



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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2005

OR

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

For the transition period from _____ to _____

Commission File Number: 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

58-1098795
(IRS Employer
Identification Number)

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

30305
(Zip Code)

(404) 261-4381
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Classes
Class A Common Stock, \$.10 par value

Outstanding at October 4, 2005
20,502,638 Shares



Class B Common Stock, \$.10 par value

3,489,994 Shares





AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Form 10-Q

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	<u>July 31, 2005</u>	<u>April 30, 2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,458	\$ 31,147
Investments	28,376	24,898
Trade accounts receivable, less allowance for doubtful accounts of \$546 at July 31, 2005 and \$638 at April 30, 2005:		
Billed	9,410	9,008
Unbilled	3,429	3,503
Prepaid expenses and other current assets	1,937	2,238
Total current assets	70,610	70,794
Investments - noncurrent	1,906	3,016
Property and equipment, less accumulated depreciation and amortization	7,924	7,977
Capitalized software, less accumulated amortization	7,128	6,637
Goodwill, less accumulated amortization	10,344	10,344
Other intangible, net	3,112	2,138
Deferred income taxes	714	1,972
Other assets	1,532	1,466
	<u>\$103,270</u>	<u>\$104,344</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,061	\$ 1,313
Accrued compensation and related costs	1,608	1,975
Dividends payable	1,679	1,677
Other current liabilities	3,739	3,772
Deferred income taxes	121	121
Deferred revenue	14,304	13,731
Total current liabilities	22,512	22,589
Minority interest	3,419	3,978
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares:		
Issued and outstanding 24,281,039 shares at July 31, 2005 and 24,224,198 shares at April 30, 2005	2,428	2,422
Class B, \$.10 par value. Authorized 10,000,000 shares:		
Issued and outstanding 3,489,994 shares at July 31, 2005 and 3,519,994 shares at April 30, 2005; convertible into Class A shares on a one-for-one basis	349	352
Additional paid-in capital	75,919	75,706
Accumulated other comprehensive income	140	139
Retained earnings	19,008	19,663
Class A treasury stock, 3,782,185 shares at July 31, 2005 and April 30, 2005	(20,505)	(20,505)
Total shareholders' equity	77,339	77,777
Commitments and contingencies		
	<u>\$103,270</u>	<u>\$104,344</u>



See accompanying notes to condensed consolidated financial statements - unaudited.



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

	Three Months Ended July 31,	
	2005	2004
Revenues:		
License	\$ 3,444	\$ 2,557
Services and other	7,687	6,779
Maintenance	5,635	4,369
Total revenues	16,766	13,705
Cost of revenues:		
License	1,074	903
Services and other	5,529	4,719
Maintenance	1,568	1,158
Total cost of revenues	8,171	6,780
Gross margin	8,595	6,925
Research and development	1,511	1,142
Sales and marketing	3,112	2,895
General and administrative	3,082	2,286
Amortization of acquisition-related intangibles	88	—
Provision for doubtful accounts	73	37
Total operating expenses	7,866	6,360
Operating income	729	565
Other income:		
Interest income	399	189
Other, net	718	444
Earnings before income taxes and minority interest	1,846	1,198
Income tax expense	(724)	—
Minority interest expense	(98)	(48)
Net earnings	\$ 1,024	\$ 1,150
Earnings per common share:		
Basic	\$ 0.04	\$ 0.05
Diluted	0.04	\$ 0.05
Shares used in the calculation of earnings per common share:		
Basic	23,970	23,563
Diluted	25,064	25,058

See accompanying notes to condensed consolidated financial statements - unaudited.



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

	Three Months Ended July 31,	
	2005	2004
Cash flows from operating activities:		
Net earnings	\$ 1,024	\$ 1,150
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	981	1,043
Bond amortization	(32)	70
Net (gain) loss on investments	(524)	10
Minority interest in net earnings of subsidiary	98	48
Deferred income taxes	664	—
Changes in operating assets and liabilities:		
Purchases of trading securities	(4,676)	(4,103)
Proceeds from sale of trading securities	3,863	3,356
Proceeds from maturities of trading securities	—	100
Accounts receivable, net	(328)	969
Prepaid expenses and other assets	237	264
Accounts payable and other liabilities	(647)	(532)
Deferred revenue	573	(72)
Net cash provided by operating activities	1,233	2,303
Cash flows from investing activities:		
Capitalized computer software development costs	(904)	(746)
Intangible assets	(684)	—
Purchases of property and equipment, net of disposals	(211)	(274)
Proceeds from maturities of investments	(28,373)	22,990
Purchases of investments	27,373	(23,178)
Purchases of common stock by subsidiary	(532)	—
Net cash used in investing activities	(3,331)	(1,208)
Cash flows from financing activities:		
Proceeds from Dividend Reinvestment Plan and Stock Purchase Plan	11	—
Proceeds from exercise of stock options	79	330
Dividends paid	(1,681)	(1,412)
Net cash used in financing activities	(1,591)	(1,082)
Net change in cash and cash equivalents	(3,689)	13
Cash and cash equivalents at beginning of period	31,147	37,530
Cash and cash equivalents at end of period	\$ 27,458	\$ 37,543

See accompanying notes to condensed consolidated financial statements - unaudited



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited
July 31, 2005

A. Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), we have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. You should review these consolidated financial statements in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended April 30, 2005, as filed with the SEC. The financial information we present in the condensed consolidated financial statements reflects all normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of the period indicated. This information is not necessarily indicative of the results for the full year or for any other future period. Certain prior year balances have been reclassified to conform to the current year presentation.

B. Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position No. 97-2: Software Revenue Recognition, (SOP 97-2) and Statement of Position No. 98-9: Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, (SOP 98-9).

License. License revenue in connection with license agreements for standard proprietary software is recognized upon delivery of the software, providing collection is considered probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific objective evidence (VSOE) exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, the Company recognizes revenue under the residual method as permitted by SOP 98-9, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized in accordance with SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. We record revenues from sales of third-party products net of royalties, in accordance with Emerging Issues Task Force Issue 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (EITF 99-19). Furthermore, in accordance with EITF 99-19, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not the Company 1) acts as principal in the transaction, 2) takes title to the products, 3) has risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) acts as an agent or broker with compensation on a commission or fee basis. Accordingly, our sales through the DMI channel are typically recorded gross.

Maintenance. Revenue derived from maintenance contracts primarily includes telephone consulting, product updates, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. Maintenance contracts are typically sold for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. Maintenance fees are generally billed annually in advance. Maintenance revenue is recognized ratably over the term of the maintenance agreement. In situations where all or a portion of the maintenance fee is bundled with the license fee, VSOE for maintenance is determined based on prices when sold separately.

Services. Revenue derived from services primarily includes consulting, implementation, and training. Fees are billed under primarily time and materials arrangements and are recognized as services are performed. In accordance with the FASB's Emerging Issues Task Force Issue No. 01-14: Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, (EITF No. 01-14), the Company recognizes amounts received for reimbursement of travel and other out-of-pocket expenses incurred as revenue in the consolidated statements of operations



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

under services and other.

Indirect Channel Revenue. Revenues are recognized for sales made through indirect channels principally when the distributor makes the sale to an end-user, when the license fee is fixed or determinable, the license fee is nonrefundable, and all other conditions of SOP 97-2 and SOP 98-9 are met.

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

C. Major Customer

Two customers accounted for 11% each of our total revenues for the three months ended July 31, 2005 and one customer accounted for 12% of our total revenues for the three months ended July 31, 2004. The related accounts receivable balances for the two customers as of July 31, 2005 were approximately \$1.1 million and \$213,000.

D. Declaration of Dividend Payable

On May 17, 2005, our Board of Directors declared a quarterly cash dividend of \$0.07 per share of American Software common stock. The cash dividend is payable on September 5, 2005 to Class A and Class B shareholders of record at the close of business on August 22, 2005.

E. Net Earnings Per Common Share

We compute basic net earnings per common share available to common shareholders based on the weighted-average number of Class A and B common shares outstanding, since we consider the two classes of common stock as one class for purposes of the per share computation. For periods in which we have net earnings, we base diluted net earnings per common share available to common shareholders on the weighted-average number of common shares outstanding and dilutive potential common shares, such as dilutive stock options.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

We use the same numerator in calculating both basic and diluted net earnings per common share for a given period. We base the denominator on the number of common shares as shown in the following table:

	Three Months Ended July 31,	
	2005	2004
	(in thousands, except per share data)	
Common Shares:		
Weighted average common shares outstanding:		
Class A Shares	20,464	19,965
Class B Shares	3,506	3,598
Basic weighted average common shares outstanding	23,970	23,563
Dilutive effect of outstanding Class A common stock options outstanding	1,094	1,495
Total	25,064	25,058
Net earnings	\$ 1,024	\$ 1,150
Net earnings per common share:		
Basic	\$ 0.04	\$ 0.05
Diluted	\$ 0.04	\$ 0.05

For the three months ended July 31, 2005 we excluded options to purchase 596,054 shares of common stock and for the three months ended July 31, 2004, we excluded options to purchase 288,125 shares of common stock from the computation of diluted earnings per share of common stock. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the common stock during the applicable period. As of July 31, 2005, we had a total of 3,260,447 options outstanding and as of July 31, 2004 we had a total of 3,533,053 options outstanding.

F. Acquisitions

On September 30, 2004, our Logility subsidiary acquired, through a wholly-owned subsidiary, certain assets and the distribution channel of privately-held Demand Management, Inc. (“DMI”), a St. Louis-based provider of supply chain planning systems marketed under the Demand Solutions® brand, for \$9.5 million in cash, less working capital and cash on hand, for a net cash consideration of \$8.6 million. We have included the results of operations from DMI in the accompanying condensed consolidated financial statements effective October 1, 2004.

In accordance with SFAS No. 141, “Business Combinations,” we have accounted for the acquisition under the purchase method of accounting. The fair values of the assets acquired and liabilities assumed represent management’s estimates of current fair values. We allocated the total purchase price to the net tangible assets and intangible assets acquired based on management’s estimates fair value at the date of acquisition. We based the allocation of the total purchase price to the acquired technology and other intangible assets, including trade names and maintenance contracts, on such estimates. The estimating process included analyses based on income, cost, and market approaches. We allocated \$6.0 million of the total purchase price to goodwill, which is deductible for income tax purposes.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

The calculation of the total purchase price was as follows (in thousands):

Tangible Net Book Value	\$ 910
Business Restructuring	(309)
Acquisition Expenses	(358)
Intangible Asset to be Amortized	2,400
Goodwill	5,998
<hr/>	
Net Cash Outlay	8,641
Working Capital Adjustment	640
Closing Cash	219
<hr/>	
Total Purchase Price	\$9,500

The following allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of September 30, 2004 (in thousands):

Accounts receivable	\$ 1,997
Deferred sales commissions	780
Prepaid expenses and other current assets	156
Property and equipment	26
Other non-current assets	284
Intangible assets ¹	2,400
Goodwill	5,998
Accounts payable	(1,043)
Accrued expenses and other current liabilities	(807)
Deferred revenue	(1,150)
<hr/>	
Total Cash Outlay	8,641
Cash and cash equivalents	219
Working capital adjustment	640
<hr/>	
Total Purchase Price	\$ 9,500

¹ Includes \$1 million for contractual distributor relationships, \$800,000 for customer relationships, and \$300,000 for trademarks, all of which are subject to straight-line amortization over a period of six years. Also includes \$300,000 for current technology, which is subject to straight-line amortization over a period of three years.

