



DUTTON ASSOCIATES

INDEPENDENT RESEARCH

RESEARCH REPORT

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American Software Inc.

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Symbol (NasdaqNM)	AMSWA	Fiscal Year Ending: April 30				
Industry:	Computer Software and Services	Year	EPS	P/E	REVS	PSR
Recent Price:	\$6.03	2001 A	\$ (0.63)	---	\$ 71.2	2.0 x
52-Week Price Range:	\$5.03 - \$8.50	2002 A	\$ 0.31	19.5 x	\$ 64.6	2.2 x
Target Price (12 months):	\$9.00	2003 A	\$ 0.24	25.1 x	\$ 59.3	2.4 x
Avg. Daily Vol. (30 day):	60,700	2004 A	\$ 0.23	26.2 x	\$ 54.7	2.6 x
		2005* E	\$ 0.23	26.2 x	\$ 60.4	2.4 x

Balance Sheet Data 10/31/04 (mil)	Ownership and Valuation	Current Rating History
Cash Equivalent: \$ 55.0	Shares Outstanding (mil): 23.7	Date Assigned: 1/3/05
Working Capital: \$ 61.5	Inside Ownership: 15%	Price at Rating: \$ 6.03
Long-Term Liabilities: \$ -	Institutional Ownership: 44%	Original Price Target: \$ 9.00
Shareholders' Equity: \$ 76.2	Equity Market Value (mil): \$ 142.9	Time Frame: 12 months

* 12 months ending 10/31/05

Initial Report

Rating: Strong Buy

Basis For Rating

We are initiating coverage of American Software Inc. with a **Strong Buy** rating and a 12-month target of \$9.00 per share. American Software has an excellent market share position in an area with above average growth potential. In addition, the Company's strong balance sheet allows it to take advantage of growth opportunities either internally or through acquisitions. The stock market is currently treating the shares as a value stock rather than the stock of the growth company we expect American Software to become. Investors now enjoy a yield of 4.8% on the quarterly dividend of \$0.07.

- **Leading Industry Position Measured by Customers.** American Software, through its 87% ownership of Logility Inc. (NASDAQ: LGTY – \$4.90), is a leader in the supply chain management (SCM) software applications business with particular strength in areas dependent on efficient inventory control and distribution. Logility has over 1,100 SCM software clients compared with an estimated 1,100 at Manugistics Group and 900 at i2 Technologies, its two most important competitors.
- **Strong Balance Sheet.** American Software had cash and investments of \$55 million at October 31, 2004 with no long-term debt.
- **Favorable Dividend Yield** of 4.8% from the cash dividend of \$0.07 per quarter. American Software just reported its 15th consecutive quarter of profitability in spite of the industry slowdown and generally weak economic conditions in the U.S. for technology products.
- **Potential to Accelerate Growth.** Logility's acquisition of Demand Management provides Logility with the potential to accelerate growth. Demand Management provides a low-end supply chain management offering and an added 800 active customers. Prior to this acquisition, Logility typically did not pursue customers with less than \$200 million in annual sales. Demand Management targets smaller companies and does it through distributors providing a low-cost sales channel. With this acquisition, Logility can give customer leads to Demand Management, which can give leads of larger companies to Logility (note: this is already happening even though

the acquisition is only a few months old). Demand Management adds roughly \$10 million in annual sales and is expected to be accretive within one year.

- **Attractive Business Model.** Software license sales contribute on-going revenues. Annual maintenance and support contracts are offered for about 20% of the initial selling price of the software. Consequently, as the customer base grows the level of ongoing revenues will increase.
- **RFID (Radio Frequency Identification)** adds supply chain management market momentum. Retailers and other organizations are requesting that RFID tags be added to shipping pallets to improve tracking of products through distribution centers. Logility's software already supports the ability to track RFID items. Wal-Mart, the Department of Defense, Target and Albertson's have already announced that their suppliers must install RFID capability. We believe many or most retailers will insist that suppliers have a system like Logility's if they want to be considered as a supplier.
- **New Product Could Accelerate Growth.** Version 7.0 of Logility's Voyager application was first demonstrated to customers in 2003. At the end of the July quarter, 60 customers were live with this application.
- **Customers Get a Quick Return on Their Investment,** improving the potential for sales. Many (or most) Logility customers have a one-year payback on systems costs (i.e., 100% return on investment).

Important Risks

The expected industry turnaround for supply chain management software has not yet occurred. Customers are still deferring purchase and taking an extended time to evaluate Logility's software.

American Software is a relatively small company. With an estimated \$60 million in sales for its current fiscal year, American Software is significantly smaller than companies such as IBM and Oracle that could throw substantial assets at the SCM area if they so desired.

Logility is also substantially smaller than key industry competitors such as i2 and Manugistics when measured in revenues. However, these two competitors have been reporting lower revenues and substantial losses in recent periods. In addition, Logility takes a more targeted approach to the SCM industry, focusing on distribution-intensive industries allowing it to use its assets more effectively. Measured by customers, Logility's position looks more favorable with an installed base over 1,200, slightly above Manugistics, and well above the approximate 900 at i2 Technologies.

A high level of spending on product development (as percentage of revenues) is required at Logility to insure long-term success.

We believe these risks are more than offset by American Software's attractive business model, targeting a market with above-average growth opportunities, and good balance sheet. Investors can also enjoy the current yield of 4.8% while they wait for the expected market turn.

Valuation

Table 1, below, lists key statistics for American Software and key competitors such as i2 Technologies, Manugistics Group, and SAP AG.

Table 1. Valuation Comparison

Company	Stock Symbol	Recent Price	Shares Outstanding (millions)	Market Capitalization (millions)	EPS Est*	P/E Multiple	Book Value**	Price/Book Val	Annual Dividend	Yield	Fiscal Year
American Software	AMSWA	\$ 5.86	23.63	\$ 138	\$ 0.37	15.8	\$ 3.23	1.8	\$ 0.28	4.8%	30-Apr
i2 Technologies	ITWO.PK	\$ 0.63	462.00	\$ 291	n.a	n.a	\$ (0.60)	n.a	\$ -	n.a	31-Dec
Manugistics Group	MANU	\$ 2.84	82.30	\$ 234	\$ 0.02	142.0	\$ 2.33	1.2	\$ -	n.a	28-Feb
SAP AG	SAP	\$ 44.29	1,250.00	\$ 55,363	\$ 1.52	29.1	\$ 4.30	10.3	\$ 0.24	0.5%	31-Dec
Manhattan Associates	MANH	\$ 24.38	30.06	\$ 733	\$ 0.93	26.2	\$ 8.28	2.9	\$ -	n.a	31-Dec

* Estimates

AMSWA EPS estimate is for April 06 FY

MANU EPS estimate is for February 06 FY

SAP EPS estimate is for Dec 05

MANH EPS estimate is for Dec 05

** Book value is from most recent quarter

Stocks priced as of market close December 30, 2004.

