



**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, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia
 (State or other jurisdiction of
 incorporation or organization)

58-1098795
 (IRS Employer
 Identification Number)

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

30305
 (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Classes	Outstanding at September 8, 2006
Class A Common Stock, \$.10 par value	21,203,225 Shares
Class B Common Stock, \$.10 par value	3,314,994 Shares



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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Form 10-Q

Quarter ended July 31, 2006

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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,</u>	<u>April 30,</u>
	<u>2006</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,073	\$ 29,425
Investments	33,445	32,724
Trade accounts receivable, less allowance for doubtful accounts of \$223 at July 31, 2006 and \$244 at April 30, 2006:		
Billed	10,505	11,302
Unbilled	3,701	4,514
Deferred Income taxes	96	248
Prepaid expenses and other current assets	2,303	2,323
Total current assets	<u>80,123</u>	<u>80,536</u>
Investments - noncurrent	406	499
Property and equipment, net	7,510	7,669
Capitalized software, net	6,500	6,711
Goodwill	11,120	11,120
Other intangibles, net	1,839	1,893
Other assets	1,439	1,461
	<u>\$108,937</u>	<u>\$109,889</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 866	\$ 917
Accrued compensation and related costs	2,005	4,195
Dividends payable	1,716	1,712
Other current liabilities	4,568	3,358
Deferred revenue	15,050	15,306
Total current liabilities	<u>24,205</u>	<u>25,488</u>
Deferred income taxes	1,060	870
Minority interest	4,344	4,159
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares:		
Issued 24,985,410 shares at July 31, 2006 and 24,918,930 shares at April 30, 2006	2,497	2,492
Class B, \$.10 par value. Authorized 10,000,000 shares:		
Issued and outstanding 3,314,994 shares at July 31, 2006 and 3,324,994 shares at April 30, 2006; convertible into Class A shares on a one-for-one basis	331	332
Additional paid-in capital	79,413	79,001
Accumulated other comprehensive income	145	136
Retained earnings	17,447	17,916
Class A treasury stock, 3,782,185 shares at July 31, 2006 and April 30, 2006	(20,505)	(20,505)
Total shareholders' equity	<u>79,328</u>	<u>79,372</u>
Commitments and contingencies		
	<u>\$108,937</u>	<u>\$109,889</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,	
	2006	2005
Revenues:		
License	\$ 4,373	\$ 3,444
Services and other	9,263	7,687
Maintenance	6,545	5,635
Total revenues	<u>20,181</u>	<u>16,766</u>
Cost of revenues:		
License	1,454	1,074
Services and other	6,644	5,529
Maintenance	1,777	1,568
Total cost of revenues	<u>9,875</u>	<u>8,171</u>
Gross margin	<u>10,306</u>	<u>8,595</u>
Research and development	1,719	1,511
Sales and marketing	3,517	3,112
General and administrative	3,265	3,082
Amortization of acquisition-related intangibles	88	88
Provision for doubtful accounts	43	73
Total operating expenses	<u>8,632</u>	<u>7,866</u>
Operating income	1,674	729
Other income:		
Interest income	624	399
Other, net	(19)	718
Earnings before income taxes	2,279	1,846
Income tax expense	(905)	(724)
Minority interest expense	(127)	(98)
Net earnings	<u>\$ 1,247</u>	<u>\$ 1,024</u>
Earnings per common share:		
Basic	\$ 0.05	\$ 0.04
Diluted	\$ 0.05	\$ 0.04
Shares used in the calculation of earnings per common share:		
Basic	24,508	23,970
Diluted	25,266	25,064

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,	
	2006	2005
Cash flows from operating activities:		
Net earnings	\$ 1,247	\$ 1,024
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,117	981
Stock compensation expense	225	—
Bond amortization	(75)	(32)
Tax benefit of stock options exercised	117	—
Net (gain) loss on investments	325	(524)
Minority interest in net earnings of subsidiary	127	98
Deferred income taxes	342	664
Changes in operating assets and liabilities:		
Purchases of trading securities	(7,435)	(4,676)
Proceeds from sale of trading securities	7,371	3,863
Proceeds from maturities of trading securities	1,000	—
Accounts receivable, net	1,610	(328)
Prepaid expenses and other assets	42	237
Accounts payable and other liabilities	(1,470)	(647)
Deferred revenue	(256)	573
Other	9	—
Net cash provided by operating activities	<u>4,295</u>	<u>1,233</u>
Cash flows from investing activities:		
Capitalized computer software development costs	(596)	(904)
Intangible assets	—	(684)
Purchases of property and equipment, net of disposals	(98)	(211)
Proceeds from maturities of investments	32,738	(28,373)
Purchases of investments	(34,551)	27,373
Proceeds from exercise of stock options by subsidiary	38	—
Purchases of common stock by subsidiary	—	(532)
Net cash used in investing activities	<u>(2,470)</u>	<u>(3,331)</u>
Cash flows from financing activities:		
Proceeds from Dividend Reinvestment Plan and Stock Purchase Plan	5	11
Excess tax benefits from stock based compensation	447	—
Proceeds from exercise of stock options	91	79
Dividends paid	(1,720)	(1,681)
Net cash used in financing activities	<u>(1,178)</u>	<u>(1,591)</u>
Net change in cash and cash equivalents	647	(3,689)
Cash and cash equivalents at beginning of period	<u>29,425</u>	<u>31,147</u>
Cash and cash equivalents at end of period	<u>\$ 30,073</u>	<u>\$ 27,458</u>

See accompanying notes to condensed consolidated financial statements - unaudited.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited
July 31, 2006

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 condensed 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, 2006, 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.

B. Principles of Consolidation

The consolidated financial statements include the accounts of American Software, Inc., and its wholly and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

C. Revenue Recognition

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

License. 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, we recognize revenue under the residual method as permitted by SOP 98-9, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized in accordance with SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. We record revenues from sales of third-party products 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 we: 1) act as principal in the transaction, 2) take title to the products, 3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, our sales through the DMI channel are recorded on a gross basis.

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

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

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



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited
July 31, 2006

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

D. Major Customer

One customer accounted for approximately 12% our total revenues for the three months ended July 31, 2006 and two customers accounted for 11% each of our total revenues for the three months ended July 31, 2005. The related accounts receivable balance for these customers as of July 31, 2006 and 2005 was approximately \$948,000 and \$1.1 million, respectively.

E. Declaration of Dividend Payable

On May 16, 2006, our Board of Directors declared a quarterly cash dividend of \$0.07 per share of American Software Class A and Class B common stock. The cash dividend is payable on September 12, 2006 to Class A and Class B shareholders of record at the close of business on August 21, 2006.

F. Net Earnings Per Common Share

We compute basic 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. 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.

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,	
	2006	2005
	(in thousands, except per share data)	
Common Shares:		
Weighted average common shares outstanding:		
Class A Shares	21,186	20,464
Class B Shares	<u>3,322</u>	<u>3,506</u>
Basic weighted average common shares outstanding	<u>24,508</u>	<u>23,970</u>
Dilutive effect of outstanding Class A common stock options outstanding, net of income taxes	758	1,094
Total	<u><u>25,266</u></u>	<u><u>25,064</u></u>
Net earnings	<u>\$ 1,247</u>	<u>\$ 1,024</u>
Net earnings per common share:		
Basic	<u>\$ 0.05</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.04</u>

For the three months ended July 31, 2006, we excluded options to purchase 197,050 shares of common stock and for the three months ended July 31, 2005, we excluded options to purchase 596,054 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, 2006, we had a total of 3,265,402 options outstanding and as of July 31, 2005 we had a total of 3,260,447 options outstanding.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited
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G. Acquisitions

Logility Share Repurchase

On June 27, 2005, Logility, Inc., our approximately 88% owned subsidiary, purchased approximately 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 from this transaction was \$1.2 million, which includes approximately \$237,000 related to the non-cash tax effects of this treasury stock purchase. We have allocated the \$1.2 million to capitalized software development costs, totaling approximately \$197,000, intangible assets, totaling approximately \$189,000, and goodwill, totaling approximately \$821,000, based on management's estimates of fair value at the date of the transaction. The costs allocated to capitalized software development costs and intangible assets are being amortized ratably based on the projected revenues associated with the related assets of Logility, Inc. or on 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 consolidated statements of operations for capitalized software development costs and intangible assets, respectively.