SFAS 141 requires that an acquiring enterprise allocate the cost of an entity acquired in a business combination to the individual assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The fair value of maintenance deferred revenues in a business combination generally is not readily available and, accordingly, in practice, the fair value of an assumed liability (which must arise from a legal performance obligation) related to deferred revenue is estimated based on the direct cost of fulfilling the obligation plus a normal profit margin thereon. Also, in practice, the normal profit margin is limited to the profit margin on the costs to provide the product or service (that is, the fulfillment effort).

Management believes that the purchase accounting related to this acquisition will be finalized by the end of the second fiscal quarter of fiscal year 2006. The primary outstanding issue is related to contingent liabilities, which totaled approximately \$294,000 as of July 31, 2005.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

Pro Forma Information

The following unaudited pro forma information presents our results of operations for the three months ended July 31, 2004 as if the acquisition had taken place at the beginning of the periods presented (in thousands, except per share data):

	Three Months Ended July 31, 2004
Total revenues	\$ 16,051
Net earnings	1,139
Net earnings per common share (basic)	0.05
Net earnings per common share (diluted)	0.05
Weighted average number of common shares outstanding (basic)	23,563
Weighted average number of common shares outstanding (diluted)	25,058

These pro forma results of operations include adjustments to the historical financial statements of the consolidated companies and have been prepared for comparative purposes only. These pro forma results do not purport to be indicative of our actual results of operations had the acquisition occurred at the beginning of the periods presented or which may occur in the future.

On June 27, 2005, Logility Inc., our now approximately 89% owned subsidiary, purchased 247,189 shares of its common stock for approximately \$1.5 million. In accordance with SFAS No. 141, "Business Combinations," we have accounted for this transaction under the purchase method of accounting. The total amount allocated to this transaction was \$1.6 million, which includes approximately \$595,000 related to the non-cash tax effects of this treasury stock purchase. We have preliminarily allocated the \$1.6 million to capitalized software development costs, totaling approximately \$463,000, and intangible assets, totaling approximately \$1.1 million, based on management's estimates of fair value at the date of the transaction. We will complete this allocation process by the end of the second fiscal quarter of fiscal 2006. The estimating process included analyses based on income, cost, and market approaches. These costs which are being amortized ratably based on the projected revenues associated with the related assets of Logility, Inc. or on a straight-line basis over three to six years, whichever method results in a higher level of amortization. Amortization of these capitalized costs is included in the cost of license revenues and general and administrative costs in the accompanying condensed consolidated statements of operations for capitalized software development costs and intangible assets, respectively. The Company expects to incur approximately \$280,000 of amortization expense related to this transaction in fiscal 2006.

G. Stock Compensation Plans

As permitted under SFAS No. 148, Accounting for Stock-Based Compensation – Transaction and Disclosure, which amended SFAS No. 123, Accounting for Stock-Based Compensation, we have elected to continue to follow the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for our fixed-plan stock options. Under this method, we record compensation expense on the date of grant



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

generally if the current market price of the underlying stock exceeds the exercise price. No stock-based employee compensation cost is reflected in operations, as all options granted under those plans have an exercise price equal to or above the market value of the underlying common stock on the date of grant.

The following table illustrates the pro-forma effect on net earnings as if we had applied the fair-value based method in each period:

	Three months ended July 31,	
	2005	2004
	(In thousands, except per share data)	
Net earnings as reported	\$ 1,024	\$ 1,150
Deduct stock-based compensation expense determined under the fair value method, net of income taxes	(272)	(223)
Pro forma net earnings	\$ 752	\$ 927
Basic earnings per share:		
As reported	\$ 0.04	\$ 0.05
Pro forma	\$ 0.03	\$ 0.04
Diluted earnings per share:		
As reported	\$ 0.04	\$ 0.05
Pro forma	\$ 0.03	\$ 0.04

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted no later than May 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

1. A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123(R) for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
2. A “modified retrospective” method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

The Company will be adopting Statement 123(R) beginning May 1, 2006 and is currently in the process of evaluating the impact and which method will be adopted.

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on the Company's results of operations. The impact of adopting Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

H. Comprehensive Income

We have adopted Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. We have not included 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.

