0.02
Common Stock Equivalents	—	503	—
	416	22,974	0.02
Class B Conversion	54	2,886	—
Diluted EPS for Class A	\$ 470	25,860	\$0.02

**Six Months Ended October 31, 2008**

	<u>Undistributed &amp; Distributed earnings to Class A Common</u>	<u>Class A Common Shares</u>	<u>EPS</u>
Per Basic	\$ 958	22,488	\$0.04
Common Stock Equivalents	—	557	—
	<u>958</u>	<u>23,045</u>	<u>0.04</u>
Class B Conversion	122	2,886	—
Diluted EPS for Class A	<u>\$ 1,080</u>	<u>25,931</u>	<u>\$0.04</u>

**Three Months Ended October 31, 2007**

	<u>Undistributed &amp; Distributed earnings to Class A Common</u>	<u>Class A Common Shares</u>	<u>EPS</u>
Per Basic	\$ 2,255	22,602	\$0.10
Common Stock Equivalents	—	1,128	—
	<u>2,255</u>	<u>23,730</u>	<u>0.10</u>
Class B Conversion	289	2,928	—
Diluted EPS for Class A	<u>\$ 2,544</u>	<u>26,658</u>	<u>\$0.10</u>

**Six Months Ended October 31, 2007**

	<u>Undistributed &amp; Distributed earnings to Class A Common</u>	<u>Class A Common Shares</u>	<u>EPS</u>
Per Basic	\$ 3,969	22,323	\$0.18
Common Stock Equivalents	—	1,752	—
	<u>3,969</u>	<u>24,075</u>	<u>0.17</u>
Class B Conversion	530	3,005	—
Diluted EPS for Class A	<u>\$ 4,499</u>	<u>27,080</u>	<u>\$0.17</u>

**Diluted EPS for Class B common shares using the Two-Class Method**  
**Three Months Ended October 31, 2008**

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 54	2,886	\$0.02
Reallocation of undistributed earnings to Class A shares from Class B shares	4	—	—
Diluted EPS for Class B	<u>\$ 58</u>	<u>2,886</u>	<u>\$0.02</u>

**Six Months Ended October 31, 2008**

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 122	2,886	\$0.04
Reallocation of undistributed earnings to Class A shares from Class B shares	8	—	—
Diluted EPS for Class B	<u>\$ 130</u>	<u>2,886</u>	<u>\$0.04</u>

**Three Months Ended October 31, 2007**

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 289	2,928	\$0.10
Reallocation of undistributed earnings to Class A shares from Class B shares	(1)	—	—
Diluted EPS for Class B	<u>\$ 288</u>	<u>2,928</u>	<u>\$0.10</u>

**Six Months Ended October 31, 2007**

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 530	3,005	\$0.18
Reallocation of undistributed earnings to Class A shares from Class B shares	(1)	—	—
Diluted EPS for Class B	<u>\$ 529</u>	<u>3,005</u>	<u>\$0.18</u>

\*\* Amounts adjusted for rounding

For the three and six months ended October 31, 2008, we excluded options to purchase 1,818,389 and 1,502,252 Class A Common Shares, respectively, and for the three and six months ended October 31, 2007, we excluded options to purchase 80,000 and 72,582 Class A Common Shares, respectively, from the computation of diluted earnings per Class A Common Shares. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the Class A Common Shares during the applicable period. As of October 31, 2008, we had a total of 3,304,538 options outstanding and as of October 31, 2007, we had a total of 2,912,360 options outstanding.

## **H. Acquisitions**

### ***Logility Share Repurchase***

During September 2008, Logility, Inc., our approximately 88% owned subsidiary, purchased 27,122 shares of its common stock for approximately \$181,000. 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 approximately \$181,000, this amount is net of approximately \$25,000 related to the tax effects of this treasury stock purchase. We have allocated the \$181,000 to capitalized software development costs, totaling approximately \$7,000, intangible assets, totaling approximately \$59,000, minority interest, totaling approximately \$101,000 and goodwill, totaling approximately \$39,000 (including \$25,000 related to tax effects), 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 an accelerated method 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.

## **I. Stock-Based Compensation**

During the six months ended October 31, 2008 and 2007, we granted options for 494,978 and 590,197 shares of common stock, respectively. We recorded stock option compensation cost of approximately \$202,000 and \$181,000 and related income tax benefits of approximately \$38,000 and \$21,000 during the three months ended October 31, 2008 and 2007, respectively. We recorded stock option compensation cost of approximately \$418,000 and \$363,000 and related income tax benefits of approximately \$76,000 and \$61,000 during the six months ended October 31, 2008 and 2007, 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 six months ended October 31, 2008 and 2007, we realized excess tax benefits of approximately \$69,000 and \$1,210,000, respectively.

During the six months ended October 31, 2008 and 2007, we issued 94,012 and 745,299 shares of common stock, respectively, resulting from the exercise of stock options. During the six months ended October 31, 2008 and 2007, our subsidiary issued 67,650 and 70,926 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the six months ended October 31, 2008 and 2007 based on market value at the exercise dates was approximately \$280,000 and \$4,954,000, respectively. The total intrinsic value of options exercised at our subsidiary during the six months ended October 31, 2008 and 2007 based on market value at the exercised dates was approximately \$243,000 and \$569,000, respectively. As of October 31, 2008, unrecognized compensation cost related to unvested stock option awards approximated \$2.3 million which we expect to recognize over a weighted average period of 2.0 years. As of October 31, 2008, unrecognized compensation cost related to unvested stock option awards at our subsidiary approximated \$1.2 million, which we expect to recognize over a weighted average period of 1.9 years.

## **J. Fair Value of Financial Instrument**

Effective May 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements," which requires disclosures about our assets and liabilities that are measured at fair value. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We have not applied the provisions of SFAS No. 157 to non-financial assets, such as our property and equipment, goodwill, capitalized software and certain other assets, which are measured at fair value for impairment assessment. We will apply the provisions of SFAS No. 157 to these assets and liabilities, beginning May 1, 2009, in accordance with FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157."

SFAS No. 157 establishes a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of asset or liability and their characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical instruments.

- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following is a general description of the valuation methodologies used for financial assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

**Cash Equivalents**—Cash equivalents include investments in government obligation based money-market funds, in other money market instruments and in interest-bearing deposits with initial or remaining terms of three months or less. The fair value of cash equivalents approximates its carrying value due to the short-term nature of these instruments.

**Marketable Securities**—Marketable securities utilizing Level 1 inputs include active exchange-traded equity securities and equity index funds, and most U.S. Government debt securities, as these securities all have quoted prices in active markets. Marketable securities utilizing Level 2 inputs include municipal bonds. These securities are valued using market corroborated pricing or other models that utilize observable inputs such as yield curves.

The following table presents our assets and liabilities that we measured at fair value on a recurring basis as of October 31, 2008, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of October 31, 2008
Cash equivalents	\$ 34,758	—	—	\$ 34,758
Marketable securities	3,511	240	—	\$ 3,751
Total	<u>\$ 38,269</u>	<u>\$ 240</u>	<u>\$ —</u>	<u>\$ 38,509</u>

In addition to cash equivalents we also have approximately \$31.6 million in held-to-maturity investments. These investments consist of corporate bonds, tax-exempt state and municipal bonds and U.S Government debt securities. These investments are recorded at amortized cost.

SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS 115,” permits but does not require us to measure financial instruments and certain other items at fair value. We did not elect to measure at fair value any of our financial instruments under the provisions of SFAS No. 159 thus our adoption of this statement effective May 1, 2008 did not have an impact on our condensed consolidated financial statements.

#### K. Stock Repurchases

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to 2.0 million shares of our Class A common stock. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our common stock and management’s assessment of our liquidity and cash flow needs. In the three months ended October 31, 2008, we repurchased 99,500 shares of common stock at a cost of approximately \$550,000. Under this repurchase plan, through October 31, 2008, we have repurchased 606,635 shares of common stock at a cost of approximately \$3.2 million. Under all repurchase plans as of October 31, 2008, we have repurchased 4,141,588 shares of common stock at a cost of approximately \$23.0 million.