H. Stock-Based Compensation

As of July 31, 2006, we had three stock-based employee compensation plans, which are described below. Prior to May 1, 2006, we accounted for these plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." Substantially no expense associated with employee stock options was recognized prior to May 1, 2006 as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective May 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) ("SFAS 123(R)"), "Share-Based Payment" using the modified prospective transition method. Under that transition method, compensation cost recognized on or after May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or after May 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R).

We recorded stock option compensation cost of \$224,913 and related income tax benefits of \$49,507 during the three months ended July 31, 2006. Compensation is recorded over the vesting period directly to additional paid-in capital.

Prior to the adoption of SFAS 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS 123(R) requires that cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. During the quarter ended July 31, 2006, we realized tax benefits from stock option net operating losses (NOLs) generated in previous periods resulting in approximately \$447,000 of excess tax benefits which are included as a component of cash flows from financing activities in the accompanying condensed consolidated statement of cash flows.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited
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The following disclosure shows what our net earnings and earnings per share would have been using the fair value compensation model under SFAS 123 for the three months ended July 31, 2005 (in thousands):

Net earnings:	
As reported	\$1,024
Deduct: Stock-based compensation expense determined under fair value based method for all awards	(272)
Pro forma net earnings	<u>\$ 752</u>
Basic earnings per share:	
As reported	\$ 0.04
Pro forma in accordance with SFAS No. 123	0.03
Diluted earnings per share:	
As reported	\$ 0.04
Pro forma in accordance with SFAS No. 123	\$ 0.03

I. Stock Option Plans

The Company has outstanding stock options granted pursuant to three stock option plans. The 1991 Employee Stock Option Plan (the "Employee Option Plan") and the Directors and Officers Stock Option Plan (the "Directors and Officers Option Plan") were adopted in 1991. These Plans were terminated and replaced by the 2001 Stock Option Plan (the "2001 Option Plan") effective September 1, 2000. Options outstanding under the Employee Option Plan and the Directors and Officers Option Plan remain in effect, but no new options may be granted under those plans.

Under the 2001 Stock Option Plan, options to purchase Class A common shares are granted in the form of both incentive stock options and non-qualified stock options. The number of options granted under this plan is determined with each grant, except with respect to non-employee directors, who receive grants of non-qualified options to purchase 5,000 shares upon election and 3,000 shares at the end of each fiscal quarter. The exercise price of such grants is equal to the closing market price of the shares on the date of grant. Options are exercisable based on the terms of such options, but no more than 10 years after the date of grant (or 5 years for incentive stock options granted to any person who owns 10% or more of the combined voting power of all classes of capital stock of the Company at the time of grant). A total of 3,575,000 shares are authorized for issuance pursuant to options granted under this Plan. In February 2005, the Board amended the stock option grant forms to be used in connection with the 2001 Option Plan for future grants to provide for a six year option life and a five year vesting period. In July 2005, the Board of Directors approved an amendment increasing the number of shares available for issuance by 600,000 shares.

Effective August 7, 1997, Logility Inc., a subsidiary of the Company, adopted the Logility, Inc. 1997 Stock Plan (Subsidiary Stock Plan). The Subsidiary Stock Plan provides for grants of incentive stock options and nonqualified stock options to certain key employees and directors of Logility, Inc. The Subsidiary Stock Plan also allows for stock appreciation rights in lieu of or in addition to stock options. Options to purchase a maximum of 1.6 million shares of common stock and a maximum of 300,000 units of Stock Appreciation Rights (SARs), as defined, may be granted under the Subsidiary Stock Plan. The options generally vest over a four-year period. The contractual terms of the options generally are for ten years. There have been no SARs granted to date. In March 2005, the Logility, Inc. Board amended the stock option grant forms to be used in connection with the 2001 Option Plan for future grants to provide for a six year award life and a five year vesting period. In July 2006, Logility's Board of Directors approved an amendment increasing the number of shares available for grant by 400,000 shares, which amendment was approved by shareholders in August 2006.



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
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July 31, 2006

A summary of changes in outstanding options for the period ended July 31, 2006 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at May 1, 2006	3,018,968	\$ 4.04		
Granted	285,000	6.02		
Exercised	36,898	2.23		
Forfeited/cancelled	1,668	3.38		
Outstanding at July 31, 2006	<u>3,265,402</u>	<u>\$ 4.24</u>	<u>4.8</u>	<u>\$ 6,403,783</u>
Exercisable at July 31, 2006	<u>2,412,214</u>	<u>\$ 3.73</u>	<u>4.4</u>	<u>\$ 6,055,929</u>

The weighted-average grant date fair value of stock options granted during the three months ended July 31, 2006 and 2005, was \$1.70 and \$2.18, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the three months ended July 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Dividend yield	5.0%	4.7%
Expected volatility	43.1%	61.1%
Risk-free interest rate	5.0%	4.0%
Expected term	4.5 years	4.5 years

A summary of changes in outstanding options for the Subsidiary's Stock Plan for the period ended July, 31, 2006 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at May 1, 2006	683,097	\$ 4.05		
Granted	83,000	8.16		
Exercised	15,505	2.43		
Forfeited/cancelled	—	—		
Outstanding at July 31, 2006	<u>750,592</u>	<u>\$ 4.53</u>	<u>5.1</u>	<u>\$ 2,590,326</u>
Exercisable at July 31, 2006	<u>572,617</u>	<u>\$ 4.16</u>	<u>4.5</u>	<u>\$ 2,201,396</u>



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
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July 31, 2006

The weighted-average grant date fair value of stock options granted during the three months ended July 31, 2006 and 2005, was \$4.61 and \$3.77, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the three months ended July 31, 2006 and 2005:

	2006	2005
Dividend yield	0%	0%
Expected volatility	65.0%	70.0%
Risk-free interest rate	5.0%	4.1%
Expected term	4.5 years	4.5 years

The expected volatility is based on the historical volatility and other factors. The Company uses historical data to estimate stock option exercise and forfeiture rates. The expected term represents the period over which the share-based awards are expected to be outstanding. It has been determined using the shortcut method described in SEC Staff Accounting Bulletin (“SAB”) No. 107. The dividend yield is an estimate of the expected dividend yield on the Company’s stock. The risk-free rate is based on U.S. Treasury yields in effect at the time of the grant for the expected term of the stock options.