I. Industry Segments

We have adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. We operate and manage our business in three segments based on software and services provided in three key product markets: (i) Enterprise Resource Planning, which automates customers' internal financing, human resources, and manufacturing functions; (ii) Collaborative Supply Chain Management, which provides business-to-business collaborative commerce solutions to optimize supply chain operations for manufacturers, distributors and retailers; and (iii) IT Consulting, which consists of IT staffing and consulting services. The Collaborative Supply Chain Management segment represents the business of our 89%-owned subsidiary Logility, Inc., including its subsidiary, DMI. In the following table, we have broken down the intersegment transactions applicable to the three months ended July 31, 2005 and July 31, 2004:



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

	Three Months Ended July 31,	
	2005	2004
Revenues:		
Enterprise Resource Planning	\$ 5,130	\$ 5,328
Collaborative Supply Chain Management	7,903	5,431
IT Consulting	3,733	2,946
	<u>\$16,766</u>	<u>\$13,705</u>
Operating income (loss) before intersegment eliminations:		
Enterprise Resource Planning	\$ (86)	\$ 201
Collaborative Supply Chain Management	759	266
IT Consulting	56	98
	<u>\$ 729</u>	<u>\$ 565</u>
Intersegment eliminations:		
Enterprise Resource Planning	\$ (402)	\$ (384)
Collaborative Supply Chain Management	402	384
IT Consulting	—	—
	<u>\$ —</u>	<u>\$ —</u>
Operating income after intersegment eliminations:		
Enterprise Resource Planning	\$ (488)	\$ (183)
Collaborative Supply Chain Management	1,161	650
IT Consulting	56	98
	<u>\$ 729</u>	<u>\$ 565</u>
Capital expenditures:		
Enterprise Resource Planning	\$ 148	\$ 214
Collaborative Supply Chain Management	63	60
IT Consulting	—	—
	<u>\$ 211</u>	<u>\$ 274</u>
Capitalized Software:		
Enterprise Resource Planning	\$ 463	\$ 76
Collaborative Supply Chain Management	617	670
IT Consulting	—	—
	<u>\$ 1,080</u>	<u>\$ 746</u>
Depreciation and amortization:		
Enterprise Resource Planning	\$ 338	\$ 232
Collaborative Supply Chain Management	643	810
IT Consulting	—	1
	<u>\$ 981</u>	<u>\$ 1,043</u>



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements – Unaudited (continued)
July 31, 2005

J. Leases

We have various operating and facilities leases. Expense under these operating and facilities leases was \$228,000 for the three months ended July 31, 2005 and \$294,000 for the three months ended July 31, 2004.

K. Subsequent Event

On August 22, 2005, our Board of Directors declared a quarterly cash dividend of \$0.07 per share of American Software common stock. The cash dividend is payable on December 9, 2005 to Class A and Class B shareholders of record at the close of business on November 18, 2005.

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

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements relating to our future financial performance, business strategy, financing plans and other future events that involve uncertainties and risks. You can identify these statements by forward-looking words such as "anticipate", "intend", "plan", "continue", "could", "grow", "may", "potential", "predict", "strive", "will", "seek", "estimate", "believe", "expect", and similar expressions that convey uncertainty of future events or outcomes. Any forward-looking statements we make herein are pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include statements concerning future:

- results of operations;
- liquidity, cash flow and capital expenditures;
- demand for and pricing of our products and services;
- acquisition activities and the effect of completed acquisitions;
- industry conditions and market conditions; and
- general economic conditions.

Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, competitive pressures, delays and other risks associated with new product development, the difficulty of predicting the effectiveness and duration of third-party marketing agreements, undetected software errors, and risks associated with market acceptance of our products and services. We discuss certain factors in greater detail in "Business Overview", below. The terms "fiscal 2006" and "fiscal 2005" refer to our fiscal years ending April 30, 2006 and 2005, respectively.



ECONOMIC OVERVIEW

Corporate capital spending trends and commitments are the primary determinants of the size of the market for business software. Corporate capital spending is, in turn, a function of general economic conditions in the U.S. and abroad. In recent years, the weakness in the overall world economy, and the U.S. economy in particular, has resulted in reduced expenditures in the business software market. Overall Information Technology spending continues to be relatively weak when compared to the period prior to the last economic downturn. The generally weak economic conditions have prevented companies from replenishing resources needed for capital investment, including investment in information technology, resulting in continued reduced levels of software purchases.

However, we believe Information Technology spending has incrementally improved towards the end of Fiscal 2005 and will continue to improve as increased global competition forces companies to improve productivity by upgrading their technology environment systems.

Although this improvement could slow or regress at any time, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. While our sales pipelines are improving slightly, customers continue to take longer to evaluate discretionary software purchases than generally was the case prior to the economic downturn.

BUSINESS OVERVIEW

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

We provide our software solutions through three major business segments, which are further broken down into a total of four major product and service groups. The three business segments are (1) Enterprise Resource Planning (“ERP”), (2) Collaborative Supply Chain Management (“SCM”), and (3) Information Technology (“IT”) Consulting. The Collaborative Supply Chain Management segment consists of Logility, Inc., an 89% owned subsidiary which provides collaborative supply chain solutions to streamline and optimize the production, distribution and management of products between trading partners. The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce, Flow Manufacturing and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry specific business software to both retailers and manufacturers in the Apparel, Sewn Products and Furniture industries. The IT Consulting segment consists of The Proven Method, an IT staffing and consulting services firm.

On September 30, 2004, Logility acquired certain assets and the distribution channel of privately-held Demand Management, Inc., (DMI) a St. Louis-based provider of supply chain planning systems marketed



under the Demand Solutions® brand. The acquisition provided more than 800 active customers, which brought the Logility customer base to approximately 1,100 companies, located in 70 countries and gives Logility what is believed to be the largest installed base of supply chain planning customers among application software vendors. Since the acquisition, Logility has continued to market and sell the Demand Solutions product line through Demand Management's existing value-added reseller (VAR) distribution network. Logility also continues to offer the Logility Voyager Solutions™ suite to its traditional target market of upper-midsize to Fortune 1000 companies with distribution-intensive supply chains.