Source: Yahoo Finance, except American Software estimate, which is by J.M. Dutton & Associates

Manhattan Associates is also included because they offer software in warehouse management that is a component of supply chain management.

There are a number of ways we could value American Software, including:

- Its market capitalization relative to its customer base (more customers than i2 or Manugistics but a lower market capitalization).
- Value of its software to a firm that would want to enter the supply chain market immediately rather than develop SCM software from scratch.
- Asset value relative to market capitalization (i.e., we believe the book value of \$3.23 a share is understated because it includes real estate in the Buckhead area of Atlanta that is carried on the books at only \$7 million for 4.5 acres of land plus 160,000 square feet of office space).

American Software's market capitalization of \$137 million is putting a value of only \$82 million on the on-going businesses after the \$55 million in cash is backed out. In summary, as a potential buyout the Company appears undervalued from a broad number of matrixes. However, because of the tight control of the shares by the founders we believe an unfriendly buyout is virtually impossible. Consequently, we believe investors should use the traditional price/earnings multiple as the most relevant valuation approach. At 15.7x our April 2006 fiscal year estimate of \$0.37 (fully diluted), the shares have a substantially lower P/E multiple than Manugistics, SAP, or Manhattan Associates. Our 2006 estimate is two months further out than the Manugistics estimate and four months further out than SAP or Manhattan Associates. Using a P/E of 20x our fiscal '06 EPS estimate gives us a target price of \$7.50 and 25x gives us a target price of \$9.35; we are leaning towards the high end with our 12-month target of \$9.00. In addition to the potential price appreciation, investors are expected to continue to receive the annual dividend of \$0.28 per share.

The Company

American Software is an Atlanta-based company that was founded in 1970 by James C. Edenfield and Dr. Thomas L. Newberry. The Company develops, markets and supports a family of software and services that provide enterprise management and collaborative SCM solutions on a worldwide basis. American Software operates in four business segments.

- Indirectly via its majority ownership in Logility, offering SCM software
- An enterprise resource planning (ERP) family of products
- New Generation Computing (NGC), with ERP applications specifically for the sewn goods industries
- IT Solutions

Annual and quarterly results are reported as License fees, Service and Other, and Maintenance. International sales represented 7% of total revenues (about \$3.82 million) for the April 2004 year, down from \$6.5 million for the prior year.

Logility (36% of American Software revenues and 35% of its operating income)

Logility (87% owned; 16% of Logility was spun off in an initial public offering in 1997), with 420 active customers, provides collaborative SCM software applications that provide solutions to optimize the production, distribution and inventory management between trading partners. Logility's market focus is on companies in distribution-intensive industries. Targeted companies are those in the "mid-market" with annual sales in a range of \$200 million to \$4.0 billion. The recently acquired company, Demand Management, focuses on companies below \$200 million in sales and has an additional 800 active customers.

Logility Software Applications (Modules)

Logility Voyager Solutions™:

- Value Chain Collaboration
- Demand Chain Planning
- Global Sourcing Management
- Supply Chain Planning
- Supply Chain Execution

Logility's software runs on popular computer operating systems such as: Microsoft Windows, Unix and iSeries (i.e., IBM AS 400) with Oracle, SQL Server or DB2 databases. The modules can be purchased separately or as a complete system. Logility's competitive advantages include ease of use with out-of-the-box functionality, and seamless integration with other providers' ERP systems, providing rapid time to benefit and a quick return on investment (i.e., typically less than a year). In addition, Logility's software has a much shorter installation time than competitive offerings.

Logility has its own sales force and also uses distributors on a worldwide basis. Typically 10% to 12% of revenues are from foreign sources.

Logility acquired Demand Management, Inc. effective October 1, 2004. Demand Management's products are marketed under the Demand Solutions brand name. Products are sold through a distributor network of 23 organizations in more than 70 countries. Industries targeted include: consumer goods, food and beverage, apparel, life sciences, service parts and retail distribution. Demand Management software application areas are similar to Logility's, with products offered in:

forecasting demand planning, inventory planning, replenishment planning etc. We like the lower end of the SCM market because the software purchase decision involves fewer people, so it can be more quickly made.

ERP (40% of revenues and 41% of operating income)

The Enterprise Resource Planning Group (200 active customers) segment consists of the American Software enterprise resource planning (ERP) capability, that provides purchasing and materials management; order processing, financial, e-commerce, flow manufacturing and traditional manufacturing solutions. Its e-Intelliprise application is an Internet-based solution that runs on IBM iSeries (AS 400) servers providing users a role-based Web page capability. Flow Manufacturing is an application that provides pull-based manufacturing and e-applications through integration with a users existing ERP or legacy system. American Software's ERP Group also offers a tool (RF Direct Connect) that enables users to enter inventory and manufacturing transactions using bar code data collection devices. This RF Direct approach reduces human error for tracking items from manufacturing to end customer (i.e., what was manufactured, where an item is warehoused, items in transit and on what vehicle, and items received by a customer).

ERP modules include:

- Manufacturing modules
- Logistics modules
- Financial modules
- Flow Manufacturing modules
- e-Applications

New Generation Computing (estimated 18% of American Software revenues and 18% of operating income)

New Generation Computing (NGC), providing industry-specific business software to both manufacturers and retailers in the furniture and apparel industries, was acquired in 1998 and has 170 active customers. NGC's solutions include an Internet sourcing and supply chain visibility system (e-SPS), an enterprise resource planning system (marketed under the Red Horse name); a product lifecycle management system (e-PDM), an apparel-specific enterprise resource planning system (AMAS); a shop floor control and incentive payroll system (TPM); an import management system (IMS); an electronic data interchange system (EDI), a full package management system (FMS); and an EZ-Ship packing and shipping system for remote factories (EZ-Ship). All products are completely integrated or available as individual modules.

IT Solutions (estimated 6% of American Software revenues and 6% of operating income)

This segment consists of The Proven Method, a wholly owned IT staffing and consulting services firm. The business has over 15 active clients. Solutions provided include custom software development, integration of third-party software applications and temporary staffing of information technology professionals (typically software engineers).

Supply Chain Management (SCM) – Major Growth Opportunity

Our interest in American Software as an investment relates primarily to the potential for the SCM software applications developed and marketed by Logility and the recently acquired Demand Management. The basic dilemma for retailers is that "you can't sell from an empty shelf" but there is risk of having excess inventory (and then potentially product obsolescence and markdowns). The SCM (sometimes called business-to-business collaborative software) industry got a boost with success of the Internet.