Options issued after May 1, 2006 with graded vesting are valued as a single award. The total value of the award is expensed on a straight line basis over the vesting period with the amount of compensation cost recognized at any date at least equal to the portion of the grant date value of the award that is vested at that date. During the three months ended July 31, 2006 and July 31, 2005, we issued 36,898 and 21,706 shares of common stock, respectively, resulting from the exercise of stock options. During the three months ended July 31, 2006 and 2005, our subsidiary issued 15,505 and 41,251 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the three months ended July 31, 2006 and 2005 based on market value at the exercise dates was \$182,917 and \$50,830, respectively. The total intrinsic value of options exercised at our subsidiary during the three months ended July 31, 2006 and 2005 based on market value at the exercised dates was \$124,884 and \$122,408, respectively. As of July 31, 2006, unrecognized compensation cost related to unvested stock option awards approximated \$1.6 million and is expected to be recognized over a weighted average period of 1.9 years. As of July 31, 2006, unrecognized compensation cost related to unvested stock option awards at our subsidiary approximated \$811,000 million and is expected to be recognized over a weighted average period of 2.1 years.

J. Comprehensive Income

We have adopted Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. We have not included condensed consolidated statements of comprehensive income in the accompanying unaudited condensed consolidated financial statements since comprehensive income and net earnings presented in the accompanying condensed consolidated statements of operations would be substantially the same.

K. 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 88%-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, 2006 and 2005:



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July 31, 2006

	<u>Three Months Ended</u>	
	<u>July 31,</u>	
	<u>2006</u>	<u>2005</u>
Revenues:		
Enterprise Resource Planning	\$ 5,648	\$ 5,130
Collaborative Supply Chain Management	9,594	7,903
IT Consulting	4,939	3,733
	<u>\$20,181</u>	<u>\$16,766</u>
Operating income before intersegment eliminations:		
Enterprise Resource Planning	\$ 261	\$ (86)
Collaborative Supply Chain Management	1,236	759
IT Consulting	177	56
	<u>\$ 1,674</u>	<u>\$ 729</u>
Intersegment eliminations:		
Enterprise Resource Planning	\$ (433)	\$ (402)
Collaborative Supply Chain Management	433	402
IT Consulting	—	—
	<u>\$ —</u>	<u>\$ —</u>
Operating income after intersegment eliminations:		
Enterprise Resource Planning	\$ (172)	\$ (488)
Collaborative Supply Chain Management	1,670	1,161
IT Consulting	177	56
	<u>\$ 1,674</u>	<u>\$ 729</u>
Capital expenditures:		
Enterprise Resource Planning	\$ 49	\$ 148
Collaborative Supply Chain Management	50	63
IT Consulting	—	—
	<u>\$ 98</u>	<u>\$ 211</u>
Capitalized Software:		
Enterprise Resource Planning	\$ 0	\$ 463
Collaborative Supply Chain Management	596	617
IT Consulting	—	—
	<u>\$ 596</u>	<u>\$ 1,080</u>
Depreciation and amortization:		
Enterprise Resource Planning	\$ 296	\$ 338
Collaborative Supply Chain Management	821	643
IT Consulting	0	—
	<u>\$ 1,117</u>	<u>\$ 981</u>



AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited
July 31, 2006

L. Leases

We have various operating and facilities leases. Expense under these operating and facilities leases approximated \$223,000 and \$228,000 for the three months ended July 31, 2006 and 2005, respectively. A facility leased by a subsidiary of the Company included a lease incentive which was recorded as an increase in leasehold improvements and deferred rent.

The Company leased several floors of its headquarters in Atlanta, GA under various operating leases. Rental income for these leases approximated \$159,000 and \$115,000 for the three months ended July 31, 2006 and 2005, respectively. In addition the Company owns properties leased under various operating leases. Rental income for these leases approximated \$57,000 and \$53,000 for the three months ended July 31, 2006 and 2005, respectively. The rental income is included as a component of other income in the accompanying condensed consolidated statements of operations.

M. Subsequent Event

On August 29, 2006, our Board of Directors approved a 14% increase to the Company's quarterly dividend from \$0.07 per share to \$0.08 per share. In addition our Board of Directors declared a quarterly cash dividend of \$0.08 per share of American Software Class A and Class B common stock. The cash dividend is payable on December 8, 2006 to Class A and Class B shareholders of record at the close of business on November 20, 2006.



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 2007" and "fiscal 2006" refer to our fiscal years ending April 30, 2007 and 2006, 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.

However, we believe information technology spending has incrementally improved in Fiscal 2007 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, 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 88% owned subsidiary that provides



collaborative supply chain solutions to streamline and optimize the production, distribution and management of products between trading partners. The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce, Flow Manufacturing and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry specific business software to both retailers and manufacturers in the Apparel, Sewn Products and Furniture industries. The IT Consulting segment consists of The Proven Method, an IT staffing and consulting services firm.

On September 30, 2004, Logility acquired certain assets and the distribution channel of privately-held 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 we believe to be the largest installed base of supply chain planning customers among application software vendors. Since the acquisition, Logility has continued to market and sell the Demand Solutions product line through Demand Management's existing value-added reseller (VAR) distribution network. Logility also continues to offer the Logility Voyager Solutions™ suite to its traditional target market of upper-midsize to Fortune 1000 companies with distribution-intensive supply chains.

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

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

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

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

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 SAP and IBM. In addition, we have developed a network of international agents who assist in the sale and support of our 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, 2006.

Recent Developments

Adoption of SFAS 123(R). Prior to May 1, 2006, we accounted for our employee stock option plan under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by SFAS 123, "Accounting for Stock-Based Compensation." Substantially no stock-based employee compensation cost related to stock options was recognized in the consolidated statements of operations for periods prior to May 1, 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective May 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective transition method. Under that transition method, compensation cost recognized on or after May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to May 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Prior to the adoption of SFAS 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS 123(R) requires that cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

As a result of adopting SFAS 123(R) on May 1, 2006, our earnings before income taxes and net earnings for the three months ended July 31, 2006 were \$225,000 and \$175,000 respectively, lower than if we had continued to account for share-based compensation under APB Opinion No. 25.

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model based on certain assumptions, including the expected term of the option, the expected volatility of the price of the underlying share for the expected term of the option, the expected dividends on the underlying share for the expected term, and the risk-free interest rate for the expected term of the option. Effective May 1, 2006, expected volatilities are based on historical volatility of our stock. Previously, we had relied exclusively on historical volatility, disregarding periods of time in which our share price was extraordinarily volatile because of circumstances that were not expected to recur. We applied the short cut method as prescribed in SAB No. 107 to estimate the term that options are expected to be outstanding and used historical data to estimate the forfeiture rate of options granted. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of the grant with a term approximating the expected term. Options issued after May 1, 2006 with graded vesting are valued as a single award. The total value of the award is expensed on a straight line basis over the vesting period with the amount of compensation cost recognized at any date at least equal to the portion of the grant date value of the award that is vested at that date. During the three months ended July 31, 2006 and July 31, 2005, we issued 36,898 and 21,706 shares of common stock, respectively, resulting from the exercise of stock options. During the three months ended July 31, 2006 and 2005 our subsidiary issued 15,505 and 41,251 shares of common stock, respectively, resulting from the exercise of stock



options. The total intrinsic value of options exercised during the three months ended July 31, 2006 and 2005 based on market value at the exercise dates was \$182,917 and \$50,830, respectively. The total intrinsic value of options exercised at our subsidiary during the three months ended July 31, 2006 and 2005 based on market value at the exercised dates was \$124,884 and \$122,408, respectively. As of July 31, 2006, unrecognized compensation cost related to unvested stock option awards approximated \$1.6 million and is expected to be recognized over a weighted average period of 1.9 years. As of July 31, 2006, unrecognized compensation cost related to unvested stock option awards at our subsidiary approximated \$811,000 and is expected to be recognized over a weighted average period of 2.1 years.