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

Our cost of revenue for licenses includes amortization of capitalized computer software development costs, salaries and benefits, and royalties paid to third-party software vendors as well as agent commission expenses related to license revenues generated by the indirect channel primarily from DMI. Costs for maintenance and services include the cost of personnel to conduct implementations and customer support, consulting, and other personnel-related expenses as well as agent commission expenses related to maintenance revenues generated by the indirect channel primarily from DMI. We account for the development costs of software intended for sale in accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." We monitor the net realizable value of our capitalized software on a quarterly basis based on an estimate of future product revenues. We currently expect to fully recover the value of the capitalized software asset recorded on our consolidated balance sheet; however, if future product revenues are less than management's current expectations, we may incur a write-down of capitalized software costs.

Our selling expenses generally include the salary and commissions paid to our sales professionals, along with marketing, promotional, travel and associated costs. Our general and administrative expenses generally include the salary and benefits paid to executive, corporate and support personnel, as well as facilities related costs, utilities, communications expenses, and various professional fees. DMI sells its products primarily through indirect channels.

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

Strategic Relationships. We intend to expand the depth and number of strategic relationships with leading enterprise software, systems integrators and service providers to integrate our solutions into their services and products and to create joint marketing opportunities. We have a number of marketing alliances, including those with IBM and SSA Global Technologies. In addition, we have developed a network of international agents who assist in the sale and support of its products. We intend to utilize these and future relationships with software and service organizations to enhance our sales and marketing position.



Dependence on Capital Spending Patterns. There is risk associated with our dependence on, and the risks associated with, the capital spending patterns of U.S. and international businesses, which in turn are functions of economic trends and conditions over which we have no control.

Acquisition Opportunities. There are opportunities for select acquisitions or investments to provide opportunities to expand our sales distribution channels and/or broaden our product offering by providing additional solutions for our target markets.

Acquisition Risks. There are risks associated with acquisitions of complementary companies, products and technologies, including the risks that we will not achieve the financial and strategic goals that we contemplate at the time of the transaction. More specifically, in any acquisition we will face risks and challenges associated with the uncertain value of the acquired business or assets, the difficulty of assimilating operations and personnel, integrating acquired technologies and products and maintaining the loyalty of the customers of the acquired business.

Competitive Technologies. There is a risk that our competitors may develop technologies that are substantially equivalent or superior to our technology.

Competition in General. There are risks inherent in the market for business application software and related services, which has been and continues to be intensely competitive; for example, some of our competitors may become more aggressive with their prices and/or payment terms, which may adversely affect our profit margins.

Sarbanes-Oxley Section 404. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to attest to whether or not our assessment is fairly stated in all material respects and to separately report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If for any fiscal year we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure, as well as difficulties in implementing required new or improved controls, could result in our inability to provide timely and reliable financial information and could adversely affect our business.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2005.



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 July 31, 2005 and 2004:

	Percentage of Total Revenues		Pct. Change in Dollars 2005 vs 2004
	2005	2004	
Revenues:			
License fees	20%	19%	35%
Services and other	46%	49%	13%
Maintenance	34%	32%	29%
Total revenues	100%	100%	22%
Cost of revenues:			
License fees	7%	7%	19%
Services and other	33%	34%	17%
Maintenance	9%	8%	35%
Total cost of revenues	49%	49%	21%
Gross margin	51%	51%	24%
Operating expenses:			
Research and development costs	9%	8%	32%
Sales and marketing expense	19%	21%	7%
General and administrative expenses	18%	17%	35%
Amortization of acquisition-related intangibles	1%	0%	—
Provision for doubtful accounts	0%	0%	—
Total operating expenses	47%	46%	24%
Operating income	4%	4%	29%
Other income, net	7%	5%	76%
Earnings before income taxes and minority interest	11%	9%	54%
Income taxes	(4)%	0%	—
Minority interest	(1)%	(0)%	—
Net earnings	6%	8%	(11)%



COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2005 AND 2004

REVENUES:

For the three months ended July 31, 2005, the increase in revenues from the quarter ended July 31, 2004 was primarily attributable to an increase in license fees and maintenance revenues, and to a lesser extent an increase in services revenues. DMI contributed \$2.1 million in total revenues for the three months ended July 31, 2005, and zero in the three months ended July 31, 2004 since the Company acquired DMI on September 30, 2004. International revenues represented approximately 9% of total revenues in the three months ended July 31, 2005 and 6% for the three months ended July 31, 2004. This increase was due primarily to DMI which receives a larger portion of its revenue from international customers than the Company prior to the acquisition. Our international revenues may fluctuate substantially from period to period primarily because we derive these revenues from a relatively small number of customers in a given period.

LICENSES. For the quarter ended July 31, 2005, the increase in license fee revenues was due primarily to increased license fees from our Logility subsidiary as a result of the DMI acquisition subsequent to the end of the corresponding period a year ago and to a lesser extent an increase in overall license fees sales due to an improved selling environment and better sales execution. License fee revenues from Logility increased 72% to \$2.4 million, of which DMI contributed \$876,000 compared to the same period last year. Logility constituted 71% of total license fee revenues for the quarter ended July 31, 2005, compared to \$1.4 million for the comparable quarter a year ago, which comprised 55% of total license fee revenues for that period.

