

---

---

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended January 31, 2021

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)

**Georgia**

**30305**

(Zip Code)

**(404) 261-4381**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock

Trading Symbol

AMSWA

Name of each exchange on which registered

NASDAQ Global Select Market

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

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

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

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated Filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |
|                         |                          | Emerging growth company   | <input type="checkbox"/>            |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the exchange act.

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.

| <u>Classes</u>                        | <u>Outstanding at March 1, 2021</u> |
|---------------------------------------|-------------------------------------|
| Class A Common Stock, \$.10 par value | 30,886,338 Shares                   |
| Class B Common Stock, \$.10 par value | 1,821,587 Shares                    |

---

---

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES  
Form 10-Q

Quarter ended January 31, 2021

Index

|  | <b><u>Page No</u></b> |
|--|-----------------------|
| <b><u>Part I—Financial Information</u></b>   |                       |
| <b><u>Item 1. Financial Statements (Unaudited)</u></b>   |                       |
| <u>Condensed Consolidated Balance Sheets as of January 31, 2021 and April 30, 2020</u>   | <u>3</u>              |
| <u>Condensed Consolidated Statements of Operations for the Three and Nine Months ended January 31, 2021 and 2020</u>           | <u>4</u>              |
| <u>Condensed Consolidated Statements of Shareholders' Equity for the Three and Nine Months ended January 31, 2021 and 2020</u> | <u>5</u>              |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months ended January 31, 2021 and 2020</u>                     | <u>6</u>              |
| <u>Notes to Condensed Consolidated Financial Statements – Unaudited</u>  | <u>7</u>              |
| <b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>                    | <u>22</u>             |
| <b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>   | <u>37</u>             |
| <b><u>Item 4. Controls and Procedures</u></b>  | <u>38</u>             |
| <b><u>Part II—Other Information</u></b>  |                       |
| <b><u>Item 1. Legal Proceedings</u></b>  | <u>39</u>             |
| <b><u>Item 1A. Risk Factors</u></b>  | <u>39</u>             |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>  | <u>39</u>             |
| <b><u>Item 3. Defaults Upon Senior Securities</u></b>  | <u>39</u>             |
| <b><u>Item 4. Mine Safety Disclosures</u></b>  | <u>39</u>             |
| <b><u>Item 5. Other Information</u></b>  | <u>39</u>             |
| <b><u>Item 6. Exhibits</u></b>   | <u>39</u>             |
| <b><u>Signatures</u></b>   | <u>40</u>             |

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

|   | <b>January 31,<br/>2021</b> | <b>April 30,<br/>2020</b> |
|---|-----------------------------|---------------------------|
| <b>ASSETS</b>   |                             |                           |
| Current assets:   |                             |                           |
| Cash and cash equivalents   | \$ 86,721                   | \$ 79,814                 |
| Investments   | 14,052                      | 14,161                    |
| Trade accounts receivable, less allowance for doubtful accounts of \$298 at January 31, 2021 and \$264 at April 30, 2020:   |                             |                           |
| Billed  | 17,804                      | 22,582                    |
| Unbilled  | 1,954                       | 2,425                     |
| Prepaid expenses and other current assets   | 6,161                       | 6,684                     |
| Total current assets  | <u>126,692</u>              | <u>125,666</u>            |
| Investments—noncurrent  | —                           | 701                       |
| Property and equipment, net of accumulated depreciation of \$30,427 at January 31, 2021 and \$29,959 at April 30, 2020  | 3,368                       | 3,373                     |
| Capitalized software, net of accumulated amortization of \$37,868 at January 31, 2021 and \$34,611 at April 30, 2020  | 5,708                       | 8,362                     |
| Goodwill  | 25,888                      | 25,888                    |
| Other intangibles, net of accumulated amortization of \$12,962 at January 31, 2021 and \$12,243 at April 30, 2020   | 413                         | 1,132                     |
| Lease right of use assets   | 1,635                       | 2,053                     |
| Deferred sales commissions—noncurrent   | 1,842                       | 2,177                     |
| Other assets  | 1,878                       | 1,941                     |
| Total assets  | <u>\$ 167,424</u>           | <u>\$ 171,293</u>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                             |                           |
| Current liabilities:  |                             |                           |
| Accounts payable  | \$ 1,696                    | \$ 1,643                  |
| Accrued compensation and related costs  | 4,337                       | 6,635                     |
| Dividends payable   | 3,597                       | 3,547                     |
| Operating lease obligations   | 774                         | 763                       |
| Other current liabilities   | 987                         | 643                       |
| Deferred revenue  | 32,023                      | 34,227                    |
| Total current liabilities   | <u>43,414</u>               | <u>47,458</u>             |
| Deferred income taxes   | 2,572                       | 2,897                     |
| Long-term operating lease obligations   | 975                         | 1,424                     |
| Other long-term liabilities   | 113                         | 92                        |
| Total liabilities   | <u>47,074</u>               | <u>51,871</u>             |
| Shareholders' equity:   |                             |                           |
| Common stock:   |                             |                           |
| Class A, \$.10 par value. Authorized 50,000,000 shares: 35,462,970 (30,874,338, net) shares issued and outstanding respectively at January 31, 2021 and 35,000,649 (30,412,017, net) shares issued and outstanding respectively at April 30, 2020 | 3,546                       | 3,500                     |
| Class B, \$.10 par value. Authorized 10,000,000 shares: 1,821,587 shares issued and outstanding at January 31, 2021 and April 30, 2020; convertible into Class A Common Shares on a one-for-one basis   | 182                         | 182                       |
| Additional paid-in capital  | 156,902                     | 150,312                   |
| Retained deficit  | (14,721)                    | (9,013)                   |
| Class A treasury stock, 4,588,632 shares at January 31, 2021 and April 30, 2020, at cost  | (25,559)                    | (25,559)                  |
| Total shareholders' equity  | <u>120,350</u>              | <u>119,422</u>            |
| Commitments and contingencies   |                             |                           |
| Total liabilities and shareholders' equity  | <u>\$ 167,424</u>           | <u>\$ 171,293</u>         |

See accompanying notes to condensed consolidated financial statements—unaudited.

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

|   | Three Months Ended January 31, |          | Nine Months Ended January 31, |           |
|---|--------------------------------|----------|-------------------------------|-----------|
|   | 2021                           | 2020     | 2021                          | 2020      |
| <b>Revenues:</b>  |                                |          |                               |           |
| Subscription fees   | \$ 7,486                       | \$ 5,802 | \$ 20,815                     | \$ 15,752 |
| License   | 530                            | 3,695    | 1,767                         | 6,519     |
| Professional services and other                                     | 9,495                          | 10,308   | 29,551                        | 31,271    |
| Maintenance   | 10,172                         | 10,795   | 30,709                        | 32,651    |
| Total revenues  | 27,683                         | 30,600   | 82,842                        | 86,193    |
| <b>Cost of revenues:</b>  |                                |          |                               |           |
| Subscription fees   | 3,062                          | 1,976    | 8,767                         | 6,711     |
| License   | 288                            | 1,582    | 1,516                         | 3,969     |
| Professional services and other                                     | 7,178                          | 7,764    | 22,632                        | 22,712    |
| Maintenance   | 1,894                          | 1,836    | 5,608                         | 5,551     |
| Total cost of revenues  | 12,422                         | 13,158   | 38,523                        | 38,943    |
| Gross margin  | 15,261                         | 17,442   | 44,319                        | 47,250    |
| Research and development  | 4,242                          | 3,853    | 12,674                        | 11,390    |
| Sales and marketing   | 5,029                          | 5,519    | 15,202                        | 16,246    |
| General and administrative  | 5,002                          | 5,194    | 13,833                        | 14,923    |
| Amortization of acquisition-related intangibles                     | 53                             | 57       | 159                           | 232       |
| Total operating expenses  | 14,326                         | 14,623   | 41,868                        | 42,791    |
| Operating income  | 935                            | 2,819    | 2,451                         | 4,459     |
| <b>Other income:</b>  |                                |          |                               |           |
| Interest income   | 90                             | 360      | 313                           | 1,234     |
| Other, net  | 1,342                          | 618      | 2,409                         | 981       |
| Earnings before income taxes  | 2,367                          | 3,797    | 5,173                         | 6,674     |
| Income tax expense  | 56                             | 511      | 136                           | 477       |
| Net earnings  | \$ 2,311                       | \$ 3,286 | \$ 5,037                      | \$ 6,197  |
| <b>Earnings per common share (a):</b>                               |                                |          |                               |           |
| Basic   | \$ 0.07                        | \$ 0.10  | \$ 0.16                       | \$ 0.20   |
| Diluted   | \$ 0.07                        | \$ 0.10  | \$ 0.15                       | \$ 0.19   |
| Cash dividends declared per common share                            | \$ 0.11                        | \$ 0.11  | \$ 0.33                       | \$ 0.33   |
| <b>Shares used in the calculation of earnings per common share:</b> |                                |          |                               |           |
| Basic   | 32,628                         | 31,955   | 32,485                        | 31,611    |
| Diluted   | 33,293                         | 32,668   | 33,107                        | 32,260    |

(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 \$0.07 and \$0.10 for the three months ended January 31, 2021 and 2020, respectively, and \$0.16 and \$0.20 for the nine months ended January 31, 2021 and 2020, respectively. See Note E to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements—unaudited.

**American Software, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Shareholders' Equity (Unaudited)**  
(in thousands, except share data)

| <b>For the Three Months Ended<br/>January 31, 2020</b> | Common stock      |              |                  |            | <b>Additional<br/>paid-in<br/>capital</b> | <b>Retained<br/>deficit</b> | <b>Treasury<br/>stock</b> | <b>Total<br/>shareholders'<br/>equity</b> |
|--|-------------------|--------------|------------------|------------|---|-----------------------------|---------------------------|---|
|  | Class A           |              | Class B          |            |   |                             |                           |   |
|  | Shares            | Amount       | Shares           | Amount     |   |                             |                           |   |
| Balance at October 31, 2019                            | 34,630,682        | 3,463        | 1,821,587        | 182        | 145,554                                   | (5,774)                     | (25,559)                  | 117,866                                   |
| Proceeds from stock options exercised                  | 151,501           | 15           | —                | —          | 1,465                                     | —                           | —                         | 1,480                                     |
| Stock-based compensation*                              | —                 | —            | —                | —          | 563                                       | —                           | —                         | 563                                       |
| Net earnings   | —                 | —            | —                | —          | —   | 3,286                       | —                         | 3,286                                     |
| Dividends declared*                                    | —                 | —            | —                | —          | —   | (3,523)                     | —                         | (3,523)                                   |
| <b>Balance at January 31, 2020</b>                     | <b>34,782,183</b> | <b>3,478</b> | <b>1,821,587</b> | <b>182</b> | <b>147,582</b>                            | <b>(6,011)</b>              | <b>(25,559)</b>           | <b>119,672</b>                            |
| <b>For the Three Months Ended<br/>January 31, 2021</b> | Common stock      |              |                  |            | <b>Additional<br/>paid-in<br/>capital</b> | <b>Retained<br/>deficit</b> | <b>Treasury<br/>stock</b> | <b>Total<br/>shareholders'<br/>equity</b> |
| Class A  |                   | Class B      |                  |            |   |                             |                           |   |
| Shares   | Amount            | Shares       | Amount           |            |   |                             |                           |   |
| Balance at October 31, 2020                            | 35,277,846        | 3,528        | 1,821,587        | 182        | 154,335                                   | (13,433)                    | (25,559)                  | 119,053                                   |
| Proceeds from stock options exercised                  | 185,124           | 18           | —                | —          | 1,864                                     | —                           | —                         | 1,882                                     |
| Stock-based compensation                               | —                 | —            | —                | —          | 703                                       | —                           | —                         | 703                                       |
| Net earnings   | —                 | —            | —                | —          | —   | 2,311                       | —                         | 2,311                                     |
| Dividends declared*                                    | —                 | —            | —                | —          | —   | (3,599)                     | —                         | (3,599)                                   |
| <b>Balance at January 31, 2021</b>                     | <b>35,462,970</b> | <b>3,546</b> | <b>1,821,587</b> | <b>182</b> | <b>156,902</b>                            | <b>(14,721)</b>             | <b>(25,559)</b>           | <b>120,350</b>                            |