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, 2006 and 2005:

	Percentage of Total Revenues		Pct. Change in Dollars
	2006	2005	2006 vs 2005
Revenues:			
License	22%	20%	27%
Services and other	46	46	21
Maintenance	32	34	16
Total revenues	100	100	20
Cost of revenues:			
License	7	7	35
Services and other	33	33	20
Maintenance	9	9	13
Total cost of revenues	49	49	21
Gross margin	51	51	20
Research and development	9	9	14
Sales and marketing	17	19	13
General and administrative	16	18	6
Amortization of acquisition-related intangibles	—	1	—
Provision for doubtful accounts	—	—	(41)
Total operating expenses	42	47	10
Operating income	9	4	130
Other income:			
Interest income	3	2	56
Other, net	—	5	nm
Earnings before income taxes	12	11	23
Income tax expense	(4)	(4)	25
Minority interest expense	(1)	(1)	30
Net earnings	7%	6%	22%

nm - not meaningful



COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2006 AND 2005

REVENUES:

For the three months ended July 31, 2006, the increase in revenues from the three months ended July 31, 2005 was attributable to an increase in license fees, services revenues, and to a lesser extent an increase in maintenance revenues. International revenues represented approximately 10% and 9% of total revenues in the three months ended July 31, 2006 and 2005, respectively. Our revenues in particular our international revenues may fluctuate substantially from period to period primarily because we derive most of our license fee revenues from a relatively small number of customers in a given period.

LICENSES. For the three months ended July 31, 2006, the license fee revenues increased 27% when compared to the same periods in the prior year, due primarily to increased license fees from our Logility subsidiary as a result of an increase in overall license fees sales due to an improved selling environment and better sales execution. Our ERP business unit also increased license fees by 6% for the three months ended July 31, 2006 when compared to the same periods in the prior year also due to improved sales execution. In the three months ended July 31, 2006, license fee revenues from Logility increased 35% to \$3.3 million, of which DMI contributed \$888,000. Logility constituted 75% of total license fee revenues for the three months ended July 31, 2006, compared to 71% for the three months ended July 31, 2005.

The direct sales channel provided approximately 78% of license fee revenues for the three months ended July 31, 2006, compared to approximately 75% in the comparable quarter a year ago. This increase was due primarily to improved sales execution and sales environment within our direct channel. For the three months ended July 31, 2006, our margins after commissions on direct sales were approximately 80%, and our margins after commissions on indirect sales were approximately 46%. 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, 2006, the increase in services and other revenues were due primarily to increased services revenues from our ERP and IT consulting segments. For the three months ended July 31, 2006, our IT Consulting segment's revenues increased 32% when compared to the prior year quarter, to \$4.9 million from \$3.7 million due to increased project work. For the three months ended July 31, 2006, our ERP segment's revenues increased 16% when compared to the prior year quarter, to \$2.9 million from \$2.5 million due to increased implementation services. For the three months ended July 31, 2006, services and other revenues from Logility decreased 2%, to \$1.4 million compared to \$1.5 million for the three months ended July 31, 2005. This decrease was due primarily to timing of implementation projects. 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 three months ended July 31, 2006, maintenance revenues increased 16% to \$6.5 million compared to the same period in the prior year. This increase was primarily from Logility which increased 21% to \$4.9 million compared to \$4.0 million for the same period in the prior year. Logility constituted 75% of total maintenance revenues for the three month period ended July 31, 2006, compared to 71% of total maintenance for the corresponding prior year period. The increases in maintenance revenues for the three months ended July 31, 2006 were due primarily to increased maintenance revenues resulting from the acquisition of DMI and increased license fees in prior periods resulting in new maintenance revenue in the current quarter. 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,		July 31,	
	2006	2005	2006	2005
Gross margin on license fees:	\$ 2,919	\$2,370	67%	69%
Gross margin on services and other:	\$ 2,619	\$2,158	28%	28%
Gross margin on maintenance:	\$ 4,768	\$4,067	73%	72%
Total gross margin:	\$10,306	\$8,594	51%	51%

For the three months ended July 31, 2006, total gross margin percentage was primarily flat when compared to the same period in the prior year.



LICENSES. For the three months ended July 31, 2006, gross margin on license fees decreased slightly due to higher amortization of capitalized software development costs when compared to the same period in the prior year. License fee gross margin percentage tends to be directly related to the level of license fee revenues due to the relatively fixed cost of computer software amortization expense, amortization of acquired software and the sales mix between our direct and indirect channel.

SERVICES AND OTHER For the three months ended July 31, 2006, percentage was relatively consistent when compared to the same period in the prior fiscal year. Services and other gross margin normally are directly related to the level of services and other revenues. The primary component of cost of services and other revenues is services staffing, which is relatively fixed in the short term.

MAINTENANCE. Maintenance gross margin percentage was slightly higher for three months ended July 31, 2006 when compared to the same periods last year due to the increase in overall maintenance revenue and lower costs at our ERP business unit.

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, 2006	Percent Change	July 31, 2005
Total capitalized computer software development costs	\$ 596	(3)%	\$ 617
Percentage of gross product research and development costs	26%		24%
Purchase accounting impact on share repurchases by subsidiary and related tax effect	—	nm	463
Percentage of total revenues	0%		3%
Total research and development expense	1,719	14%	1,511
Percentage of total revenues	9%		9%
Total research and development expense and capitalized computer software development costs	\$ 2,315	11%	\$ 2,591
Percentage of total revenues	11%		15%
Total amortization of capitalized computer software development costs *	\$ 806	(37)%	\$ 589

nm: not meaningful

* Included in cost of license fees

For the three months ended July 31, 2006, gross product research and development costs increased when compared to the same periods last year and capitalized software development costs decreased when compared to the same periods last year. These changes were primarily due to increased research and development costs of DMI acquisition and in our ERP segment, 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; however, we expect capitalized software amortization expense to remain relatively consistent when compared to the three months ended July 31, 2006.

Capitalized computer software development costs include the effects of applying purchase accounting as a result of Logility, Inc.'s share repurchases.



Sales and Marketing

For the three months ended July 31, 2006, the increase in sales and marketing expenses when compared to the same period a year ago was due primarily to an increase in sales commissions as a result of higher license fee sales when compared to the same period last year. In addition, marketing expenses increased from the DMI acquisition. We generally include commissions on indirect sales in cost of sales.

General and Administrative

For the three months ended July 31, 2006, the increases in general and administrative expenses were primarily due to expenses related to compensation expense related to stock options. During the quarter ended July 31, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) ("SFAS 123(R)"), "Share-Based Payments" using the modified prospective transition method. Under that transition method, compensation cost recognized on or after May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or after May 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R). We recorded stock option compensation cost of \$224,913 in the quarter ended July 31, 2006 of which approximately \$166,000 was recorded to general and administrative expense.

At July 31, 2006, the total number of employees was 302 compared to 300 at July 31, 2005.

Other Income

Other income is comprised of interest and dividend income, rental income and realized and unrealized gains and losses from investments. For both the three months ended July 31, 2006, the decrease in other income was due primarily to unrealized losses on investments when compared to the prior year period. This was partially offset by increased interest and rental income when compared to the same period last year.

Income Taxes

In the three months ended July 31, 2006, we recorded income tax expense of approximately \$905,000 compared to \$724,000 recorded in the three month period ended July 31, 2005 due to increased pretax income. We recognize deferred tax assets and liabilities based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes", we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is "more likely than not" that the deferred tax asset would be realized. We expect the Company's effective rate to range between 38% and 40% during fiscal year 2007.

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, 2006, we recorded minority interest expenses of approximately \$127,000 for the three months ended July 31, 2006 and \$98,000 for the three months ended July 31, 2005.