Dell Computer has the best "Internet model" for consumer sales that we are aware of. Dell can meet consumer expectations while basically eliminating all inventory risks and expenses and its accounts receivable risks. Dell doesn't build the consumer's computer until it is ordered over the Internet. Dell then charges the consumer's credit card immediately upon shipping, and then Dell waits to pay its suppliers. In addition, Dell typically has its suppliers warehouse

needed components across the street from its assembly facilities so that it doesn't take possession of components until they are used. The net result is that Dell has eliminated inventory risk on both the supply side and in distribution. Unfortunately, for the rest of the world, proper inventory levels at both the supply and demand side are much more difficult to control and consequently represent two of management's key challenges. However, these same inventory management challenges have created the business opportunity for Logility.

An "old world" approach to inventory management was requesting that consumers send back warranty cards, allowing manufacturers to track end market sales. This was used for many decades. If a lot of cards came back manufacturers knew it was time to increase production. This card approach could still work for selected products, with the return delay and percentage of returns reasonably consistent. However, manufacturers would still be blind relative to what the retailers had actually put on the shelf.

Retailers got a major boost in sales analysis potential with the switch to "checkout scanners" from cash registers. Scanners read the universal product code (UPC) on sales items, providing instantaneous sales data for retailers on what has moved through the checkout lane. This sales data can be further analyzed to calculate sales and inventory turns for each foot of shelf space and the resulting return on assets. Prior to the use of scanners, aisle or department managers typically did a good job on replenishing consistently selling items but failed to reallocate shelf space away from items with low turnover ratios.

Wal-Mart upped the ante on its competitors by installing one of the first privately owned satellite systems. This network allowed Wal-Mart to get daily updates on what was selling or not selling in its stores, and adjust orders as needed. Later, Wal-Mart made the data available to suppliers, giving them the responsibility of keeping inventories in line. At this point all the key components for supply chain management were in place except for the formalized forecasting ability. However, it took development of the Internet to get business-to-business collaborative applications into the mainstream (i.e., it eliminated the need for expensive private networks).

In the late '90s, supply chain management or SCM became a buzzword for distribution intensive industries and a darling for Wall Street. Manugistics Group (NasdaqNM: MANU) and i2 Technologies (Pink Sheets: ITWO) did initial public offerings with great fanfare. These two effectively startup companies achieved billion dollar market capitalization. (Note: management of American Software realized its stock was not getting recognition for its SCM capability, resulting in the IPO for part of its Logility holdings). However, with the economic downturn of 2001, the challenges of effectively using SCM got more focus by those companies that had purchased the software and sales slowed. The first hurdle was that each software sale took at least two installations to be of value (i.e., if you don't have anyone to collaborate with, what is the advantage of installing the software?). An additional challenge was to accurately integrate related parties (i.e., raw material supplier to the manufacturer and manufacturer to retailer). At the retail level, each item has a number that is looked at as a stock-keeping unit (SKU). Manufacturers have they own manufacturing codes and their suppliers have their own designations for bulk commodities, setting the stage for a lot of bad data. Consequently, a lot of SCM software that was sold in the early stages of industry development was never installed. What have evolved in the ensuing years are industry standards and user groups to insure everyone is working on the same page.

To solve SCM software integration challenges, an industry standards group was founded called The Voluntary Interindustry Commerce Standards Association (VICS). A representative of Logility is on the VICS Collaborative Planning, Forecasting and Replenishment (CPFR) Steering Committee. In addition, a Logility employee also leads the CPFR Deployment Working Group. Logility also has a users group association and the Company sponsors a conference for them each spring in Atlanta, providing a forum to solve industry issues.

We believe the developing Radio Frequency Identification (RFID) initiatives could accelerate demand for SCM software. RFID is a technology that uses tags attached to items to track their location. A clerk can pass by an item and the RFID reader he is carrying will detect the RFID tag and record the item. Items can now be tracked from their universal product

code but the UPC systems require a user to manually scan the UPC. The potential acceleration in the use of RFID tags, in our opinion, is a result of initiatives by Wal-Mart (NYSE: WMT), the U.S. Department of Defense (DoD), Target (NYSE: TGT) and Albertson's (NYSE: ABS). These four organizations have all told suppliers that if a vendor wants to continue doing business with them, they must attach RFID tags to their merchandise. Wal-Mart's current initiative is aimed at its 100 largest suppliers that ship into its Dallas Distribution Center. Wal-Mart has given them a deadline of January 2005 for RFID compliance. The DOD initiative is for all items with a value over \$5,000. There are still a lot of issues relating to RFID standards and system implementations. However, we believe that the high visibility of these initiatives will cause all manufacturers to have SCM capability as a software focus to insure that they can meet customer's demands should they arrive. Consequently, we believe Logility is at a point where software license sales could accelerate.

SCM Market Growth/Market Size

The SCM market (including supply chain planning and supply chain execution) had significantly above average growth in the late 1990s, growing from \$800 million in 1995 to \$5.7 billion in 2001 (see Table 2). Since then sales have been flat to down. Industry analysts are projecting a return to growth for the current year with additional growth in 2005. We also expect improving sales growth for 2005 and moving forward aided by the following factors:

- A stable to improving U.S. economy providing a base for increased confidence by company managers
- Maturing of the SCM Industry Standards Group, providing a base for quicker implementation
- Growing users' groups with an increasing base of successful installations
- The RFID initiatives.

Table 2. Supply Chain Applications Historical Sales in Billions of Dollars*

Year	Supply Chain Planning	% Change	Supply Chain Execution	% Change	Industry TOTAL	% Change
1995	0.3		0.5		0.8	
1996	0.5	40.00%	0.7	28.60%	1.2	33.30%
1997	0.7	28.60%	1.1	36.40%	1.8	33.30%
1998	1.5	53.30%	1.5	26.70%	3	40.00%
1999	1.8	16.70%	2.1	28.60%	3.9	23.10%
2000	2.2	18.20%	2.8	25.00%	5	22.00%
2001	2.3	4.30%	3.4	17.60%	5.7	12.30%
2002	2.1	-9.50%	3.3	-3.00%	5.4	-5.60%
2003	1.8	-16.70%	3.4	2.90%	5.2	-3.80%
2004e	1.9	5.30%	3.5	2.90%	5.4	3.70%
2005e	1.9	0.00%	3.7	5.40%	5.6	3.60%
2006e	2	5.00%	4	7.50%	6	6.70%
2007e	2.1	4.80%	4.2	4.80%	6.3	4.80%
2008e	2.2	4.50%	4.5	6.70%	6.7	6.00%

Source: AMR Research 2004, "Total Software vendor revenue for license, maintenance, implementation and consulting"

The growing user groups provide a reference point that potential customers can access to build a case for moving forward with SCM. Many SCM purchase decisions go to senior management or even the Board of Directors.