\*Amounts adjusted for rounding

| <b>For the Nine Months Ended<br/>January 31, 2020</b> | Common stock      |              |                  |            | <b>Additional<br/>paid-in<br/>capital</b> | <b>Retained<br/>deficit</b> | <b>Treasury<br/>stock</b> | <b>Total<br/>shareholders'<br/>equity</b> |
|---|-------------------|--------------|------------------|------------|---|-----------------------------|---------------------------|---|
|   | Class A           |              | Class B          |            |   |                             |                           |   |
|   | Shares            | Amount       | Shares           | Amount     |   |                             |                           |   |
| Balance at April 30, 2019                             | 33,979,739        | 3,398        | 1,821,587        | 182        | 138,315                                   | (1,729)                     | (25,559)                  | 114,607                                   |
| Proceeds from stock options exercised                 | 802,444           | 80           | —                | —          | 7,757                                     | —                           | —                         | 7,837                                     |
| Stock-based compensation                              | —                 | —            | —                | —          | 1,510                                     | —                           | —                         | 1,510                                     |
| Net earnings  | —                 | —            | —                | —          | —   | 6,197                       | —                         | 6,197                                     |
| Dividends declared*                                   | —                 | —            | —                | —          | —   | (10,479)                    | —                         | (10,479)                                  |
| <b>Balance at January 31, 2020</b>                    | <b>34,782,183</b> | <b>3,478</b> | <b>1,821,587</b> | <b>182</b> | <b>147,582</b>                            | <b>(6,011)</b>              | <b>(25,559)</b>           | <b>119,672</b>                            |
| <b>For the Nine Months Ended<br/>January 31, 2021</b> | Common stock      |              |                  |            | <b>Additional<br/>paid-in<br/>capital</b> | <b>Retained<br/>deficit</b> | <b>Treasury<br/>stock</b> | <b>Total<br/>shareholders'<br/>equity</b> |
| Class A   |                   | Class B      |                  |            |   |                             |                           |   |
| Shares  | Amount            | Shares       | Amount           |            |   |                             |                           |   |
| Balance at April 30, 2020                             | 35,000,649        | 3,500        | 1,821,587        | 182        | 150,312                                   | (9,013)                     | (25,559)                  | 119,422                                   |
| Proceeds from stock options exercised                 | 462,321           | 46           | —                | —          | 4,689                                     | —                           | —                         | 4,735                                     |
| Stock-based compensation                              | —                 | —            | —                | —          | 1,901                                     | —                           | —                         | 1,901                                     |
| Net earnings  | —                 | —            | —                | —          | —   | 5,037                       | —                         | 5,037                                     |
| Dividends declared*                                   | —                 | —            | —                | —          | —   | (10,745)                    | —                         | (10,745)                                  |
| <b>Balance at January 31, 2021</b>                    | <b>35,462,970</b> | <b>3,546</b> | <b>1,821,587</b> | <b>182</b> | <b>156,902</b>                            | <b>(14,721)</b>             | <b>(25,559)</b>           | <b>120,350</b>                            |

\*Amounts adjusted for rounding

See accompanying notes to condensed consolidated financial statements—unaudited.

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

|  | <b>Nine Months Ended January 31,</b> |                  |
|--|--------------------------------------|------------------|
|  | <b>2021</b>                          | <b>2020</b>      |
| <b>Cash flows from operating activities:</b>   |                                      |                  |
| Net earnings   | \$ 5,037                             | \$ 6,197         |
| <b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b> |                                      |                  |
| Depreciation and amortization  | 4,441                                | 6,310            |
| Stock-based compensation expense   | 1,901                                | 1,510            |
| Net gain on investments  | (1,945)                              | (1,036)          |
| Deferred income taxes  | (325)                                | (192)            |
| <b>Changes in operating assets and liabilities:</b>  |                                      |                  |
| Purchases of trading securities  | (779)                                | (21,934)         |
| Proceeds from maturities and sales of trading securities                                   | 3,534                                | 22,687           |
| Accounts receivable, net   | 5,248                                | (3,344)          |
| Prepaid expenses and other assets  | 922                                  | (1,279)          |
| Accounts payable and other liabilities   | (1,897)                              | 3,058            |
| Deferred revenue   | (2,204)                              | 1,135            |
| Net cash provided by operating activities  | <u>13,933</u>                        | <u>13,112</u>    |
| <b>Cash flows from investing activities:</b>   |                                      |                  |
| Capitalized computer software development costs  | (604)                                | (2,697)          |
| Purchases of property and equipment, net of disposals                                      | (461)                                | (339)            |
| Net cash used in investing activities  | <u>(1,065)</u>                       | <u>(3,036)</u>   |
| <b>Cash flows from financing activities:</b>   |                                      |                  |
| Proceeds from exercise of stock options  | 4,735                                | 7,837            |
| Dividends paid   | (10,696)                             | (10,392)         |
| Net cash used in financing activities  | <u>(5,961)</u>                       | <u>(2,555)</u>   |
| Net change in cash and cash equivalents  | 6,907                                | 7,521            |
| Cash and cash equivalents at beginning of period   | 79,814                               | 61,288           |
| Cash and cash equivalents at end of period   | <u>\$ 86,721</u>                     | <u>\$ 68,809</u> |
| <b>Supplemental disclosure of cash flow information:</b>                                   |                                      |                  |
| <b>Cash paid during the period for:</b>  |                                      |                  |
| Income taxes, net of refunds   | \$ 485                               | \$ 504           |
| <b>Supplemental disclosures of noncash operating, investing and financing activities:</b>  |                                      |                  |
| Accrual of dividends payable   | \$ 3,597                             | \$ 3,523         |

See accompanying notes to condensed consolidated financial statements—unaudited.

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—Unaudited**  
January 31, 2021

**A. Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete consolidated 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 Company's financial position at January 31, 2021, results of operations for the three and nine months ended January 31, 2021 and 2020, consolidated statements of shareholders' equity for the three and nine months ended January 31, 2021 and 2020 and cash flows for the nine months ended January 31, 2021 and 2020. The Company's results for the three and nine months ended January 31, 2021 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 (the "Annual Report") for the fiscal year ended April 30, 2020. The terms "fiscal 2021" and "fiscal 2020" refer to our fiscal years ending April 30, 2021 and 2020, respectively.

The preparation of these Condensed Consolidated 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 Condensed Consolidated 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 fiscal 2020 contained in the Annual Report describes the significant accounting policies that we have used in preparing our consolidated financial statements. On an ongoing basis, we evaluate our estimates, including, but not limited to, those related to revenue/reserves and allowances. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

**Principles of Consolidation**

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of American Software, Inc. ("American Software") and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

**Recent Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill to eliminate Step 2 from the goodwill impairment test. In addition, it eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. ASU 2017-04 is effective for the Company's fiscal year beginning May 1, 2020. The new guidance is required to be applied on a prospective basis. The adoption of ASU 2017-04 did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (A Consensus of the FASB Emerging Issues Task Force)*. ASU 2018-15 provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract. The new guidance amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs following the internal use software capitalization criteria within Accounting Standards Codification ("ASC") Subtopic 350-40.

We adopted ASU 2018-15 on May 1, 2020, applying the guidance prospectively, and the adoption of this standard did not have an impact on our consolidated financial statements. Historically we have not capitalized implementation costs associated with cloud computing arrangements that are service contracts following the guidance in Subtopic 350-40, but we will do so pursuant to the clarifications provided in the new guidance on a go forward basis.



On May 1, 2020, we adopted ASU 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, using the modified retrospective method applied for all financial assets measured at amortized cost. In estimating the allowance for credit losses, we considered the age of the accounts receivable, our historical write-offs, and the historical creditworthiness of the customer, among other factors. Should any of these factors change, the estimates made by us will also change accordingly, which could affect the level of our future allowances. We also analyzed future expected credit losses given ever present changes to future risks in projected economic conditions and future risks of customer collection. The net impact of the adoption of ASU 2016-13 was immaterial on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The new guidance eliminates certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating taxes during the quarters and the recognition of deferred tax liabilities for outside basis differences. This guidance also simplifies aspects of the accounting for franchise taxes and changes in tax laws or rates, as well as clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 will be effective for the Company beginning May 1, 2021 and would require us to recognize a cumulative effect adjustment to the opening balance of reinvested earnings, if applicable. We do not expect our adoption of this guidance to have a material impact on our consolidated financial statements.

## **B. Revenue Recognition**

We recognize revenue when we transfer control of the promised goods or services to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We derive our revenue from software licenses; maintenance services; consulting, implementation and training services; and Software-as-a-Service (“SaaS”), which includes a subscription to our software as well as maintenance, hosting and managed services.

The Company determines revenue recognition through the following steps:

Step 1 – Identification of the Contract with the Customer

Step 2 – Identification of Promised Goods and Services and Evaluation of Whether the Promised Goods and Services are Distinct Performance Obligations

Step 3 – Determination of the Transaction Price

Step 4 – Allocation of the Transaction Price to Distinct Performance Obligations

Step 5 – Attribution of Revenue for Each Distinct Performance Obligation

### ***Nature of Products and Services***

***Subscription Fees.*** Subscription fees include SaaS revenues for the right to use the software for a limited period of time in an environment hosted by the Company or by a third party. The customer accesses and uses the software on an as-needed basis over the Internet or via a dedicated line; however, the customer has no right to take delivery of the software without incurring a significant penalty. The underlying arrangements typically include a single fee for the service that is billed monthly, quarterly or annually. The Company’s SaaS solutions represent a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Revenue from a SaaS solution is generally recognized ratably over the term of the arrangement.

***Licenses.*** Our perpetual and term software licenses provide the customer with a right to use the software as it exists at the time of purchase. We recognize revenue for distinct software licenses once the license period has begun and we have made the software available to the customer.

Our software licenses are sold with maintenance under which we provide customers with telephone consulting, product updates on a when and if available basis, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services.

***Professional Services and Other.*** Our services revenue consists of fees generated from consulting, implementation and training services, including reimbursements of out-pocket expenses in connection with our services. Services are typically optional to our customers, and are distinct from our software. Fees for our services are separately priced and are generally billed on an hourly basis, and revenue is recognized over time as the services are performed. We believe the output method of hours worked provides the best depiction of the transfer of our services since the customer is receiving the benefit from our services as the work is performed. The total amount of expense reimbursement included in professional services and other revenue was approximately \$0 and \$16,000 for the three and nine months ended January 31, 2021, respectively, and approximately \$0.4 million and \$1.3 million for the three and nine months ended January 31, 2020, respectively.