#### L. 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.

#### M. 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 six months ended October 31, 2008 and 2007:

	<u>Three Months Ended</u> <u>October 31,</u>		<u>Six Months Ended</u> <u>October 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues:</b>				
Enterprise Resource Planning	\$ 4,372	\$ 5,521	\$ 9,749	\$ 10,008
Collaborative Supply Chain Management	10,483	11,134	19,870	23,099
IT Consulting	4,993	6,964	9,427	12,234
	<u>\$19,848</u>	<u>\$23,619</u>	<u>\$39,046</u>	<u>\$45,341</u>
<b>Operating income (loss) before intersegment eliminations:</b>				
Enterprise Resource Planning	\$ (343)	\$ 208	\$ (150)	\$ (429)
Collaborative Supply Chain Management	2,192	2,200	3,178	5,199
IT Consulting	148	351	250	535
	<u>\$ 1,997</u>	<u>\$ 2,759</u>	<u>\$ 3,278</u>	<u>\$ 5,305</u>
<b>Intersegment eliminations:</b>				
Enterprise Resource Planning	\$ (404)	\$ (413)	\$ (798)	\$ (839)
Collaborative Supply Chain Management	404	413	798	839
IT Consulting	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Operating income (loss) after intersegment eliminations:</b>				
Enterprise Resource Planning	\$ (747)	\$ (205)	\$ (948)	\$ (1,268)
Collaborative Supply Chain Management	2,596	2,613	3,976	6,038
IT Consulting	148	351	250	535
	<u>\$ 1,997</u>	<u>\$ 2,759</u>	<u>\$ 3,278</u>	<u>\$ 5,305</u>
<b>Capital expenditures:</b>				
Enterprise Resource Planning	\$ 236	\$ 27	\$ 421	\$ 207
Collaborative Supply Chain Management	25	79	45	125
IT Consulting	—	—	—	—
	<u>\$ 261</u>	<u>\$ 106</u>	<u>\$ 466</u>	<u>\$ 332</u>
<b>Capitalized Software:</b>				
Enterprise Resource Planning	\$ 6	\$ —	\$ 16	\$ 26
Collaborative Supply Chain Management	516	630	1,023	1,155
IT Consulting	—	—	—	—
	<u>\$ 522</u>	<u>\$ 630</u>	<u>\$ 1,039</u>	<u>\$ 1,181</u>
<b>Depreciation and amortization:</b>				
Enterprise Resource Planning	\$ 293	\$ 230	\$ 553	\$ 458
Collaborative Supply Chain Management	715	806	1,408	1,618
IT Consulting	—	—	1	1
	<u>\$ 1,008</u>	<u>\$ 1,036</u>	<u>\$ 1,962</u>	<u>\$ 2,077</u>

## **N. Contingencies**

We more often than not indemnify our customers against damages and costs resulting from claims of patent, copyright or trademark infringement associated with use of our products. We have historically not been required to make any payments under such indemnifications. However, we continue to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the indemnifications when those losses are estimable. In addition, we warrant to our customers that our products operate substantially in accordance with the software 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, we are 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 our financial position or results of operations.

## **O. Recently Adopted Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and requires expanded disclosure about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those years. In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13" and FSP No. 157-2, "Effective Date of FASB Statement No. 157." FSP No. 157-1 amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases," and its related interpretive accounting pronouncements that address leasing transactions. FSP No. 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until the beginning of the first quarter of 2010. Our adoption of SFAS No. 157 for financial assets and liabilities on May 1, 2008 did not have a material impact on our consolidated financial statements. In accordance with SFAS No. 157, we expanded our disclosures regarding the fair values of financial assets and liabilities (See Note J). We are currently evaluating the impact SFAS No. 157 will have on our consolidated financial statements once we adopt it for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis.

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." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, "Fair Value Measurements," and FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS No. 159 is effective for the entity's fiscal year that begins after November 15, 2007. We did not elect to measure at fair value any of our financial instruments under the provisions of SFAS No. 159. Thus, our adoption of this statement effective May 1, 2008 did not have an impact on our consolidated financial statements (see note J).

## **P. Subsequent Event**

On November 17, 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 March 9, 2009 to Class A and Class B shareholders of record at the close of business on February 20, 2009.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **FORWARD-LOOKING STATEMENTS**

This report on Form 10-Q contains forward-looking statements relating to our future financial performance, business strategy, financing plans and other future events that involve uncertainties and risks. You can identify these statements by forward-looking words such as "anticipate," "intend," "plan," "continue," "could," "grow," "may," "potential," "predict," "strive" "will," "seek," "estimate," "believe," "expect," and similar expressions that convey 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; and

- general economic conditions.

Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing 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 2009” and “fiscal 2008” refer to our fiscal years ending April 30, 2009 and 2008, 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 recent years, 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 as a result of the current global economic environment particularly in the United States. 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 systems. Although this improvement could slow or regress at any time due in part to the recent concerns in the global capital markets and general economic conditions, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. Customers continue to take long periods to evaluate discretionary software purchases.

## **BUSINESS OVERVIEW**

American Software, Inc. (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,” “us,” “we,” “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 88% 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 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 revenues primarily from three sources: software licenses, services and other, and maintenance. We generally determine software license fees based on the number of modules, servers, users and/or sites licensed. Services and other revenues consist primarily of fees from software implementation, training, consulting and customization services. We primarily bill under time and materials arrangements and recognize revenues as we perform services. We typically enter into maintenance agreements for a one- to three-year term at the time of the initial product license. We generally bill maintenance fees annually in advance and then recognize the resulting revenues ratably over the term of the maintenance agreement. Deferred revenues represent advance payments or billings for software licenses, services and maintenance billed in advance of the time we recognize the related revenues.

Our cost of revenue for licenses includes amortization of capitalized computer software development costs, 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:

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.

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 attest as to whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If for any fiscal year we fail to timely complete this assessment, 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, 2008.

## COMPARISON OF RESULTS OF OPERATIONS

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

	Percentage of Total Revenues		Pct. Change in Dollars
	2008	2007	2008 vs 2007
<b>Revenues:</b>			
License	19%	21%	(21)%
Services and other	45	49	(23)
Maintenance	36	30	(2)
Total revenues	100	100	(16)
<b>Cost of revenues:</b>			
License	8	6	(2)
Services and other	32	36	(26)
Maintenance	9	8	(4)
Total cost of revenues	49	50	(19)
Gross margin	51	50	(13)
Research and development	9	8	1
Sales and marketing	18	16	(9)
General and administrative	14	14	(13)
Amortization of acquisition-related intangibles	—	—	nm
Provision for doubtful accounts	—	—	nm
Total operating expenses	41	38	(8)
Operating income	10	12	(28)
<b>Other income:</b>			
Interest income	2	3	(45)
Other, net	(8)	4	nm
Earnings before income taxes	4	19	(82)
Income tax expense	1	7	(91)
Minority interest expense	1	1	(12)
Net earnings	2%	11%	(82)%

nm - not meaningful

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

	Percentage of Total Revenues		Pct. Change in Dollars
	2008	2007	2008 vs 2007
<b>Revenues:</b>			
License	17%	22%	(34)%
Services and other	47	47	(14)
Maintenance	36	31	1
Total revenues	<u>100</u>	<u>100</u>	<u>(14)</u>
<b>Cost of revenues:</b>			
License	7	7	(13)
Services and other	31	34	(19)
Maintenance	9	8	(1)
Total cost of revenues	<u>47</u>	<u>49</u>	<u>(15)</u>
Gross margin	<u>53</u>	<u>51</u>	<u>(12)</u>
Research and development	9	8	(2)
Sales and marketing	19	16	1
General and administrative	15	15	(12)
Amortization of acquisition-related intangibles	—	—	—
Provision for doubtful accounts	—	—	(28)
Total operating expenses	<u>43</u>	<u>39</u>	<u>(5)</u>
Operating income	10	12	(38)
<b>Other income:</b>			
Interest income	2	3	(51)
Other, net	(6)	2	nm
Earnings before income taxes	6	17	(75)
Income tax expense	2	6	(80)
Minority interest expense	1	1	(39)
Net earnings	<u>3%</u>	<u>10%</u>	<u>(76)%</u>

nm - not meaningful

**COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2008 AND 2007**

**REVENUES:**

OVERVIEW: For the three and six months ended October 31, 2008, the decrease in revenues from the three and six months ended October 31, 2007 was attributable to a decrease in license fees and service and other revenues. This decrease was partially offset by a slight increase in maintenance revenues for the six months ended October 31, 2008 when compared to the same period last year. The primary reasons for these decreases were lower license fee sales in recent periods as a result of the poor economic environment, which resulted in lower implementation services billing and license fee sales when compared to the same periods last year. International revenues represented approximately 9% and 10% of total revenues in the three and six months ended October 31, 2008, respectively.

and 9% of total revenues in the three and six months ended October 31, 2007. Our revenues, in particular our international revenues, may fluctuate substantially from period to period primarily because we derive most of our license fee revenues from a relatively small number of customers in a given period.

