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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2010

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

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

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

<u>Classes</u>	<u>Outstanding at March 8, 2010</u>
Class A Common Stock, \$.10 par value	22,427,265 Shares
Class B Common Stock, \$.10 par value	2,877,086 Shares

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Form 10-Q

Quarter ended January 31, 2010

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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>January 31,</u> <u>2010</u>	<u>April 30,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,236	\$ 37,629
Investments	15,334	16,371
Trade accounts receivable, less allowance for doubtful accounts of \$135 at January 31, 2010 and \$484 at April 30, 2009:		
Billed	11,508	10,234
Unbilled	3,106	2,995
Deferred income taxes	342	246
Prepaid expenses and other current assets	<u>2,745</u>	<u>2,886</u>
Total current assets	57,271	70,361
Investments—Noncurrent	14,185	17,094
Property and equipment, net of accumulated depreciation of \$26,075 at January 31, 2010 and \$25,121 at April 30, 2009	6,652	7,189
Capitalized software, net of accumulated amortization of \$7,425 at January 31, 2010 and \$7,050 at April 30, 2009	6,252	4,859
Goodwill	11,709	11,709
Other intangibles, net of accumulated amortization of \$2,580 at January 31, 2010 and \$2,233 at April 30, 2009	602	950
Other assets	118	157
Total assets	<u>\$ 96,789</u>	<u>\$112,319</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 760	\$ 822
Accrued compensation and related costs	2,628	2,374
Dividends payable	2,281	2,277
Other current liabilities	3,355	3,355
Deferred revenue	<u>13,869</u>	<u>16,101</u>
Total current liabilities	22,893	24,929
Deferred income taxes	1,163	1,163
Shareholders' equity:		
American Software, Inc. shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: Issued 26,697,953 shares at January 31, 2010 and 26,642,744 shares at April 30, 2009	2,670	2,664
Class B, \$.10 par value. Authorized 10,000,000 shares: Issued and outstanding 2,877,086 shares at January 31, 2010 and April 30, 2009; convertible into Class A shares on a one-for-one basis	288	288
Additional paid-in capital	83,764	88,164
Retained earnings	9,161	11,625
Class A treasury stock, 4,270,688 shares at January 31, 2010 and 4,230,288 shares at April 30, 2009	<u>(23,150)</u>	<u>(22,902)</u>
Total American Software, Inc. shareholders' equity	72,733	79,839
Noncontrolling interests	<u>—</u>	<u>6,388</u>
Total shareholders' equity	72,733	86,227
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 96,789</u>	<u>\$112,319</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		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
Revenues:				
License	\$ 4,602	\$ 4,722	\$12,325	\$11,258
Services and other	8,349	8,386	23,445	26,729
Maintenance	6,879	6,932	20,613	21,099
Total revenues	<u>19,830</u>	<u>20,040</u>	<u>56,383</u>	<u>59,086</u>
Cost of revenues:				
License	934	1,064	2,737	3,870
Services and other	6,193	5,925	16,499	18,223
Maintenance	1,630	1,778	5,180	5,400
Total cost of revenues	<u>8,757</u>	<u>8,767</u>	<u>24,416</u>	<u>27,493</u>
Gross margin	<u>11,073</u>	<u>11,273</u>	<u>31,967</u>	<u>31,593</u>
Research and development	1,607	1,765	4,979	5,436
Sales and marketing	3,653	3,829	11,182	11,097
General and administrative	2,954	3,203	9,880	9,077
Amortization of acquisition-related intangibles	87	87	262	262
(Recovery of) provision for doubtful accounts	(3)	255	(301)	309
Total operating expenses	<u>8,298</u>	<u>9,139</u>	<u>26,002</u>	<u>26,181</u>
Operating income	2,775	2,134	5,965	5,412
Other income (expense):				
Interest income	356	596	1,117	1,569
Other, net	(113)	(791)	145	(3,087)
Earnings before income taxes	3,018	1,939	7,227	3,894
Income tax expense	1,177	952	2,762	1,552
Net earnings	\$ 1,841	\$ 987	\$ 4,465	\$ 2,342
Less net earnings attributable to noncontrolling interests	—	(212)	(90)	(487)
Net earnings attributable to American Software, Inc.	<u>\$ 1,841</u>	<u>\$ 775</u>	<u>\$ 4,375</u>	<u>\$ 1,855</u>
Earnings per common share attributable to American Software, Inc.^(a):				
Basic	<u>\$ 0.07</u>	<u>\$ 0.03</u>	<u>\$ 0.17</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.03</u>	<u>\$ 0.17</u>	<u>\$ 0.07</u>
Cash dividends declared per common share	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.27</u>	<u>\$ 0.27</u>
Shares used in the calculation of earnings per common share attributable to American Software, Inc.:				
Basic	<u>25,321</u>	<u>25,279</u>	<u>25,316</u>	<u>25,343</u>
Diluted	<u>25,947</u>	<u>25,599</u>	<u>25,881</u>	<u>25,791</u>

(a) Basic per share amounts are the same for Class A and Class B shares. Diluted per share amounts for Class A shares are shown above. Diluted earnings per share for Class B shares under the two-class method are \$0.07 and \$0.03 for the three months ended January 31, 2010 and 2009 and \$0.17 and \$0.07 for the nine months ended January 31, 2010 and 2009, respectively. See Note G to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements—unaudited.

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

	Nine Months Ended January 31,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$ 4,375	\$ 1,855
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,679	2,957
Stock-based compensation expense	833	620
Bond amortization	575	390
Tax benefit of stock options exercised	395	194
Excess tax benefits from stock-based compensation	(126)	(69)
Net (gain)/loss on investments	(249)	2,491
Minority interest in net earnings of subsidiary	90	487
Deferred income taxes	(96)	(508)
Changes in operating assets and liabilities:		
Purchases of trading securities	(11,347)	(7,068)
Proceeds from sale of trading securities	3,265	1,920
Proceeds from maturities of trading securities	126	607
Accounts receivable, net	(1,385)	2,685
Prepaid expenses and other assets	166	(254)
Accounts payable and other liabilities	191	(1,871)
Deferred revenue	(2,232)	(1,445)
Other	—	(67)
Net cash (used in) provided by operating activities	<u>(3,740)</u>	<u>2,924</u>
Cash flows from investing activities:		
Capitalized computer software development costs	(1,768)	(1,521)
Intangible assets	—	(145)
Goodwill	—	(71)
Purchases of property and equipment, net of disposals	(418)	(781)
Proceeds from maturities of investments	11,590	77,478
Purchases of investments	—	(89,847)
Net change in minority interest resulting from changes in subsidiary equity	—	(245)
Repurchase of noncontrolling interest	(12,328)	—
Proceeds from exercise of stock options of subsidiary	29	232
Net cash used in investing activities	<u>(2,895)</u>	<u>(14,900)</u>
Cash flows from financing activities:		
Proceeds from Dividend Reinvestment Plan and Stock Purchase Plan	—	34
Repurchase of common stock	(248)	(1,393)
Excess tax benefits from stock based compensation	126	69
Proceeds from exercise of stock options	199	268
Dividends paid	(6,835)	(6,850)
Net cash used in financing activities	<u>(6,758)</u>	<u>(7,872)</u>
Net change in cash and cash equivalents	(13,393)	(19,848)
Cash and cash equivalents at beginning of period	37,629	59,236
Cash and cash equivalents at end of period	<u>\$ 24,236</u>	<u>\$ 39,388</u>

See accompanying notes to condensed consolidated financial statements—unaudited.

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements—Unaudited
January 31, 2010

A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-1 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of our management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the financial position at January 31, 2010, the results of operations for the three and nine months ended January 31, 2010 and 2009 and cash flows for the nine months ended January 31, 2010 and 2009. The results for the three and nine months ended January 31, 2010 are not necessarily indicative of the results expected for the full year. You should read these statements in conjunction with our audited consolidated financial statements and management’s discussion and analysis and results of operations included in our annual report on Form 10-K for the year ended April 30, 2009.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements for the fiscal year ended April 30, 2009, describes the significant accounting policies that we have used in preparing our financial statements. On an ongoing basis, we evaluate our estimates, including but not limited to those related to revenue/vendor specific object evidence (“VSOE”), bad debts, capitalized software costs, goodwill, intangible assets, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

B. Principles of Consolidation

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

C. Revenue Recognition

We recognize revenue in accordance with the Software Revenue Recognition Topic of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification.

License. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and VSOE exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, we recognize revenue under the residual method, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. We record revenues from sales of third-party products in accordance with Principal Agent Considerations within the Revenue Recognition Topic of the FASB’s Accounting Standards Codification. Furthermore, 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, in most cases we record our sales through the Demand Management, Inc. (“DMI”) channel 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. Maintenance contracts are typically sold for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. Maintenance fees are generally billed annually in advance. We recognize maintenance revenue ratably over the term of the maintenance agreement. In situations where we bundle all or a portion of the maintenance fee with the license fee, VSOE for maintenance is determined based on prices when sold separately.

Services. Revenue derived from services primarily includes consulting, implementation, and training. We primarily bill fees under time and materials arrangements and recognize them as services are performed. In accordance with the other presentation matters within the Revenue Recognition Topic of the FASB's Accounting Standards Codification, we recognize amounts received for reimbursement of travel and other out-of-pocket expenses incurred as revenue in the condensed consolidated statements of operations under services and other. These amounts totaled approximately \$169,000 and \$638,000 for the three and nine months ended January 31, 2010, respectively, and \$256,000 and \$967,000 for the three and nine months ended January 31, 2009, respectively.