**Maintenance.** Revenue is derived from maintenance under which we provide customers with telephone consulting, product updates on a when and if available basis, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. Maintenance for licenses is renewable, generally on an annual basis, at the option of the customer. Maintenance terms typically range from one to three years. Revenue related to maintenance is generally paid in advance and recognized ratably over the term of the agreement since the Company is standing ready to provide a series of maintenance services that are substantially the same each period over the term; therefore, time is the best measure of progress.

**Indirect Channel Revenue.** We record revenues from sales made through the indirect sales channels on a gross basis, because we control the goods or services and act as the principal in the transaction. In reaching this determination, we evaluated sales through our indirect channel on a case-by-case basis and considered a number of factors including indicators of control such as the party having the primary responsibility to provide specified goods or services and the party having discretion in establishing prices.

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

**Significant Judgments.** Many of our contracts include multiple performance obligations. Our products and services generally do not require a significant amount of integration or interdependency; therefore, our products and services are generally not combined. We allocate the transaction price for each contract to each performance obligation based on the relative standalone selling price ("SSP") for each performance obligation within each contract.

We use judgment in determining the SSP for products and services. For substantially all performance obligations except on-premise licenses, we are able to establish SSP based on the observable prices of products or services sold separately to similar customers in comparable circumstances. We typically establish an SSP range for our products and services which is reassessed on a periodic basis or when facts and circumstances change. Our on-premise licenses historically have not been sold on a standalone basis, as the vast majority of all customers elect to purchase on-premise license maintenance and support contracts at the time of an on-premise license purchase. We are unable to establish the SSP for our on-premise licenses based on observable prices, as the same products are sold for a broad range of prices (that is, the selling price is highly variable) and a representative SSP is not discernible from past transactions or other observable evidence. As a result, the SSP for an on-premise license included in a contract with multiple performance obligations is determined by applying a residual approach, whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective SSPs, with any residual amount of transaction price allocated to on-premise license revenues. Maintenance and support contracts are generally priced as a percentage of the net fees paid by the customer to access the on-premise license.

**Contract Balances.** Timing of invoicing to customers may differ from timing of revenue recognition and these timing differences result in unbilled accounts receivables or contract liabilities (deferred revenue) on the Company's consolidated balance sheets. Fees for our software licenses are generally due within 30 days of contract execution. We have an established history of collecting under the terms of our software license contracts without providing refunds or concessions to our customers. SaaS solutions and maintenance are typically billed in advance on a monthly, quarterly, or annual basis. Services are typically billed as performed. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include significant financing component. The primary purpose of our invoicing terms is to provide customers with predictable ways to purchase our software and services, not to provide or receive financing. Additionally, we are applying the practical expedient to exclude any financing component from consideration for any contracts with payment terms of one year or less since we rarely offer terms extending beyond one year. The consideration in our customer contracts is fixed.

We have an unconditional right to consideration for all goods and services transferred to our customers. That unconditional right to consideration is reflected in billed and unbilled accounts receivable in the accompanying consolidated balance sheets in accordance with ASC Topic 606.

Deferred revenue consists of amounts collected prior to having completed the performance of maintenance, SaaS, hosting, and managed services. We typically invoice customers for cloud subscription and support fees in advance on a monthly, quarterly or annual basis, with payment due at the start of the cloud subscription or support term. During the three months ended January 31, 2021, we recognized \$15.0 million of revenue that was included in the deferred revenue balance as of October 31, 2020. During the nine months ended January 31, 2021, we recognized \$30.9 million of revenue that was included in the deferred revenue balance as of April 30, 2020.

|                             | January 31,<br>2021 | April 30,<br>2020 |
|-----------------------------|---------------------|-------------------|
| (in thousands)              |                     |                   |
| Deferred revenue, current   | 32,023              | 34,227            |
| Deferred revenue, long-term | —                   | —                 |
| Total deferred revenue      | <u>\$ 32,023</u>    | <u>\$ 34,227</u>  |

**Remaining Performance Obligations.** A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under Topic 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied by transferring the promised good or service to the customer. The Company identifies and tracks the performance obligations at contract inception so that the Company can monitor and account for the performance obligations over the life of the contract. Remaining performance obligations represent the transaction price of orders for which products have not been delivered or services have not been performed. As of January 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$80.0 million. The Company expects to recognize revenue on approximately 55% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter.

**Disaggregated Revenue.** The Company disaggregates revenue from contracts with customers by geography, as it believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company's revenue by geography is as follows:

|                | Three Months Ended<br>January 31, |                  | Nine Months Ended<br>January 31, |                  |
|----------------|-----------------------------------|------------------|----------------------------------|------------------|
|                | 2021                              | 2020             | 2021                             | 2020             |
| (in thousands) |                                   |                  |                                  |                  |
| Revenues:      |                                   |                  |                                  |                  |
| Domestic       | \$ 23,668                         | \$ 24,902        | \$ 70,467                        | \$ 69,076        |
| International  | 4,015                             | 5,698            | 12,375                           | 17,117           |
|                | <u>\$ 27,683</u>                  | <u>\$ 30,600</u> | <u>\$ 82,842</u>                 | <u>\$ 86,193</u> |

**Contract Costs.** The Company capitalizes the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs. The incremental costs of obtaining a contract are those that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission). The Company capitalizes the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

- a. The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify.
- b. The costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- c. The costs are expected to be recovered.

Certain sales commissions incurred by the Company were determined to be incremental costs to obtain the related contracts, which are deferred and amortized ratably over the economic benefit period. These deferred commission costs are classified as current or non-current based on the timing of when the Company expects to recognize the expense. The current and non-current portions of deferred commissions are included in prepaid expenses and other current assets and deferred sales commissions—noncurrent, respectively, in the Company's Condensed Consolidated Balance Sheets. Total deferred commissions at January 31, 2021 and April 30, 2020 were \$3.0 million and \$3.5 million, respectively. Amortization of sales commissions was \$0.5 million and \$1.4 million for the three and nine months ended January 31, 2021, respectively, which is included in "Sales and marketing" expense in the accompanying Condensed Consolidated Statements of Operations. No impairment losses were recognized during the periods.

**C. Leases**

The Company's operating leases are primarily related to facility leases for administration and sales. The operating leases have terms ranging from three to five years. While each of the leases includes renewal options, the Company has only included the base lease term in its calculation of lease assets and liabilities. The Company does not have any finance leases.

Balance sheet information related to operating leases is as follows (in thousands):

|                             | <b>January 31,<br/>2021</b> |
|-----------------------------|-----------------------------|
| <b>Assets</b>               |                             |
| Right of use assets         | \$ 1,635                    |
| <b>Liabilities</b>          |                             |
| Current lease liabilities   | 774                         |
| Long-term lease liabilities | 975                         |
| Total liabilities           | <u>\$ 1,749</u>             |

Lease cost information related to operating leases is as follows (in thousands):

|                       | <b>Three Months Ended<br/>January 31, 2021</b> | <b>Nine Months Ended<br/>January 31, 2021</b> |
|-----------------------|--|---|
| <b>Lease cost</b>     |  |   |
| Operating lease cost  | \$ 195   | \$ 586  |
| Short-term lease cost | 126  | 445   |
| Variable lease cost   | 70   | 215   |
| Total lease cost      | <u>\$ 391</u>                                  | <u>\$ 1,246</u>                               |

Lease costs are primarily included in "Sales and marketing" and "General and administrative" expenses in the Company's Condensed Consolidated Statements of Operations.

The impact of the Company's leases on Condensed Consolidated Statement of Cash Flows is presented in the operating activities section, which mainly consisted of cash paid for operating lease liabilities of approximately \$1.3 million during the nine months ended January 31, 2021. During the third quarter, the Company did not have new lease agreements executed.

Weighted average information associated with the measurement of the Company's remaining operating lease obligations is as follows:

|                                       | <b>January 31, 2021</b> |
|---------------------------------------|-------------------------|
| Weighted average remaining lease term | 2.6 years               |
| Weighted average discount rate        | 3.3 %                   |

The following table summarizes the maturity of the Company's operating lease liabilities as of January 31, 2021 (in thousands):

## [Table of Contents](#)

|                                   |    |       |
|-----------------------------------|----|-------|
| FY2021                            | \$ | 220   |
| FY2022                            |    | 711   |
| FY2023                            |    | 486   |
| FY2024                            |    | 361   |
| FY2025                            |    | 20    |
| Thereafter                        |    | —     |
| Total operating lease payments    | \$ | 1,798 |
| Less imputed interest             |    | (49)  |
| Total operating lease liabilities | \$ | 1,749 |

The Company leases to other tenants a portion of its headquarters building that it owns in Atlanta, Georgia. The leases expire at various dates through October 2025. Lease income is included in "Other, net" in the Company's Condensed Consolidated Statements of Operations and totaled approximately \$106,000 and \$255,000 for the three and nine months ended January 31, 2021, respectively. Lease payments to be received as of January 31, 2021 are as follows (in thousands):

|            |    |     |
|------------|----|-----|
| FY2021     | \$ | 42  |
| FY2022     |    | 149 |
| FY2023     |    | 96  |
| FY2024     |    | 98  |
| FY2025     |    | 100 |
| Thereafter |    | 50  |
| Total      | \$ | 535 |

### **D. Declaration of Dividend Payable**

On November 18, 2020, our Board of Directors declared a quarterly cash dividend of \$0.11 per share of our Class A and Class B common stock. The cash dividend is payable on February 19, 2021 to Class A and Class B shareholders of record at the close of business on February 5, 2021.

### **E. Earnings Per Common Share**

The Company has two classes of common stock. Class B common shares are convertible into Class A common shares at any time, on a one-for-one basis. Under the Company's Articles of Incorporation, if dividends are declared, holders of Class A common shares shall receive a \$0.05 dividend per share prior to the Class B common shares receiving any dividend and holders of Class A common shares shall receive a dividend at least equal to Class B common shares dividends on a per share basis. As a result, the Company has computed the earnings per share in compliance with the Earnings Per Share Topic of the FASB ASC, which requires companies that have multiple classes of equity securities to use the "two-class" method in computing earnings per share.

For the Company's basic earnings per share calculation, the Company uses the "two-class" method. Basic earnings per share are calculated by dividing net earnings attributable to each class of common stock by the weighted average number of shares outstanding. All undistributed earnings are allocated evenly between Class A and B common shares in the earnings per share calculation to the extent that earnings equal or exceed \$0.05 per share. This allocation is based on management's judgment after considering the dividend rights of the two-classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B shares to Class A shares. If Class B shares convert to Class A shares during the period, the distributed net earnings for Class B shares is calculated using the weighted average common shares outstanding during the period.

Diluted earnings per share is calculated similarly to basic earnings per share, except that the calculation includes the dilutive effect of the assumed exercise of options issuable under the Company's stock incentive plans. For the Company's diluted earnings per share calculation for Class A shares, the Company uses the "if-converted" method. This calculation assumes that all Class B common shares are converted into Class A common shares and, as a result, assumes there are no holders of Class B common shares to participate in undistributed earnings.