**LICENSES.** For the three and six months ended October 31, 2008, license fee revenues decreased 21% and 34% when compared to the same periods in the prior year, due primarily to decreased license fees from our ERP segment and from our Logility subsidiary as a result of the timing of closing sales and a difficult selling environment in the current economy. In particular, the financial crisis that emerged during the three month period ended October 31, 2008 has interfered with customers' normal sources of financing and has greatly increased the level of uncertainty about future economic conditions. In the three and six months ended October 31, 2008, license fee revenues from Logility decreased 4% and 35%, respectively. Logility constituted 86% and 81% of total license fee revenues for the three and six months ended October 31, 2008, respectively, compared to 71% and 81% for the three and six months ended October 31, 2007, respectively. Our ERP business unit license fees decreased by 56% and 27% for the three and six months ended October 31, 2008, respectively, when compared to the same periods in the prior year.

The direct sales channel provided approximately 56% and 54% of license fee revenues for the three and six months ended October 31, 2008, respectively, compared to approximately 66% and 65% of license fee revenues for the three and six months ended October 31, 2007, respectively. This decrease was due primarily to improved sales execution and sales environment within our indirect channel. For the three and six months ended October 31, 2008, our margins after commissions on direct sales were approximately 87% and 83%, respectively, compared to 83% and 84% for the three and six months ended October 31, 2007, respectively. For the three and six months ended October 31, 2008, our margins after commissions on indirect sales were approximately 47% and 48%, respectively, compared to 49% for the three and six months ended October 31, 2007, respectively. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

**SERVICES AND OTHER.** For the three and six months ended October 31, 2008, the 23% and 14% respective decreases in services and other revenues were due primarily to decreased services revenues from our Logility and IT Consulting business segments. For the three and six months ended October 31, 2008, services and other revenues from Logility decreased 32% and 27%, respectively, when compared to the three and six months ended October 31, 2007. The Logility decreases were due primarily to timing of implementation projects relating to the decreased license fee sales in recent quarters. For the three and six months ended October 31, 2008, our IT Consulting segment's revenues decreased 28% and 23%, respectively, when compared to the prior year periods due to decreases in project work from customers. We have observed that there is a tendency for services and other revenues, other than from IT Consulting, to lag changes in license revenues by one to three quarters, as new licenses in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

**MAINTENANCE.** For the three and six months ended October 31, 2008, maintenance revenues decreased 2% and increased 1% when compared to the same periods in the prior year. The decrease during the quarter was primarily from lower renewals rates in our legacy ERP unit which experienced decreases of 18% and 16%, respectively, for the three and six months ended October 31, 2008 compared to the same periods in the prior year. The decrease was partially offset by increased maintenance revenue in Logility which increased 2% and 6%, respectively, for the three and six months ended October 31, 2008 when compared to the same periods last year as a result of improved renewal rates. Logility accounted for 83% and 82%, respectively, of total maintenance revenues for the three and six month period ended October 31, 2008, compared to 79% and 78%, respectively, of total maintenance revenues for the three and six month period ended October 31, 2007. The increases in Logility maintenance revenues for the three and six months ended October 31, 2008 were due primarily to improved customer retention and to a lesser extent increased license fees in prior periods resulting in new maintenance revenue in the current period. Typically, our maintenance revenues have had a direct relationship to current and historic license fee revenues, since new licenses are the potential source of new maintenance customers.

### **GROSS MARGIN:**

The following table provides both dollar amounts and percentage measures of gross margin:

(\$000's omitted)	Three months ended				Six months ended			
	October 31,		October 31,		October 31,		October 31,	
	2008	2007	2008	2007	2008	2007	2008	2007
Gross margin on license fees:	\$ 2,276	60%	\$ 3,256	68%	\$ 3,730	57%	\$ 6,691	67%
Gross margin on services and other:	2,722	30%	3,184	27%	6,045	33%	6,148	29%
Gross margin on maintenance:	5,234	74%	5,299	74%	10,545	74%	10,353	74%
Total gross margin:	<u>\$10,232</u>	<u>52%</u>	<u>\$11,739</u>	<u>50%</u>	<u>\$20,320</u>	<u>52%</u>	<u>\$23,192</u>	<u>51%</u>

For the three and six months ended October 31, 2008, total gross margin percentage increased slightly when compared to the corresponding periods in the prior year.

**LICENSES.** For the three and six months ended October 31, 2008, gross margin on license fees decreased when compared to the same period in the prior year due to the decrease in license fee revenue. License fee gross margin percentage tends to be directly related to the level of license fee revenues due to the relatively fixed cost of computer software amortization expense, amortization of acquired software and the sales mix between our direct and indirect channels.

**SERVICES AND OTHER.** For the three and six months ended October 31, 2008, the gross margin percentage on services and other revenue increased when compared to the same periods in the prior fiscal year. This increase was due to the improved margins at our IT Consulting segment's The Proven Method ("TPM") and our ERP business. Services and other gross margin normally are directly related to the level of services and other revenues. The primary component of cost of services and other revenues is services staffing, which is relatively inelastic in the short term.

**MAINTENANCE.** Maintenance gross margin percentage was relatively unchanged for three and six months ended October 31, 2008 when compared to the same periods last year. Maintenance gross margin normally is directly related to the level of maintenance revenues. The primary component of cost of maintenance revenue is maintenance staffing, which is relatively inelastic in the short term.

## **OPERATING EXPENSES**

### ***Research and Development***

Gross product research and development costs include all non-capitalized and capitalized software development costs. A breakdown of the research and development costs is as follows:

	<b>Three months ended (in thousands)</b>		
	<b>October 31, 2008</b>	<b>Percent Change</b>	<b>October 31, 2007</b>
Total capitalized computer software development costs	\$ 516	(18)%	\$ 630
Percentage of gross product research and development costs	22%		26%
Total research and development expense	1,842	1%	1,829
Percentage of total revenues	9%		8%
Total research and development expense and capitalized computer software development costs	\$ 2,358	(4)%	\$ 2,459
Percentage of total revenues	12%		10%
Total amortization of capitalized computer software development costs *	\$ 585	(8)%	\$ 638

  

	<b>Six months ended (in thousands)</b>		
	<b>October 31, 2008</b>	<b>Percent Change</b>	<b>October 31, 2007</b>
Total capitalized computer software development costs	\$ 1,023	(11)%	\$ 1,155
Percentage of gross product research and development costs	22%		24%
Total research and development expense	3,671	(2)%	3,739
Percentage of total revenues	9%		8%
Total research and development expense and capitalized computer software development costs	\$ 4,694	(4)%	\$ 4,894
Percentage of total revenues	12%		11%
Total amortization of capitalized computer software development costs *	\$ 1,161	(9)%	\$ 1,275

\* Included in cost of license fees

For the three and six months ended October 31, 2008, gross product research and development costs decreased when compared to the same periods last year. Capitalized software development costs increased slightly for the three months ended October 31, 2008 when compared to the same period last year due to timing of capitalizable project work. Capitalized software development costs decreased for the six months ended October 31, 2008 when compared to the same period last year were due to decreased research and development costs of our SCM segment. We expect capitalized product development costs to be lower in coming quarters as a result of fewer capitalizable R&D projects; however, we expect capitalized software amortization expense to remain relatively consistent for the remainder of fiscal 2009 when compared to the three months ended October 31, 2008.

Capitalized computer software development costs include the effects of applying purchase accounting as a result of Logility, Inc.'s share repurchases during the three months ended October 31, 2008.

### ***Sales and Marketing***

For the three months ended October 31, 2008, sales and marketing expenses decreased 9% and increased 1% for the six months ended October 31, 2008 when compared to the same periods a year ago. These changes were due primarily to the timing of direct sales commissions as a result of license fee sales. We generally include commissions on indirect sales in cost of sales.

### ***General and Administrative***

For the three and six months ended October 31, 2008, the decreases in general and administrative expenses were primarily due to lower variable compensation and salary expenses from reduced headcount

At October 31, 2008, the total number of employees was 299 compared to 330 at October 31, 2007.