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, 2006 and 2005. 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, 2006.



	Three Months Ended	
	July 31, (in thousands)	
	2006	2005
Net cash provided by operating activities	\$ 4,295	\$ 1,233
Net cash used in investing activities	(2,470)	(3,331)
Net cash used in financing activities	(1,178)	(1,591)
Net change in cash and cash equivalents	\$ 647	\$ (3,689)

For the three months ended July 31, 2006, the net increase in cash provided by operating activities when compared to the same period last year was due primarily to the increases in net earnings and collections from our customer accounts receivable. The decrease in cash used in investing activities when compared to the same period in the prior year was due primarily to the purchase of treasury shares by our subsidiary in the quarter ended July 31, 2006. Cash used in financing activities decreased when compared to the same period in the prior year, due primarily to excess tax benefits from stock based compensation in the current quarter.

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)	
	2006	2005
Cash and cash equivalents	\$30,073	\$27,458
Short and Long-Term Investments	33,851	30,282
Total cash and short and long-term investments	\$63,924	\$57,740
Net increase (decrease) in total cash and investments (three months ended July 31)	\$ 1,276	\$ (1,321)

Our total activities used cash and investments during the three months ended July 31, 2006, when compared to the prior year period, due primarily to the changes in operating assets and liabilities noted above.

Days Sales Outstanding in accounts receivable were 64 days as of July 31, 2006, compared to 72 days as of July 31, 2005. This decrease was due primarily to improved collections. Our current ratio on July 31, 2006 was 3.3 to 1 and on July 31, 2005 was 3.1 to 1.

As a result of the positive cash flow from operations our business has generated in recent periods, and because we have \$63.9 million in cash and investments with no debt, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. 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 September 8, 2006, 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, 2006.

On December 15, 1997, Logility Board of Directors approved a resolution authorizing Logility to repurchase up to 350,000 shares of our common stock through open market purchases at prevailing market prices. Logility completed this repurchase plan in November 1998, at which time Logility adopted an additional repurchase plan for up to 800,000 shares. In February 2003, Logility's Board of Directors approved a resolution authorizing it to repurchase an additional 400,000 shares for a total authorized repurchase amount of 1,550,000 shares. The timing of any repurchases depends on market conditions, the market



price of Logility's common stock and Logility's assessment of its liquidity and cash flow needs. For all repurchase plans, through September 8, 2006, Logility had purchased a cumulative total of 1,281,104 shares at a total cost of \$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. In the first quarter of fiscal 2006, Logility did not purchase any shares under this program. 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 the Company's and Logility's existing repurchase program.

RECENT ACCOUNTING PRONOUNCEMENTS

During June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income taxes, and interpretation of FASB Statement No. 109, Accounting for Income Taxes. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with this Interpretation is based on a more likely than not approach. This interpretation is effective for our fiscal year 2008.

The Company is currently evaluating the effect of this statement.

During June 2006 the Emerging Issues Task Force ("EITF") issued Issue 06-03: How Taxes Collected for Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross Versus Net Presentation). The task force reached a conclusion on issue one that the scope of this issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise tax. The task force also reached a conclusion on issue two that the presentation of taxes within the scope of issue one on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board ("APB") Opinion No. 22, Disclosure of Accounting Policy. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. The task force also reached a conclusion that this Issue should be applied to financial reports for Interim and annual periods beginning after December 15, 2006; our fiscal fourth quarter.

The Company currently uses net presentation for sales tax and will continue to do so.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have based the following discussion and analysis of financial condition and results of operations on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including, but not limited to those related to revenue/vendor specific object evidence (VSOE), bad debts, capitalized software costs, goodwill, intangible asset impairment, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ from these estimates under different assumptions or conditions.

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

Revenue Recognition. We recognize revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, and SOP 98-9, Software Revenue Recognition with Respect to Certain Transactions. We recognize license revenues in connection with license agreements for standard proprietary software upon delivery of the software, provided we deem collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific objective evidence exists with respect to any undelivered elements of the arrangement. We generally bill maintenance fees annually in advance and recognize the resulting revenues ratably over the term of the maintenance agreement. We derive revenues from services which primarily include consulting, implementation, and training. We bill for these services primarily under time and materials arrangements and recognize fees as we perform the services. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the



time we recognize revenues. We record revenues from sales of third-party products 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.

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

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

Valuation of Acquired Business. In fiscal 2005, Logility made a business acquisition. We are required to allocate the purchase price of an acquired business to the assets acquired and liabilities assumed based on their fair values at date of acquisition. Prior to this allocation, we are required to identify intangible assets and assign a value to these intangible assets based on their fair value. Determining the fair value of identifiable intangible assets requires management to estimate future cash flows for the related assets and the useful life of such assets. We recognize the excess of the cost of the acquired business over the net of the amounts assigned to assets acquired and liabilities assumed as goodwill. We amortize intangible assets over their useful lives and evaluate goodwill on an annual basis. Consequently, our estimates determine the timing and the amount of expense recognized in our financial statements.

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

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

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill and intangible assets had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill or intangible assets that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At July 31, 2006, our goodwill balance was \$11.1 million and our intangible assets with definite lives balance was \$1.8 million, net of accumulated amortization.



Valuation of Capitalized Software Assets. We capitalize certain computer software development costs in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers. We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the amount by which the unamortized software development costs exceed net realizable value. We amortize capitalized computer software development costs ratably based on the projected revenues associated with the related software or on a straight-line basis over three years, whichever method results in a higher level of amortization. Amortization of capitalized computer software development costs is included in the cost of license revenues in the consolidated statements of operations.

Stock-Based Compensation. Effective May 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective transition method. Under that transition method, compensation cost recognized on or after May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or after May 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R). SFAS 123 (R) requires that cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three months ended July 31, 2006, we generated approximately 10% 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 three months of fiscal 2006 were not material. We estimate that a 10% movement in foreign currency rates would have up to \$207,000 exchange gain or loss on our financial condition or results of operations for the three months ended July 31, 2006. 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, 2006 was approximately \$61.6 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 estimate that a 10% movement in foreign currency rates would have up to \$827,000 exchange gain or loss on our financial condition or results 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 effective.

Our chief executive officer and chief financial officer, with the assistance of our Disclosure Committee, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of July 31, 2006. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our annual report on Form 10-K and quarterly reports on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of July 31, 2006.

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

Changes in Internal Control over Financial Reporting

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



PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors as described in our Annual Report on Form 10-K for our fiscal year ended April 30, 2006.

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, 2006:

<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, 2006 through May 31, 2006	0	\$ 0.00	0	1,752,768
June 1, 2006 through June 30, 2006	0	\$ 0.00	0	1,752,768
July 1, 2006 through July 31, 2006	0	\$ 0.00	0	1,752,768
Total Fiscal 2007				
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, 2006:

<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, 2006 through May 31, 2006	0	\$ 0.00	0	268,896
June 1, 2006 through June 30, 2006	0	\$ 0.00	0	268,896
July 1, 2006 through July 31, 2006	0	\$ 0.00	0	268,896
Total Fiscal 2007				
First Quarter	0	\$ 0.00	0	268,896



* The Logility Board of Directors approved the above share purchase authority in December 1997, November 1998 and in February 2003, when the Logility Board approved resolutions authorizing Logility to repurchase an aggregate of up to 1.6 million shares of common stock. 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

- Exhibit 10.1 Logility, Inc's Amended and Restated 1997 Stock Plan dated August 17, 2006
- 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: September 11, 2006

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

Date: September 11, 2006

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

Date: September 11, 2006

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



EXHIBIT 10.1

LOGILITY, INC.