For the Company’s diluted earnings per share calculation for Class B shares, the Company uses the “two-class” method. This calculation does not assume that all Class B common shares are converted into Class A common shares. In addition, this method assumes the dilutive effect of Class A stock options were converted to Class A shares and the undistributed earnings are allocated evenly to both Class A and B shares including Class A shares issued pursuant to those converted stock options. This allocation is based on management’s judgment after considering the dividend rights of the two-classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B shares into Class A shares.

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

**Basic earnings per common share:**

|  | Three Months Ended<br>January 31, 2021 |                             | Nine Months Ended<br>January 31, 2021 |                             |
|--|--|-----------------------------|---------------------------------------|-----------------------------|
|  | Class A<br>Common<br>Shares            | Class B<br>Common<br>Shares | Class A<br>Common<br>Shares           | Class B<br>Common<br>Shares |
| Distributed earnings                             | \$ 0.11                                | \$ 0.11                     | \$ 0.33                               | \$ 0.33                     |
| Undistributed losses                             | (0.04)                                 | (0.04)                      | (0.17)                                | (0.17)                      |
| Total  | \$ 0.07                                | \$ 0.07                     | \$ 0.16                               | \$ 0.16                     |
| Distributed earnings                             | \$ 3,396                               | \$ 201                      | \$ 10,142                             | \$ 602                      |
| Undistributed losses                             | (1,214)                                | (72)                        | (5,387)                               | (320)                       |
| Total  | \$ 2,182                               | \$ 129                      | \$ 4,755                              | \$ 282                      |
| Basic weighted average common shares outstanding | 30,806                                 | 1,822                       | 30,663                                | 1,822                       |

|  | Three Months Ended<br>January 31, 2020 |                             | Nine Months Ended<br>January 31, 2020 |                             |
|--|--|-----------------------------|---------------------------------------|-----------------------------|
|  | Class A<br>Common<br>Shares            | Class B<br>Common<br>Shares | Class A<br>Common<br>Shares           | Class B<br>Common<br>Shares |
| Distributed earnings                             | \$ 0.11                                | \$ 0.11                     | \$ 0.33                               | \$ 0.33                     |
| Undistributed losses                             | \$ (0.01)                              | \$ (0.01)                   | \$ (0.13)                             | \$ (0.13)                   |
| Total  | \$ 0.10                                | \$ 0.10                     | \$ 0.20                               | \$ 0.20                     |
| Distributed earnings                             | \$ 3,321                               | \$ 201                      | \$ 9,873                              | \$ 604                      |
| Undistributed losses                             | \$ (223)                               | \$ (13)                     | \$ (4,033)                            | \$ (247)                    |
| Total  | \$ 3,098                               | \$ 188                      | \$ 5,840                              | \$ 357                      |
| Basic weighted average common shares outstanding | \$ 30,133                              | \$ 1,822                    | \$ 29,789                             | \$ 1,822                    |

**Diluted EPS for Class A Common Shares Using the If-Converted Method**

**Three Months Ended January 31, 2021**

|  | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*           |
|--|--|-----------------------------|----------------|
| Per Basic                                    | \$ 2,182   | 30,806                      | \$ 0.07        |
| Common Stock Equivalents                     | —  | 665                         | —              |
|  | 2,182  | 31,471                      | 0.07           |
| Class B Common Share Conversion              | 129  | 1,822                       | —              |
| <b>Diluted EPS for Class A Common Shares</b> | <b>\$ 2,311</b>  | <b>33,293</b>               | <b>\$ 0.07</b> |

**Nine Months Ended January 31, 2021**

|  | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*           |
|--|--|-----------------------------|----------------|
| Per Basic                                    | \$ 4,755   | 30,663                      | \$ 0.16        |
| Common Stock Equivalents                     | —  | 622                         | —              |
|  | 4,755  | 31,285                      | 0.15           |
| Class B Common Share Conversion              | 282  | 1,822                       | —              |
| <b>Diluted EPS for Class A Common Shares</b> | <b>\$ 5,037</b>  | <b>33,107</b>               | <b>\$ 0.15</b> |

**Three Months Ended January 31, 2020**

|  | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*           |
|--|--|-----------------------------|----------------|
| Per Basic                                    | \$ 3,098   | 30,133                      | \$ 0.10        |
| Common Stock Equivalents                     | —  | 713                         | —              |
|  | 3,098  | 30,846                      | 0.10           |
| Class B Common Share Conversion              | 188  | 1,822                       | —              |
| <b>Diluted EPS for Class A Common Shares</b> | <b>\$ 3,286</b>  | <b>32,668</b>               | <b>\$ 0.10</b> |

**Nine Months Ended January 31, 2020**

|  | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*           |
|--|--|-----------------------------|----------------|
| Per Basic                                    | \$ 5,840   | 29,789                      | \$ 0.20        |
| Common Stock Equivalents                     | —  | 649                         | —              |
|  | 5,840  | 30,438                      | 0.19           |
| Class B Common Share Conversion              | 357  | 1,822                       | —              |
| <b>Diluted EPS for Class A Common Shares</b> | <b>\$ 6,197</b>  | <b>32,260</b>               | <b>\$ 0.19</b> |

**Diluted EPS for Class B Common Shares Using the Two-Class Method**

**Three Months Ended January 31, 2021**

|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 129   | 1,822                       | \$ 0.07        |
| Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares | 2  | —                           | —              |
| <b>Diluted EPS for Class B Common Shares</b>  | <b>\$ 131</b>  | <b>1,822</b>                | <b>\$ 0.07</b> |

**Nine Months Ended January 31, 2021**

|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 282   | \$ 1,822                    | \$ 0.16        |
| Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares | 6  | —                           | —              |
| <b>Diluted EPS for Class B Common Shares</b>  | <b>\$ 288</b>  | <b>\$ 1,822</b>             | <b>\$ 0.16</b> |

**Three Months Ended January 31, 2020**

|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 188   | \$ 1,822                    | \$ 0.10        |
| Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares | —  | —                           | —              |
| <b>Diluted EPS for Class B Common Shares</b>  | <b>\$ 188</b>  | <b>\$ 1,822</b>             | <b>\$ 0.10</b> |

**Nine Months Ended January 31, 2020**

|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 357   | \$ 1,822                    | \$ 0.20        |
| Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares | 5  | —                           | —              |
| <b>Diluted EPS for Class B Common Shares</b>  | <b>\$ 362</b>  | <b>\$ 1,822</b>             | <b>\$ 0.20</b> |

\*Amounts adjusted for rounding

For the three and nine months ended January 31, 2021, we excluded options to purchase 775,087 and 1,669,870 Class A Common Shares, respectively, and for the three and nine months ended January 31, 2020, we excluded options to purchase



26,000 and 278,116 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 January 31, 2021, we had a total of 4,405,329 options outstanding and as of January 31, 2020, we had a total of 3,998,128 options outstanding.

## **F. Stock-Based Compensation**

During the nine months ended January 31, 2021 and 2020, we granted options for 1,340,000 and 1,093,000 shares of Class A common stock, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The forfeiture rates are estimated using historical data. We recorded stock option compensation cost of approximately \$0.7 million and \$0.6 million and income tax benefits of approximately \$0.2 million and \$0.1 million from option exercises during the three months ended January 31, 2021 and 2020, respectively. We recorded stock option compensation cost of approximately \$1.9 million and \$1.5 million and income tax benefits of approximately \$0.5 million and \$0.6 million from option exercises during the nine months ended January 31, 2021 and 2020, respectively. We record stock-based compensation expense on a straight-line basis over the vesting period directly to additional paid-in capital.

During the nine months ended January 31, 2021 and 2020, we issued 462,321 and 802,444 shares of Class A common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the nine months ended January 31, 2021 and 2020 based on market value at the exercise dates was approximately \$2.8 million and \$4.1 million, respectively. As of January 31, 2021, unrecognized compensation cost related to unvested stock option awards approximated \$8.0 million, which we expect to recognize over a weighted average period of 1.94 years.

## **G. Fair Value of Financial Instruments**

We measure our investments based on 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. A number of factors affect market price observability, including the type of asset or liability and its characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1—Quoted prices for identical instruments in active markets.
- 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 we use 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, other money market instruments and interest-bearing deposits with initial 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. We value these securities using market-corroborated pricing or other models that use observable inputs such as yield curves.

The following tables present our assets and liabilities that we measured at fair value on a recurring basis as of January 31, 2021 and April 30, 2020, and indicate the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

|                       | January 31, 2021   |   |  |                  |
|-----------------------|--|---|--|------------------|
|                       | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance          |
| Cash equivalents      | \$ 79,759  | \$ —  | \$ —   | \$ 79,759        |
| Marketable securities | 13,369   | 683   | —  | 14,052           |
| Total                 | <u>\$ 93,128</u>   | <u>\$ 683</u>   | <u>\$ —</u>  | <u>\$ 93,811</u> |

|                       | April 30, 2020   |   |  |                  |
|-----------------------|--|---|--|------------------|
|                       | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance          |
| Cash equivalents      | \$ 75,256  | \$ —  | \$ —   | \$ 75,256        |
| Marketable securities | 11,758   | 3,104   | —  | 14,862           |
| Total                 | <u>\$ 87,014</u>   | <u>\$ 3,104</u>   | <u>\$ —</u>  | <u>\$ 90,118</u> |

#### H. Stock Repurchases

On August 19, 2002, our Board of Directors authorized the repurchase of up to an additional 2.0 million shares of our Class A common stock. We have made and will make these repurchases through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our Class A common stock and management's assessment of our liquidity and cash flow needs. Under this repurchase plan, we have repurchased 1,053,679 shares of Class A common stock at a cost of approximately \$6.2 million, which had no impact on fiscal 2021. As of January 31, 2021, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,588,632 shares of common stock at a cost of approximately \$25.6 million.

**I. Comprehensive Income**

We have not included condensed consolidated statements of comprehensive income in the accompanying unaudited Condensed Consolidated Financial Statements since comprehensive income and net earnings presented in the accompanying Condensed Consolidated Statements of Operations would be substantially the same.

## **J. Industry Segments**

FASB ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of a public entity about which separate financial information is available that is evaluated regularly by the chief operating decision makers (“CODMs”), or decision making group, in deciding how to allocate resources and in assessing performance. Our CODMs are our Chief Executive Officer and President and our Chief Financial Officer. While our CODMs are apprised of a variety of financial metrics and information, we manage our business primarily on a segment basis, with the CODMs evaluating performance based upon segment operating profit or loss, with certain corporate and other common expenses included in the Other segment. Our CODMs review the operating results of our three segments, assess performance and allocate resources in a manner that is consistent with the changing market dynamics that we have experienced. As a result, in the third quarter of fiscal 2018, we updated our operating segments to reflect the fact that we provide our software solutions through three major operating segments, which are further broken down into a total of six major product and service groups. The three operating segments are (1) Supply Chain Management (“SCM”), (2) Information Technology (“IT”) Consulting and (3) Other.

Our primary operating units or brands under our SCM segment include Logility, Inc., New Generation Computing, Inc. (“NGC”), and Demand Management, Inc. (“DMI”). Logility and NGC are each a wholly-owned subsidiary of the Company, and DMI is a wholly-owned subsidiary of Logility, Inc. Each operating unit focuses on a segment of the marketplace where their expertise lies. The Other segment consists of software and services provided to our legacy enterprise resource planning (“ERP”) customers, as well as corporate overhead and other common expenses.