### ***Other Income***

Other income is comprised of interest and dividend income, rental income and realized and unrealized gains and losses from investments. For the three and six months ended October 31, 2008, the decrease in other income was due primarily to unrealized losses on investments due to poor equity market conditions when compared to the prior year period. Also, to a lesser extent, the decrease is due to lower investment yields resulting from a decrease in money market yields and lower rental income when compared to the same period last year.

### ***Income Taxes***

In the three and six months ended October 31, 2008, we recorded income tax expense of approximately \$152,000 and \$600,000 compared to \$1.7 million and \$2.9 million recorded in the three and six month periods ended October 31, 2007 due to lower pretax earnings before income taxes. In addition during the current quarter Congress extended the Research Tax Credit which expired on December 31, 2007. As a result of this extension the Company recorded as a discrete item, a tax benefit of approximately \$98,000 related to qualified R&D expenses incurred during the period after the credit expired through the end of our prior fiscal year. We recognize deferred tax assets and liabilities based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes," we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is "more likely than not" that the deferred tax asset would be realized. We expect our effective rate to range between 35% and 38% during fiscal year 2009.

### ***Minority Interest***

Minority interest is a function of our majority-owned subsidiaries' earnings or losses, with minority interest losses recorded when these subsidiaries have earnings, and minority interest earnings recorded when they have losses. Due to Logility's net earnings, we recorded minority interest expenses of approximately \$188,000 and \$275,000, respectively, for the three and six months ended October 31, 2008, and \$214,000 and \$450,000, respectively, for the three and six months ended October 31, 2007.

## **LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION**

### ***Sources and Uses of Cash***

We have historically funded, and continue to fund, our operations and capital expenditures primarily with cash generated from operating activities. The changes in net cash that our operating activities provide generally reflect the changes in net earnings and non-cash operating items plus the effect of changes in operating assets and liabilities, such as investment trading securities, trade accounts receivable, trade accounts payable, accrued expenses and deferred revenue. We have no debt obligations or off-balance sheet financing arrangements, and therefore we used no cash for debt service purposes.

The following tables show information about our cash flows and liquidity positions during the six months ended October 31, 2008 and 2007. You should read this table and the discussion that follows in conjunction with our condensed consolidated statements of cash flows contained in "Item 1. Financial Statements" in Part I of this report and in our Annual Report on Form 10-K for the fiscal year ended April 30, 2008.

	Six Months Ended October 31, (in thousands)	
	2008	2007
Net cash provided by operating activities	\$ 539	\$ 7,092
Net cash (used in) provided by investing activities	(18,836)	14,545
Net cash used in financing activities	(5,256)	(90)
Net change in cash and cash equivalents	<u>\$(23,553)</u>	<u>\$21,547</u>

For the six months ended October 31, 2008, the net decrease in cash provided by operating activities when compared to the same period last year was due primarily to lower proceeds from the maturity of trading securities and a decrease in accounts payable, deferred revenues and net income. This was partially offset by a decrease in the purchases of trading securities and an increase in collections of customer accounts receivables. The increase in cash used in investing activities when compared to the cash provided by investing activities in the same period in the prior year was due primarily to the purchases of investments partially offset by proceeds in maturities of investments. Cash used in financing activities increased when compared to the cash provided by financing activities same period in the prior year, due primarily to lower proceeds from exercise of stock options and excess tax benefits from stock based compensation and an increase in repurchase of our common stock and payment of the quarterly dividend.

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

	As of October 31, (in thousands)	
	2008	2007
Cash and cash equivalents	\$35,683	\$67,174
Short and Long-Term Investments	<u>35,373</u>	<u>9,238</u>
Total cash and short and long-term investments	<u>\$71,056</u>	<u>\$76,412</u>
Net (decrease) increase in total cash and investments (six months ended October 31)	\$ (5,085)	\$ 3,643

Our total activities used cash and investments during the six months ended October 31, 2008, when compared to the prior year period, due primarily to the changes in operating assets and liabilities noted above and the payment of the quarterly dividend.

Days Sales Outstanding in accounts receivable were 56 days as of October 31, 2008, compared to 66 days as of October 31, 2007. This decrease was due in part to timing of closing license fees sales and improved collection activity and lower license fee sales. Our current ratio on October 31, 2008 was 3.4 to 1 and on October 31, 2007 was 3.7 to 1.

As a result of the positive cash flow from operations our business has generated in recent periods, and because we have \$71.1 million in cash and investments with no debt, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. We do not currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

The sources of cash flow that we have used for dividend payments include cash we generate through our operations (exclusive of cash that Logility generates), supplemented by our cash and investments (exclusive of Logility's cash and investments).

On December 18, 1997, our Board of Directors approved a resolution authorizing the repurchase up to 1.5 million shares of our Class A common stock. On March 11, 1999, our Board of Directors approved a resolution authorizing us to repurchase an additional 700,000 shares for a total of up to 2.2 million shares of our Class A common stock. On August 19, 2002, our Board of Directors approved a resolution authorizing us to repurchase an additional 2.0 million shares for a total of up to 4.2 million shares of our Class A common stock. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchases will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. In the second quarter of fiscal 2009, we purchased 99,500 shares of our common stock at an average price of \$5.53 per share for a total price of approximately \$550,000. Under these repurchase plans, as of December 9, 2008; we have repurchased approximately 2.8 million shares of common stock at a cost of approximately \$10.6 million.

On December 15, 1997, Logility Board of Directors approved a resolution authorizing Logility to repurchase up to 350,000 shares of its common stock through open market purchases at prevailing market prices. Logility completed this repurchase plan in November

1998, at which time Logility adopted an additional repurchase plan for up to 800,000 shares. In February 2003, Logility's Board of Directors approved a resolution authorizing it to repurchase an additional 400,000 shares for a total authorized repurchase amount of 1,550,000 shares. The timing of any repurchases depends on market conditions, the market price of Logility's common stock and Logility's assessment of its liquidity and cash flow needs. For all repurchase plans, through December 9, 2008, Logility had purchased a cumulative total of 1,507,267 shares at a total cost of \$9.4 million. In the second quarter of fiscal 2009, Logility purchased 27,122 shares of its common stock at an average price of \$6.69 per share for a total price of \$181,000. See Part II, Item 2 for a table summarizing stock repurchases in the last quarter and the number of remaining shares available for purchase under our and Logility's existing repurchase programs.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," which establishes principles for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired and liabilities assumed in a business combination, recognizes and measures the goodwill acquired in a business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively. We will adopt SFAS No. 141R effective May 1, 2009 and apply it to any business combinations on or after that date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." SFAS No. 160 requires noncontrolling ownership interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. In addition, it requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the statement of operations. SFAS No. 160 is effective for all periods beginning after December 15, 2008. We do not expect our adoption of SFAS No. 160 to have a material impact on our fiscal 2010 consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of General Accepted Accounting Principles." This statement documents the hierarchy of the various sources of accounting principles and the framework for selecting the principles used in preparing financial statements. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." Our adoption of SFAS No. 162 is not expected to have a material impact on our fiscal 2009 consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognizable intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of FSP 142-3 is to improve the consistency between the useful life of a recognizable intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), "Business Combinations" and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are in the process of evaluating the impact of adopting FSP 142-3 on our fiscal 2010 consolidated financial statements.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have based the following discussion and analysis of financial condition and results of operations on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements for the fiscal year ended April 30, 2008, 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 VSOE, bad debts, capitalized software costs, goodwill, intangible asset impairment, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

We believe the critical accounting policies listed below affect significant judgments and estimates used in the preparation of the financial statements.

*Revenue Recognition.* We recognize revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, and SOP 98-9, Software Revenue Recognition with Respect to Certain Transactions. We recognize license revenues in connection with license agreements for standard proprietary software upon delivery of the software, provided we deem collection to

be probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific objective evidence exists with respect to any undelivered elements of the arrangement. We generally bill maintenance fees annually in advance and recognize the resulting revenues ratably over the term of the maintenance agreement. We derive revenues from services which primarily include consulting, implementation, and training. We bill for these services primarily under time and materials arrangements and recognize fees as we perform the services. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the time we recognize revenues. We record revenues from sales of third-party products in accordance with 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, our sales through the DMI channel are typically recorded on a gross basis.