Logility's Target Market—Distribution-Intensive Industries

Supply chain management involves both the activities related to supplying products or services (source, make, buy, store, and deliver) and sales and marketing activities that impact the demand for goods and services (such as new product introductions, promotions, pricing and forecasting, etc.). The key objective of having on-time delivery of the right product at the right place at the right time and do it all at the lowest cost is particularly important in distribution-intensive industries. Logility has roughly 420 customers. The Company's first Internet-based collaborative planning solution was implemented in 1996. The Company's applications are highly ranked, with the readers of *Consumer Goods Technology Magazine* ranking Logility #1 in customer experience.

Typical Logility Sale

- Software license fee: Typically around \$350,000 in advance, when the software is accepted by the client. The fee is determined primarily by the number of modules and number of servers or user seats involved in the sale.
- Implementation service: Range of \$175,000 to \$438,000, realized over six to nine months.
- Annual maintenance fees: 18% to 21% of the initial license fee—minimum three years in advance, billed annually.

Note: The software license business has a high customer retention rate (i.e., it's tough to change your software after having implemented a system, integrated it with your suppliers and customers and trained your people to use it).

SCM Industry: A Competitive Environment

A June, 2004 report by the Gartner Group listed Logility, i2 Technologies, Manugistics Group and SAP as visionaries in the SCM industry. The industry also has a broad number of niche players and large companies such as Oracle and IBM offer some SCM capability. We believe i2 and Manugistics are the key competitors that Logility's potential customers will focus on when selecting a supplier. In terms of customers, Logility (including Demand Solutions) and Manugistics each have around 1,100 customers. The next largest firm as measured in installed base is i2, with about 900 clients.

The industry downturn caused both i2 and Manugistics to report significant losses in recent years and we believe may have caused many potential customers to be concerned about the financial future of these key suppliers. We believe Logility's stable management team and favorable financial conditions over this same time frame has aided their competitive position in acquiring new clients. Potential clients have to be comfortable that the software vendor they select will be around for a number of years, since it would be expensive to change the installed software plus retrain people at some future date. In addition, we believe Logility's favorable financial position puts them in a very competitive position to take advantage of any financially challenged competitors and make acquisitions in the industry. We believe many of the smaller niche players in the SCM industry (i.e., like Demand Management) will increasingly be seeking to be acquired.

Industry Sales Bottoming

Manugistics and i2 Technologies reported flat to improving overall revenues for the past two quarters. For the quarter ended June 30, i2 reported revenues of \$79.0 million versus \$77.6 million three months earlier (note: the second quarter is after eliminating \$32 million in non-current revenues and after eliminating \$6.0 million for the first quarter). Manugistics Group reported fiscal second quarter (August) revenues of \$51.3 million compared with \$51.6 million three months earlier (loss was \$17.1 million). SAP reported third quarter software revenues of \$491 million Euros compared with \$497 million Euros three months earlier. IBM reported favorable results and made positive remarks about the overall demand for technology products. With this more favorable economic environment, we believe Logility's sales could show substantial acceleration going forward.

Five-Year Review and Outlook

The Supply Chain Management industry (and software in general) has been going through a period of adjustment during the past five years (see Table 3 for details). In total, 1999 and 2000 software sales benefited from the "Year 2000" upgrade cycle when most software packages had to be converted to a four digit year to eliminate problems when the application

would not know if the year designated as “00” was 2000 or 1900. In addition, we had the buying frenzy of companies buying new applications software just because they thought their competitors were buying and they needed to buy to stay competitive. With the economic downturn of 2001, many chief executives began to question whether they were really getting the payback that was promised on the software purchased. (The reality was that many companies were not getting the payback that was promised. Some applications were even dubbed “vaporware” because reality was so far below the promised results). American Software’s sales results over the past five years reflect this industry trend (see Table 3 for details). The American Software advantage is that they were able to adjust their costs levels more quickly and aggressively to return to profitability 14 quarters ago, while many of their competitors are still reporting losses.

American Software had two key business changes over the fiscal 2000 to 2004 period:

- In 1998, 80% of New Generation Computing was acquired, with the remaining 20% acquired in 2000, 2001 and 2002.
- Effective February 5, 2002, American Software sold AmQUEST, Inc., a wholly owned subsidiary, to Infocrossing for about \$20.3 million. AmQUEST generated losses from operations of approximately \$1,866,000 in fiscal 2002. The gain from discontinued operations of approximately \$2.1 million in fiscal 2003 was the result of the reduction of contingent liabilities related to capital and operating leases (extinguished in the fourth quarter so fiscal 2003). The gain from discontinued operations in fiscal 2002 was approximately \$11.5 million that included a gain on sale of \$13.4 million offset by a \$1.9 million operating loss during the year. AmQUEST’s revenues prior to the sale for the year ended April 30, 2002 were \$12.4 million. The consolidated financial statements for all periods have been reclassified, where applicable to reflect the AmQUEST business as a discontinued unit.

As stated earlier in this report, American Software acquired Demand Management, a company with about \$10 million in annual sales, effective October 1, 2004 for roughly \$8.7 million.

Software License Sales

American Software’s total revenue line is comprised of three components, the most important of which is license revenues. This category reflects software application packages that were sold. These license sales drive service and maintenance revenues in subsequent quarters with a lag of three to nine months. Consequently, license sales at American Software have to improve to drive the other two components, service and maintenance. The key to an upturn in license sales in our opinion is buyer confidence in the economy and confidence in the Version 7.0 of the Logility Supply Chain Software application. Logility has stated that 60 users are now live with version 7.0. (Logility has roughly 350 clients left on older versions). We believe 60 users is an adequate base to get potential customers to feel confident that that application will do what is promised and be installable without issues. In addition, total revenues for the May 2005 year will benefit from the \$10 million in sales, service and maintenance from the acquisition of Demand Management.

Cost of sales for American Software is primarily from commissions and salaries. Software license sales have the salesman or distributor commission charges against them. We estimate the commission is 50% for distributors. We expect the gross margin on license sales to track sales going forward. In any given quarter the margin will move around depending on the success of inside sales versus distributors. The service and support charges primarily reflect salaries, benefits and travel expenses. We expect margin expansion with increased license sales as the Company should have improved economies of scale by more fully utilizing its people,

Research and software development expenses are also employee-count dependent, generally representing the number of people involved in the project. We expect the dollar amount to be relatively linear going forward as the number of software engineers hired or already on board should not change quickly quarter-to-quarter. The level of expensed R&D versus capitalized varies relative to the stage of the R&D project. GAAP no longer allows all R&D expenditures in a given

quarter to be expensed. In general, product development expenditures for software that is already being shipped to clients must be amortized over a longer period relative to the estimated life of the application.

Other income reflects interest and dividend income on the short and longer term investments offset by the backing out of minority interest reflecting the 13% of Logility that American Software does not own.

With **net operating losses** of about \$12 million (April 30, 2004) we do not expect American Software to pay taxes over the near term. The \$12 million is available to offset future federal taxable income through 2022. The NOLs include deductions of approximately \$6.0 million related to the exercise of stock options, which will be credited to additional paid-in capital when recognized.