Indirect Channel Revenue. We recognize 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 for revenue recognition.

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

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

Unbilled Accounts Receivable. The unbilled receivable balance consists of amounts generated from license fee and services revenues. At January 31, 2010 and April 30, 2009, unbilled license fees were approximately \$1.4 million and \$2.0 million, respectively, and unbilled services revenues were approximately \$1.6 million and \$1.0 million, respectively. Unbilled license fee accounts receivable represents revenue that has been recognized but under the terms of the license agreement, which include specified payment terms that are considered normal and customary, certain payments have not yet been invoiced to the customers. Unbilled services revenues primarily occur due to the timing of the respective billings, which occur subsequent to the end of each reporting period.

D. Reclassification

Certain prior year amounts have been reclassified for presentation purposes.

E. Major Customer

One customer, The Home Depot, accounted for approximately 14% and 11% of our total revenues in the three and nine months ended January 31, 2010, respectively, principally from our IT consulting segment (see footnote M). This customer accounted for approximately 11% of our total revenues for both the three- and nine-month periods ended January 31, 2009. The related accounts receivable balance for this customer was approximately \$2.4 million as of January 31, 2010 and approximately \$1.5 million as of January 31, 2009.

F. Declaration of Dividend Payable

On November 17, 2009, our Board of Directors declared a quarterly cash dividend of \$0.09 per share of our Class A and Class B common stock. The cash dividend is payable on March 5, 2010 to Class A and Class B shareholders of record at the close of business on February 19, 2010.

G. Earnings Per Common Share

We have two classes of common stock of which Class B Common Shares are convertible into Class A Common Shares at any time, on a one-for-one basis. Under our Articles of Incorporation, if dividends are declared, holders of Class A Common Shares shall receive a \$.05 dividend per share prior to the Class B Common Shares receiving any dividend and holders of Class A Common Shares shall receive a dividend at least equal to Class B Common Shares dividends on a per share basis. As a result, we have computed the earnings per share in accordance with Earnings Per Share within the Presentation Topic of the FASB's Accounting Standards Codification, which requires companies that have multiple classes of equity securities to use the "two-class" method in computing earnings per share.

For our basic earnings per share calculation, we use the "two-class" method. Basic earnings per share are calculated by dividing net earnings attributable to each class of common stock by the weighted average number of shares outstanding. All undistributed earnings are allocated evenly between Class A and B Common Shares in the earnings per share calculation to the extent that earnings equal or exceed \$.05 per share. This allocation is based on management's judgment after considering the dividend rights of the two-classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B shares to Class A shares.

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

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

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

Basic earnings per common share:

	Three Months Ended January 31, 2010		Nine Months Ended January 31, 2010	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Undistributed loss	(0.02)	(0.02)	(0.10)	(0.10)
Total	\$ 0.07	\$ 0.07	\$ 0.17	\$ 0.17
Distributed earnings	\$ 2,018	\$ 258	\$ 6,066	\$ 777
Undistributed loss	(386)	(49)	(2,188)	(280)
Total	\$ 1,632	\$ 209	\$ 3,878	\$ 497
Basic weighted average common shares	22,444	2,877	22,439	2,877

	Three Months Ended January 31, 2009		Nine Months Ended January 31, 2009	
	Class A	Class B	Class A	Class B
Distributed earnings	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Undistributed loss	(0.06)	(0.06)	(0.20)	(0.20)
Total	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.07
Distributed earnings	\$ 2,012	\$ 259	\$ 6,056	\$ 779
Undistributed loss	(1,325)	(171)	(4,413)	(567)
Total	\$ 687	\$ 88	\$ 1,643	\$ 212
Basic weighted average common shares	22,396	2,883	22,458	2,885

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

Three Months Ended January 31, 2010

	Undistributed & Distributed earnings to Class A Common Common	Class A Common Shares	EPS
Per Basic	\$ 1,632	22,444	\$0.07
Common Stock Equivalents	—	626	—
	1,632	23,070	0.07
Class B Conversion	209	2,877	—
Diluted EPS for Class A	\$ 1,841	25,947	\$0.07

Nine Months Ended January 31, 2010

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 3,878	22,439	\$0.17
Common Stock Equivalents	—	565	—
	<u>3,878</u>	<u>23,004</u>	<u>0.17</u>
Class B Conversion	497	2,877	—
Diluted EPS for Class A	<u>\$ 4,375</u>	<u>25,881</u>	<u>\$0.17</u>

Three Months Ended January 31, 2009

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 687	22,396	\$0.03
Common Stock Equivalents	—	320	—
	<u>687</u>	<u>22,716</u>	<u>0.03</u>
Class B Conversion	88	2,883	—
Diluted EPS for Class A	<u>\$ 775</u>	<u>25,599</u>	<u>\$0.03</u>

Nine Months Ended January 31, 2009

	Undistributed & Distributed earnings to Class A Common	Class A Common Shares	EPS
Per Basic	\$ 1,643	22,458	\$0.07
Common Stock Equivalents	—	448	—
	<u>1,643</u>	<u>22,906</u>	<u>0.07</u>
Class B Conversion	212	2,885	—
Diluted EPS for Class A	<u>\$ 1,855</u>	<u>25,791</u>	<u>\$0.07</u>

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

Three Months Ended January 31, 2010

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 209	2,877	\$0.07
Reallocation of undistributed earnings to Class A shares from Class B shares	1	—	—
Diluted EPS for Class B	<u>\$ 210</u>	<u>2,877</u>	<u>\$0.07</u>

Nine Months Ended January 31, 2010

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 497	2,877	\$0.17
Reallocation of undistributed earnings to Class A shares from Class B shares	6	—	—
Diluted EPS for Class B	<u>\$ 503</u>	<u>2,877</u>	<u>\$0.17</u>

Three Months Ended January 31, 2009

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 88	2,883	\$0.03
Reallocation of undistributed earnings to Class A shares from Class B shares	2	—	—
Diluted EPS for Class B	<u>\$ 90</u>	<u>2,883</u>	<u>\$0.03</u>

Nine Months Ended January 31, 2009

	Undistributed & Distributed earnings to Class B Common	Class B Common Shares	EPS
Per Basic	\$ 212	2,885	\$0.07
Reallocation of undistributed earnings to Class A shares from Class B shares	10	—	—
Diluted EPS for Class B	<u>\$ 222</u>	<u>2,885</u>	<u>\$0.07</u>

For the three and nine months ended January 31, 2010, we excluded options to purchase 1,573,490 and 1,660,134 Class A Common Shares, respectively, and for the three and nine months ended January 31, 2009, we excluded options to purchase 2,295,499 and 2,286,499 Class A Common Shares, respectively, from the computation of diluted earnings per Class A Common Shares. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the Class A Common Shares during the applicable period. As of January 31, 2010, we had outstanding options to purchase a total of 4,031,847 Class A Common Shares and outstanding options to purchase 3,325,396 Class A Commons Shares as of January 31, 2009.

H. Acquisitions

On May 23, 2009, we commenced a cash tender offer for all the outstanding shares of common stock, no par value, of our majority-owned subsidiary, Logility, Inc. (“Logility”), not already owned by the Company at a price of \$7.02 per share, without interest. On June 30, 2009, we announced that we had accepted for payment 1,504,866 shares of Logility, Inc. common stock. On July 9, 2009, we caused Logility to merge with a wholly-owned subsidiary of the Company, after which all remaining shares of Logility common stock were converted into the right to receive \$7.02 per share, without interest. As a result of the merger, Logility became a wholly-owned subsidiary of the Company on July 9, 2009.

In connection with the tender offer and subsequent merger, we adopted the Logility, Inc. 1997 Stock Plan and the Logility, Inc. 2007 Stock Plan, and all outstanding Logility stock options were either converted into options to purchase shares of our Class A Common Shares or net cash settled. The conversion ratio was structured so as to maintain the “spread” between the exercise price and fair market value of our Class A Common Shares on July 9, 2009, in accordance with the regulations of the U.S. Treasury designed to maintain the status of the converted stock options as incentive stock options under Internal Revenue Code Section 422. As a result of these transactions, we have paid approximately \$12,300,000 in cash to Logility shareholders and issued options to purchase 1,942,595 of our Class A Common Shares. We incurred fees and expenses related to the transaction of approximately \$809,000, of which \$552,000 is included in the Condensed Consolidated Statement of Operations for the nine months ended January 31, 2010. We accounted for this transaction in accordance with Identifiable Assets and Liabilities, and Any Noncontrolling Interests within the Business Combination Topic of the FASB’s Accounting Standards Codification. As a result, we recorded the total consideration of \$12.3 million by recording debits to noncontrolling interest of \$6.5 million and additional paid-in capital of \$5.8 million.

As a result of the tender offer and subsequent merger we incurred stock compensation expense of approximately \$230,000, primarily related to those non-vested Logility stock options that became fully vested on the date of acquisition. Options held by those option holders who elected not to cash settle their awards were converted into fully vested options to purchase our Class A Common Shares.