Generally, our software products do not require significant modification or customization. Installation of the products is routine and is not essential to the functionality of the product. Our sales frequently include maintenance contracts and professional services with the sale of our software licenses. We have established VSOE for our maintenance contracts and professional services. We determine fair value based upon the prices we charge to customers when we sell these elements separately. We defer maintenance revenues, including those sold with the initial license fee, based on VSOE, and recognize the revenue ratably over the maintenance contract period. We recognize consulting and training service revenues, including those sold with license fees, as we perform the services based on their established VSOE. We determine the amount of revenue we allocate to the licenses sold with services or maintenance using the "residual method" of accounting. Under the residual method, we allocate the total value of the arrangement first to the undelivered elements based on their VSOE and allocate the remainder to license fees.

*Allowance for Doubtful Accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of these customers were to deteriorate, resulting in an impairment of their ability to make payments, we may require additional allowances or we may defer revenue until we determine that collectibility is probable. We specifically analyze accounts receivable and historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when we evaluate the adequacy of the allowance for doubtful accounts.

*Valuation of Long-Lived and Intangible Assets.* In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), we do not amortize goodwill and other intangible assets with indefinite lives. Our goodwill is subject to annual impairment tests, which require us to estimate the fair value of our business compared to the carrying value. The impairment reviews require an analysis of future projections and assumptions about our operating performance. Should such review indicate the assets are impaired, we would record an expense for the impaired assets.

In accordance with Financial Accounting Standards Board Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Recoverability would be measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, we recognize an impairment charge in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The determination of estimated future cash flows, however, requires management to make estimates. Future events and changes in circumstances may require us to record a significant impairment charge in the period in which such events or changes occur. Impairment testing requires considerable analysis and judgment in determining results. If other assumptions and estimates were used in our evaluations, the results could differ significantly.

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill and intangible assets had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill or intangible assets that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At October 31, 2008, our goodwill balance was \$11.7 million and our intangible assets with definite lives balance was \$1.2 million, net of accumulated amortization.

*Valuation of Capitalized Software Assets.* We capitalize certain computer software development costs in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, we capitalize all software development costs and report those costs at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers. We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the



amount by which the unamortized software development costs exceed net realizable value. We amortize capitalized computer software development costs ratably based on the projected revenues associated with the related software or on a straight-line basis over three years, whichever method results in a higher level of amortization. Amortization of capitalized computer software development costs is included in the cost of license revenues in the condensed consolidated statements of operations.

*Stock-Based Compensation.* Effective May 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective transition method. Under that 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). Results for prior periods have not been restated. 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.

Management judgments and assumptions related to volatility, the expected term and the forfeiture rate are made in connection with the calculation of stock compensation expense. We periodically review all assumptions used in our stock option pricing model. Changes in these assumptions could have a significant impact on the amount of stock compensation expense.

*Income Taxes.* We provide for the effect of income taxes on our financial position and results of operations in accordance with SFAS No. 109, Accounting for Income Taxes including the recently adopted SFAS Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of SFAS Statement No. 109*. Under this accounting pronouncement, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, and projected tax credits. Changes in tax law or our interpretation of tax laws could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our deferred tax assets take into account our expectations of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years, which could significantly increase tax expense, could render inaccurate our current assumptions, judgments and estimates of recoverable net deferred taxes.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*Foreign Currency.* In the three and six months ended October 31, 2008, we generated approximately 9% and 10%, respectively of our revenues outside the United States. We typically make international sales through our foreign subsidiaries or our Logility subsidiary and denominated those sales typically in U.S. Dollars, British Pounds Sterling or Euros. However, expenses incurred in connection with these sales are typically denominated in the local currencies. We recorded exchange rate losses of approximately \$193,000 and \$196,000 for the three and six months ended October 31, 2008, respectively, compared to an exchange rate gain of approximately \$36,000 for the three months ended October 31, 2007 and a loss of approximately \$2,000 for the six months ended October 31, 2007. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$101,000 exchange gain or loss for the six months ended October 31, 2008. We have not engaged in any hedging activities.

*Interest rates and other market risks.* We have no debt, and therefore limit our discussion of interest rate risk to risk associated with our investment profile. We manage our interest rate risk by maintaining an investment portfolio of trading and held-to-maturity investments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. dollars. The fair market value of these instruments as of October 31, 2008 was approximately \$70.1 million compared to \$74.3 million as of October 31, 2007.

We also hold cash balances in accounts with commercial banks in the United States and foreign countries. These cash balances represent operating balances only and are invested in short-term time deposits of the local bank. Such operating cash balances held at banks outside the United States are denominated in the local currency and are minor.

Many of our investments carry a degree of interest rate risk. When interest rates fall, our income from investments in variable-rate securities declines. When interest rates rise, the fair market value of our investments in fixed-rate securities declines. In addition, our investments in equity securities are subject to stock market volatility. Due in part to these factors, our future investment income may fall short of expectations or we may suffer losses in principal if forced to sell securities, which have seen a decline in market value due to changes in interest rates. We attempt to mitigate risk by holding fixed-rate securities to maturity, but, if our liquidity needs force us to sell fixed-rate securities prior to maturity, we may experience a loss of principal.



*Inflation.* Although we cannot accurately determine the amounts attributable thereto, we have been affected by inflation through increased costs of employee compensation and other operational expenses. To the extent permitted by the marketplace for our products and services, we attempt to recover increases in costs by periodically increasing prices.

#### **Item 4. Controls and Procedures**

##### **Management's Report on Internal Control Over Financial Reporting**

As of the end of the period covered by this report, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) under the supervision and with the participation of our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, the aforementioned officers have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Our chief executive officer and chief financial officer, with the assistance of our Disclosure Committee, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of October 31, 2008. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our annual report on Form 10-K and quarterly reports on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of October 31, 2008.

We believe our financial statements fairly present in all material respects our financial position, results of operations and cash flows in our quarterly report on Form 10-Q.

##### **Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

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

#### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended April 30, 2008. We are updating those risk factors by adding the risk factor below to highlight the risks that the current global credit crisis presents to us.

#### **Economic, political and market conditions can adversely affect our revenue results and profitability**

Our revenue and profitability depend on the overall demand for our software and related services. A regional and/or global change in the economy or financial markets, such as the current global economic downturn, could result in delay or cancellation of customer purchases. Current adverse conditions in credit markets, uncertainty in consumer confidence and spending and the fluctuating cost of fuel and commodities and their effects on the United States and global economies and markets are examples of negative changes that have delayed certain customer purchases. Although these adverse conditions have only delayed a small number of customer deals to date, a further worsening or broadening, or protracted extension, of these conditions may have a more significant negative impact on our operating results. Such negative impacts could include, but are not limited to: a potential deterioration of our maintenance revenue base as customers look to reduce their costs, elongation of our selling cycles, and delay, suspension or reduction of the demand for our products. Weak and uncertain economic conditions also could impair our customers' ability to pay for our products or services. Any of these factors could adversely impact our business, quarterly or annual operating results and financial condition.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) Not applicable
- (b) Not applicable

(c) The following table summarizes repurchases of our stock in the three months ended October 31, 2008:

<u>Fiscal Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*</u>
August 1, 2008 through August 31, 2008	0	\$ 0.00	0	1,492,865
September 1, 2008 through September 30, 2008	99,500	\$ 5.53	99,500	1,393,365
October 1, 2008 through October 31, 2008	0	\$ 0.00	0	1,393,365
Total Fiscal 2009 Second Quarter	<u>99,500</u>	<u>\$ 5.53</u>	<u>99,500</u>	1,393,365

\* Our Board of Directors approved the above share purchase authority on August 19, 2002, when the Board approved a resolution authorizing us to repurchase up to 2.0 million shares of Class A common stock. This action was announced on August 22, 2002. The authorization has no expiration date.

The following table summarizes repurchases of stock made by our Logility subsidiary in the three months ended October 31, 2008:

<u>Fiscal Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*</u>
August 1, 2008 through August 31, 2008	0	\$ 0.00	0	69,855
September 1, 2008 through September 30, 2008	27,122	\$ 6.69	27,122	42,733
October 1, 2008 through October 31, 2008	0	\$ 0.00	0	42,733
Total Fiscal 2009 Second Quarter	<u>27,122</u>	<u>\$ 6.69</u>	<u>27,122</u>	42,733

\* The Logility Board of Directors approved the above share purchase authority in December 1997, November 1998 and in February 2003, when the Logility Board approved resolutions authorizing Logility to repurchase an aggregate of up to 1.6 million shares of common stock. These actions were announced in November 1998 and on February 19, 2003, respectively. The authorizations have no expiration dates.

### **Item 3. Defaults Upon Senior Securities**

Not applicable.