Option expenses. American Software is not expensing stock options. If they are required to expense options going forward this could have a negative impact on reported results. For fiscal 2004, reported earnings per share would have been reduced by \$0.05 a share if options had been expensed.

Share count. For the current year we are assuming shares will stay relatively flat, with options granted offset by share repurchases. American Software's board has authorized the repurchase of 1.7 million shares with no expiration date. However, American Software has not repurchased any common shares since it began paying cash dividends effective September 19, 2003. Logility has purchased 191,000 shares under its stock buyback program for \$923,000 over the past four quarters. Logility has 541,000 shares remaining under its program.

Recent Results

For the fiscal second quarter ended October 30, 2004 (see Table 3), total revenues increased 10% to \$14.9 million from \$13.5 million for the same period a year ago. License fees were off 13% to \$2.6 million from \$2.9 million. A drop in software license sales at Logility drove the decline in license fees — \$656,000 thousand in this year's October quarter versus \$1.17 million in the same quarter last year (off 44%). License fees at American Software excluding Logility were quite favorable at \$1.89 million in the October 2004 period compared with \$1.76 million in the same period a year ago. We believe part of the sales shortfall at Logility can be attributed to increased economic concerns by corporate management caused by all the negativity generated in the presidential elections and real economic concerns such as higher oil prices.

Table 3. Consolidated Statement of Operations
(In thousands except per share data - unaudited)

	Second Quarter Ended			Six Months Ended		
	31-Oct 2004	2003	Percent Change	31-Oct 2004	2003	Percent Change
Revenues						
Licenses	\$ 2,547	\$ 2,933	-13.20%	\$ 5,104	\$ 5,573	-8.40%
Services & other	\$ 7,637	\$ 6,121	24.80%	\$ 14,416	\$ 11,967	20.50%
Maintenance	\$ 4,693	\$ 4,488	4.60%	\$ 9,062	\$ 9,092	-0.30%
Total Revenues	\$ 14,877	\$ 13,542	9.90%	\$ 28,582	\$ 26,632	7.30%
Cost of Revenues						
Licenses	\$ 892	\$ 1,133	-21.30%	\$ 1,795	\$ 2,165	-17.10%
Services & other	\$ 5,334	\$ 3,880	37.50%	\$ 10,053	\$ 7,873	27.70%
Maintenance	\$ 1,342	\$ 1,145	17.20%	\$ 2,500	\$ 2,390	4.60%
Total Cost of Revenues	\$ 7,568	\$ 6,158	22.90%	\$ 14,348	\$ 12,428	15.40%
Gross Profits	\$ 7,309	\$ 7,384	-1.00%	\$ 14,234	\$ 14,204	0.20%
Operating Expenses						
Research and development	\$ 1,850	\$ 1,939	-4.60%	\$ 3,662	\$ 3,939	-7.00%
Less: capitalized development	\$ 711	\$ 873	-18.60%	\$ 1,381	\$ 1,706	-19.10%
Net R&D charged to quarter	\$ 1,139	\$ 1,066	6.80%	\$ 2,281	\$ 2,233	2.10%
Sales and marketing	\$ 2,891	\$ 2,573	12.40%	\$ 5,786	\$ 5,549	4.30%
General and administrative	\$ 2,431	\$ 2,141	13.50%	\$ 4,754	\$ 4,398	8.10%
Acq. related amort. of intangibles	\$ 38	\$ -		\$ 38	\$ -	
Total operating expenses	\$ 6,499	\$ 5,780	12.40%	\$ 12,859	\$ 12,180	5.60%
Operating income	\$ 810	\$ 1,604	-49.50%	\$ 1,375	\$ 2,024	-32.10%
Interest income & other, net	\$ 603	\$ 731	-17.50%	\$ 1,236	\$ 1,489	-17.00%
Minority interest	\$ 68	\$ (28)	n.a.	\$ 20	\$ (78)	n.a.
Income before income taxes	\$ 1,481	\$ 2,307	-35.80%	\$ 2,631	\$ 3,435	-23.40%
Income taxes (benefit)	\$ -	\$ -		\$ -	\$ -	
Net Earnings	\$ 1,481	\$ 2,307	-35.80%	\$ 2,631	\$ 3,435	-23.40%
Earnings per common share						
Basic	\$ 0.06	\$ 0.10	-40.00%	\$ 0.11	\$ 0.15	-27.00%
Diluted	\$ 0.06	\$ 0.09	-33.00%	\$ 0.10	\$ 0.14	-29.00%
Weighted average common shares						
Basic	23693	22672	4.50%	23628	22509	5.00%
Diluted	25138	24642	2.00%	25090	24659	1.70%
Margin Analysis						
Cost of Revenues for:						
Licenses	35.00%	38.60%		35.20%	38.80%	
Services & other	69.80%	63.40%		69.70%	65.80%	
Maintenance	28.60%	25.50%		27.60%	26.30%	
Gross profit margin	49.10%	54.50%		49.80%	53.30%	
Operating Expenses as % of revenues						
Research and development	12.40%	14.30%		12.80%	14.80%	
Less: capitalized development	4.80%	6.40%		4.80%	6.40%	
Net H&D charged to quarter	7.70%	7.90%		8.00%	8.40%	
Sales and marketing	19.40%	19.00%		20.20%	20.80%	
General and administrative	16.30%	15.80%		16.60%	16.50%	
Total operating expenses	43.70%	42.70%		45.00%	45.70%	
Operating profit margin	5.40%	11.80%		4.80%	7.60%	

Source: American Software

Service revenues for the October 2004 quarter increased to \$7.6 million from \$6.1 million, a gain of 25%. Service revenues were down 10% at Logility to \$1.15 million, compared with \$1.28 million for the year ago quarter. The lower service revenues at Logility reflect the lower license sales year-to-date. Service revenues at American Software excluding Logility were \$6.49 million in this year's fiscal second quarter, versus \$4.84 million in the same period a year ago, an improvement of 34%.

Total maintenance revenues for the October 2004 quarter were \$4.69 million compared with \$4.49 million, a gain of 5% year-over-year. Logility reported maintenance revenues of \$3.03 million compared with \$2.71 million, a gain of 12%. One month of maintenance revenues from the newly acquired Demand Management operations (estimated at \$200,000) were included with the results.

Gross margins on license fees were 65% for the October 2004 quarter compared with 61% in the same period a year ago. A lower level of capitalized software expensed contributed to the improvement. Gross margins for the Services business in this year's second fiscal quarter were 30% compared with 37% for the same period a year ago. The lower level of profitability reflects a greater percentage of IT staffing revenues as a percent of total in this year's quarter. Maintenance gross margins came in at 71% in this year's fiscal second quarter compared with 74% in the same quarter a year ago. There were "fair value" adjustments in the maintenance contracts on the acquired Demand Management business that contributed to the lower maintenance margins.