I. Stock-Based Compensation

During the nine months ended January 31, 2010 and 2009, we granted options for 843,310 and 515,978 shares of common stock, respectively. We recorded stock option compensation cost of approximately \$213,000 and \$202,000 and related income tax benefits of approximately \$50,000 and \$37,000 during the three months ended January 31, 2010 and 2009, respectively. We recorded stock option compensation cost of approximately \$833,000 and \$620,000 and related income tax benefits of approximately \$248,000 and \$113,000 during the nine months ended January 31, 2010 and 2009, respectively. We record stock-based compensation expense on a straight-line basis over the vesting period directly to additional paid-in capital.

Cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows. During the nine months ended January 31, 2010 and 2009, we realized excess tax benefits of approximately \$126,000 and \$69,000, respectively.

During the nine months ended January 31, 2010 and 2009, we issued 55,213 and 94,012 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the nine months ended January 31, 2010 and 2009 based on market value at the exercise dates was approximately \$94,000 and \$280,000, respectively. As of January 31, 2010, unrecognized compensation cost related to unvested stock option awards approximated \$2.3 million, which we expect to recognize over a weighted average period of 1.8 years.

J. Fair Value of Financial Instruments

We measure our investments based on a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. A number of factors affect market price observability, including the type of asset or liability and its characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical instruments.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

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

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

The following table presents our assets and liabilities that we measured at fair value on a recurring basis as of January 31, 2010, and indicates the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 31, 2010
Cash equivalents	\$ 23,288	—	—	\$ 23,288
Marketable securities	2,444	8,359	—	\$ 10,803
Total	\$ 25,732	\$ 8,359	\$ —	\$ 34,091

In addition to cash equivalents and marketable securities classified as trading securities, we also have an equity method investment valued at approximately \$169,000 and approximately \$18.5 million in held-to-maturity investments which are not recorded at fair value and thus are not included in the table above. The held-to-maturity investments consist of certificates of deposits and tax-exempt state and municipal bonds as well as U.S. Government debt securities and are recorded at amortized cost. Fair values for these securities are obtained from third-party broker statements. The fair value amounts are primarily derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. These investments consisted of the following at January 31, 2010 (in thousands):

	January 31, 2010			Fair value
	Carrying value	Unrealized Gain	Unrealized Loss	
Held-to-maturity:				
Certificates of Deposit	3,521	10	—	3,531
Tax-exempt and municipal bonds	15,024	309	40	15,293
	<u>18,545</u>	<u>319</u>	<u>40</u>	<u>18,824</u>

The contractual maturity of debt securities classified as held to maturity at January 31, 2010 was as follows (in thousands):

Due within one year	\$ 9,908
Due between one and two years	6,164
Due between two and three years	2,001
Due after three years	472
	<u>\$18,545</u>

The Fair Value Option within the Financial Instruments Topic of the FASB's Accounting Standards Codification permits but does not require us to measure financial instruments and certain other items at fair value. We did not elect to measure at fair value any of our financial instruments under the guidance.

K. Stock Repurchases

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to 2.0 million shares of our Class A common stock. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. Under this repurchase plan, through January 31, 2010, we have repurchased 735,735 shares of common stock at a cost of approximately \$3.8 million. Under all repurchase plans as of January 31, 2010, we have repurchased 4,270,688 shares of common stock at a cost of approximately \$23.2 million.

L. Comprehensive Income

We have not included condensed consolidated statements of comprehensive income in the accompanying unaudited condensed consolidated financial statements since comprehensive income and net earnings presented in the accompanying condensed consolidated statements of operations would be substantially the same.

M. Industry Segments

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) Supply Chain Management ("SCM"), (2) Enterprise Resource Planning ("ERP"), and (3) Information Technology Consulting ("IT Consulting").

The SCM segment consists of Logility, Inc., a wholly-owned subsidiary (as of July 9, 2009), as well as its subsidiary, DMI, which provides collaborative supply chain solutions to streamline and optimize the forecasting, 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, Inc., an IT staffing and consulting services firm. We also provide support for our software products, such as software enhancements, documentation, updates, customer education, consulting, systems integration services, and maintenance.

Our chief operating decision maker is the President and Chief Executive Officer. While the CEO is apprised of a variety of financial metrics and information, we manage our business primarily on a segment basis, with the CEO evaluating performance based upon segment operating profit or loss that includes an allocation of common expenses, but excludes certain unallocated expenses.

In the following table, we have broken down the intersegment transactions applicable to the three and nine months ended January 31, 2010 and 2009:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
Revenues:				
Enterprise Resource Planning	\$ 3,883	\$ 4,610	\$11,939	\$14,358
Collaborative Supply Chain Management	11,026	10,643	31,697	30,514
IT Consulting	4,921	4,787	12,747	14,214
	<u>\$19,830</u>	<u>\$20,040</u>	<u>\$56,383</u>	<u>\$59,086</u>
Operating income (loss) before intersegment eliminations:				
Enterprise Resource Planning	\$ (754)	\$ (843)	\$ (2,364)	\$ (993)
Collaborative Supply Chain Management	3,449	2,787	8,109	5,965
IT Consulting	80	190	220	440
	<u>\$ 2,775</u>	<u>\$ 2,134</u>	<u>\$ 5,965</u>	<u>\$ 5,412</u>
Intersegment eliminations:				
Enterprise Resource Planning	\$ (415)	\$ (461)	\$ (1,292)	\$ (1,277)
Collaborative Supply Chain Management	415	461	1,292	1,277
IT Consulting	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating income (loss) after intersegment eliminations:				
Enterprise Resource Planning	\$ (1,169)	\$ (1,304)	\$ (3,656)	\$ (2,270)
Collaborative Supply Chain Management	3,864	3,248	9,401	7,242
IT Consulting	80	190	220	440
	<u>\$ 2,775</u>	<u>\$ 2,134</u>	<u>\$ 5,965</u>	<u>\$ 5,412</u>
Capital expenditures:				
Enterprise Resource Planning	\$ 13	\$ 300	\$ 218	\$ 720
Collaborative Supply Chain Management	23	16	197	61
IT Consulting	—	—	3	—
	<u>\$ 36</u>	<u>\$ 316</u>	<u>\$ 418</u>	<u>\$ 781</u>
Capitalized Software:				
Enterprise Resource Planning	\$ —	\$ —	\$ —	\$ 17
Collaborative Supply Chain Management	602	482	1,768	1,504
IT Consulting	—	—	—	—
	<u>\$ 602</u>	<u>\$ 482</u>	<u>\$ 1,768</u>	<u>\$ 1,521</u>
Depreciation and amortization:				
Enterprise Resource Planning	\$ 304	\$ 292	\$ 898	\$ 846
Collaborative Supply Chain Management	230	703	781	2,110
IT Consulting	—	—	—	1
	<u>\$ 534</u>	<u>\$ 995</u>	<u>\$ 1,679</u>	<u>\$ 2,957</u>

N. Contingencies

We more often than not indemnify our customers against damages and costs resulting from claims of patent, copyright or trademark infringement associated with use of our products. We have historically not been required to make any payments under such indemnifications. However, we continue to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the indemnifications when those losses are estimable. In addition, we warrant to our customers that our products operate substantially in accordance with the software product's specifications. Historically, we have incurred no costs related to software product warranties and we do not expect to incur such costs in the future, and as such we have made no accruals for software product warranty costs. Additionally, we are involved in various claims arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position or results of operations.

O. Recently Adopted Accounting Pronouncements

In December 2007, the FASB issued authoritative guidance on business combinations. The guidance requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose in its financial statements the information needed to evaluate and understand the nature and financial effect of the business combination. This guidance was effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively. We adopted the guidance effective May 1, 2009 and will apply it to any business combinations on or after that date. The impact on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate after the effective date. As a result of our adoption of this guidance, we accounted for our tender offer and repurchase of Logility's shares not as a business combination but as an acquisition of a non-controlling interest (see below). Additionally, during the nine months ended January 31, 2010, we expensed acquisition-related costs of approximately \$552,000 related to the buy-back of Logility shares.

In December 2007, the FASB issued authoritative guidance on Noncontrolling Interests in Consolidated Financial Statements, which amended the accounting and reporting standards for a parent's noncontrolling interest in a subsidiary and the accounting for future ownership changes with respect to the subsidiary. This guidance defines a noncontrolling interest, previously called a minority interest, as the portion of equity in a subsidiary that is not attributable, directly or indirectly, to a parent. The guidance requires, among other things, that a noncontrolling interest be clearly identified, labeled and presented in the consolidated balance sheet as equity, but separate from the parent's equity; and that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of operations. Effective May 1, 2009, we adopted the guidance and applied it retrospectively, which affected only presentation and disclosure. As a result, we reclassified noncontrolling interest in the amount of \$6.4 million from other long-term liabilities to equity in our April 30, 2009 consolidated balance sheet. We reclassified certain amounts for prior periods in our consolidated statement of operations to conform to the presentation of the current period. Recorded amounts for prior periods previously presented as net earnings, which are now presented as net earnings attributable to American Software, Inc., have not changed as a result of our adoption of this guidance.