### **Item 4. Submission of Matters to a Vote of Security Holders**

We held our 2008 Annual Meeting of Shareholders on August 18, 2008. At the meeting, a Class A shareholders vote was taken with respect to the re-election of W. Dennis Hogue, John J. Jarvis and James B. Miller as directors for a one-year term. There were no other nominees. The results of that shareholder vote were as follows:

Election of W. Dennis Hogue

Votes "For:" 19,538,504; Withholding Authority to Vote "For:" 1,029,215.

Election of John J. Jarvis

Votes "For:" 19,237,880; Withholding Authority to Vote "For:" 1,329,840.

Election of James B. Miller

Votes "For:" 17,354,501; Withholding Authority to Vote "For:" 3,213,218.

The Class B shareholders unanimously re-elected James C. Edenfield, J. Michael Edenfield, Thomas L. Newberry and Thomas L. Newberry, V as Directors.

There was also a shareholder vote upon an amendment to increase our 2001 Stock Plan to increase the number of Class A Common Shares that may be subject to options granted under the Plan from 4,375,000 shares to 5,275,000 shares. The results of that shareholder vote were: Votes "For:" 3,381,802; "Against:" 787,293.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit 10.1 2001 Stock Plan Amended and Restated as of November 17, 2008

Exhibits 31.1-31.2. Rule 13a-14(a)/15d-14(a) Certifications

Exhibit 32.1. Section 906 Certifications

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN SOFTWARE, INC.

Date: December 10, 2008

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

Date: December 10, 2008

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

Date: December 10, 2008

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

**AMENDED AND RESTATED  
AMERICAN SOFTWARE, INC.  
2001 STOCK OPTION PLAN  
(Effective November 17, 2008)**

American Software, Inc., a Georgia corporation (the "Company"), hereby establishes the American Software, Inc. 2001 Stock Option Plan (the "Plan"), effective as of May 16, 2000, the date on which this Plan was adopted by the Board of Directors of the Company. No Options shall be granted under this Plan until (a) it has been approved by the affirmative vote of shareholders holding a majority in voting power of the Common Stock of the Company or (b) September 1, 2000, whichever shall occur later (the "Commencement Date"). Options may not be granted under the Plan more than ten years after May 16, 2000.

1. **Purpose.** The purpose of the Plan is to attract and retain the best available talent and encourage the highest level of performance by officers, employees, directors, advisors and consultants, and to provide them with incentives to put forth maximum efforts for the success of the Company's business in order to serve the best interests of the Company. Options granted under the Plan may be Incentive Stock Options or Nonqualified Stock Options, as such terms are hereinafter defined.

2. **Definitions.** The following terms, when used in the Plan with initial capital letters, will have the following meanings:

- (a) "Act" means the Securities Exchange Act of 1934 as in effect from time to time.
- (b) "Board" means the Board of Directors of the Company.
- (c) "Change in Control" means the occurrence, prior to the expiration of an Option, of any of the following events:
  - (i) the Company is merged, consolidated or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than two-thirds of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors ("Voting Stock") of such corporation or person immediately after such transaction are held in the aggregate by the holders of Voting Stock of the Company immediately prior to such transaction;
  - (ii) the Company sells or otherwise transfers all or substantially all of its assets to another corporation or other legal person, and as a result of such sale or transfer less than two-thirds of the combined voting power of the then-outstanding Voting Stock of such corporation or person immediately after such sale or transfer is held in the aggregate by the holders of Voting Stock of the Company immediately prior to such sale or transfer;

- (iii) there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Act, disclosing that any person (as the term “person” is used in Section 13(d)(3) or Section 14(d)(2) of the Act) has become, after the effective date hereof, the direct or indirect beneficial owner (as the term “beneficial owner” is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Act) of securities representing 50% or more of the combined voting power of the then-outstanding Voting Stock of the Company other than by gift or inheritance;
- (iv) the Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Act disclosing in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred or will occur in the future pursuant to any then-existing contract or transaction; or
- (v) if, during any period of two consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof; provided, however, that for purposes of this clause (v) each director who is first elected, or first nominated for election by the Company’s stockholders, by a vote of at least two-thirds of the directors of the Company (or a committee thereof) then still in office who were directors of the Company at the beginning of any such period will be deemed to have been a director of the Company at the beginning of such period; and provided further that this clause (v) shall not commence applicability until such time as at least five directors are serving concurrently on the Board, but shall apply thereafter regardless of the number of directors.

Notwithstanding the foregoing provisions of clauses (iii) or (iv) above, unless otherwise determined in a specific case by majority vote of the Board, a “Change in Control” will not be deemed to have occurred for purposes of clause (iii) or clause (iv) above solely because (1) the Company, (2) a Subsidiary, or (3) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Act disclosing beneficial ownership by it of shares of Voting Stock of the Company, whether in excess of 50% or otherwise, or because the Company reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership or any increase or decrease thereof. For purposes of clauses (i), (ii) and (iii) above, for so long as the entity in question maintains two classes of common stock substantially as currently maintained by the Company, the phrase “combined voting power of the then-outstanding Voting

Stock” shall be calculated by allocating to each Class A Common Share one vote and by allocating to each Class B Common Share three votes.

- (d) “Code” means the Internal Revenue Code of 1986, as in effect from time to time.
- (e) “Commencement Date” shall mean May 1, 2001 or the date the shareholders of the Company approve the Plan, whichever occurs later.
- (f) “Committee” shall refer to either the Stock Option Committee or the Special Stock Option Committee.
- (g) “Common Stock” means the Class A Common Shares, \$.10 par value, of the Company or any security into which Class A Common Shares may be changed by reason of any transaction or event of the type described in Section 9.
- (h) “Date of Grant” means the date specified by the Stock Option Committee or the Special Stock Option Committee, as applicable, on which a grant of Stock Options will become effective (which date will not be earlier than the date on which such Committee takes action with respect thereto).
- (i) “Disability” means (i) with respect to a Grantee who is eligible to participate in the Company’s program of long-term disability insurance, a condition with respect to which the Grantee is entitled to commence benefits under such program of long-term disability insurance, and (ii) with respect to all Grantees generally (including a Grantee who is eligible to participate in the Company’s program of long-term disability insurance), a disability as determined under procedures established by the relevant Committee or in any Option Grant Agreement.
- (j) “Grantee” means a person who is selected by the Stock Option Committee or the Special Stock Option Committee, as applicable, to receive Stock Options and who is at that time (i) an executive officer or other key employee of the Company or any Subsidiary, (ii) an advisor or consultant to the Company or any Subsidiary, or (iii) a member of the Board.
- (k) “Incentive Stock Option” means an Option granted in accordance with Section 422 of the Code.
- (l) “Market Value” means last sale price as reported on any national securities exchange or automated quotation system on which the Common Stock is listed on the Date of Grant if such date is a trading day and, if such date is not a trading day, on the immediately preceding date which is a trading day.

- (m) “Nonemployee Director” means a member of the Board who is not an employee of the Company or any Subsidiary and who qualifies as a “Non-Employee Director” within the meaning of Rule 16b-3.
- (n) “Nonqualified Stock Option” means an Option other than an Incentive Stock Option.
- (o) “Option Grant Agreement” means the instrument by which the Company grants an Option to a Grantee, which instrument contains the particular terms of such Option in addition to the terms set forth in the Plan.
- (p) “Option Price” means the purchase price per share payable on exercise of an Option.
- (q) “Rule 16b-3” means Rule 16b-3 under Section 16 of the Act, as such Rule is in effect from time to time.
- (r) “Special Stock Option Committee” means a committee that at all times consists of at least two Nonemployee Directors and all of whose members qualify as “outside directors” within the meaning of Section 162(m) of the Code, appointed by the Board to grant and administer Options granted under Section 5.
- (s) “Option” means the right to purchase shares of Common Stock upon exercise of Stock option granted pursuant to Section 4, Section 5 or Section 6.
- (t) “Stock Option Committee” means the stock option committee appointed by the Board to grant and administer Options granted under Section 4.
- (u) “Subsidiary” means any corporation, partnership, joint venture or other entity in which the Company owns or controls, directly or indirectly, not less than 50% of the total combined voting power or equity interests represented by all classes of stock issued by such corporation, partnership, joint venture or other entity.
- (v) “10-Percent Shareholder” means any person who at the time of the grant of an Option owns capital stock of the Company possessing more than 10% of the combined voting power of all classes of capital stock of the Company.