1997 STOCK PLAN

(Amended and Restated August 17, 2006)

Logility, Inc., a Georgia corporation (the “Company”), hereby establishes the Logility, Inc. 1997 Stock Plan (the “Plan”), effective as of August 7, 1997, the date on which this Plan was approved and adopted by the Board of Directors and Shareholders of the Company.

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

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

(a) “Act” means the Securities Exchange Act of 1934 as in effect from time to time.

(b) “Board” means the Board of Directors of the Company.

(c) “Change in Control” means the occurrence, prior to the expiration of a Stock Option or Stock Appreciation Right, of any of the following events:

(i) the Company is merged, consolidated or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than two-thirds of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors (“Voting Stock”) of such corporation or person immediately after such transaction are held in the aggregate by the holders of Voting Stock of the Company immediately prior to such transaction;

(ii) the Company sells or otherwise transfers all or substantially all of its assets to another corporation or other legal person, and as a result of such sale or transfer less than two-thirds of the combined voting power of the then-outstanding Voting Stock of such corporation or person immediately after such sale or transfer is held in the aggregate by the holders of Voting Stock of the Company immediately prior to such sale or transfer;

(iii) there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Act, disclosing that any person (as the term “person” is used in Section 13(d)(3) or Section 14(d)(2) of the Act) has become the direct or indirect beneficial owner (as the term “beneficial owner” is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Act) of securities representing 50% or more of the combined voting power of the then-outstanding Voting Stock of the Company;

(iv) the Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Act disclosing in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred or will occur in the future pursuant to any then-existing contract or transaction; or

(v) if, during any period of two consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof; provided, however, that for purposes of this clause (v) each director who is first elected, or first nominated for election by the Company’s stockholders, by a vote of at least two-thirds of the directors of the Company (or a committee thereof) then still in office who were directors of the Company at the



beginning of any such period will be deemed to have been a director of the Company at the beginning of such period; and provided further that this clause (v) shall not commence applicability until such time as at least five directors are serving concurrently on the Board, but shall apply thereafter regardless of the number of directors.

Notwithstanding the foregoing provisions of clauses (iii) or (iv) above, unless otherwise determined in a specific case by majority vote of the Board, a "Change in Control" will not be deemed to have occurred for purposes of clause (iii) or clause (iv) above (A) solely because (1) the Company, (2) a Subsidiary, or (3) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Act disclosing beneficial ownership by it of shares of Voting Stock of the Company, whether in excess of 50% or otherwise, or because the Company reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership or any increase or decrease thereof; or (B) solely because of the distribution by American Software, Inc., a Georgia corporation ("ASI"), of all or any portion of its Voting Stock of the Company to the Shareholders of ASI.

(d) "Code" means the Internal Revenue Code of 1986, as in effect from time to time.

(e) "Committee" shall refer to either the Stock Option Committee or the Special Stock Option Committee.

(f) "Common Stock" means the common stock of the Company or any security into which such common stock may be changed by reason of any transaction or event of the type described in Section 10.

(g) "Date of Grant" means the date specified by the Stock Option Committee or the Special Stock Option Committee, as applicable, on which a grant of Stock Options or Stock Appreciation Rights will become effective (which date will not be earlier than the date on which such Committee takes action with respect thereto).

(h) "Incentive Stock Option" means a Stock Option granted in accordance with Section 422 of the Code.

(i) "Market Value per Share" means (i) for Stock Options granted prior to the Company's registration of the Common Stock under the Securities Exchange Act of 1934 ("1934 Act Registration"), the fair market value per share of the Common Stock on the Date of Grant as determined by the Stock Option Committee or the Special Stock Option Committee, as applicable, and (ii) with respect to Stock Options granted after 1934 Act Registration, the average of the high and low closing sale prices as reported on any national securities exchange or automated quotation system on which the Common Stock is listed on the Date of Grant if such date is a trading day and, if such date is not a trading day, on the immediately preceding date which is a trading day.

(j) "Nonemployee Director" means a member of the Board who is not an employee of the Company or any Subsidiary and who qualifies as a "disinterested person" within the meaning of Rule 16b-3.

(k) "Nonqualified Stock Option" means a Stock Option other than an Incentive Stock Option.

(l) "Option Price" means the purchase price per share payable on exercise of a Stock Option.

(m) "Participant" means a person who is selected by the Stock Option Committee or the Special Stock Option Committee, as applicable, to receive Stock Options or Stock Appreciation Rights and who is at that time (i) an executive officer or other key employee of the Company or any Subsidiary, (ii) an advisor or consultant to the Company or any Subsidiary, or (iii) a member of the Board.

(n) "Rule 16b-3" means Rule 16b-3 under Section 16 of the Act, as such Rule is in effect from time to time.

(o) "Special Stock Option Committee" means (i) a committee that at all times consists of at least two Nonemployee Directors and all of whose members qualify as "outside directors" within the meaning of Section 162(m) of the Code.



(p) "Stock Appreciation Right" means the right of a Participant, without payment to the Company (except for applicable withholding taxes), to receive the excess of the Market Value per Share on the date on which a Stock Appreciation Right is exercised over the Unit Exercise Price as provided in the stock appreciation right agreement, multiplied by the number of Units exercised. A Stock Appreciation Right may be exercised in whole or in part, and if exercised in part the excess above the Unit Exercise Price is calculated only on those Units as to which the Stock Appreciation Right is exercised.

(q) "Stock Option" means the right to purchase shares of Common Stock upon exercise of an option granted pursuant to Section 4 or 5.

(r) "Stock Option Committee" means the Stock Option Committee appointed by the Board. Prior to the appointment of such a committee, the Board shall be deemed the Stock Option Committee.

(s) "Subsidiary" means any corporation, partnership, joint venture or other entity in which the Company owns or controls, directly or indirectly, not less than 50% of the total combined voting power or equity interests represented by all classes of stock issued by such corporation, partnership, joint venture or other entity.

(t) "10-Percent Shareholder" means any person who at the time of a Stock Option grant owns capital stock of the Company possessing more than 10% of the combined voting power of all classes of capital stock of the Company.

(u) "Units" means the number of shares of Common Stock covered by a Stock Appreciation Right which, although not issued to the Participant, are used to measure, at any particular time, the amount payable to the Participant upon exercise of the Stock Appreciation Right.

(v) "Unit Exercise Price" means the price set forth in a stock appreciation right agreement executed pursuant to Sections 5 or 7 with which the Market Value per Share is compared in order to determine the amount payable to the Participant upon exercise of the Stock Appreciation Right.

3. Shares and Units Available Under Plan.

(a) The shares of Common Stock which may be issued under the Plan will not exceed in the aggregate 1,600,000 shares, subject to adjustment as provided in Section 10. Such shares may be shares of original issuance or treasury shares or a combination of the foregoing. Any shares of Common Stock that are subject to Stock Options that are terminated, expire unexercised, are forfeited or are surrendered will again be available for issuance under the Plan.

(b) The Units on which Stock Appreciation Rights may be based will not exceed in the aggregate 300,000 Units, subject to adjustment as provided in Section 10. Any Units on which Stock Appreciation Rights are based will again be available for the granting of Stock Appreciation Rights under Section 6 if the Stock Appreciation Rights that were based on those Units are terminated, expire unexercised, are forfeited or are surrendered.

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

(a) Each grant will specify the number of shares of Common Stock to which it pertains.