Research and development (net) as a percent of total revenues was 12% in this year's fiscal second quarter, compared with 14% for the same period a year ago. Sales and Marketing expenses were up slightly to 19.4% of revenues in this year's quarter, compared with 19.0% in the year ago quarter. General and Administrative expenses were 16.3% of revenues in this year's fiscal second quarter versus 15.8% in the same period a year earlier.

In summary, overall revenues were up 10% year-over-year but gross profits were down 1% since license sales carry the highest gross margins. Operating expenses increased 12% versus the 10% increase in revenues, resulting in operating income being off 50% to \$810,000 in the October 2004 quarter compared with \$41.6 million for the same quarter a year earlier.

Non-operating items added \$671 thousand to this year's fiscal second quarter, compared with \$703,000 in the same period a year ago for net income of \$1.48 million this year versus \$2.3 million a year earlier. Diluted shares increased slightly to \$25.14 million from \$24.64 million resulting in earnings per share of \$0.06 versus \$0.09.

Year-to-date revenues (six months) are up 7% to \$28.6 million from \$26.6 million. Earnings per share for the same six-month period was off 29% to \$0.10 from \$0.14

Near-Term Outlook

We believe the outlook for technology spending related to software applications has improved. Contributing to the improved sales outlook are the following factors:

- The U.S. economy is moving along. Almost 500,000 more people are employed in information technology positions now versus the start of the year. These added employees provide employers the manpower to develop and implement new applications such as supply chain management. In addition, leading industry participants such as IBM have talked about improving demand for technology products.
- Version 7.0 of Voyager Solutions had 60 live customers at the end of the last quarter, so Logility has a number of satisfied customers to introduce potential customers to.

- The SCM missionary work has been done—industry standards, user groups, etc. are now in place.
- Logility will receive synergistic benefits from the recent acquisition of Demand Management (i.e., send them smaller customers that would have been ignored while Demand Management refer larger customers to Logility).
- The RFID initiatives by Wal-Mart, The Department of Defense, Target and Albertson's keep the concept of supply chain management in front of suppliers to these industries.

However, there has been no sales trend to extrapolate. Recent data shows no meaningful upturn in demand. Software license sales have to come first, to drive services and maintenance. However, we believe all the factors needed for an upturn in sales turn are in place. Consequently, we may be early in calling it but we are confident of an upturn. Our sales estimate for the April 2005 year is the base revenues of last year plus seven months of the acquired business of Demand Management (running about \$800,000 a month) plus our estimates of internal growth, giving us a total of \$60.4 million. For fiscal 2006 American Software will have Demand Management for the full year (\$10 million annually) plus the growth in sales we are projecting, for a total of \$73 million. Fiscal 2006 will have only five months of "fair value" adjustments in the Demand Management maintenance business. We caution that investors should expect variability in the quarterly license sales of Logility. A typical license sale at Logility is over \$300,000. If a license sale closes or doesn't close in a given quarter, it can have a significant impact on the year-over-year or sequential comparisons. Consequently, we believe investors should not judge Logility on a single quarter.

Expenses have been held under control at American Software and we do not expect any deterioration going forward. We believe management's success in being profitable the past 15 quarters is a testimony to their skills in expense control (especially considering that many of their competitors lost money in the same time frame).

R&D is relatively high as a percentage of revenues at Logility and New Generation Computing (NGC). However, these expenses are relatively flat in actual dollars quarter-to-quarter (primarily reflecting the approximately 80 people employed in R&D), so should drop as a percent of revenues with growth in the Company. Over the near term, we will see some increase in R&D spending from costs associated with changes being made at Demand Management on their legacy software products.

Other income for fiscal 2006 is projected to be below fiscal 2005. The Demand Management purchase took about \$10 million off the cash line. We do expect interest rates to be modestly higher over the next eighteen months, aiding investment income. The software business is not a capital-intensive business with the biggest expenditure shown for capitalized software. American Software does own its buildings (carrying value \$7.0 million for 160,000 square feet) and is leasing out excess square footage. There may be about \$2.0 million in leasehold improvements spent over the next 12 months related to the leased office space.

No taxes are expected to be paid in the near term. American Software's NOLs total \$12 million and can be used through 2022, justifying our zero tax rate assumption into fiscal 2006.

We are assuming flat comparisons for share count. The Company has been granting options but we believe these will be offset by the authorized stock repurchase plans.

Tables 5 and 6, found at the end of this report, provide annual data details and margin analysis.

Long-Term Growth Strategy and Outlook

- Continued high levels of spending on R&D to insure competitive new products in a timely manner. In fiscal 2004, 13% of American Software revenues (Logility 25%, NGC 21%) were spent on product development
- Increase vertical market features to capture an increased percentage of the available market
- Expand collaborative reach
- Focus on market for RFID-enabled applications
- Leverage standards (.NET, Interoperability, CPFR, CTM, etc)
- Add partnerships
- Make selective acquisitions, such as recently acquired Demand Management.

Expand Indirect Sales Channel Strategy

- Demand Management's distributors have already added the Logility Collaborative package to their software offerings.
- During fiscal 2002, Logility established a relationship with SSA Global Technologies (\$650 million in total revenues). SSA's trained sales force is focusing on marketing Logility supply chain solutions to over 16,000 customers.

We believe the SCM market has the potential to return to growth above 20% annually and we believe Logility has the potential to capture an increased market share position.

Management and Key Stockholders

James C. Edenfield (age 69) is a co-founder of American Software and has been Chief Executive Officer since November 1989. Prior to founding American Software in 1970, he held several executive positions and was a Director of Management Science America, an Atlanta-based applications software company. Mr. Edenfield is the father of J. Michael Edenfield, the CEO of Logility, 87% owned by American Software. Mr. Edenfield owns 55.9% of the American Software "B" shares.

Dr. Thomas L. Newberry, Chairman of the Board of American Software. Dr. Newberry (age 70), co-founder of American Software served as Co-Chief Executive Officer of the Company until November 1989. Prior to founding American Software in 1970 he held several executive positions and was a Director of Management Science America, an Atlanta-based applications software company. Dr. Newberry is a member of the American Software Board of Directors' Compensation Committee along with David H. Gambrell. Mr. Gambrell is a partner in the law firm of Gambrell & Stolz L.L.P., counsel to the Company. Dr. Newberry is the father of Thomas L. Newberry V, a member of the Board of Directors. Dr. Newberry owns 44.1% of the class "B" shares.

J. Michael Edenfield (age 45), is CEO of Logility, the Company's 87% owned subsidiary. He has served in this position since January 1997. From June 1994 until October 1997, he served as Chief Operating Office of Logility. From May 1987 to June 1994 Mr. Edenfield served in various positions with American software USA, Inc., a wholly owned subsidiary of American Software. Mr. Edenfield holds Bachelor of Industrial Management degree from Georgia Institute of Technology.