3. Shares Available Under Plan. The shares of Common Stock that may be issued under the Plan will not exceed in the aggregate 5,275,000 shares, subject to adjustment as provided in Section 9. Such shares may be shares of original issuance or treasury shares or a combination of the foregoing. Any shares of Common Stock that are subject to Stock Options that are terminated, expire unexercised, are forfeited or are surrendered will again be available for issuance under the Plan.

4. **Stock Options for Grantees - Nonexempt Grants.** The Stock Option Committee may from time to time authorize Option grants to any Grantee to purchase shares of Common Stock upon such terms and conditions as such Committee may determine in accordance with the provisions set forth below. Grants made by the Stock Option Committee pursuant to this Section 4 are not intended to comply with or otherwise satisfy the requirements of Rule 16b-3.

- (a) Each Option Grant Agreement shall specify the number of shares of Common Stock to which it pertains.
- (b) Each Option Grant Agreement shall specify the Option Price, which, in the case of a Nonqualified Stock Option or an Incentive Stock Option, shall be not less than 100% of the Market Value per Share on the Date of Grant or, in the case of an Incentive Stock Option granted to a 10% Shareholder, not less than 110% of the Market Value per Share on the Date of Grant.
- (c) Each Option Grant Agreement shall specify whether the Stock Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.
- (d) Each Option Grant Agreement may specify whether the Option Price will be payable (i) in cash or by check acceptable to the Company, (ii) by the transfer to the Company of shares of Common Stock owned by the Grantee for at least six months having an aggregate fair market value per share at the date of exercise equal to the aggregate Option Price, or (iii) by a combination of such methods of payment; provided, however, that the payment method described in clause (ii) shall not be available at any time that the Company is prohibited from purchasing or acquiring such shares of Common Stock. In the absence of any such specification, only the payment method in clause (i) shall be permitted. Any Option Grant Agreement may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker of some or all of the shares to which such exercise relates.
- (e) Each Option Grant Agreement shall specify the term of the Stock Option, which in the case of an Incentive Stock Option granted to a 10% Shareholder shall not be greater than five years and for all other Stock Options shall not be greater than ten years.
- (f) Each Option Grant Agreement shall specify the required period or periods (if any) of continuous service by the Grantee with the Company or any Subsidiary and any other conditions to be satisfied before the Stock Option or installments thereof will become exercisable, and any Option Grant Agreement may provide, or may be amended to provide for the earlier exercise of the Stock Option in the event of a Change in Control.
- (g) Each Stock Option granted pursuant to this Section 4 shall be subject to the transfer restrictions set forth in Section 8.

- (h) Each Option Grant Agreement shall be in the form of a written instrument executed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer (or another officer designated by the Board of Directors or by the Stock Option Committee) and delivered to the Grantee and containing such further terms and provisions, consistent with the Plan, as the Committee may approve.

5. Stock Options for Grantees - Exempt Grants. The Special Stock Option Committee may from time to time authorize grants to any Grantee of options to purchase shares of Common Stock upon such terms and conditions as it may determine in accordance with the provisions set forth below. Grants made by the Special Stock Option Committee pursuant to this Section 5 are intended to comply with and otherwise satisfy the requirements of Rule 16b-3. To the extent that (i) any provision of the Plan applicable to an Option granted pursuant to this Section 5, or (ii) any act of the Board, Stock Option Committee or Special Stock Option Committee would cause such Option to fail to satisfy or comply with any requirements of Rule 16b-3, such provision or act will be deemed null and void for purposes of such Option.

- (a) Each Option Grant Agreement shall specify the number of shares of Common Stock to which it pertains.
- (b) Each Option Grant Agreement shall specify the Option Price, which, in the case of a Nonqualified Stock Option or an Incentive Stock Option, shall be not less than 100% of the Market Value per Share on the Date of Grant or, in the case of an Incentive Stock Option granted to a 10% Shareholder, not less than 110% of the Market Value per Share on the Date of Grant.
- (c) Each Option Grant Agreement shall specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.
- (d) Each Option Grant Agreement shall specify whether the Option Price will be payable (i) in cash or by check acceptable to the Company, (ii) by the transfer to the Company of shares of Common Stock owned by the Grantee for at least six months having an aggregate fair market value per share at the date of exercise equal to the aggregate Option Price, or (iii) by a combination of such methods of payment; provided, however, that the payment method described in clause (ii) shall not be available at any time that the Company is prohibited from purchasing or acquiring such shares of Common Stock. In the absence of any such specification, only the payment method in clause (i) shall be permitted. Any Option Grant Agreement may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker of some or all of the shares to which such exercise relates.
- (e) Each Option Grant Agreement shall specify the term of the Option, which in the case of an Incentive Stock Option granted to a 10% Shareholder

shall not be greater than five years and for all other Options shall not be greater than ten years.

- (f) Each Option Grant Agreement shall specify the required period or periods (if any) of continuous service by the Grantee with the Company or any Subsidiary and any other conditions to be satisfied before the Options or installments thereof will become exercisable, and any Option Grant Agreement may provide, or may be amended to provide for the earlier exercise of the Options in the event of a Change in Control.
- (g) Each Option granted pursuant to this Section 5 shall be subject to the transfer restrictions set forth in Section 8.
- (h) Each Option Grant Agreement shall be in the form of a written instrument executed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer (or another officer designated by the Board of Directors or by the Special Stock Option Committee) and delivered to the Grantee and containing such further terms and provisions, consistent with the Plan, as the Special Stock Option Committee may approve.

6. Options for Nonemployee Directors.

- (a) Each current Nonemployee Director will be granted a Nonqualified Stock Option to purchase 3,000 shares of Common Stock as of the last day of each fiscal quarter, provided that such individual has served continuously as a Nonemployee Director during such quarter through the close of business on such date. Such Option grants shall commence as of the fiscal quarter-end immediately following the Commencement Date.
- (b) Each Nonemployee Director newly elected or appointed to the Board on or subsequent to the date on which the Shareholders approve this Plan will be granted a Nonqualified Stock Option, effective upon his or her initial election or other appointment to the Board, to purchase 5,000 shares of Common Stock, but issued not sooner than the Commencement Date. Consistent with paragraph 6(a), each such Nonemployee Director will also be granted an additional Nonqualified Stock Option to purchase shares of Common Stock as of the last day of each fiscal quarter following his or her Initial Option grant in accordance with paragraph (a) of this Section 6, beginning on the fiscal quarter-end immediately following the Commencement Date, provided that such individual has served continually as a Nonemployee Director during such quarter through the close of business on such date.
- (c) Each Option Grant Agreement shall specify the Option Price, which shall be equal to the Market Value on the Date of Grant. All Options granted pursuant to this Section 6 shall contain the terms and conditions set forth in paragraphs (a), (d), (e), (f), (g) and (h) of Section 4. Options granted

pursuant to this Section 6 are intended to comply with and otherwise satisfy the requirements of Rule 16b-3. To the extent that (i) any provision of the Plan applicable to an Option granted pursuant to this Section 6 or (ii) any act of the Board, Stock Option Committee or Special Stock Option Committee would cause such Option to fail to satisfy or comply with any requirements of Rule 16b-3, such provision or act will be deemed null and void for purposes of such Option.

7. Exercise of Options.

- (a) Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Committee and set forth in the Option Grant Agreement. Unless the Committee provides otherwise, vesting of Options shall be tolled during any unpaid leave of absence. Options may not be exercised for a fraction of a share of Common Stock.
- (b) An Option shall be deemed exercised when the Company receives:
  - (i) written or electronic notice of exercise (in accordance with the terms of the Option Grant Agreement) from the person entitled to exercise the Option, and
  - (ii) full payment for the shares of Common Stock with respect to which the Option is exercised, in the form permitted by the Option Grant Agreement and the Plan.
- (c) Shares issued upon exercise of an Option shall be issued in the name of the Grantee, or, if requested by the Grantee, in the name of the Grantee and his or her spouse. Until the shares of Stock are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Stock acquired upon exercise of the Option, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such shares of Common Stock promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the shares of Common Stock are issued, except as provided in Section 9.
- (d) Exercising an Option in any manner shall decrease the number of shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of shares as to which the Option is exercised.
- (e) If a Grantee received an Option as an employee or director of the Company and ceases to be an employee or director, as the case may be, of the Company, or if the Grantee received an Option as an advisor or consultant to the Company and ceases to be such an advisor or consultant,

other than upon the Grantee's death or Disability, the Grantee may exercise his or her Option within such period of time as is specified in the Option Grant Agreement to the extent that the Option is vested on the date of termination. In the absence of a specified time in the Option Grant Agreement, the Option shall remain exercisable for three months following the Grantee's termination (but in no event later than the expiration of the term of such Option as set forth in the Option Grant Agreement). Notwithstanding the foregoing, except in the case of termination of employment in accordance with the retirement policies of the Company, if a Grantee voluntarily terminates his employment or voluntarily terminates his status as an advisor or consultant, the Grantee may not exercise his or her Option following the date of termination.