The following table represents a reconciliation of the carrying amount of total equity, equity attributable to American Software, Inc. and equity attributable to the noncontrolling interest:

	<u>American Software, Inc.</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
Balance at April 30, 2009	\$ 79,839	\$ 6,388	\$ 86,227
Net income	4,375	90	4,465
Dividends	(6,840)	—	(6,840)
Stock Compensation	833	—	833
Repurchase of noncontrolling interest	(5,850)	(6,478)	(12,328)
Other	<u>376</u>	<u>—</u>	<u>376</u>
Balance at January 31, 2010	<u>\$ 72,733</u>	<u>\$ —</u>	<u>\$ 72,733</u>

In April 2008, the FASB issued authoritative guidance on the determination of the useful life of intangible assets. This guidance amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognizable intangible asset. The intent of this guidance is to improve the consistency between the useful life of a recognizable intangible asset and the period of expected cash flows used to measure the fair value of the asset. The guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Our adoption of this guidance effective May 1, 2009 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued authoritative guidance on the recognition and presentation of other-than-temporary impairments. This guidance amended the other-than-temporary impairment accounting guidance for debt securities. This guidance requires that other-than-temporary impairment be separated into the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors. The amount of the total other-than-temporary impairment related to credit losses is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Our adoption of this guidance effective May 1, 2009 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued authoritative guidance on interim disclosures about fair value of financial instruments. This guidance amended previously released FASB guidance on Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments at interim reporting periods. This guidance was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Our adoption effective May 1, 2009 did not have a material impact on our consolidated financial statements. The disclosure requirements are presented in Note J.

In May 2009, the FASB issued authoritative guidance on subsequent events. This guidance is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the subsequent events guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for fiscal years and interim periods ended after June 15, 2009. We adopted this standard effective June 15, 2009 and have evaluated any subsequent events through the date of this filing. The adoption of the subsequent events guidance did not have an impact on our consolidated results of operations or consolidated financial position.

In June 2009, the FASB issued the FASB Accounting Standards Codification™ and a new Hierarchy of Generally Accepted Accounting Principles, which establishes only two levels of GAAP: authoritative and nonauthoritative. The FASB's Accounting Standards Codification (the "Codification") is now the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (the "SEC"), which are additional sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification become nonauthoritative. The Codification is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We adopted the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the second quarter of fiscal year 2010. As the Codification is not intended to change or alter existing GAAP for public companies, it does not have any impact on our consolidated financial statements.

P. Subsequent Event

On February 16, 2010, our Board of Directors declared a quarterly cash dividend of \$0.09 per share of our Class A and Class B common stock. The cash dividend is payable on May 28, 2010 to Class A and Class B shareholders of record at the close of business on May 14, 2010.

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 2010” and “fiscal 2009” refer to our fiscal years ending April 30, 2010 and 2009, respectively.

ECONOMIC OVERVIEW

Corporate capital spending trends and commitments are the primary determinants of the size of the market for business software. Corporate capital spending is, in turn, a function of general economic conditions in the U.S. and abroad and in particular may be affected by conditions in U.S. global credit markets. In recent years, the weakness in the overall world economy and the U.S. economy in particular, has resulted in reduced expenditures in the business software market.

Overall information technology spending continues to be relatively weak as a result of the current global economic environment particularly in the United States. However, we experienced some improvement in our license fee sales close rate in our SCM business unit during the first half of the current fiscal year that continued into the third quarter of the current fiscal year. We believe information technology spending will incrementally improve over the long term as increased global competition forces companies to improve productivity by upgrading their technology systems. Although this improvement could slow or regress at any time, due in part to concerns in global capital markets and general economic conditions, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. Customers continue to take long periods to evaluate discretionary software purchases.

We believe weak economic conditions may be driving some businesses to focus on achieving more process and efficiency improvements in their operations and to invest in solutions that improve operating margins, rather than make large infrastructure-type technology purchases. If this trend continues we believe it may tend to favor solutions such as our Logility supply chain solutions, which are designed to provide a more rapid return on investment and are targeted at some of the largest profit drivers in a customer's business. While the current economic crisis has had a particularly adverse impact on the weaker companies in our target markets, we believe a larger percentage of our customers are seeking to make investments to strengthen their operations, and some are taking advantage of current economic conditions to gain market share.

BUSINESS OVERVIEW

American Software was incorporated as a Georgia corporation in 1970. We develop market and support a portfolio of software and services that deliver enterprise management and collaborative supply chain solutions to the global marketplace. We have designed our software and services to bring business value to enterprises by supporting their operations over intranets, extranets, client/servers or the Internet. References to “the Company,” “our products,” “our software,” “our services” and similar references include the appropriate business 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) Supply Chain Management (“SCM”), (2) Enterprise Resource Planning (“ERP”) and (3) Information Technology (“IT”) Consulting. The SCM segment consists of Logility, a wholly-owned subsidiary (as of July 9, 2009) 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.

In 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 DMI’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, royalties paid to third-party software vendors, and 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, other personnel-related expenses, and agent commission expenses related to maintenance revenues generated by the indirect channel, primarily from DMI. We account for the development costs of software intended for sale in accordance with the Intangibles – Goodwill and Other topic of FASB’s Accounting Standards Codification. We monitor the net realizable value of our capitalized software on a quarterly basis based on an estimate of future product revenues. We currently expect to fully recover the value of the capitalized software asset recorded on our consolidated balance sheet; however, if future product revenues are less than management’s current expectations, we may incur a write-down of capitalized software costs.

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

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

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

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

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

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

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

Sarbanes-Oxley Section 404. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to attest as to whether or not they believe that we maintained, in all material respects,

effective internal control over financial reporting. If for any fiscal year we fail to timely complete this assessment, we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure, as well as difficulties in implementing required new or improved controls, could result in our inability to provide timely and reliable financial information and could adversely affect our business.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2009.

COMPARISON OF RESULTS OF OPERATIONS

Three-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the three months ended January 31, 2010 and 2009:

	Three Months Ended January 31,		
	Percentage of Total Revenues		Pct. Change in Dollars
	2010	2009	2010 vs 2009
Revenues:			
License	23%	23%	(3)%
Services and other	42	42	—
Maintenance	35	35	(1)
Total revenues	<u>100</u>	<u>100</u>	<u>(1)</u>
Cost of revenues:			
License	5	5	(12)
Services and other	31	30	5
Maintenance	8	9	(8)
Total cost of revenues	<u>44</u>	<u>44</u>	<u>0</u>
Gross margin	<u>56</u>	<u>56</u>	<u>(2)</u>
Research and development	8	9	(9)
Sales and marketing	18	19	(5)
General and administrative	15	16	(8)
Amortization of acquisition-related intangibles	—	—	—
(Recovery of) provision for doubtful accounts	—	1	nm
Total operating expenses	<u>41</u>	<u>46</u>	<u>(9)</u>
Operating income	<u>14</u>	<u>11</u>	<u>30</u>
Other income (expense):			
Interest income	2	3	(40)
Other, net	(1)	(4)	nm
Earnings before income taxes	15	10	56
Income tax expense	6	5	24
Net earnings	<u>9</u>	<u>5</u>	<u>87</u>
Less net earnings attributable to noncontrolling interest	—	1	nm
Net earnings attributable to American Software, Inc.	<u>9%</u>	<u>4%</u>	<u>138%</u>

nm - not meaningful

Nine-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the nine months ended January 31, 2010 and 2009:

	Nine Months Ended January 31,		
	Percentage of Total Revenues		Pct. Change in Dollars
	2010	2009	2010 vs 2009
Revenues:			
License	22%	19%	9%
Services and other	41	45	(12)
Maintenance	37	36	(2)
Total revenues	<u>100</u>	<u>100</u>	<u>(5)</u>
Cost of revenues:			
License	5	7	(29)
Services and other	29	31	(9)
Maintenance	9	9	(4)
Total cost of revenues	<u>43</u>	<u>47</u>	<u>(11)</u>
Gross margin	<u>57</u>	<u>53</u>	<u>1</u>
Research and development	9	9	(8)
Sales and marketing	20	19	1
General and administrative	18	15	9
Amortization of acquisition-related intangibles	—	—	—
(Recovery of) provision for doubtful accounts	(1)	1	nm
Total operating expenses	<u>46</u>	<u>44</u>	<u>(1)</u>
Operating income	11	9	10
Other income (expense):			
Interest income	2	3	(29)
Other, net	—	(5)	nm
Earnings before income taxes	13	7	86
Income tax expense	(5)	3	nm
Net earnings	8	4	91
Less net earnings attributable to noncontrolling interests	—	1	nm
Net earnings attributable to American Software, Inc.	<u>8%</u>	<u>3%</u>	<u>136%</u>

nm - not meaningful

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2010 AND 2009

Revenue

	Three Months Ended January 31,				
				% of Total Revenue	
	2010	2009	% Change	2010	2009
	(in thousands)				
License	\$ 4,602	\$ 4,722	(3)%	23%	23%
Services and other	8,349	8,386	—	42%	42%
Maintenance	6,879	6,932	(1)%	35%	35%
Total revenues	<u>\$19,830</u>	<u>\$20,040</u>	<u>(1)%</u>	<u>100%</u>	<u>100%</u>

	Nine Months Ended January 31,				
				% of Total Revenue	
	<u>2010</u>	<u>2009</u>	<u>% Change</u>	<u>2010</u>	<u>2009</u>
	(in thousands)				
License	\$12,325	\$11,258	9%	22%	19%
Services and other	23,445	26,729	(12)%	41%	45%
Maintenance	<u>20,613</u>	<u>21,099</u>	<u>(2)%</u>	<u>37%</u>	<u>36%</u>
Total revenues	<u>\$56,383</u>	<u>\$59,086</u>	<u>(5)%</u>	<u>100%</u>	<u>100%</u>

For the three months ended January 31, 2010, the 1% decrease in revenues from the three months ended January 31, 2009 was attributable primarily to a 3% decrease in license fees and, to a lesser extent, a decline in maintenance revenues. For the nine months ended January 31, 2010, the 5% decrease in revenues from the nine months ended January 31, 2009 was attributable primarily to a 12% decrease in services and other revenues and, to a lesser extent, maintenance revenues. These declines during the nine-month period were partially offset by a 9% increase in license fee revenues when compared to the same period last year. The primary reason for the declines in services and other revenues was the poor economic environment, which has resulted in reduced license fees in most of our recent periods, in turn resulting in less demand for implementation services. The economic slowdown has led also to a decline in IT consulting services when compared to the same periods last year, as some customers have scaled back or eliminated third-party staffing and software consulting projects. A slight increase in implementation services relating to higher first quarter license fee revenues resulted in improved services and other revenues in the three months ended January 31, 2010, which were substantially unchanged from the same period in fiscal 2009.