Jeffrey W. Coombs, Senior Vice President of American Software USA, Inc. Mr. Coombs first joined American Software in January 1985. In 1988 he was elected Vice President of Professional Services. From 1994 to 1996, Mr. Coombs was employed by Indus International, Inc. (formerly known as TSW International, Inc.) as Senior Vice President. Mr. Coombs rejoined American Software in February 1996 as Senior Vice President Professional Services. In April 2001, Mr. Coombs

was promoted to Executive Vice President of American Software, USA Inc. From March 1978 to June 1984, Mr. Coombs was employed by Saudi Arabian Airlines as a project manager in Information Technology. Prior to that time Mr. Coombs held various positions with the Northern Bank Ltd., Belfast.

Vincent C. Klinges, Chief Financial Officer of American Software and Logility Inc. (32% of his salary is paid by Logility Inc). Mr. Klinges joined Logility in February 1998 as Vice President of Finance and was appointed Chief Financial Officer in September 1999. From July 1995 to February 1998, Mr. Klinges was employed by Indus International Inc. (formerly known as TSW International, Inc.) as Controller. From November 1986 to July 1995, Mr. Klinges held various positions with Dun & Bradstreet, Inc., including Controller of Sales Technologies (a software division of Dun & Bradstreet). Mr. Klinges holds a Bachelor of Business Administration from St. Bonaventure University.

There has been insider selling of shares. However, the majority of the shares sold have been by Mr. Newberry who is no longer active in day-to-day management of the Company. There have been a number of other insider transactions but we believe most of these relate to exercising of options and selling part of the holdings to pay taxes.

Board of Directors—American Software is a “Controlled Company”

American Software has Directors for the Class A shares and the Class B shares. The Class A shares elect the Class A Directors and the Class B shares elect the Class B Directors. In other matters, the Class A shares get 1/10 of a vote versus the B shares getting a full vote. Mr. Edenfield owns 55.9% of the American Software Class B shares with Dr. Newberry owning the remaining 44.1%. The Class A shares have the right to elect a minimum of 25% of the Board of Directors. Table 4 below lists the Class A and Class B Directors of the Company.

Table 4. American Software Class A and Class B Directors

Name of Director	Age	Principle Occupation	Year First Elected
CLASS A Directors			
Dennis Hogue	51	CEO of Datatrac Corporation	2001
John Jarvis	62	Executive Director of the Logistics Institute – Asia Pacific	2001
James B. Miller Jr.	64	Chairman, President, CEO of Fidelity National	2002
CLASS B Directors			
James C. Edenfield	69	President, CEO and Treasurer of American Software and Chairman of Logility	1971
J. Michael Edenfield	46	Executive Vice President American Software and President and CEO of Logility	2001
David H. Gambrell	74	Partner, Gambrell & Stolz, LLP Attorneys at Law Atlanta, Georgia	1983
Thomas L. Newberry	71	Chairman of the Board of American Software, Inc.	1971
Thomas L. Newberry V	37	Founder and CEO of the 1% Club, Inc.	2001

Source: American Software

Audit Committee

Audit Committee members include: David H. Gambrell, Chairman, Dennis Hogue, John J. Jarvis and James B. Miller, Jr.

The rules of the National Association of Securities Dealers (NASD) require audit committees to be composed of not less than three members who are “independent” as that term is defined in the rules. Three of the four Audit Committee members – Messrs. Hogue, Jarvis and Miller – are believed to meet the definition of “independent as set fourth in the NASD rules.

Dividend Outlook

In our opinion, American Software’s favorable financial condition supports continued payment of the dividends if our sales expectations are met. The current U.S. tax code taxes qualified dividends at a maximum rate of 15%, a rate that is less than one-half the highest rate of taxes on wages. This change in tax rates (put through by the current Bush

administration) makes it advantageous for controlled companies to pay owners in cash dividends. Consequently, a number of controlled companies have either instituted or raised their cash dividends (i.e., Microsoft, effectively controlled by Bill Gates and Steve Ballmer, is paying a special cash dividend of \$3.00 this year). We think individual investors should seek out companies such as American Software that have taken advantage of this change in the tax code. However, a change in leadership in Washington or a change in U.S. Government fiscal goals could result in a change in this tax treatment causing companies such as American Software to revisit their dividend paying policies and potentially reduce the payout. Prior to this change in the U. S. tax code on dividends, it was advantageous for stockholders to seek capital gains and sell off common shares that qualified under lower longer-term capital gains treatment to minimize taxes.