- (f) If a Grantee ceases to be an employee, director, advisor or consultant as a result of the Grantee's Disability, the Grantee may exercise his or her Option within such period of time as is specified in the Option Grant Agreement to the extent the Option is vested on the date of exercise. In the absence of a specified time in the Option Grant Agreement relating to Disability, the Option shall remain exercisable and shall continue to vest for 12 months following the Grantee's termination (but in no event later than the expiration of the term of such Option as set forth in the Option Grant Agreement).
- (g) If a Grantee dies while he remains an employee, director, advisor or consultant of the Company, the Option may be exercised within such period of time as is specified in the Option Grant Agreement to the extent that the Option is vested on the date of exercise (but in no event later than the expiration of the term of such Option as set forth in the Option Grant Agreement). In the absence of a specified time in the Option Grant Agreement, the Option shall remain exercisable and shall continue to vest for 12 months following the Grantee's death. The Option may be exercised by the executor or administrator of the Grantee's estate or, if none, by the person(s) entitled to exercise the Option under the Grantee's Will or the laws of descent and distribution.
- (h) The Committee may at any time offer to buy out, for a payment in cash or shares of Common Stock, an Option previously granted based on such terms and conditions as the Committee shall establish and communicate to the Grantee at the time that such offer is made.

8. Transferability. Except as otherwise expressly provided in the Option Grant Agreement, or in any amendment to such agreement, no Option will be transferable by a Grantee other than by will or the laws of descent and distribution, and during the lifetime of the Grantee may be exercised only by the Grantee.

9. Adjustments. The Board or the Stock Option Committee, with respect to Options granted under Section 4, and the Board or the Special Stock Option Committee, with respect to

Options granted under Section 5, shall make or provide for such adjustments in the maximum number of shares of Common Stock specified in Section 3, in the number of shares of Common Stock covered by outstanding Options granted hereunder, in the Option exercise price applicable to any such Options or in the kind of shares covered thereby (including shares of another issuer), as the Board or such Committee in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Grantees that otherwise would result from any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, merger, consolidation, spin-off, reorganization, partial or complete liquidation, issuance of rights or warrants to purchase securities or any other corporate transaction or event having an effect similar to any of the foregoing. Any fractional shares resulting from the foregoing adjustments may be eliminated.

10. Withholding of Taxes. To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any benefit realized by a Grantee under the Plan, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the realization of such benefit that the Grantee make arrangements satisfactory to the Company for payment of the balance of such taxes required or requested to be withheld. In addition, if permitted by the Stock Option Committee with respect to Options granted under Section 4, or by the Special Stock Option Committee with respect to Options granted under Section 5, a Grantee may elect to have any withholding obligation of the Company satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Common Stock to be issued pursuant to any Option a number of shares with an aggregate Market Value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due, or (ii) transferring to the Company shares of Common Stock owned by the Grantee with an aggregate Market Value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due.

11. Administration of the Plan.

- (a) The Plan will be administered by the Stock Option Committee with respect to Options granted under Section 4 and by the Special Stock Option Committee with respect to Options granted under Section 5. For purposes of any action taken by either Committee, a majority of the members of that Committee will constitute a quorum, and the action of the members present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of such Committee. The Board of Directors as a whole shall administer the Plan with respect to Options granted under Section 6.
- (b) Subject to the allocation of administrative responsibilities set forth in Section 11(a), the Stock Option Committee and the Special Stock Option Committee have the full authority and discretion to administer the Plan and to take any action that is necessary or advisable in connection with the administration of the Plan, including without limitation the authority and discretion to interpret and construe any provision of the Plan or of any agreement, notification or document evidencing the grant of an Option. The interpretation and construction by the Stock Option Committee, the

Special Stock Option Committee or the Board of Directors, as applicable, of any such provision and any determination by the respective Committee pursuant to any provision of the Plan or of any such agreement, notification or document will be final and conclusive. No member of the Board or of either Committee will be liable for any such action or determination made in good faith.

- (c) Notwithstanding the provisions of Section 11(b), if any authority, discretion or responsibility granted to the Special Stock Option Committee under the Plan would, if exercised or discharged by the Special Stock Option Committee, cause the provisions of Section 5 or any Option granted under Section 5 to fail to satisfy the requirements of Rule 16b-3, such authority, discretion or responsibility may be exercised by the Board to the same extent and with the same effect as if exercised by the Special Stock Option Committee; provided, however, that such act of the Board will not cause the provisions of Section 5 or any Option granted under Section 5 to fail to satisfy the requirements of Rule 16b-3 or cause any member of the Special Stock Option Committee to cease to be a Nonemployee Director for purposes of Rule 16b-3.

12. Amendments, Etc.

- (a) The Stock Option Committee, or the Special Stock Option Committee, as applicable, or the Board of Directors as to grants under Section 6, may, without the consent of the Grantee, amend any agreement evidencing an Option granted under the Plan, or otherwise take action, to accelerate the time or times at which the Option may be exercised, to extend the expiration date of such Option, to waive any other condition or restriction applicable to such Grantee or to the exercise of such Option, to reduce the exercise price of such Option, to amend the definition of a Change in Control to expand the events that would constitute a Change in Control, even if such definition may be different from that contained in the Plan, and may amend any such agreement in any other respect with the consent of the Grantee.
- (b) The Plan may be amended from time to time by the Stock Option Committee or the Board but may not be amended without further approval by the shareholders of the Company if such Plan amendment would result in any grant or other transaction with respect to Options under Section 5 no longer satisfying the requirements of Rule 16b-3. Notwithstanding the foregoing, the provisions of Section 6 that designate Nonemployee Directors eligible to receive Options and specify the amount, Option Price and timing of Option grants may be amended only by the Board and may be amended no more than once every six months except to comply with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations thereunder. In the event any law, or any rule or regulation issued or promulgated by the Internal

Revenue Service, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., any stock exchange upon which the Common Stock is listed for trading, or any other governmental or quasi-governmental agency having jurisdiction over the Company, the Common Stock or the Plan requires the Plan to be amended, or in the event Rule 16b-3 is amended or supplemented (e.g., by addition of alternative rules) or any of the rules under Section 16 of the Act are amended or supplemented, in either event to permit the Company to remove or lessen any restrictions on or with respect to Options, the Board of Directors reserves the right to amend the Plan to the extent of any such requirement, amendment or supplement, and all Options then outstanding will be subject to such amendment.

- (c) The Plan may be terminated at any time by action of the Board, but in any event will terminate on the tenth anniversary of the effective date of the Plan. The termination of the Plan will not adversely affect the terms of any outstanding Option.
- (d) The Plan will not confer upon any Grantee any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate a Grantee's employment or other service at any time.
- (e) The Plan shall be governed by and construed in accordance with the internal laws of the State of Georgia.

AMERICAN SOFTWARE, INC.

By: \_\_\_\_\_  
Secretary

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, James C. Edenfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 10, 2008

By: /s/ James C. Edenfield  
James C. Edenfield  
Chief Executive Officer

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Vincent C. Klinges, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 10, 2008

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

**Certifications Pursuant to Section 906 of  
The Sarbanes-Oxley Act of 2002 (18 U.S.C Section 1350)**

The undersigned, as the Chief Executive Officer of American Software, Inc., certifies that, to the best of his knowledge and belief, this report on Form 10-Q for the fiscal quarter ended October 31, 2008 (the "Report"), which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of American Software, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 10<sup>th</sup> day of December, 2008

/s/ James C. Edenfield  
James C. Edenfield  
Chief Executive Officer

The undersigned, as the Chief Financial Officer of American Software, Inc., certifies that, to the best of his knowledge and belief, this report on Form 10-Q for the fiscal quarter ended October 31, 2008 (the "Report"), which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of American Software, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 10<sup>th</sup> day of December, 2008

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

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to American Software, Inc. and will be retained by American Software, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The information in this Exhibit 32.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.