The direct sales channel provided approximately 75% of license fee revenues for the quarter ended July 31, 2005, compared to approximately 94% in the comparable quarter a year ago. This decrease was due primarily to greater indirect channel sales resulting from the DMI acquisition, as DMI sales are made primarily through its VAR network. For the quarter ended July 31, 2005, our margins after commissions on direct sales were approximately 87%, and our margins after commissions on indirect sales were approximately 44%. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

SERVICES AND OTHER. For the three months ended July 31, 2005, the increases in services and other revenues were due primarily to increased services revenues from our IT consulting segment. This segment realized increased revenues from both new and existing customers. For the quarter ended July 31, 2005, our IT Consulting segment's revenues increased 27% when compared to the prior year quarter, from \$2.9 million to \$3.7 million. For the quarter ended July 31, 2005, services and other revenues from Logility increased 15%, to \$1.5 million compared to \$1.3 million for the corresponding prior year period. This increase was due primarily to increased services revenues resulting from the DMI acquisition and increased software implementation activity in general due to higher sales. We have observed that there is a tendency for services and other revenues, other than IT consulting, to lag changes in license revenues by one to three quarters, as new licenses in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

MAINTENANCE. For the quarter ended July 31, 2005, maintenance revenues from Logility increased 46% to \$4.0 million, and constituted 71% of total maintenance revenues, compared to \$2.8 million for the corresponding prior year period, which comprised 63% of total maintenance revenues. The increases in maintenance revenues for the quarter ended July 31, 2005 were due primarily to increased



maintenance revenues resulting from the acquisition of DMI. Typically, our maintenance revenues have had a direct relationship to current and historic license fee revenues, since new licenses are the potential source of new maintenance customers.

GROSS MARGIN:

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

(\$000's omitted)	Three months ended July 31,			
	2005		2004	
Gross margin on license fees:	\$2,370	69%	\$1,654	65%
Gross margin on services and other:	\$2,158	28%	\$2,060	30%
Gross margin on maintenance:	\$4,067	72%	\$3,211	73%
Total gross margin:	\$8,595	51%	\$6,925	51%

For the three months ended July 31, 2005, the increase in total gross margin percentage was due primarily to an increase in license fee gross margin percentage partially offset by a decrease in the services and other and maintenance gross margin percentage.

LICENSES. For the three months ended July 31, 2005, gross margin on license fees increased due primarily to higher license fee revenues, and to a lesser extent decreased expense related to amortization of capitalized software development costs and partially offset by agent commission expenses related to license revenues generated by the indirect channel primarily from DMI. License fee gross margin normally is directly related to the level of license fee revenues due to the relatively fixed amortization level of computer software development expense, which is the primary component of cost of license fees.

SERVICES AND OTHER. For the three months ended July 31, 2005, the decrease in services and other gross margin percentage was due primarily to the lower margin nature of services provided by our IT consulting segment, which accounted for a larger proportion of our total services and other revenues.

MAINTENANCE. For the three months ended July 31, 2005, maintenance gross margin percentage was lower due to the DMI acquisition for two primary reasons: 1) the purchase accounting write-down in DMI's deferred revenues associated with technical support services resulted in lower maintenance revenues that would have otherwise been recognized in the current quarter, and 2) agent commission expense related to maintenance revenues generated by the indirect channel. We expect maintenance revenues and related margins for DMI during comparable future periods to increase slightly, assuming retention of the current customer base.



EXPENSES

Research and Development

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

	Three months ended (in thousands)		
	July 31, 2005	Percent Change	July 31, 2004
Total capitalized computer software development costs	\$ 617	-17%	\$ 746
Percentage of gross product research and development costs	24%		40%
Purchase accounting impact on share repurchases by subsidiary and related tax effect	463	nm	—
Percentage of total revenues	3%		
Total research and development expense	1,511	32%	1,142
Percentage of total revenues	9%		8%
Total research and development expense and capitalized computer software development costs	\$ 2,591	nm	\$ 1,888
Percentage of total revenues	15%		14%
Total amortization of capitalized computer software development costs	\$ 589	-27%	\$ 807

nm: not meaningful

For the three months ended July 31, 2005, gross product research and development costs increased when compared to the comparable period last year and capitalized software development costs decreased when compared to the comparable period last year. This change was primarily due to the DMI acquisition, which added gross R&D costs but did not capitalize any R&D costs during the period. We expect capitalized product development costs to be lower in coming quarters as a result of fewer capitalizable R&D projects in the pipeline. However, we expect capitalized software amortization to increase in the future as projects achieve “general availability” and amortization commences.

Capitalized computer software development costs include the effects of applying purchase accounting as a result of Logility, Inc.’s share repurchases. During the three months ended July 31, 2005, the Company capitalized \$463,000 (including \$176,000 related to the non-cash tax effects of these share repurchases) as a result of such repurchases. These costs which are being amortized ratably based on the projected revenues associated with the related assets of Logility, Inc. or on a straight-line basis over three years, whichever method results in a higher level of amortization. We included amortization of these capitalized costs, including share repurchases from prior periods, in the cost of license revenues in the consolidated statements of operations, which totaled \$94,000 for the three months ended July 31, 2005.



Sales and Marketing

For the three months ended July 31, 2005, the increase in sales and marketing expenses when compared to the same period a year ago was due primarily to the increase in sales and marketing expenses resulting from the DMI acquisition during the year partially offset by lower expenses in the remaining product lines due to lower sales commissions and marketing expenses. We generally include commissions on indirect sales in cost of sales.

General and Administrative

For the three months ended July 31, 2005, the increases in general and administrative expenses were due to increases in employee headcount resulting from the DMI acquisition and additional expenses related to audit fees. At July 31, 2005, the total number of employees was 300, compared to 276 at July 31, 2004.