All of our revenues are derived from external customers. We do not have any intersegment revenue. Our income taxes and dividends are paid at a consolidated level. Consequently, it is not practical to show these items by operating segment.

[Table of Contents](#)

In the following table, we have broken down the intersegment transactions applicable to the three and nine months ended January 31, 2021 and 2020 (in thousands):

|   | Three Months Ended January 31, |                  | Nine Months Ended January 31, |                  |
|---|--------------------------------|------------------|-------------------------------|------------------|
|   | 2021                           | 2020             | 2021                          | 2020             |
| <b>Revenues:</b>                            |                                |                  |                               |                  |
| Supply Chain Management                     | \$ 22,646                      | \$ 25,578        | \$ 66,679                     | \$ 71,411        |
| IT Consulting                               | 4,543                          | 4,475            | 14,602                        | 13,011           |
| Other                                       | 494                            | 547              | 1,561                         | 1,771            |
|   | <u>\$ 27,683</u>               | <u>\$ 30,600</u> | <u>\$ 82,842</u>              | <u>\$ 86,193</u> |
| <b>Operating income (loss):</b>             |                                |                  |                               |                  |
| Supply Chain Management                     | \$ 4,713                       | \$ 6,693         | \$ 12,800                     | \$ 14,904        |
| IT Consulting                               | 83                             | 43               | 292                           | 210              |
| Other*                                      | (3,861)                        | (3,917)          | (10,641)                      | (10,655)         |
|   | <u>\$ 935</u>                  | <u>\$ 2,819</u>  | <u>\$ 2,451</u>               | <u>\$ 4,459</u>  |
| <b>Capital expenditures:</b>                |                                |                  |                               |                  |
| Supply Chain Management                     | \$ 152                         | \$ 43            | \$ 236                        | \$ 117           |
| IT Consulting                               | —                              | —                | —                             | —                |
| Other*                                      | 146                            | 58               | 225                           | 222              |
|   | <u>\$ 298</u>                  | <u>\$ 101</u>    | <u>\$ 461</u>                 | <u>\$ 339</u>    |
| <b>Capitalized software:</b>                |                                |                  |                               |                  |
| Supply Chain Management                     | \$ 233                         | \$ 807           | \$ 604                        | \$ 2,697         |
| IT Consulting                               | —                              | —                | —                             | —                |
| Other                                       | —                              | —                | —                             | —                |
|   | <u>\$ 233</u>                  | <u>\$ 807</u>    | <u>\$ 604</u>                 | <u>\$ 2,697</u>  |
| <b>Depreciation and amortization:</b>       |                                |                  |                               |                  |
| Supply Chain Management                     | \$ 1,149                       | \$ 1,785         | \$ 4,150                      | \$ 6,026         |
| IT Consulting                               | —                              | 2                | 2                             | 4                |
| Other*                                      | 98                             | 95               | 289                           | 280              |
|   | <u>\$ 1,247</u>                | <u>\$ 1,882</u>  | <u>\$ 4,441</u>               | <u>\$ 6,310</u>  |
| <b>Earnings (loss) before income taxes:</b> |                                |                  |                               |                  |
| Supply Chain Management                     | \$ 4,803                       | \$ 6,743         | \$ 13,023                     | \$ 15,259        |
| IT Consulting                               | 83                             | 43               | 290                           | 209              |
| Other*                                      | (2,519)                        | (2,989)          | (8,140)                       | (8,794)          |
|   | <u>\$ 2,367</u>                | <u>\$ 3,797</u>  | <u>\$ 5,173</u>               | <u>\$ 6,674</u>  |

\*Includes corporate overhead and other common expenses.

**K. Major Customers**

No single customer accounted for more than 10% of total revenues for the three and nine months ended January 31, 2021 and 2020.

**L. Contingencies**

We generally indemnify our customers against damages and costs resulting from third-party claims of patent, copyright or trademark infringement associated with use of our products. Historically, we have not been required to make any payments under such indemnifications. However, we continue to monitor the conditions that are subject to indemnification to identify whether it is probable that a loss has occurred, and would recognize any such losses when those losses are estimable. In addition, we warrant to our customers that our software products operate substantially in accordance with their documentation. Historically, we have incurred no costs related to software product warranties and we do not expect to incur such costs in the future, and as such we have made no accruals for software product warranty costs. 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.

**M. Subsequent Event**

On February 17, 2021, our Board of Directors declared a quarterly cash dividend of \$0.11 per share of our Class A and Class B common stock. The cash dividend is payable on May 21, 2021 to Class A and Class B shareholders of record at the close of business on May 7, 2021.

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

### FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q (this “Quarterly Report”) 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;
- cloud services annual contract value (“ACV”);
- viability and effectiveness of strategic alliances;
- industry conditions and market conditions;
- acquisition activities and the effect of completed acquisitions; 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 U.S. and global economic uncertainty and the timing and degree of business recovery; the effects of the COVID-19 pandemic; the irregular pattern of the Company’s revenues; dependence on particular market segments or customers; competitive pressures; market acceptance of the Company’s products and services; technological complexity; undetected software errors; potential product liability or warranty claims; risks associated with new product development; the challenges and risks associated with integration of acquired product lines, companies and services; uncertainty about the viability and effectiveness of strategic alliances, as well as a number of other risk factors that could affect our future performance. All forward-looking statements included in this Quarterly Report are based upon information available to us as of the filing date of this Quarterly Report. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. We discuss certain factors in greater detail in “Business Overview” below.

### ECONOMIC OVERVIEW

For the remainder of fiscal 2021, we expect the global economy to improve modestly when compared to recent periods. We believe information technology spending will incrementally improve over the long term as increased global competition forces companies to improve productivity by upgrading their technology systems, which could result in an improved selling environment. Although this improvement could slow or regress at any time, due in part to concerns related to the effects of the spread of the global virus and trade conflicts on 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. While we do not expect that the virus will cause any material adverse changes on our business or financial results for the remainder of the fiscal year, we are unable to accurately predict the impact that the coronavirus will have due to various uncertainties, including the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities. Customers continue to take long periods to evaluate discretionary software purchases.

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 global credit markets.

In January 2021, the International Monetary Fund (“IMF”) provided an update to the World Economic Outlook for 2021. The update noted that, “*Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage point relative*”

*to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.*

*The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. The global growth contraction for 2020 is estimated at -3.5 percent, 0.9 percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020)."*

We believe improved economic conditions and increasingly complex supply chain challenges may be driving some businesses to focus on achieving more process and efficiency enhancements in their operations and to invest in solutions that improve operating margins, rather than make large infrastructure-type technology purchases. If this trend continues, we believe it may tend to favor solutions such as our supply chain solutions, which are designed to provide a more rapid return on investment and are targeted at some of the largest profit drivers in a customer's business.

## **BUSINESS OVERVIEW**

American Software was incorporated as a Georgia corporation in 1970. We develop, market and support a portfolio of software and services that deliver enterprise management and collaborative supply chain solutions to the global marketplace. We have designed our software and services to bring business value to enterprises by supporting their operations over intranets, extranets, client/servers or the Internet. References to "the Company," "our products," "our software," "our services" and similar references include the appropriate business segment actually providing the product or service.

The Company enables enterprises to accelerate their operations from product concept to customer availability. Our three brands - Logility, Demand Solutions, and NGC Software - provide a single platform spanning eight supply chain process areas, including demand optimization, inventory optimization, supply optimization, retail optimization, quality and compliance, product lifecycle management, sourcing management and integrated business planning. Our platform includes advanced analytics and is fueled by supply chain master data, allowing for the automation of critical business processes through the application of artificial intelligence and machine learning algorithms to a variety of internal and external data streams.

Our primary operating units under our SCM segment include Logility, Inc., New Generation Computing, Inc. ("NGC") and Demand Management, Inc. ("DMI"). Logility and NGC are wholly-owned subsidiaries of American Software; DMI is a wholly-owned subsidiary of Logility. In addition to our core SCM software business, we also offer technology staffing and consulting services through our wholly-owned subsidiary, The Proven Method, Inc., in the IT Consulting segment. The Other segment consists of software and services provided to our legacy enterprise resource planning ("ERP") customers, as well as corporate overhead and other common expenses.

We derive revenues primarily from four sources: software licenses, subscriptions, professional services and other, and maintenance. We generally determine software license and SaaS fees based on the depth of functionality, contractual term, number of production deployments, users and/or sites licensed and/or subscribed. Professional services and other revenues consist primarily of fees from software implementation, training, and consulting services. We bill primarily under time and materials arrangements and recognize revenues as we perform services. SaaS and maintenance agreements typically are for a one- to three-year term, commencing at the time of the initial contract. We generally bill these fees, monthly, quarterly and annually in advance under agreements with terms of one to three years, and then recognize the resulting revenues ratably over the term of the agreement. Deferred revenue represents payments or billings for subscriptions and services and maintenance in advance of the time we recognize the related revenues.

Our cost of revenue for licenses and subscriptions includes amortization of capitalized computer software development costs, amortization of acquired developed technology, royalties paid to third-party software vendors, and agent commission expenses related to 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, other personnel-related expenses, and 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 the Software topic of the FASB ASC. 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 Condensed Consolidated Balance Sheets; however, if future product revenues are less than management's current expectations, we may incur a write-down of capitalized software costs.

Our sales and marketing expenses mainly include the salary and commissions paid to our sales professionals, along with marketing, promotional, travel and associated costs. Our general and administrative expenses mainly 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.

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

- Acquisition Opportunities. There are opportunities for selective acquisitions or investments to expand our sales distribution channels and/or broaden our product offering by providing additional solutions for our target markets.
- Dependence on Capital Spending Patterns. There is risk associated with our dependence on 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 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.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report for fiscal 2020. Additional information and other factors that could affect future financial results may be included, from time to time, in our filings with the Securities and Exchange Commission (“SEC”).