(b) Each grant will specify the Option Price, which, in the case of an Incentive Stock Option, will be not less than 100% of the Market Value per Share on the Date of Grant or, in the case of an Incentive Stock Option granted to a 10% Shareholder, not less than 110% of the Market Value per Share on the Date of Grant.

(c) Each grant will specify whether the Stock Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

(d) Each grant may specify whether the Option Price will be payable (i) in cash or by check acceptable to the Company, (ii) by the transfer to the Company of shares of Common Stock owned by the



Participant for at least six months (or, with the consent of the Committee, for less than six months) having an aggregate fair market value per share at the date of exercise equal to the aggregate Option Price, or (iii) by a combination of such methods of payment; provided, however, that the payment method described in clause (ii) will not be available at any time that the Company is prohibited from purchasing or acquiring such shares of Common Stock. In the absence of any such specification, only the payment method in clause (i) shall be permitted. Any grant may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker of some or all of the shares to which such exercise relates.

(e) Successive grants may be made to the same Participant whether or not any Stock Options previously granted to such Participant remain unexercised.

(f) Each grant will specify the term of the Stock Option, which in the case of an Incentive Stock Option granted to a 10% Shareholder shall not be greater than five years and for all other Stock Options shall not be greater than ten years.

(g) Each grant will specify the required period or periods (if any) of continuous service by the Participant with the Company or any Subsidiary and/or any other conditions to be satisfied before the Stock Option or installments thereof will become exercisable, and any grant may provide, or may be amended to provide for the earlier exercise of the Stock Option in the event of a Change in Control.

(h) Each Stock Option granted pursuant to this Section 4 will be subject to the transfer restrictions set forth in Section 9.

(i) Each grant will be evidenced by a stock option agreement executed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer (or another officer designated by the Board of Directors or by the Stock Option Committee) and delivered to the Participant and containing such further terms and provisions, consistent with the Plan, as the Committee may approve.

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

(a) Each grant will specify the number of shares of Common Stock to which it pertains.

(b) Each grant will specify the Option Price, which, in the case of an Incentive Stock Option, will be not less than 100% of the Market Value per Share on the Date of Grant or, in the case of an Incentive Stock Option granted to a 10% Shareholder, not less than 110% of the Market Value per Share on the Date of Grant.

(c) Each grant will specify whether the Stock Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

(d) Each grant will specify whether the Option Price will be payable (i) in cash or by check acceptable to the Company, (ii) by the transfer to the Company of shares of Common Stock owned by the Participant for at least six months (or, with the consent of the Special Stock Option Committee, for less than six months) having an aggregate fair market value per share at the date of exercise equal to the aggregate Option Price, or (iii) by a combination of such methods of payment; provided, however, that the payment method described in clause (ii) will not be available at any time that the Company is prohibited from purchasing or acquiring such shares of Common Stock. In the absence of any such specification, only the payment method in clause (i) shall be permitted. Any grant may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker of some or all of the shares to which such exercise relates.

(e) Successive grants may be made to the same Participant whether or not any Stock Options previously granted to such Participant remain unexercised.



(f) Each grant will specify the term of the Stock Options, which in the case of an Incentive Stock Option granted to a 10% Shareholder shall not be greater than five years and for all other Incentive Stock Options shall not be greater than ten years.

(g) Each grant will specify the required period or periods (if any) of continuous service by the Participant with the Company or any Subsidiary and/or any other conditions to be satisfied before the stock Options or installments thereof will become exercisable, and any grant may provide, or may be amended to provide for the earlier exercise of the Stock Options in the event of a Change in Control.

(h) Each Stock Option granted pursuant to this Section 5 will be subject to the transfer restrictions set forth in Section 9.

(i) Each grant will be evidenced by a stock option agreement executed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer (or another officer designated by the Board of Directors or by the Special Stock Option Committee) and delivered to the Participant and containing such further terms and provisions, consistent with the Plan, as the Special Stock Option Committee may approve.

6. Stock Appreciation Rights - Nonexempt Grants. The Stock Option Committee may from time to time authorize grants of Stock Appreciation Rights to any Participant upon such terms and conditions as such Committee may determine in accordance with the provisions set forth below. Grants made pursuant to this Section 6 are not intended to comply with or otherwise satisfy the requirements of Rule 16b-3.

(a) Each grant will specify the number of Units to which it pertains.

(b) Each grant will specify the Unit Exercise Price, which will be not less than 100% of the Market Value per Share on the Date of Grant.

(c) Successive grants may be made to the same Participant whether or not any Stock Appreciation Rights previously granted to such Participant remain unexercised.

(d) Each grant will specify the term of the Stock Appreciation Rights, which shall not be greater than five years.

(e) Each grant will specify the required period or periods (if any) of continuous service by the Participant with the Company or any Subsidiary and/or any other conditions to be satisfied before the Stock Appreciation Rights or installments thereof will become exercisable, and any grant may provide, or may be amended to provide for the earlier exercise of the Stock Appreciation Rights in the event of a Change in Control.

(f) Each Stock Appreciation Right granted pursuant to this Section 6 will be subject to the transfer restrictions set forth in Section 9.

(g) Each grant will be evidenced by a stock appreciation right agreement executed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer (or another officer designated by the Board of Directors or the Stock Option Committee) and delivered to the Participant and containing such further terms and provisions, consistent with the Plan, as the Committee may approve.

7. Stock Appreciation Rights - Exempt Grants. The Special Stock Option Committee may from time to time authorize grants of Stock Appreciation Rights to any Participant upon such terms and conditions as such Committee may determine in accordance with the provisions set forth below. Grants made pursuant to this Section 7 are intended to comply with and otherwise satisfy the requirements of Rule 16b-3. To the extent that (i) any provision of the Plan applicable to a Stock Appreciation Right granted pursuant to this Section 7, or (ii) any act of the Board, Stock Option Committee or Special Stock Option Committee would cause such Stock Appreciation Right to fail to satisfy or comply with any requirements of Rule 16b-3, such provision or act will be deemed null and void for purposes of such Stock Appreciation Right.

(a) Each grant will specify the number of Units to which it pertains.

(b) Each grant will specify the Unit Exercise Price, which will be not less than 100% of the Market Value per Share on the Date of Grant.



(c) Successive grants may be made to the same Participant whether or not any Stock Appreciation Rights previously granted to such Participant remain unexercised.

(d) Each grant will specify the term of the Stock Appreciation Rights, which shall not be greater than five years.

(e) Each grant will specify the required period or periods (if any) of continuous service by the Participant with the Company or any Subsidiary and/or any other conditions to be satisfied before the Stock Appreciation Rights or installments thereof will become exercisable, and any grant may provide, or may be amended to provide for the earlier exercise of the Stock Appreciation Rights in the event of a Change in Control.

(f) Each Stock Appreciation Right granted pursuant to this Section 7 will be subject to the transfer restrictions set forth in Section 9.

(g) Each grant will be evidenced by a stock appreciation right agreement executed on behalf of the Company by the Chief Executive Officer or Chief Financial Officer (or another officer designated by the Board of Directors or by the Special Stock Option Committee) and delivered to the Participant and containing such further terms and provisions, consistent with the Plan, as the Committee may approve.