Due to intensely competitive markets we discount license fees from our published list price in response to pricing pressure in our industry. Numerous factors contribute to the amount of the discounts we provide, such as previous customer purchases, the number of customer sites utilizing the software, the number of modules purchased and the number of users, as well as the overall size of the contract. While all these factors may affect the discount amount of a particular contract, the overall percentage discount we use with our contracts generally has not materially changed in recent reported fiscal periods. Accordingly, changes in our revenues from period to period primarily are due to the volume of products and related services sold in any period and the amounts of products or modules purchased with each sale, rather than variations in pricing.

International revenues represented approximately 10% and 11% of total revenues in the three and nine months ended January 31, 2010, respectively, and 10% of total revenues in both the three and nine months ended January 31, 2009. 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.

License Revenue

	Three Months Ended January 31,		
	<u>2010</u>	<u>2009</u>	<u>% Change</u>
	(in thousands)		
Enterprise Resource Planning	\$ 587	\$ 1,051	(44)%
Supply Chain Management	4,015	3,671	9%
Total license revenues	<u>\$ 4,602</u>	<u>\$ 4,722</u>	<u>(3)%</u>

	Nine Months Ended January 31,		
	<u>2010</u>	<u>2009</u>	<u>% Change</u>
	(in thousands)		
Enterprise Resource Planning	\$ 1,987	\$ 2,305	(14)%
Supply Chain Management	10,338	8,953	16%
Total license revenues	<u>\$12,325</u>	<u>\$11,258</u>	<u>9%</u>

For the three and nine months ended January 31, 2010, license fee revenues decreased 3% and increased 9%, respectively, when compared to the same periods in the prior year. While we expect a degree of quarterly fluctuation due to the timing of signing license fee agreements, we have experienced an improvement in our SCM business unit license fee close rate year to date when compared to the same period last year. The financial crisis that emerged during the past year has interfered with customers' normal sources of financing and has greatly increased the level of uncertainty about future economic conditions. In our SCM segment, Logility increased license fee revenues 9% and 16% for the three and nine months ended January 31, 2010, respectively, when compared to the corresponding periods in the prior year. We believe that this increase was due primarily to improved sales execution on our pipeline and an improvement in customer activity due to the cost reduction capabilities of the Logility products, which we believe are critical during the economic downturn. Logility constituted 87% and 84% of total license fee revenues for the three and nine months ended January 31, 2010, respectively, compared to 78% and 80% for the three and nine months ended January 31, 2009, respectively. Our ERP business unit license fees decreased by 44% and 14% for the three and nine months ended January 31, 2010, respectively, when compared to the same periods in the prior year due to the difficult economic selling environment for ERP products caused by the poor economy and intense competition in the ERP market.

The direct sales channel provided approximately 70% and 68% of license fee revenues for the three and nine months ended January 31, 2010, respectively, compared to approximately 83% and 66% of license fee revenues for the three and nine months ended January 31, 2009, respectively. The decrease in the proportion of direct sales for the current quarter when compared to the prior year is primarily due to improved sales execution and improvements in the sales environment that our indirect channel primarily targets, namely midsize and small companies as a result of improved capital markets when compared to last year at this time. For the three and nine months ended January 31, 2010, our margins after commissions on direct sales were approximately 84%, compared to 81% and 82% for the three and nine months ended January 31, 2009, respectively. For the three and nine months ended January 31, 2010, our margins after commissions on indirect sales were approximately 46% and 43%, respectively, compared to 43% and 47% for the three and nine months ended January 31, 2009, respectively. The indirect channel margins for the current quarter increased when compared to the same periods in the prior year due to an increase in sales through the indirect channel and the related mix of VAR commission rates. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

Services and Other Revenue

	Three Months Ended January 31,		
	2010	2009	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 2,182	\$ 2,328	(6)%
Supply Chain Management	1,246	1,271	(2)%
IT Consulting	4,921	4,787	3%
Total services and other revenues	<u>\$ 8,349</u>	<u>\$ 8,386</u>	<u>—</u>

	Nine Months Ended January 31,		
	2010	2009	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 6,539	\$ 8,288	(21)%
Supply Chain Management	4,159	4,227	(2)%
IT Consulting	12,747	14,214	(10)%
Total services and other revenues	<u>\$23,445</u>	<u>\$26,729</u>	<u>(12)%</u>

For the three months ended January 31, 2010, services revenue was relatively flat when compared to the same period in the prior year. For the nine months ended January 31, 2010, services revenue decreased by 12%, due primarily to decreased services revenues from our ERP and IT Consulting business segments. For the three and nine months ended January 31, 2010, services and other revenues from Logility (SCM) decreased by 2%, when compared to the same prior year periods. Logility services revenues decreased for the current quarter due to the timing of software implementation project work. For the three and nine months ended January 31, 2010, our IT Consulting segment's revenues increased 3% and decreased 10%, respectively, when compared to the prior year periods. The current quarter increase was due to an increase in project work from several customers as a result of a slight improvement in economic conditions. For the three and nine months ended January 31, 2010, our ERP segment's revenues decreased 6% and 21%, respectively, when compared to the prior year periods due to lower ERP license fees in the recent periods, which resulted in lower implementation revenues. We have observed that there is a tendency for services and other revenues, other than from IT Consulting, to lag changes in license revenues by one to three quarters, as new licenses in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

Maintenance Revenue

	Three months Ended January 31,		
	2010	2009	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,114	\$ 1,231	(10)%
Supply Chain Management	5,765	5,701	1%
Total maintenance revenues	<u>\$ 6,879</u>	<u>\$ 6,932</u>	<u>(1)%</u>

	Nine months Ended January 31,		
	2010	2009	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 3,413	\$ 3,764	(9)%
Supply Chain Management	17,200	17,335	(1)%
Total maintenance revenues	<u>\$20,613</u>	<u>\$21,099</u>	<u>(2)%</u>

For the three and nine months ended January 31, 2010, maintenance revenues decreased 1% and 2%, respectively, when compared to the same periods in the prior year, due primarily to lower renewal rates in our legacy ERP unit, which experienced decreases of 10% and 9%, respectively, for the three and nine months ended January 31, 2010 compared to the same periods in the prior year. In our SCM unit we experienced a 1% increase and a 1% decrease in maintenance revenue for the three and nine months ended January 31, 2010, respectively, when compared to the same periods last year. We believe that maintenance revenues remained relatively flat due to adverse economic conditions, as some customers may use nonrenewal of software system maintenance as a short-term cost-saving measure. Logility accounted for 84% and 83% of total maintenance fee revenues for the three and nine months ended January 31, 2010, respectively, compared to 82% of total maintenance revenues for both the three- and nine-month periods ended January 31, 2009. 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 January 31,		Nine months ended January 31,	
	2010	2009	2010	2009
Gross margin on license fees:	\$ 3,668 80%	\$ 3,658 78%	\$ 9,588 78%	\$ 7,388 66%
Gross margin on services and other:	2,156 26%	2,461 29%	6,946 30%	8,509 32%
Gross margin on maintenance:	5,249 76%	5,154 75%	15,433 75%	15,696 74%
Total gross margin:	<u>\$ 11,073 56%</u>	<u>\$ 11,273 57%</u>	<u>\$31,967 57%</u>	<u>\$31,593 53%</u>

For the three and nine months ended January 31, 2010, total gross margin percentage increased when compared to the corresponding periods in the prior year.

Gross Margin on License Fees

For the three months ended January 31, 2010, gross margin on license fees increased when compared to the same period in the prior year, due to the lower computer software amortization expense when compared to the same period last year, partially offset by an increase in the proportion of license fees attributable to our indirect sales channel and by lower license fee revenue. For the nine months ended January 31, 2010, gross margin on license fees increased when compared to the same period in the prior year, due to the increase in license fee revenue, lower computer software amortization expense and an increase in the proportion of license fees attributable to our direct sales channel when compared to the same period last year. License fee gross margin percentage tends to be directly related to the level of license fee revenues due to the relatively fixed cost of computer software amortization expense, amortization of acquired software and the sales mix between our direct and indirect channels. During the three-month and nine-month periods ended January 31, 2010, amortization of capitalized computer software development costs declined by \$0.5 million and \$1.4 million, respectively, when compared to the same periods last year, due to timing of the completion and related amortization of computer software development projects.