#### **Recent Accounting Pronouncements**

For information with respect to recent accounting pronouncements, if any, and the impact of these pronouncements on our consolidated financial statements, if any, see Note A in the Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

## COMPARISON OF RESULTS OF OPERATIONS

**Three-Month Comparisons.** The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the three months ended January 31, 2021 and 2020:

|   | Three Months Ended January 31, |       |                        |
|---|--------------------------------|-------|------------------------|
|   | Percentage of Total Revenues   |       | Pct. Change in Dollars |
|   | 2021                           | 2020  | 2021 vs. 2020          |
| <b>Revenues:</b>                                |                                |       |                        |
| Subscription fees                               | 27 %                           | 19 %  | 29 %                   |
| License   | 2 %                            | 12 %  | (86)%                  |
| Professional services and other                 | 34 %                           | 34 %  | (8)%                   |
| Maintenance                                     | 37 %                           | 35 %  | (6)%                   |
| Total revenues                                  | 100 %                          | 100 % | (10)%                  |
| <b>Cost of revenues:</b>                        |                                |       |                        |
| Subscription fees                               | 11 %                           | 6 %   | 55 %                   |
| License   | 1 %                            | 5 %   | (82)%                  |
| Professional services and other                 | 26 %                           | 25 %  | (8)%                   |
| Maintenance                                     | 7 %                            | 6 %   | 3 %                    |
| Total cost of revenues                          | 45 %                           | 42 %  | (6)%                   |
| Gross margin                                    | 55 %                           | 58 %  | (13)%                  |
| Research and development                        | 15 %                           | 13 %  | 10 %                   |
| Sales and marketing                             | 18 %                           | 18 %  | (9)%                   |
| General and administrative                      | 18 %                           | 17 %  | (4)%                   |
| Amortization of acquisition-related intangibles | — %                            | — %   | (7)%                   |
| Total operating expenses                        | 51 %                           | 48 %  | (2)%                   |
| Operating income                                | 4 %                            | 10 %  | (67)%                  |
| <b>Other income:</b>                            |                                |       |                        |
| Interest income                                 | — %                            | 1 %   | (75)%                  |
| Other, net                                      | 5 %                            | 2 %   | 117 %                  |
| Earnings before income taxes                    | 9 %                            | 13 %  | (38)%                  |
| Income tax expense                              | — %                            | 2 %   | (89)%                  |
| Net earnings                                    | 9 %                            | 11 %  | (30)%                  |

**Nine-Month Comparisons.** The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the nine months ended January 31, 2021 and 2020:

|   | Nine Months Ended January 31, |       |                        |
|---|-------------------------------|-------|------------------------|
|   | Percentage of Total Revenues  |       | Pct. Change in Dollars |
|   | 2021                          | 2020  | 2021 vs. 2020          |
| <b>Revenues:</b>                                |                               |       |                        |
| Subscription fees                               | 25 %                          | 18 %  | 32 %                   |
| License   | 2 %                           | 8 %   | (73)%                  |
| Professional services and other                 | 36 %                          | 36 %  | (6)%                   |
| Maintenance                                     | 37 %                          | 38 %  | (6)%                   |
| Total revenues                                  | 100 %                         | 100 % | (4)%                   |
| <b>Cost of revenues:</b>                        |                               |       |                        |
| Subscription fees                               | 11 %                          | 8 %   | 31 %                   |
| License   | 2 %                           | 5 %   | (62)%                  |
| Professional services and other                 | 27 %                          | 26 %  | — %                    |
| Maintenance                                     | 7 %                           | 6 %   | 1 %                    |
| Total cost of revenues                          | 47 %                          | 45 %  | (1)%                   |
| Gross margin                                    | 53 %                          | 55 %  | (6)%                   |
| Research and development                        | 15 %                          | 13 %  | 11 %                   |
| Sales and marketing                             | 18 %                          | 18 %  | (6)%                   |
| General and administrative                      | 17 %                          | 17 %  | (7)%                   |
| Amortization of acquisition-related intangibles | — %                           | — %   | (31)%                  |
| Total operating expenses                        | 50 %                          | 49 %  | (2)%                   |
| Operating income                                | 3 %                           | 6 %   | (45)%                  |
| <b>Other income:</b>                            |                               |       |                        |
| Interest income                                 | — %                           | 1 %   | (75)%                  |
| Other, net                                      | 3 %                           | 1 %   | 146 %                  |
| Earnings before income taxes                    | 6 %                           | 9 %   | (22)%                  |
| Income tax expense                              | — %                           | 1 %   | (71)%                  |
| Net earnings                                    | 6 %                           | 8 %   | (19)%                  |

**COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2021 AND 2020**

**REVENUES**

|                                 | <b>Three Months Ended January 31,</b> |             |                 |                           |             |
|---------------------------------|---------------------------------------|-------------|-----------------|---------------------------|-------------|
|                                 |                                       |             |                 | <b>% of Total Revenue</b> |             |
|                                 | <b>2021</b>                           | <b>2020</b> | <b>% Change</b> | <b>2021</b>               | <b>2020</b> |
|                                 | <b>(in thousands)</b>                 |             |                 |                           |             |
| Subscription fees               | \$ 7,486                              | \$ 5,802    | 29 %            | 27 %                      | 19 %        |
| License                         | \$ 530                                | 3,695       | (86)%           | 2 %                       | 12 %        |
| Professional services and other | 9,495                                 | 10,308      | (8)%            | 34 %                      | 34 %        |
| Maintenance                     | 10,172                                | 10,795      | (6)%            | 37 %                      | 35 %        |
| Total revenues                  | \$ 27,683                             | \$ 30,600   | (10)%           | 100 %                     | 100 %       |

|                                 | <b>Nine Months Ended January 31,</b> |             |                 |                           |             |
|---------------------------------|--------------------------------------|-------------|-----------------|---------------------------|-------------|
|                                 |                                      |             |                 | <b>% of Total Revenue</b> |             |
|                                 | <b>2021</b>                          | <b>2020</b> | <b>% Change</b> | <b>2021</b>               | <b>2020</b> |
|                                 | <b>(in thousands)</b>                |             |                 |                           |             |
| Subscription fees               | \$ 20,815                            | \$ 15,752   | 32 %            | 25 %                      | 18 %        |
| License                         | 1,767                                | 6,519       | (73)%           | 2 %                       | 8 %         |
| Professional services and other | 29,551                               | 31,271      | (6)%            | 36 %                      | 36 %        |
| Maintenance                     | 30,709                               | 32,651      | (6)%            | 37 %                      | 38 %        |
| Total revenues                  | \$ 82,842                            | \$ 86,193   | (4)%            | 100 %                     | 100 %       |

For the three months ended January 31, 2021 compared to January 31, 2020 revenues decreased by 10% attributable primarily to a 86% decrease in license revenues, an 8% decrease in professional services and other revenues and a 6% decrease in maintenance revenues, that was partially offset by a 29% increase in subscription fees when compared to the same period last year.

For the nine months ended January 31, 2021 compared to January 31, 2020 revenues decreased by 4% attributable primarily to a 73% decrease in license revenues, a 6% decrease in professional services and other revenues and a 6% decrease in maintenance revenues, that was partially offset by a 32% increase in subscription fees when compared to the same period last year.

Due to intense competition in our industry, we sometimes discount fees from our published list price. Numerous factors contribute to the amount of the discount provided, such as previous customer purchases, the number of customer sites utilizing the software, the number of modules purchased and the number of users, as well as the overall size of the contract. While all these factors may affect the discount amount of a particular contract, the overall percentage discount has not materially changed in the recent reported fiscal periods.

The change in our revenues from period to period is primarily due to the volume of products and related services sold in any period and the number of products or modules purchased with each sale.

International revenues represented approximately 15% of total revenues for the three and nine months ended January 31, 2021 compared to 19% and 20% for the same periods in the prior year. Our revenues, particularly our international revenues, may fluctuate substantially from period to period, primarily because we derive most of our license and subscription fee revenues from a relatively small number of customers in a given period.

**Subscription Fees**

|                                 | <b>Three Months Ended January 31,</b> |                 |                 |
|---------------------------------|---------------------------------------|-----------------|-----------------|
|                                 | <b>2021</b>                           | <b>2020</b>     | <b>% Change</b> |
|                                 | <b>(in thousands)</b>                 |                 |                 |
| Supply Chain Management         | \$ 7,486                              | \$ 5,802        | 29 %            |
| Total subscription fee revenues | <u>\$ 7,486</u>                       | <u>\$ 5,802</u> | 29 %            |

  

|                                 | <b>Nine Months Ended January 31,</b> |                  |                 |
|---------------------------------|--------------------------------------|------------------|-----------------|
|                                 | <b>2021</b>                          | <b>2020</b>      | <b>% Change</b> |
|                                 | <b>(in thousands)</b>                |                  |                 |
| Supply Chain Management         | \$ 20,815                            | \$ 15,752        | 32 %            |
| Total subscription fee revenues | <u>\$ 20,815</u>                     | <u>\$ 15,752</u> | 32 %            |

For the three and nine months ended January 31, 2021, subscription fee revenues increased by 29% and 32%, respectively, when compared to the same periods in the prior year primarily due to contracts with a 24% increase in ACV as of January 31, 2021 when compared to the same time last year. This increase is due to the Company selling mostly new and existing customer transactions to cloud subscription revenue. This is evidence of our successful transition to the cloud subscription model.

**License Revenues**

|                            | <b>Three Months Ended January 31,</b> |                 |                 |
|----------------------------|---------------------------------------|-----------------|-----------------|
|                            | <b>2021</b>                           | <b>2020</b>     | <b>% Change</b> |
|                            | <b>(in thousands)</b>                 |                 |                 |
| Supply Chain Management    | \$ 530                                | \$ 3,665        | (86)%           |
| Other                      | —                                     | 30              | (100)%          |
| Total license fee revenues | <u>\$ 530</u>                         | <u>\$ 3,695</u> | (86)%           |

  

|                            | <b>Nine Months Ended January 31,</b> |                 |                 |
|----------------------------|--------------------------------------|-----------------|-----------------|
|                            | <b>2021</b>                          | <b>2020</b>     | <b>% Change</b> |
|                            | <b>(in thousands)</b>                |                 |                 |
| Supply Chain Management    | \$ 1,751                             | \$ 6,389        | (73)%           |
| Other                      | \$ 16                                | \$ 130          | (88)%           |
| Total license fee revenues | <u>\$ 1,767</u>                      | <u>\$ 6,519</u> | (73)%           |

For the three and nine months ended January 31, 2021, license fee revenues decreased 86% and 73%, respectively, when compared to the same periods in the prior year. For the three and nine months ended January 31, 2021, license fee revenues from our SCM segment decreased 86% and 73%, respectively, when compared to the corresponding periods in the prior year. Since we are transitioning most new customer transactions to cloud subscription revenue, the majority of our current license fee revenue is generated from additional users and expanded scope from our existing customers. For the three and nine months ended January 31, 2021 and 2020, our SCM segment constituted approximately 100% and 99% and 99% and 98%, respectively, of total license fee revenues. Our Other segment license fee revenues decreased by 100% and 88%, respectively, for the three and nine months ended January 31, 2021 when compared to the same periods in the prior year primarily due to timing of sales to our existing ERP customers for additional users.

The direct sales channel provided approximately 85% and 80% of license fee revenues for the three and nine months ended January 31, 2021, compared to approximately 89% and 91% in the comparable periods last year due to larger customers obtained through our direct sales channel moving to the Cloud platform faster than those in the mid-sized market that are primarily served by our indirect sales channel. For the three and nine months ended January 31, 2021, our margins after commissions on direct sales were approximately 84% compared to 90% in each comparable period last year. The decrease in margins is due to the mix of sales commission rates based on each individual salesperson’s quotas and related achievement. For

the three months ended January 31, 2021 and 2020, our margins after commissions on indirect sales were approximately 61% and 49%, respectively. For the nine months ended January 31, 2021 and 2020, our margins after commissions on indirect sales were approximately 57% and 52%, respectively. The indirect channel margins for the current quarter increased compared to the same periods in the prior year due to the mix of value-added reseller (“VAR”) commission rates. 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.