Other Income

Other income is comprised of interest and dividend income, rental income and realized and unrealized gains and losses from investments. For the three months ended July 31, 2005, the increase in other income was due primarily to higher unrealized gains on investments in the current quarter and to a lesser extent to increased rental income from new leases of space in our headquarters building when compared to the comparable period last year.

Income Taxes

In the three months ended July 31, 2005, we recorded income tax expense of approximately \$724,000 compared to zero in the three months ended July 31, 2004. We recognize deferred tax assets and liabilities based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes", we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is "more likely than not" that the deferred tax asset would be realized.

Minority Interest

Minority interest is a function of our majority-owned subsidiaries' earnings or losses, with minority interest losses recorded when these subsidiaries have earnings, and minority interest earnings recorded when they have losses. Due to Logility's net earnings in the three months ended July 31, 2005, minority interest decreased earnings by approximately \$98,000 compared to a reduction of earnings of approximately \$48,000 for the same three months a year ago.



LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Sources and Uses of Cash

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

The following tables show information about our cash flows and liquidity positions during the three months ended July 31, 2005 and July 31, 2004. You should read this table and the discussion that follows in conjunction with our condensed consolidated statements of cash flows contained in "Item 1. Financial Statements" in Part I of this report and in our Annual Report on Form 10-K for the fiscal year ended April 30, 2005.

	Three Months Ended July 31, (in thousands)	
	2005	2004
Net cash provided by operating activities	\$ 1,233	\$ 2,303
Net cash used in investing activities	(3,331)	(1,208)
Net cash used in financing activities	(1,591)	(1,082)
Net change in cash and cash equivalents	\$ (3,689)	\$ 13

For the three months ended July 31, 2005, when compared to the prior year period, the decrease in cash provided by operating activities was due primarily to an increase in accounts receivable, and to a lesser extent increased gain on investments. These were partially offset by increases in deferred income taxes and deferred revenues. The increase in cash used in investing activities when compared to the prior year period was due primarily to the purchase of treasury shares by subsidiary. The increase in cash used in financing activities was due primarily to increase in the quarterly dividends when compare to prior year.

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

	As of July 31, (in thousands)	
	2005	2004
Cash and cash equivalents	\$27,458	\$37,543
Short and Long-Term Investments	30,282	29,591
Total cash and short and long term investments	\$57,740	\$67,134
Net (decrease) increase in total cash and investments (three months ended July 31)	\$ (1,321)	\$ 768

Our total activities used cash and investments during the three months ended July 31, 2005, when compared to the prior year period, due primarily to the purchase of treasury shares by subsidiary and to a lesser extent the payment of cash dividends to common shareholders.



Days Sales Outstanding in accounts receivable were 72 days as of July 31, 2005, compared to 61 days as of July 31, 2004. This increase was due primarily to accounts receivable acquired through the purchase of DMI. Our current ratio on July 31, 2005 was 3.1 to 1 and on July 31, 2004 was 4.7 to 1. This decrease was due primarily to the decrease in cash and cash equivalents.

As a result of the positive cash flow from operations our business has generated in recent periods, and because we have \$57.7 million in cash and investments with no debt, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, due to the uncertainty in the recent economic environment, 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. Neither we nor Logility currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

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

On August 22, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to 2.0 million shares of our Class A common stock. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchases will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. For this repurchase plan, through October 10, 2005, we have repurchased 247,232 shares of common stock at a cost of approximately \$1.1 million. We did not make any repurchases of our common stock in the quarter ended July 31, 2005. See Part II, Item 2 for a table summarizing stock repurchases in the last quarter and the number of remaining shares available for purchase under existing repurchase programs.

In November, 1998, the Logility Board of Directors approved a resolution authorizing the repurchase of up to 800,000 shares of its common stock through open market purchases at prevailing market prices. In February 2003, Logility's Board of Directors approved a resolution authorizing it to repurchase an additional 400,000 shares for a total authorized repurchase amount of 1,200,000 shares. The timing of any repurchases depends on market conditions, the market price of Logility's common stock and management's assessment of its liquidity and cash flow needs. For all repurchase plans, through October 10, 2005, Logility had purchased a cumulative total of approximately 1,281,000 shares at a total cost of approximately \$7.7 million. In the first quarter of fiscal 2006, Logility purchased approximately 272,000 shares of its common stock at an average price of \$6.00 per share for a total price of \$1.6 million. See Part II, Item 2 for a table summarizing stock repurchases in the last quarter and the number of remaining shares available for purchase under our existing repurchase program.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires



all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted no later than May 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

1. A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123(R) for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
2. A “modified retrospective” method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company will be adopting Statement 123(R) beginning May 1, 2006 and is currently in the process of evaluating the impact and which method will be adopted.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that are important to the portrayal of our financial condition and results of operations. These policies also require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. In our Annual Report on Form 10-K for the fiscal year ended April 30, 2005, we described the policies and estimates relating to revenue recognition, allowance for doubtful accounts, valuation of acquired business, valuation of long-lived and intangible assets, valuation of capitalized software assets and income taxes as our critical accounting policies. Since then, we have made no changes to our reported critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three months ended July 31, 2005, we generated approximately 9% of our revenues outside the United States. We typically make international sales through our foreign subsidiaries or our Logility subsidiary and denominated those sales typically in U.S. Dollars, British Pounds Sterling or Euros. However, expenses incurred in connection with these sales are typically denominated in the local currencies. The effect of foreign exchange rate fluctuations on us in the first three months of fiscal 2006 was not material. In addition, a 10% movement in foreign currency rates would not have a material impact on our financial condition or results of operations. We have not engaged in any hedging activities.