8. Stock Options for Nonemployee Directors. This Section 8 shall become activated and shall be effective immediately following the close of the initial public offering of the Common Stock by the Company (the "IPO"). Thereafter, each Nonemployee Director in office at that time will be granted a Stock Option as of the first business day following the close of the IPO, and each Nonemployee Director thereafter newly elected or appointed to the Board will be granted a Nonqualified Stock Option effective upon his or her initial election or other appointment to the Board, to purchase 2000 shares of Common Stock. Each Nonemployee Director will also be granted an additional Nonqualified Stock Option to purchase 1000 shares of Common Stock as of the last day of each fiscal quarter following his or her initial option grant under this Section 8, beginning on the last day of the first complete fiscal quarter following such date, provided that such individual has served continually as a Nonemployee Director through the close of business on such date. Each grant will specify the Option Price, which will not be less than 100% of the Market Value on the Date of Grant. All Stock Options granted pursuant to this Section 8 will contain the terms and conditions set forth in paragraphs (a), (d), (e), (f), (g), (h) and (i) of Section 4. Stock Options granted pursuant to this Section 8 are intended to comply with and otherwise satisfy the requirements of Rule 16b-3. To the extent that (i) any provision of the Plan applicable to a Stock Option granted pursuant to this Section 8, or (ii) any act of the Board, Stock Option Committee or Special Stock Option Committee would cause such Stock Option to fail to satisfy or comply with any requirements of Rule 16b-3, such provision or act will be deemed null and void for purposes of such Stock Option.

9. Transferability. Except as otherwise expressly provided in the agreement evidencing a Stock Option or a Stock Appreciation Right, or in any amendment to such agreement, no Stock Option or Stock Appreciation Right will be transferable by a Participant other than by will or the laws of descent and distribution, and during the lifetime of the Participant may be exercised only by the Participant.

10. Adjustments. The Board or the Stock Option Committee, with respect to Stock Options granted under Section 4 or Stock Appreciation Rights granted under Section 6, and the Board or the Special Stock Option Committee, with respect to Stock Options granted under Section 5 or Stock Appreciation Rights granted under Section 7, may make or provide for such adjustments in the maximum number of shares of Common Stock or Units specified in Section 3, in the number of shares of Common Stock or Units covered by outstanding Stock Options or Stock Appreciation Rights granted hereunder, in the Option Price or Unit Exercise Price, applicable to any such Stock Options or Stock Appreciation Rights and/or in the kind of shares or Units covered thereby (including shares of another issuer), as the Board or such Committee in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Participants that otherwise would result from any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, merger, consolidation, spin-off, reorganization, partial or complete liquidation, issuance of rights or warrants to purchase securities or any other corporate transaction or event having an effect similar to any of the foregoing. Any fractional shares resulting from the foregoing adjustments will be eliminated with respect to Stock Options, but not with respect to Stock Appreciation Rights.

11. Withholding of Taxes. To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any benefit realized by a Participant under the Plan, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the realization of such benefit that the Participant make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld. In



addition, if permitted by the Stock Option Committee, with respect to Stock Options granted under Section 4, or by the Special Stock Option Committee, with respect to Stock Options granted under Section 5, an optionee may elect to have any withholding obligation of the Company satisfied with shares of Common Stock that would otherwise be transferred to the optionee on exercise of the Stock Option.

12. Administration of the Plan.

(a) The Plan will be administered by the Stock Option Committee with respect to Stock Options granted under Section 4 and with respect to Stock Appreciation Rights granted under Section 6 and by the Special Stock Option Committee with respect to Stock Options granted under Section 5 and with respect to Stock Appreciation Rights granted under Section 7. For purposes of any action taken by the Stock Option Committee or the Special Stock Option Committee, whichever is applicable, a majority of the members will constitute a quorum, and the action of the members present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of such Committee. The Board of Directors as a whole shall administer the Plan with respect to Stock Options granted under Section 8.

(b) Subject to the allocation of administrative responsibilities set forth in Section 12(a), the Stock Option Committee and the Special Stock Option Committee have the full authority and discretion to administer the Plan and to take any action that is necessary or advisable in connection with the administration of the Plan, including without limitation the authority and discretion to interpret and construe any provision of the Plan or of any agreement, notification or document evidencing the grant of a Stock Option or Stock Appreciation Right. The interpretation and construction by the Stock Option Committee, the Special Stock Option Committee or the Board of Directors, as applicable, of any such provision and any determination by the respective Committee pursuant to any provision of the Plan or of any such agreement, notification or document will be final and conclusive. No member of the Board or of either Committee will be liable for any such action or determination made in good faith.

(c) Notwithstanding the provisions of Section 12(b), if any authority, discretion or responsibility granted to the Special Stock Option Committee under the Plan would, if exercised or discharged by the Special Stock Option Committee, cause the provisions of Section 5 or any Stock Option granted under Section 5 to fail to satisfy the requirements of Rule 16b-3, such authority, discretion or responsibility may be exercised by the Board to the same extent and with the same effect as if exercised by the Special Stock Option Committee; provided, however, that such act of the Board will not cause the provisions of Sections 5 or 7, any Stock Option granted under Section 5 or any Stock Appreciation Right granted under Section 7 to fail to satisfy the requirements of Rule 16b-3 or cause any member of the Special Stock Option Committee to cease to be a disinterested administrator for purposes of Rule 16b-3.

13. Amendments, Etc.

(a) The Stock Option Committee, or the Special Stock Option Committee, as applicable, or the Board of Directors as to grants under Section 8, may, without the consent of the Participant, amend any agreement evidencing a Stock Option or Stock Appreciation Right granted under the Plan, or otherwise take action, to accelerate the time or times at which the Stock Option or Stock Appreciation Right may be exercised, to extend the expiration date of such Stock Option or Stock Appreciation Right, to waive any other condition or restriction applicable to such Participant or to the exercise of such Stock Option or Stock Appreciation Right, to reduce the exercise price of such Stock Option or Stock Appreciation Right, to amend the definition of a Change in Control to expand the events that would constitute a Change in Control, even if such definition may be different from that contained in the Plan, and may amend any such agreement in any other respect with the consent of the Participant.

(b) The Plan may be amended from time to time by the Stock Option Committee or the Board but may not be amended without further approval by the shareholders of the Company if such Plan amendment would result in any grant or other transaction with respect to Stock Options under Section 5 or Stock Appreciation Rights under Section 7 no longer satisfying the requirements of Rule 16b-3. Notwithstanding the foregoing, the provisions of Section 8 that designate Nonemployee Directors eligible to receive Stock Options and specify the amount, Option Price and timing of Stock Option grants may be amended only by the Board and may be amended no more than once every six months except to comply with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations thereunder. In the event any law, or any rule or regulation issued or promulgated by the Internal Revenue Service, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., any stock exchange upon which the Common Stock is listed for trading, or any other governmental or quasi-governmental agency having jurisdiction over the Company, the Common Stock or the Plan



requires the Plan to be amended, or in the event Rule 16b-3 is amended or supplemented (e.g., by addition of alternative rules) or any of the rules under Section 16 of the Act are amended or supplemented, in either event to permit the Company to remove or lessen any restrictions on or with respect to Stock Options or Stock Appreciation Rights, the Board of Directors reserves the right to amend the Plan to the extent of any such requirement, amendment or supplement, and all Stock Options or Stock Appreciation Rights then outstanding will be subject to such amendment.

(c) The Plan may be terminated at any time by action of the Board, but in any event will terminate on the tenth anniversary of the effective date of the Plan. The termination of the Plan will not adversely affect the terms of any outstanding Stock Option or Stock Appreciation Right.

(d) The Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate a Participant's employment or other service at any time.

LOGILITY, INC.

By: /s/ J. Michael Edenfield
Name: J. Michael Edenfield
Title: President



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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 11, 2006

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. Klinges, certify that:

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

Date: September 11, 2006

By: /s/ Vincent C. Klinges

Vincent C. Klinges
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, 2006 (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 11th day of
September, 2006

/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, 2006 (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 11th day of
September, 2006

/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.