***Professional Services and Other Revenues***

|  | <b>Three Months Ended January 31,</b> |                  |                 |
|--|---------------------------------------|------------------|-----------------|
|  | <b>2021</b>                           | <b>2020</b>      | <b>% Change</b> |
|  | <b>(in thousands)</b>                 |                  |                 |
| Supply Chain Management                        | \$ 4,762                              | \$ 5,619         | (15)%           |
| IT Consulting                                  | 4,543                                 | 4,475            | 2 %             |
| Other  | 190                                   | 214              | (11)%           |
| Total professional services and other revenues | <u>\$ 9,495</u>                       | <u>\$ 10,308</u> | (8)%            |

  

|  | <b>Nine Months Ended January 31,</b> |                  |                 |
|--|--------------------------------------|------------------|-----------------|
|  | <b>2021</b>                          | <b>2020</b>      | <b>% Change</b> |
|  | <b>(in thousands)</b>                |                  |                 |
| Supply Chain Management                        | \$ 14,318                            | \$ 17,551        | (18)%           |
| IT Consulting                                  | 14,602                               | 13,011           | 12 %            |
| Other  | 631                                  | 709              | (11)%           |
| Total professional services and other revenues | <u>\$ 29,551</u>                     | <u>\$ 31,271</u> | (6)%            |

For the three and nine months ended January 31, 2021, professional services and other revenues decreased by 8% and 6%, respectively, due to the decreased professional services and other revenues from our SCM and Other segments. This decrease was partially offset by an increase in professional services and other revenues from our IT Consulting segment. For the three and nine months ended January 31, 2021, our Other segment’s revenues decreased by 11%, in each period, due to a decrease in license fee sales when compared to the same periods last year. For the three and nine months ended January 31, 2021, our SCM segment’s professional services and other revenues decreased 15% and 18%, respectively, primarily due to a slower ramp up of implementation project work due to lower subscription and license fee sales in recent periods. For the three and nine months ended January 31, 2021, our IT Consulting segment’s revenues increased 2% and 12%, respectively, when compared to the same periods in the prior year due to an increase in project work from existing customers. We have observed that there is a tendency for services and other revenues, other than from IT Consulting, to lag changes in license and subscription revenues by one to three quarters, as new licenses and subscriptions in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

***Maintenance Revenues***

|                            | <b>Three Months Ended January 31,</b> |                  |                 |
|----------------------------|---------------------------------------|------------------|-----------------|
|                            | <b>2021</b>                           | <b>2020</b>      | <b>% Change</b> |
|                            | <b>(in thousands)</b>                 |                  |                 |
| Supply Chain Management    | \$ 9,867                              | \$ 10,492        | (6)%            |
| Other                      | 305                                   | 303              | 1 %             |
| Total maintenance revenues | <u>\$ 10,172</u>                      | <u>\$ 10,795</u> | (6)%            |

|                            | Nine Months Ended January 31, |                  |          |
|----------------------------|-------------------------------|------------------|----------|
|                            | 2021                          | 2020             | % Change |
|                            | (in thousands)                |                  |          |
| Supply Chain Management    | \$ 29,794                     | \$ 31,720        | (6)%     |
| Other                      | 915                           | 931              | (2)%     |
| Total maintenance revenues | <u>\$ 30,709</u>              | <u>\$ 32,651</u> | (6)%     |

For both the three and nine months ended January 31, 2021, maintenance revenues decreased 6%, when compared to the same periods in the prior year. Our SCM maintenance revenue decreased 6% for both the three and nine months ended January 31, 2021, when compared to the same periods last year due to normal customer attrition and lower license fee revenue in recent periods. The SCM segment accounted for 97% of total maintenance revenues for both the three and nine months ended January 31, 2021 and for the same periods in the prior year. Typically, our maintenance revenues have had a direct relationship to current and historic license fee revenues, since licenses are the source of maintenance customers.

## GROSS MARGIN

The following table provides both dollar amounts (in thousands) and percentage measures of gross margin:

|   | Three Months Ended January 31, |             |                  |             | Nine Months Ended January 31, |             |                  |             |
|---|--------------------------------|-------------|------------------|-------------|-------------------------------|-------------|------------------|-------------|
|   | 2021                           | %           | 2020             | %           | 2021                          | %           | 2020             | %           |
| Gross margin on subscription fees               | \$ 4,424                       | 59 %        | \$ 3,826         | 66 %        | \$ 12,048                     | 58 %        | \$ 9,041         | 57 %        |
| Gross margin on license fees                    | 242                            | 46 %        | 2,113            | 57 %        | 251                           | 14 %        | 2,550            | 39 %        |
| Gross margin on professional services and other | 2,317                          | 24 %        | 2,544            | 25 %        | 6,919                         | 23 %        | 8,559            | 27 %        |
| Gross margin on maintenance                     | 8,278                          | 81 %        | 8,959            | 83 %        | 25,101                        | 82 %        | 27,100           | 83 %        |
| Total gross margin                              | <u>\$ 15,261</u>               | <u>55 %</u> | <u>\$ 17,442</u> | <u>58 %</u> | <u>\$ 44,319</u>              | <u>53 %</u> | <u>\$ 47,250</u> | <u>55 %</u> |

For the three and nine months ended January 31, 2021, our total gross margin percentages decreased by 3% and 2%, respectively, when compared to the same periods in the prior year primarily due to lower margins across all revenue streams.

### *Gross Margin on Subscription Fees*

For the three and nine months ended January 31, 2021, our gross margin percentage on subscription fee revenue decreased from 66% to 59% and increased from 57% to 58%, respectively, when compared to the same periods in the prior year, primarily due to the higher allocation of capitalized software amortization expense, which is the result of higher subscription revenue and lower license fee revenue.

### *Gross Margin on License Fees*

License fee gross margin percentage for the three and nine months ended January 31, 2021 decreased when compared to the same period in the prior year. 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.

### *Gross Margin on Professional Services and Other*

Our gross margin percentage on professional services and other revenues decreased to 24% for the three months ended January 31, 2021 from 25% for the three months ended January 31, 2020 and decreased to 23% for the nine months ended January 31, 2021 from 27% for the nine months ended January 31, 2020. This decrease was primarily due to lower gross margins in our Other segment, for which gross margin decreased to 29% from 44% for the three months ended January 31, 2021 and 2020, respectively, due to lower margin projects year to date. Our IT Consulting segment professional services gross margin increased to 18% from 17% for the three months ended January 31, 2021 and 2020, respectively, due to higher margin projects in the current quarter. Our SCM segment professional services gross margin increased to 31% from 30% for the three months ended January 31, 2021 and 2020, respectively, due to cost containment efforts. Professional services and other gross margin is directly related to the level of services and other revenues.

For the nine months ended January 31, 2021 and 2020, SCM segment professional services gross margins decreased to 30% from 33%, respectively, due to lower billing utilization, an increase in vacations and customers delaying project start dates compared to the same period in the prior year. Our Other segment professional services gross margin decreased to 38% from 49% for the nine months ended January 31, 2021 and 2020, respectively, due to lower margin projects year to date. Our IT Consulting segment professional services gross margin decreased to 17% from 19% for the nine months ended January 31, 2021 and 2020, respectively, due to lower margin projects. Professional services and other gross margin is 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.

### *Gross Margin on Maintenance*

Maintenance gross margin percentage decreased 2% and 1% for the three and nine months ended January 31, 2021 when compared to the same period in the prior year. The primary cost component is maintenance staffing, which is relatively inelastic in the short term.



**EXPENSES**

|   | Three Months Ended January 31, |          |               |      | Nine Months Ended January 31, |          |               |      |
|---|--------------------------------|----------|---------------|------|-------------------------------|----------|---------------|------|
|   |                                |          | % of Revenues |      |                               |          | % of Revenues |      |
|   | 2021                           | 2020     | 2021          | 2020 | 2021                          | 2020     | 2021          | 2020 |
|   | (in thousands)                 |          |               |      |                               |          |               |      |
| Research and development                              | \$ 4,242                       | \$ 3,853 | 15 %          | 13 % | \$12,674                      | \$11,390 | 15 %          | 13 % |
| Sales and marketing                                   | \$ 5,029                       | \$ 5,519 | 18 %          | 18 % | \$15,202                      | \$16,246 | 18 %          | 18 % |
| General and administrative                            | \$ 5,002                       | \$ 5,194 | 18 %          | 17 % | \$13,833                      | \$14,923 | 17 %          | 17 % |
| Amortization of acquisition-related intangible assets | \$ 53                          | \$ 57    | — %           | — %  | \$ 159                        | \$ 232   | — %           | — %  |
| Other income, net                                     | \$ 1,432                       | \$ 978   | 5 %           | 3 %  | \$ 2,722                      | \$ 2,215 | 3 %           | 2 %  |
| Income tax expense                                    | \$ 56                          | \$ 511   | — %           | 2 %  | \$ 136                        | \$ 477   | — %           | 1 %  |

**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:

|  | Three Months Ended January 31, |          |          |
|--|--------------------------------|----------|----------|
|  | 2021                           | 2020     | % Change |
|  | (in thousands)                 |          |          |
| Total capitalized computer software development costs  | \$ 233                         | \$ 807   | (71)%    |
| Percentage of gross product research and development costs   | 5 %                            | 17 %     |          |
| Total research and development expense   | \$ 4,242                       | \$ 3,853 | 10 %     |
| Percentage of total revenues   | 15 %                           | 13 %     |          |
| Total gross product research and development expense and capitalized computer software development costs | \$ 4,475                       | \$ 4,660 | (4)%     |
| Percentage of total revenues   | 16 %                           | 15 %     |          |
| Total amortization of capitalized computer software development costs *                                  | \$ 997                         | \$ 1,408 | (29)%    |

|  | Nine Months Ended January 31, |           |          |
|--|-------------------------------|-----------|----------|
|  | 2021                          | 2020      | % Change |
|  | (in thousands)                |           |          |
| Total capitalized computer software development costs  | \$ 604                        | \$ 2,697  | (78)%    |
| Percentage of gross product research and development costs   | 5 %                           | 19 %      |          |
| Total research and development expense   | \$ 12,674                     | \$ 11,390 | 11 %     |
| Percentage of total revenues   | 15 %                          | 13 %      |          |
| Total gross product research and development expense and capitalized computer software development costs | \$ 13,278                     | \$ 14,087 | (6)%     |
| Percentage of total revenues   | 16 %                          | 16 %      |          |
| Total amortization of capitalized computer software development costs *                                  | \$ 3,257                      | \$ 4,545  | (28)%    |

\*Included in cost of license fees and subscription fees.

For the three and nine months ended January 31, 2021, gross product research and development costs decreased 4% and 6%, respectively, when compared to the same periods in the previous year, primarily due to a decrease in the use of third-party contractors and personnel costs. We expect capitalized product development costs to decrease due to the timing of projects and an increase in agile software programming that accelerate the software releases to weeks from months. We expect

capitalized software amortization expense to be relatively stable in the coming quarters. Costs included in gross product development are salaries of product development personnel, hardware lease expense, computer software expense and telephone expense.

**Sales and Marketing**

For the three and nine months ended January 31, 2021, sales and marketing expenses decreased 9% and 6%, respectively, when compared to the same periods a year ago, primarily due to a decreases in trade shows, variable compensation and travel due to the COVID-19 pandemic.

**General and Administrative**

For the three and nine months ended January 31, 2021, general and administrative expenses decreased 4% and 7%, respectively, when compared to the same periods a year ago, primarily due to a decrease in variable compensation, personnel costs and legal fees.

At January 31, 2021, the total number of employees was 429 compared to 428 at January 31, 2020.