Gross Margin on Services and Other

For the three and nine months ended January 31, 2010, the gross margin percentage on services and other revenue decreased 3 percentage points and 2 percentage points, respectively, when compared to the same periods in the prior fiscal year. This change was due to increased services revenue in our lower margin IT Consulting segment, The Proven Method, Inc., and lower services margin at Logility, which was caused by lower revenues, resulting in lower billing utilization. Services and other gross margin normally is directly related to the level of services and other revenues. The primary component of cost of services and other revenues is services staffing, which is relatively inelastic in the short term.

Gross Margin on Maintenance

Maintenance gross margin percentage was relatively unchanged for the three and nine months ended January 31, 2010 when compared to the same periods last year. Maintenance gross margin normally is directly related to the level of maintenance revenues. The primary component of cost of maintenance revenue is maintenance staffing, which is relatively inelastic in the short term.

Expenses

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2010	2009	% of Revenue		2010	2009	% of Revenue	
	(in thousands)		2010	2009	(in thousands)		2010	2009
Research and development	1,607	1,765	8%	9%	4,979	5,436	9%	9%
Sales and marketing	3,653	3,829	18%	19%	11,182	11,097	20%	19%
General and administrative	2,954	3,203	15%	16%	9,880	9,077	18%	15%
Amortization of acquisition-related intangible assets	87	87	0%	0%	262	262	1%	0%
(Recovery of) provision for doubtful accounts	(3)	255	0%	1%	(301)	309	(1)%	1%
Other income (expense), net	243	(195)	1%	(1)%	1,262	(1,518)	2%	(3)%
Income tax expense	1,177	952	6%	5%	2,762	1,552	5%	3%
Noncontrolling interest	—	(212)	0%	1%	(90)	(487)	0%	(1)%

Research and Development

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

	Three months ended (in thousands)		
	January 31, 2010	Percent Change	January 31, 2009
Total capitalized computer software development costs	\$ 602	25%	\$ 482
Percentage of gross product research and development costs	27%		21%
Total research and development expense	1,607	(9)%	1,765
Percentage of total revenues	8%		9%
Total research and development expense and capitalized computer software development costs	\$ 2,209	(2)%	\$ 2,247
Percentage of total revenues	11%		11%
Total amortization of capitalized computer software development costs *	\$ 95	(84)%	\$ 596

	Nine months ended (in thousands)		
	January 31, 2010	Percent Change	January 31, 2009
Total capitalized computer software development costs	\$ 1,768	16%	\$ 1,521
Percentage of gross product research and development costs	26%		22%
Total research and development expense	4,979	(8)%	5,436
Percentage of total revenues	9%		9%
Total research and development expense and capitalized computer software development costs	\$ 6,747	(3)%	\$ 6,957
Percentage of total revenues	12%		12%
Total amortization of capitalized computer software development costs *	\$ 375	(79)%	\$ 1,757

* Included in cost of license fees

For the three and nine months ended January 31, 2010, gross product research and development costs decreased when compared to the same periods last year due to cost containment efforts. Capitalized software development costs increased for the three and nine months ended January 31, 2010 when compared to the same period last year due to timing of capitalizable project work. 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 increase when compared to the three months ended January 31, 2010 as a result of the expected completion of Logility's next Voyager product release during the fourth quarter of fiscal 2010. Costs included in gross product development are salaries of product development personnel, hardware lease expense, computer software expense, telephone expense and rent.

Sales and Marketing

For the three and nine months ended January 31, 2010, sales and marketing expenses decreased 5% and increased 1%, respectively, when compared to the same periods a year ago. These changes were due primarily to the decrease in direct sales commissions as a result of decreased license fee sales by our direct channel and lower marketing-related costs. We generally include commissions on indirect sales in cost of sales.

General and Administrative

For the three months ended January 31, 2010, the general and administrative expenses decreased 8% due primarily to decreased audit, legal and building improvement related expenses. For the nine months ended January 31, 2010 the general and administrative expenses increased 9% primarily due to expenses related to the Logility tender offer process that was concluded in the quarter ended July 31, 2009.

At January 31, 2010, the total number of employees was 286 compared to 302 at January 31, 2009.

Operating Income/(Loss)

	<u>Three Months Ended January 31,</u>			<u>Nine Months Ended October 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>% Change</u>	<u>2010</u>	<u>2009</u>	<u>% Change</u>
	<u>(in thousands)</u>			<u>(in thousands)</u>		
Enterprise Resource Planning	(\$ 754)	(\$ 843)	(10%)	(\$2,364)	(\$ 993)	(138%)
Collaborative Supply Chain Management	3,449	2,787	24%	8,109	5,965	36%
IT Consulting	80	190	(58%)	220	440	(50%)
Total Operating Income	<u>\$ 2,775</u>	<u>\$ 2,134</u>	30%	<u>\$ 5,965</u>	<u>\$ 5,412</u>	10%

nm: not meaningful

Our ERP segment operating loss in the three and nine months ended January 31, 2010 was due primarily to the decline in revenues due to a difficult selling environment as a result of the overall general economic conditions in the U.S. and the increased competition in the ERP segment from major and niche software vendors. To a lesser extent, the increase in operating loss in the nine months ended January 31, 2010 was due to expenses related to the Logility tender offer process that was completed in the three months ended July 31, 2009. We have taken actions to reduce our costs in fiscal 2010 as a result of the current difficult economic environment.

Our SCM segment's contribution to operating income increased by 24% and 36% for the three and nine months ended January 31, 2010 compared to same periods last year, primarily due to the increase in Logility license fee revenue and lower capitalized software amortization expenses. This increase was partially offset by expenses incurred related to the Logility tender offer process in the three months ended July 31, 2009.

Our IT consulting segment operating income decreased 58% and 50% for the three and nine months ended January 31, 2010, respectively, compared to same period in fiscal 2009 due to decreases in revenues and lower gross margins. The declines in revenues resulted from reduced utilization of outside contractors by several customers due to poor economic conditions.

Other Income

Other income is comprised of net interest and dividend income, rental income net of related depreciation expenses, exchange rate gains and losses, and realized and unrealized gains and losses from investments. For the three and nine months ended January 31, 2010, the increase in other income was due primarily to higher unrealized gains on investments as a result of improved financial market conditions as compared to net unrealized losses on investments for the same period in prior years, increased interest income on our investments achieved as a result of our investment mix consisting of more certificates of deposit and municipal bonds, and to a lesser extent higher rental income when compared to the same period last year. We recorded total losses of approximately \$18,000 for the three months ended January 31, 2010 and total gains of \$249,000 for the nine months ended January 31, 2010, compared to total losses of approximately \$438,000 and \$2.4 million for the three and nine months ended January 31, 2009, respectively, from our trading securities.

For the three and nine months ended January 31, 2010, our investments generated an annualized yield of approximately 1.23% and 1.27%, respectively, compared to approximately 1.70% and 1.42% for the three and nine months ended January 31, 2009, respectively.

Income Taxes

We recognize deferred tax assets and liabilities based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under the Income Tax Topic of the FASB Accounting Standards Codification, we establish a valuation allowance against deferred tax assets 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 recorded several discrete tax items in the first quarter of fiscal 2010 as result of the Logility tender offer process. During the three months ended January 31, 2009, we increased our valuation allowance against certain deferred tax assets related to capital assets by approximately \$250,000, which was treated as a discrete tax item in the period recorded. This is the primary reason for the decrease in our effective tax rate to 39.0% in the three months ended January 31, 2010 compared to our effective rate of 49.1% in the three months ended January 31, 2009 and for the decrease in our effective tax rate to 38.2% in the nine months ended January 31, 2010 from our effective tax rate of 39.8% in the nine months ended January 31, 2009. We expect our effective rate to be between 37% and 39% during fiscal year 2010.

Noncontrolling Interest

Noncontrolling interest is a function of our majority-owned subsidiaries' earnings or losses, with noncontrolling interest losses recorded when these subsidiaries have earnings, and noncontrolling interest earnings recorded when they have losses. As of July 9, 2009, we acquired the remaining outstanding shares of Logility. As a result of this transaction, for the nine months ended January 31, 2010 we recorded only the portion of noncontrolling interest expense incurred through the acquisition date. For the portion of the nine months ended January 31, 2010 prior to the July 9, 2009 acquisition date, we recorded noncontrolling interest expenses of approximately \$90,000, and for the nine months ended January 31, 2009 we recorded noncontrolling interest expenses of approximately \$487,000. Since we now own 100% of Logility, there will not be any noncontrolling interest recorded in future periods.

Operating Pattern

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

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Sources and Uses of Cash

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

The following tables show information about our cash flows and liquidity positions during the nine months ended January 31, 2010 and 2009. 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, 2009.

	Nine Months Ended January 31, (in thousands)	
	2010	2009
Net cash (used in) provided by operating activities	\$ (3,740)	\$ 2,924
Net cash used in investing activities	(2,895)	(14,900)
Net cash used in financing activities	(6,758)	(7,872)
Net change in cash and cash equivalents	<u>\$(13,393)</u>	<u>\$(19,848)</u>

For the nine months ended January 31, 2010, the net increase in cash used in operating activities when compared to cash provided by operating activities during the same period last year was due primarily to an increase in purchases of trading securities, an increase in customer accounts receivables caused by the timing of closing customer sales, an increase in unrealized gain on investments due to an improving market compared to unrealized losses in the same period last year, lower depreciation and amortization expense due to timing of capitalized software development, a larger decrease in deferred revenues due to timing of revenue recognition, lower proceeds from the maturity of trading securities and reduced minority interest expense due to the completion of the Logility tender offer. These factors were partially offset by an increase in net earnings, an increase in accounts payable and other accruals due to timing of payments, an increase in the proceeds of trading securities due to timing of sales, a decrease in prepaid expenses due to timing of marketing related purchases and lower deferred income taxes.