Interest rates and other market risks. We manage our interest rate risk by maintaining an investment portfolio of trading and held-to-maturity investments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market



instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. dollars. The fair market value of securities as of July 31, 2005 was approximately \$56.6 million.

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. We believe that a 10% fluctuation in interest rates would not have a material effect on our accompanying statements of operations.

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

Item 4. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

As of the end of the period covered by this report, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) under the supervision and with the participation of our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, the aforementioned officers have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective.

In our Annual Report on Form 10-K for the fiscal year ended April 30, 2005, management identified material weaknesses in internal control over financial reporting related to *Revenue Recognition* and *Accounting for Income Taxes*. Accordingly, management concluded that our internal control over financial reporting was not effective as of April 30, 2005. Since that time, the Company implemented additional internal control over financial reporting to remediate these material weaknesses. These control improvements included:

Revenue recognition

- We implemented a policy which lowered the threshold of license revenue contracts that must be reviewed by corporate headquarters.



- We have implemented lower thresholds for required reviews of revenue related analyses and calculations for license revenue contracts including a secondary review of the Company's non-standard multiple element arrangements.

Accounting for income taxes

- We have implemented enhanced procedures for the preparation and review of the accounting for income taxes, including hiring a regional accounting firm to further assist in the preparation on a quarterly and annual basis.
- We implemented review procedures to monitor and evaluate the realization of our deferred tax assets.

In addition, we are in the process of making further changes to our internal control over financial reporting as described below:

Revenue recognition

- Implementing the use of review templates to help ensure accuracy and identify changes to standard terms and conditions.
- Carrying out additional training of accounting personnel as it relates to revenue recognition standards.

Accounting for income taxes

- Accelerating the timing of the preparation of the quarterly and annual income tax provision and enhancing the levels of review of supporting documentation.
- Engaging a regional accounting firm specializing in, among other things, tax and consulting services, to further assist the Company in its preparation of the quarterly and annual income tax provision.

These changes are part of our overall program that is intended to remediate all material weaknesses by April 30, 2006.

The Company excluded the internal controls of Demand Management, Inc. ("DMI") from its assessment of internal controls. DMI was acquired in September 2004 by Logility, Inc., an 89%-owned subsidiary of the Company as of July 31, 2005, and DMI constituted 12% of the Company's consolidated assets at July 31, 2005 and 13% of the Company's consolidated revenues for the three months then ended.



PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The following table summarizes repurchases of our stock in the three months ended July 31, 2005:

<u>Fiscal Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*</u>
May 1, 2005 through May 31, 2005	0	\$ 0.00	0	1,752,768
June 1, 2005 through June 30, 2005	0	\$ 0.00	0	1,752,768
July 1, 2005 through July 31, 2005	0	\$ 0.00	0	1,752,768
Total Fiscal 2006 First Quarter	0	\$ 0.00	0	1,752,768

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

The following table summarizes repurchases of stock made by our Logility subsidiary in the three months ended July 31, 2005:

<u>Fiscal Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*</u>
May 1, 2005 through May 31, 2005	0	\$ 0.00	0	541,085
June 1, 2005 through June 30, 2005	272,189	\$ 6.00	272,189	268,896
July 1, 2005 through July 31, 2005	0	\$ 0.00	0	268,896
Total Fiscal 2006 First Quarter	272,189	\$ 6.00	272,189	268,896

* The Logility Board of Directors approved the above share purchase authority in November 1998 and in February 2003, when the Logility Board approved resolutions authorizing Logility to repurchase an aggregate of up to 1.2 million shares of common stock. These actions were announced in November 1998 and on February 19, 2003, respectively. The authorizations have no expiration dates.



Item 3. Defaults Upon Senior Securities

Not applicable.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit 32.1. Section 906 Certifications



SIGNATURES

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

AMERICAN SOFTWARE, INC.

Date: October 14, 2005

By: /s/ James C. Edenfield

James C. Edenfield
President, Chief Executive
Officer and Treasurer

Date: October 14, 2005

By: /s/ Vincent C. Klinges

Vincent C. Klinges
Chief Financial Officer

Date: October 14, 2005

By: /s/ Michael R. Dowling

Michael R. Dowling
Controller and Principal
Accounting Officer



EXHIBIT 31.1

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

I, James C. Edenfield, certify that:

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

Date: October 14, 2005

By: /s/ James C. Edenfield

James C. Edenfield
Chief Executive Officer



EXHIBIT 31.2

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

I, Vincent C. Klings, certify that:

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

Date: October 14, 2005

By: /s/ Vincent C. Klings

Vincent C. Klings
Chief Financial Officer



Exhibit 32.1

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

The undersigned, as the Chief Executive Officer of American Software, Inc., certifies that, to the best of his knowledge and belief, this report on Form 10-Q for the fiscal quarter ended July 31, 2005 (the "Report"), which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of American Software, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 14th day of October, 2005

/s/ James C. Edenfield

James C. Edenfield
Chief Executive Officer

The undersigned, as the Chief Financial Officer of American Software, Inc., certifies that, to the best of his knowledge and belief, this report on Form 10-Q for the fiscal quarter ended July 31, 2005 (the "Report"), which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of American Software, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 14th day of October, 2005

/s/ Vincent C. Klinges

Vincent C. Klinges
Chief Financial Officer

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

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