**Operating Income/(Loss)**

|                         | Three Months Ended January 31, |                 |          | Nine Months Ended January 31, |                 |          |
|-------------------------|--------------------------------|-----------------|----------|-------------------------------|-----------------|----------|
|                         | 2021                           | 2020            | % Change | 2021                          | 2020            | % Change |
|                         | (in thousands)                 |                 |          | (in thousands)                |                 |          |
| Supply Chain Management | \$ 4,713                       | \$ 6,693        | (30)%    | \$ 12,800                     | \$ 14,904       | (14)%    |
| IT Consulting           | 83                             | 43              | 93 %     | 292                           | 210             | 39 %     |
| Other*                  | (3,861)                        | (3,917)         | (1)%     | (10,641)                      | (10,655)        | — %      |
| Total Operating Income  | <u>\$ 935</u>                  | <u>\$ 2,819</u> | (67)%    | <u>\$ 2,451</u>               | <u>\$ 4,459</u> | (45)%    |

\* Includes all corporate overhead and other shared expenses.

Our SCM segment operating income decreased by 30% and 14% for the three and nine months ended January 31, 2021, respectively, compared to the same periods in the prior year primarily due to lower gross margins.

Our IT Consulting segment operating income increased for the three and nine months ended January 31, 2021, compared to same periods last year primarily due to increased revenues and lower personnel costs.

Our Other segment operating loss remained relatively flat for the three and nine months ended January 31, 2021, respectively, when compared to the same periods in the prior year.

**Other Income**

Other income is comprised of net interest and dividend income, rental income, exchange rate gains and losses, and realized and unrealized gains and losses from investments. Other income was approximately \$1.4 million for the three months ended January 31, 2021 compared to \$1.0 million for the same period last year. The increase was primarily due to unrealized gains of \$1.2 million in January 31, 2021 compared to unrealized gains of \$0.8 million for the same period last year, partially offset by lower interest income of \$0.1 million in January 31, 2021 compared to \$0.4 million in same period in the prior year.

Other income was approximately \$2.7 million for the nine months ended January 31, 2021 compared to \$2.2 million for the same period last year, mainly due to an increase in unrealized gains of \$1.9 million compared to \$1.0 million for the same period last year and an increase in exchange rate gains of \$0.1 million compared to exchange rate losses of \$0.4 million for the same period last year. This increase was partially offset by lower interest income of \$0.3 million in January 31, 2021 compared to \$1.2 million in same period in the prior year.

For the three and nine months ended January 31, 2021, our investments generated an annualized yield of approximately 1.67% and 1.80%, respectively, compared to approximately 1.47% and 1.78% for the three and nine months ended January 31, 2020.

**Income Taxes**

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 the Income Tax Topic of the FASB ASC, 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.

During the three and nine months ended January 31, 2021, we recorded an income tax expense of \$56,000 and \$136,000, respectively, primarily due to discrete stock compensation benefits of \$233,000 and \$504,000 respectively, net of normal income tax expense from operations. During the three and nine months ended January 31, 2020, we recorded an income tax expense of \$511,000 and \$477,000, respectively, primarily due to discrete stock compensation benefits of \$0.1 million and \$0.6 million respectively, net of normal income tax expense from operations. Before adjusting for these discrete tax benefits, our effective tax rate would have been 16.2% and 14.2%, respectively, in the three and nine months ended January 31, 2021 compared to our effective tax rate of 18.4% and 17.0% in the three and nine months ended January 31, 2020. In addition, research and development and foreign tax credits reduced our effective tax rate by 8.9% and 1.1%, respectively, in the nine months ended January 31, 2021, compared to reductions of 6.5% and 1.2%, respectively, in the nine months ended January 31, 2020.

**Operating Pattern**

We experience an irregular pattern of quarterly operating results, caused primarily by fluctuations in both the number and size of software license and subscription contracts received and delivered from quarter to quarter and our ability to recognize revenues in that quarter in accordance with our revenue recognition policies. We expect this pattern to continue.

**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 table shows information about our cash flows and liquidity positions during the nine months ended January 31, 2021 and 2020. You should read this table and the discussion that follows in conjunction with our Condensed Consolidated Statements of Cash Flows contained in Item 1 in Part I of this Quarterly Report and in our Annual Report for fiscal 2020.

|   | Nine Months Ended<br>January 31, |                 |
|---|----------------------------------|-----------------|
|   | 2021                             | 2020            |
| Net cash provided by operating activities | \$ 13,933                        | \$ 13,112       |
| Net cash used in investing activities     | (1,065)                          | (3,036)         |
| Net cash used in financing activities     | (5,961)                          | (2,555)         |
| Net change in cash and cash equivalents   | <u>\$ 6,907</u>                  | <u>\$ 7,521</u> |

For the nine months ended January 31, 2021, the net increase in cash provided by operating activities when compared to the same period last year was due primarily to the following: (1) a decrease in purchases of trading securities, (2) a relative decrease in customer accounts receivables caused by the timing of closing customer sales and related collections, (3) a relative decrease in prepaid expenses when compared to an increase in the same period last year due to the timing of purchases and (4) an increase in stock-based compensation expense.

This increase in cash provided by operating activities was partially offset by: (1) lower proceeds from the maturity and sales of trading securities, (2) a relative decrease in deferred revenue due to timing of revenue recognition, (3) a relative decrease in accounts payable and other accruals compared to a relative increase in the same period last year due to timing of payments, (4) a decrease in depreciation and amortization, (5) a decrease in net earnings, (6) higher gains on investments than in the prior year and (7) an increase in deferred income tax.

The decrease in cash used in investing activities when compared to the same period in the prior year was mainly due to a decrease in capitalized computer software development costs, partially offset by an increase in purchases of property and equipment.

The increase in cash used in financing activities compared to the prior year was due primarily to an increase in dividends paid, partially offset by a decrease in proceeds from exercise of stock options.

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

|   | As of January 31,<br>(in thousands) |               |
|---|-------------------------------------|---------------|
|   | 2021                                | 2020          |
| Cash and cash equivalents   | \$ 86,721                           | \$ 68,809     |
| Short and long-term investments   | 14,052                              | 27,478        |
| <b>Total cash and short and long-term investments</b>                     | <b>100,773</b>                      | <b>96,287</b> |
| Net increase in total cash and investments (nine months ended January 31) | \$ 6,097                            | \$ 7,805      |

Our total activities used more cash and investments during the nine months ended January 31, 2021, when compared to the prior year period, in the course of normal business operations.

Days Sales Outstanding in accounts receivable were 65 days as of January 31, 2021, compared to 70 days as of January 31, 2020. This decrease is primarily due to the timing of billings, cash collections and delays in customer payments due to the COVID-19 pandemic. Our current ratio on January 31, 2021 was 2.9 to 1 and on January 31, 2020 was 2.6 to 1.

Our business in recent periods has generated substantial positive cash flow from operations, excluding purchases and proceeds of sale of trading securities. For this reason, and because we had \$100.8 million in cash and investments with no debt as of January 31, 2021, 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.

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to an additional 2.0 million shares of our Class A common stock. We have made and will make these repurchases 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. Under this repurchase plan, through January 31, 2021, we have repurchased 1,053,679 shares of common stock at a cost of approximately \$6.2 million. As of January 31, 2021, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,588,632 shares of common stock at a cost of approximately \$25.6 million.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have based the foregoing discussion and analysis of financial condition and results of operations on our Condensed Consolidated Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these Condensed Consolidated 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 Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements in our Annual Report for fiscal 2020, describes the significant accounting policies that we have used in preparing our Condensed Consolidated Financial Statements. On an ongoing basis, we evaluate our estimates related to revenue/collectability. 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 Condensed Consolidated Financial Statements.

**Revenue Recognition.** The most critical judgment required in applying Topic 606 and our revenue recognition policy relates to the evaluation of the standalone selling price ("SSP") for each performance obligation.

We use historical sales transaction data and judgments, among other factors, in determining the SSP for products and services. For substantially all performance obligations except on-premise licenses, we are able to establish the SSP based on the observable prices of products or services sold separately to similar customers in comparable circumstances. We typically establish an SSP range for our products and services, which is reassessed on a periodic basis or when facts and circumstances change. SSP for our products and services can evolve over time due to changes in our pricing practices that are influenced by competition, changes in demand for our products and services, and economic factors, among others. Our on-premise licenses historically have not been sold on a standalone basis, as substantially all customers elect to purchase maintenance at the time of an on-premise license purchase. Maintenance fees are generally priced as a percentage of the net fees paid by the customer to access the on-premise license. We are unable to establish the SSP for our on-premise licenses based on observable prices, as the same products are sold for a broad range of prices (that is, the selling price is highly variable) and a representative SSP is not discernible from past transactions or other observable evidence. As a result, the SSP for a on-premise license included in a contract with multiple performance obligations is determined by applying a residual approach, whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective SSPs, with any residual amount of transaction price allocated to on-premise license revenues.

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

**Foreign Currency.** In the three and nine months ended January 31, 2021, we generated approximately 15% of our revenues outside the United States. We typically make international sales through our VARs and employees located in foreign countries and denominate those sales in U.S., Australian and New Zealand 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 gains of approximately \$0.1 million for both the three and nine months ended January 31, 2021, compared to exchange rate losses of approximately \$0.1 million and \$0.4 million for the three and nine months January 31, 2020. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$0.3 million exchange rate gain or loss for the three and nine months ended January 31, 2021. 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 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. These instruments are denominated in U.S. dollars. The fair market value of these instruments as of January 31, 2021 was approximately \$93.8 million compared to \$91.8 million as of January 31, 2020.

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**

Our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Our disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding disclosure.

Our principal executive officer and principal financial officer, with the assistance of our Disclosure Committee, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. 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 and Quarterly Reports. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

**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 Quarterly Report, you should carefully consider the risk factors disclosed in Item 1A, “Risk Factors,” of our Annual Report for fiscal 2020. There have been no material changes to the risk factors as previously disclosed in such Annual Report.

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

None.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

|                     |   |
|---------------------|---|
| Exhibit 3.1         | Amended and Restated Articles of Incorporation, and amendments thereto. (1) (P) |
| Exhibit 3.2         | <a href="#">Amended and Restated By-Laws dated May 18, 2009.</a> (2)            |
| Exhibits 31.1-31.2. | Rule <a href="#">13a-14(a)/15d-14(a)</a> Certifications                         |
| Exhibit 32.1.       | <a href="#">Section 906 Certifications</a>                                      |
| Exhibit 101.INS     | XBRL Instance Document.   |
| Exhibit 101.SCH     | XBRL Taxonomy Extension Schema Document.  |
| Exhibit 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document.                          |
| Exhibit 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document.                           |
| Exhibit 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document.                                |
| Exhibit 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document.                         |

---

(1) Incorporated by reference herein. Filed by the Company as an exhibit to its Quarterly Report filed on Form 10-Q for the quarter ended October 31, 1990. (P) Filed in paper format.

(2) Incorporated by reference herein. Filed by the Company as Exhibit 3.1 to its Quarterly Report filed on Form 10-Q for the quarter ended January 31, 2010.



**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: March 5, 2021

By: /s/ H. Allan Dow

---

H. Allan Dow  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: March 5, 2021

By: /s/ Vincent C. Klinges

---

Vincent C. Klinges  
Chief Financial Officer  
(Principal Financial Officer)

Date: March 5, 2021

By: /s/ Bryan L. Sell

---

Bryan L. Sell  
Controller and Principal Accounting Officer