The decrease in cash used in investing activities when compared to the same period in the prior year was due primarily to a decrease in the purchases of investments and property and equipment, partially offset by a decrease in proceeds in maturities of investments and the repurchase of the noncontrolling interest in Logility in connection with the Logility tender offer.

Cash used in financing activities decreased when compared to the same period in the prior year due primarily to a decrease in repurchase of our common stock and an increase in excess tax benefits from stock-based compensation, partially offset by lower proceeds from exercise of stock options.

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 January 31, (in thousands)	
	2010	2009
Cash and cash equivalents	\$ 24,236	\$39,388
Short and Long-Term Investments	29,519	30,933
Total cash and short and long-term investments	<u>\$ 53,755</u>	<u>\$70,321</u>
Net (decrease) increase in total cash and investments (nine months ended January 31)	\$(17,339)	\$ (5,820)

Our total activities used cash and investments during the nine months ended January 31, 2010, when compared to the prior year period, due primarily to the repurchase of a noncontrolling interest (Logility tender offer), changes in operating assets and liabilities noted above and the payment of the quarterly dividend.

Days Sales Outstanding in accounts receivable were 67 days as of January 31, 2010, compared to 61 days as of January 31, 2009. This increase was due in part to the timing of closing and collecting license fees sales. Our current ratio on January 31, 2010 was 2.5 to 1 and on January 31, 2009 was 3.1 to 1. This ratio decreased primarily due to the decrease in cash and investments as a result of the repurchase of a noncontrolling interest (Logility tender offer) and the purchase of municipal bonds with a maturity of greater than twelve months that are classified as long-term investments.

Our business in recent periods has generated substantial positive cash flow from operations, excluding purchases and proceeds of sale of trading securities. For this reason, and because we had \$53.8 million in cash and investments with no debt as of January 31, 2010, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. We do not currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

On December 18, 1997, our Board of Directors approved a resolution authorizing the repurchase up to 1.5 million of our Class A Common Shares. On March 11, 1999, our Board of Directors approved a resolution authorizing us to repurchase an additional 700,000 shares for a total of up to 2.2 million of our Class A Common Shares. On August 19, 2002, our Board of Directors approved a

resolution authorizing us to repurchase an additional 2.0 million shares for a total of up to 4.2 million of our Class A Common Shares. 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. Under these repurchase plans, as of March 10, 2010 we have repurchased approximately 2.9 million shares of common stock at a cost of approximately \$11.2 million.

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 GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements for the fiscal year ended April 30, 2009, describes the significant accounting policies that we have used in preparing our financial statements. On an ongoing basis, we evaluate our estimates, including, but not limited to those related to VSOE, bad debts, capitalized software costs, goodwill, intangible asset impairment, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

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

Revenue Recognition. We recognize revenue in accordance with the Software Revenue Recognition Topic of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification. 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 (VSOE) exists with respect to any undelivered elements of the arrangement. We generally bill maintenance fees annually in advance and recognize the resulting revenues ratably over the term of the maintenance agreement. We derive revenues from services which primarily include consulting, implementation, and training. We bill for these services primarily under time and materials arrangements and recognize fees as we perform the services. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the time we recognize revenues. We record revenues from sales of third-party products in accordance with Principal Agent Considerations within the Revenue Recognition Topic of the FASB's Accounting Standards Codification. Furthermore, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we 1) act as principal in the transaction, 2) take title to the products, 3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and 4) act as an agent or broker with compensation on a commission or fee basis. Accordingly, our sales through the DMI channel are typically recorded on a gross basis.

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

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

Valuation of Long-Lived and Intangible Assets. In accordance with the Intangibles-Goodwill and Other Topic of the FASB Accounting Standards Codification, 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 the Property, Plant, and Equipment Topic of the FASB Accounting Standards Codification, long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability would be measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, we recognize an impairment charge in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The determination of estimated future cash flows, however, requires management to make estimates. Future events and changes in circumstances may require us to record a significant impairment charge in the period in which such events or changes occur. Impairment testing requires considerable analysis and judgment in determining results. If other assumptions and estimates were used in our evaluations, the results could differ significantly.

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill and intangible assets had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill or intangible assets that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At January 31, 2010, our goodwill balance was \$11.7 million and our intangible assets with definite lives balance was approximately \$602,000, net of accumulated amortization.

Valuation of Capitalized Software Assets. We capitalize certain computer software development costs in accordance with Intangibles-Goodwill and Other Topic of the FASB Accounting Standards Codification. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, we capitalize all software development costs and report those costs at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers. We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the amount by which the unamortized software development costs exceed net realizable value. We amortize capitalized computer software development costs ratably based on the projected revenues associated with the related software or on a straight-line basis over three years, whichever method results in a higher level of amortization. Amortization of capitalized computer software development costs is included in the cost of license revenues in the condensed consolidated statements of operations.

Stock-Based Compensation. We estimate the value of options granted on the date of grant using the Black-Scholes option pricing model. 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 the Income Tax Topic of the FASB Accounting Standards Codification. Under this accounting guidance, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, and projected tax credits. Changes in tax law or our interpretation of tax laws could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our deferred tax assets take into account our expectations of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years, which could significantly increase tax expense, could render inaccurate our current assumptions, judgments and estimates of recoverable net deferred taxes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three and nine months ended January 31, 2010, we generated approximately 10% and 11%, respectively of our revenues outside the United States. We typically make international sales through our foreign subsidiaries or our Logility subsidiary and denominate those sales typically in U.S. Dollars, British Pounds Sterling or Euros. However, expenses incurred in connection with these sales are typically denominated in the local currencies. We recorded exchange rate losses of approximately \$17,000 for the three months ended January 31, 2010 and gains of \$64,000 for the nine months ended January 31, 2010, compared to exchange rate losses of approximately \$198,000 and \$394,000 for the three and nine months ended January 31, 2009, respectively. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$126,000 exchange gain or loss for the nine months ended January 31, 2010. We have not engaged in any hedging activities.

Interest Rates and Other Market Risks. We have no debt, and therefore limit our discussion of interest rate risk to risk associated with our investment profile. We manage our interest rate risk by maintaining an investment portfolio of trading and held-to-maturity investments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. Dollars. The fair market value of these instruments as of January 31, 2010 was approximately \$53.8 million compared to \$70.1 million as of January 31, 2009.

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

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

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

Item 4. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

As of the end of the period covered by this report, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) 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 the end of the period covered by this quarterly report. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our annual report 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 the end of the period covered by this quarterly report.

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

Changes in Internal Control over Financial Reporting

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the fiscal year ended April 30, 2009.

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

(a) Not applicable

(b) Not applicable

(c) The following table summarizes repurchases of our stock in the three months ended January 31, 2010:

<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>
November 1, 2009 through November 30, 2009	0	\$ 0.00	0	1,304,665
December 1, 2009 through December 31, 2009	40,400	\$ 6.13	40,400	1,264,265
January 1, 2010 through January 31, 2010	0	\$ 0.00	0	1,264,265
Total Fiscal 2010 Third Quarter	<u>40,400</u>	<u>\$ 6.13</u>	<u>40,400</u>	1,264,265

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

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Removed and Reserved

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 3.1 Amended and Restated Bylaws dated May 18, 2009
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: March 10, 2010

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

Date: March 10, 2010

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

Date: March 10, 2010

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

BY-LAWS
OF AMERICAN SOFTWARE, INC.
A Georgia Corporation

(Amended and Restated as of May 18, 2009)

ARTICLE I

Seal

Section 1. Seal. The seal of the Corporation shall be in such form as the Board of Directors may from time to time determine. The signature of the Company followed by the word "Seal" enclosed in parentheses or scroll shall be deemed the seal of the Corporation, if affixed by appropriate authority. The seal may be affixed by the Secretary, or Assistant Secretary, or such other person or persons as may be designated by the Board of Directors.

ARTICLE II

Fiscal Year

Section 1. Fiscal Year. The fiscal year of the Corporation shall be fixed, and may be changed from time to time, by the Board of Directors.

ARTICLE III

Meetings of Shareholders

Section 1. Annual Meeting. The Annual Meeting shall be held on a date selected by the Board of Directors within 120 days following the end of the Corporation's fiscal year, provided that if such meeting shall not be held at the appropriate time, such meeting may be called, without statement of purpose, in accordance with the provisions for calling a special meeting. The notice of such specially called meeting shall state that it is to be held in lieu of the omitted meeting. At the Annual Meeting, the shareholders shall elect a Board of Directors and transact other business.

Section 2. Special Meetings. Special meetings of the shareholders may be held whenever and wherever called by a majority of, the incumbent Directors, or by shareholders owning not less than 25% of the outstanding voting shares.

Section 3. Notice of Meetings. Written notice of each shareholders meeting stating the place, day and hour of the meeting, and in the case of a special meeting, the purpose or purposes of the meeting shall be given by the Secretary of the Corporation, or by persons authorized to call the meeting, to each shareholder of record entitled to vote at the meeting. Such notice shall be delivered not less than ten nor more than fifty days before the date of the meeting, either in hand, by telegram, or by first class mail. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with first class postage thereon prepaid, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation.