**Table 5. American Software Annual Data
(in Thousands, April 30 Fiscal Year)**

	FY2006E	FY2005E	FY2004	FY2003	FY2002	FY2001	FY2000
Revenues							
License Fees	\$ 17,550	\$ 11,804	\$ 12,353	\$ 12,485	\$ 12,052	\$ 12,778	\$ 20,572
Services & Other	\$ 34,800	\$ 29,916	\$ 24,407	\$ 26,933	\$ 30,671	\$ 34,527	\$ 41,125
Maintenance	\$ 20,700	\$ 18,662	\$ 17,898	\$ 19,884	\$ 21,907	\$ 23,867	\$ 25,198
Total Revenues	\$ 73,050	\$ 60,382	\$ 54,658	\$ 59,302	\$ 64,630	\$ 71,172	\$ 86,895
Cost of Revenues							
License Fees	\$ 4,311	\$ 3,906	\$ 4,322	\$ 4,107	\$ 4,592	\$ 5,681	\$ 5,177
Services & Other	\$ 24,775	\$ 21,103	\$ 16,747	\$ 18,698	\$ 18,094	\$ 22,694	\$ 25,907
Maintenance	\$ 4,920	\$ 4,828	\$ 4,678	\$ 5,522	\$ 3,936	\$ 5,225	\$ 9,750
Total Cost of Revenues	\$ 34,006	\$ 29,837	\$ 25,747	\$ 28,327	\$ 26,622	\$ 33,600	\$ 40,834
Gross Margin	\$ 39,044	\$ 30,545	\$ 28,911	\$ 30,975	\$ 38,008	\$ 37,572	\$ 46,061
Operating Expenses							
Research & Development (net)	\$ 4,898	\$ 4,637	\$ 4,203	\$ 5,116	\$ 7,209	\$ 11,340	\$ 9,675
Sales & Marketing	\$ 14,245	\$ 11,987	\$ 11,459	\$ 11,636	\$ 13,297	\$ 20,092	\$ 22,643
General & Administrative	\$ 11,688	\$ 9,805	\$ 9,068	\$ 9,287	\$ 11,851	\$ 12,799	\$ 12,818
Provision for doubtful Accounts	\$ 120	\$ 97	\$ 191	\$ 414	\$ 503	\$ 1,274	\$ 385
Charge for Restructuring	\$ -	\$ 38	\$ -	\$ -	\$ -	\$ 10,458	\$ -
Acq related amort of intangibles	\$ 450	\$ 268	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 31,401	\$ 26,832	\$ 24,921	\$ 26,453	\$ 32,860	\$ 55,963	\$ 45,521
Operating Income	\$ 7,643	\$ 3,713	\$ 3,990	\$ 4,522	\$ 5,148	\$ (18,391)	\$ 540
Other Income (expense)	\$ 2,000	\$ 2,000	\$ 1,809	\$ 980	\$ 2,043	\$ 1,576	\$ 1,832
Minority interest	\$ (342)	\$ 22					
Earnings (loss) From Cont Ops.	\$ 9,301	\$ 5,735	\$ 5,799	\$ 5,502	\$ 7,191	\$ (16,815)	\$ 2,372
Income tax expenses (benefit)	\$ -	\$ -	\$ 82	\$ -	\$ -	\$ (2,418)	\$ 150
Earnings Loss From Cont Ops	\$ 9,301	\$ 5,735	\$ 5,717	\$ 5,502	\$ 7,191	\$ (14,397)	\$ 2,222
Discontinued Operations							
Loss from Ops of Disc segment	\$ -	\$ -	\$ -	\$ -	\$ (1,866)	\$ (8,183)	\$ (3,464)
Gain on Sale of Discontinued Seg	\$ -	\$ -	\$ -	\$ 2,084	\$ 13,376	\$ -	\$ -
Earnings after Discontinued Ops	\$ 9,301	\$ 5,735	\$ 5,717	\$ 7,586	\$ 18,701	\$ (22,580)	\$ (1,242)
Net Earnings Per Common share							
Basic:							
Continuing Operations	\$ 0.39	\$ 0.24	\$ 0.25	\$ 0.25	\$ 0.32	\$ (0.63)	\$ 0.10
Discontinued Operations	\$ -	\$ -	\$ -	\$ -	\$ (0.08)	\$ (0.36)	\$ (0.16)
Gain on sale of discontinued segment	\$ -	\$ -	\$ -	\$ 0.09	\$ 0.59	\$ -	\$ -
Reported EPS	\$ 0.39	\$ 0.24	\$ 0.25	\$ 0.34	\$ 0.82	\$ (0.99)	\$ (0.06)
Diluted:							
Continuing Operations	\$ 0.37	\$ 0.23	\$ 0.23	\$ 0.24	\$ 0.31	\$ (0.63)	\$ 0.09
Discontinued Operations	\$ -	\$ -	\$ -	\$ -	\$ (0.08)	\$ (0.36)	\$ (0.15)
Gain on sale of discontinued segment	\$ -	\$ -	\$ -	\$ 0.09	\$ 0.58	\$ -	\$ -
Reported EPS	\$ 0.37	\$ 0.23	\$ 0.23	\$ 0.33	\$ 0.82	\$ (0.99)	\$ (0.05)
Cash Dividends	\$ 0.28	\$ 0.28	\$ 0.24	\$ -	\$ -	\$ -	\$ -
Shares used in calculations							
Basic	23700	23700	22851	22411	22773	22730	21722
Diluted	25200	25200	24640	23132	22911	22730	23446

Source: 2000 to 2004 from 04 10-K

Table 6. American Software, Margin Analysis

Cost of License Fees	24.60%	33.10%	35.00%	32.90%	38.10%	44.50%	25.20%
Cost of Services & Other	71.20%	70.50%	68.60%	69.40%	59.00%	65.70%	63.00%
Cost of Maintenance	23.80%	25.90%	26.10%	27.80%	18.00%	21.90%	38.70%
Gross Margin	53.40%	50.60%	52.90%	52.20%	58.80%	52.80%	53.00%
R&D as % of Total Revenues	6.70%	7.70%	7.70%	8.60%	11.20%	15.90%	11.10%
Serv. & Maint. as % of Total Revenues	19.50%	19.90%	21.00%	19.60%	20.60%	28.20%	26.10%
G&A as % of Total Revenues	16.00%	16.20%	16.60%	15.70%	18.30%	18.00%	14.80%
Operating Margin	10.50%	6.10%	7.30%	7.60%	8.00%	-25.80%	0.60%
Effective Tax Rate	0.00%	0.00%	1.40%	0.00%	0.00%	14.40%	6.30%

Source: FY 2004 through FY 2000 from 2004 SEC Form10-k

**Table 7. American Software
Selected Balance Sheet Information
(in Thousands, Unaudited)**

	31-Oct 2004	31-Oct 2003
Cash and short and long term investments	\$ 54,975	\$ 62,900
Accounts receivable		
Billed	\$ 8,916	\$ 5,985
Unbilled	\$ 2,674	\$ 2,125
Total Accounts Receivable net	\$ 11,590	\$ 8,110
Prepays and other	\$ 2,835	\$ 1,809
Non-current assets	\$ 29,101	\$ 21,513
Total Assets	\$ 98,501	\$ 94,332
Accounts payable	\$ 1,461	\$ 1,048
Other current liabilities	\$ 6,487	\$ 5,612
Deferred Revenues	\$ 10,297	\$ 8,636
Minority Interest	\$ 4,022	\$ 4,101
Shareholders' equity	\$ 76,234	\$ 74,935
Total Liabilities & Shareholders Equity	\$ 98,501	\$ 94,332

Source: American Software

Table 8. Prices of Other Company Stocks Mentioned in this Report

Company	Market	Symbol	Price
Albertsons	NYSE	ABS	\$ 23.81
Dell Computer	Nasdaq	DELL	\$ 41.99
Microsoft	Nasdaq	MSFT	\$ 26.76
International Business Machines (IBM)	NYSE	IBM	\$ 98.30
Target	NYSE	TGT	\$ 52.10
Wal-Mart	NYSE	WMT	\$ 53.06

Stocks priced as of market close December 30, 2004. Source Yahoo Finance



J.M. Dutton & Associates Current Ratings Distribution	
Rating	% Total
Strong Buy	13.95
Buy	25.58
Strong Speculative Buy	11.63
Speculative Buy	30.23
Neutral	16.28
Avoid	2.33

Analyst: David P. Soetebier, CFA

David P. Soetebier, CFA was Vice President, Senior Industry Analyst, Bank of America Capital Management where he was responsible for fundamental analysis of large and medium capitalization stocks in technology. He covered all areas of technology for Bank of America (i.e., semiconductors, computer hardware, software, data and telecommunications). Previously, he was Vice President, Senior Industry Analyst at A.G. Edwards and Sons Inc.. At A.G. Edwards, his sector coverage included all areas of technology. He is a graduate of the University of Missouri at Columbia with a BS in Finance. He holds a CFA designation and is a licensed Supervisory Analyst.

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