Section 4. Place of Meetings. Meetings of the shareholders may be held at any place selected by the persons authorized to call the meeting either within or without the state of incorporation.

Section 5. Record Dates and Closing of Transfer Books. The Board of Directors may fix the time, not exceeding seventy (70) days preceding the date of any meeting of shareholders, any dividend payment date, or any date for the allotment of rights, during which the books of the Corporation shall be closed against the transfer of shares. If such books shall be closed for the purpose of determining shareholders entitled to notice of or to vote a meeting of shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the share transfer books as aforesaid, the Board of Directors may fix, in advance, a date as the record date for the determination of shareholders, such date in any case to be not more than seventy (70) days and, in case of a meeting of shareholders, no less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken; and only shareholders of record on such date shall be entitled to notice of and to vote at such meeting or to receive such dividend or rights, as the case may be. If neither of the above two methods is utilized, then the date on which the notice is mailed (or on which the resolution of the Board of Directors declaring the dividend is adopted) shall be the record date.

Section 6. Quorum. At all meetings of shareholders, one-third of the voting stock issued and outstanding, present in person or by proxy, shall constitute a quorum for all purposes except as otherwise required by law. When a quorum is once present to organize a meeting, the shareholders present may continue to do business at the meeting, or at any adjournment thereof, notwithstanding the withdrawal of shareholders so as to leave less than a quorum present. A majority of the voting shares represented at a meeting, whether or not a quorum is present, may adjourn such meeting from time to time, without further notice than announcement at such meeting. The vote of a majority of the shares to vote at any meeting, as represented in person or by proxy, shall determine any action taken, except as otherwise provided in the Articles of Incorporation, by these by-laws, or by law.

Section 7. Voting and Inspectors. Each outstanding share of Common Stock shall be entitled to vote in accordance with the provisions for voting, from time to time, included in the Articles of Incorporation. In determining the quantity of Stock required by law, by the Articles, or by these By-Laws, to be represented for any purpose, or the outcome of any voting of shareholders, the quantity of shares represented or voted shall be weighted in accordance with the provisions of the Articles, and issues shall be determined by classes when required by the Articles. Treasury shares shall not be voted. At any meeting at which Directors are to be elected, the Board of Directors, or the presiding officer at the meeting, may, and upon the request of the holders of 20% of the shares entitled to vote at such meetings shall, appoint three Inspectors of Election who shall execute faithfully the duties of Inspector at such meeting, with strict impartiality and according to the best of their ability, and shall, after any vote taken at such meeting, make a Certificate of the result thereof. No candidate for the office of Director shall be appointed such Inspector. The Board of Directors may make reasonable rules and regulations for the conduct of any meeting.

Section 8. Proxies and Voting. At every meeting of the shareholders, all proxies shall be received and taken in charge, and all ballots shall be received and canvassed by the Secretary

of the meeting, who shall decide all questions relating to the qualification of voters, the validity of proxies, and the acceptance or rejection of votes, except that where inspectors of election have been appointed as provided in the preceding Section, the duties set forth herein shall be performed by such inspectors. Any voting shareholder may be represented, and may vote, at any regular or special meeting by proxy authorized in writing, signed by the shareholder and filed with the Secretary of the meeting at or before the holding of such meeting. No proxy shall be valid after the expiration of eleven months from the date thereof, unless otherwise specifically provided in the proxy.

ARTICLE IV The Board of Directors

Section 1. Number and Tenure of Office. The business and affairs of the Corporation shall be conducted and managed by the Board of Directors, consisting of not less than three nor more than eleven Directors. Each Director shall hold office until the Annual Meeting of shareholders next succeeding his election or until his successor is duly elected and qualified, unless he is removed from office or unless his resignation is accepted by a majority of the remaining Directors. A Director may be removed, without assignment of cause, by vote of a majority of the class or classes of shares entitled to vote at an election of such Director. Directors need not be shareholders.

Section 2. Vacancies. Except as provided in the Articles of Incorporation, any vacancy in the Board of Directors, regardless of cause, may be filled by a majority vote of the remaining Directors, and the successor Director shall hold office until the next meeting of shareholders.

Section 3. Increase or Decrease in Number of Directors. Except as provided in the Articles of Incorporation, the Board of Directors, by a vote of a majority of the entire Board, may increase the number of Directors to a number not exceeding eleven, and may decrease the number of Directors to a number not less than three, and may fill any vacancy created by an increase in the number of Directors. A decrease in the number of Directors, as provided for herein, shall not result in the removal of any Director then incumbent, nor shall such reduction in number reduce the tenure of any incumbent Director.

Section 4. Place of Meeting. The Directors may hold the meetings of the Board within or without the State of Georgia as they may from time to time by resolution determine, or as shall be specified or fixed in the respective notices or waivers of notice thereof.

Section 5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and on such notice, if any, as the Directors may from time to time determine. The Annual Meeting of the Board of Directors shall be held as soon as practicable after the Annual Meeting of shareholders for the election of Directors, and may be without any notice to members of the Board, if convened at the place of the Annual Meeting of shareholders, on the same or the next business day.

Section 6. Special Meetings. Special meetings of the Board of Directors may be held from time to time upon call of the Executive Committee, or by any two of the incumbent

Directors, by oral or telegraphic or written notice to each Director not less than two days before such meeting.

Section 7. Quorum. A majority of the incumbent members of the Board of Directors shall constitute a quorum for the transaction of business, provided that a quorum shall in no case be less than two Directors. If at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time, without notice, other than an announcement at the meeting, until the quorum shall be present. The action of a majority of the Directors present at any meeting at which there is a quorum shall determine any action taken by the Directors except as may be otherwise specifically provided by statute, by the Articles of Incorporation, by these by-laws, or by any contract or agreement to which the Corporation is a party.

Section 8. Executive Committee. There shall be an Executive Committee of the Board of Directors, consisting of not less than two Directors, including the Chairman and the President. Other members of the Committee may be elected from time to time by the Board of Directors. The Committee may, by resolution, fix its own rules of procedure, including provision for any notice of its meetings. The Executive Committee shall have all of the executive authority of the Corporation, and unless limited by action of the Board of Directors, the Executive Committee may exercise the powers of the Board of Directors between meetings of the Board. All actions of the Executive Committee on behalf of the Board shall be reported to the Board of Directors at its meeting next succeeding such action.

Section 9. Other Committees. The Board of Directors, by a majority vote of the entire Board, may create and appoint other committees which shall in each case consist of such number of members (not less than two) and shall have and may exercise, to the extent permitted by law, such powers, as the Board may determine in the resolution appointing such committee. A majority of all members of any such committee shall determine its action, and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to change the members and, to the extent permitted by law, the powers of any such committee, to fill vacancies and to discharge any such committee.

Section 10. Compensation. Directors shall be entitled to receive such compensation from the Corporation for their services as may from time to time be voted by the Board of Directors.

Section 11. Indemnity.

(a) Right to Indemnification. The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding") (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another entity, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best

interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the Corporation and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the corporation as a Director, officer, employee or agent of another entity, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation, unless and only to the extent that the court in which such proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

To the extent that a Director or officer of the Corporation has been successful on the merits or otherwise in defense of any proceeding, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(b) Determination that Indemnification is Proper. Any indemnification under this Section (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the individual has met the applicable standard of conduct set forth in subsection (a). Such determination shall be made (1) by the members of the Board of Directors who were not parties to such proceeding, or (2) if such a quorum is not obtainable or, even if obtainable, a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (3) by the shareholders.

(c) Advances. Expenses incurred in defending a proceeding shall be paid by the Corporation in advance of the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the Director or officer of the Corporation to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Section. Such undertaking shall be an unlimited, unsecured general obligation of the Director or officer and shall be accepted without reference to his ability to make repayment.

(d) Insurance. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a Director or officer of the Corporation, or is or was serving at the request of the Corporation as Director, officer, employee or agent of another

entity, against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section.

(e) Non-Exclusivity of Rights. The indemnification provided by this Section shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of shareholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

(f) Severability. If any provision of this Section or its application to any person or circumstance is held invalid by a court of competent jurisdiction, the invalidity shall not affect other provisions or applications of this Section, and to this end the provisions of this Section are severable.

Section 12. Chairman of the Board. There shall be a Chairman of the Board of Directors, who shall be chosen by, and serve at the pleasure of, the Board of Directors. The Chairman of the Board shall preside at meetings of the Board of Directors and shall perform such other duties on behalf of the Board as the Board may direct. The compensation of the Chairman of the Board shall be set by the Board of Directors.

ARTICLE V Officers

Section 1. Officers. The Executive Officers of the Corporation shall be chosen by the Board of Directors as soon as may be practicable after the Annual Meeting of shareholders. The Executive Officers shall include a Chairman, a President, one or more Vice Presidents, a Secretary and a Treasurer. The Board of Directors may designate one Chief Executive Officer or two or more Co-Chief Executive Officers of the Corporation. The Board of Directors may name and provide for the selection of such other officers and assistant officers having such authority as the Board may from time to time provide.

Section 2. Chairman. The Chairman shall have general and active executive management of the Corporation, shall be responsible for the operation and administration of the Corporation, and shall have such other authority and perform such other duties as shall be assigned to him by the Board of Directors. He may preside at shareholders' meetings, and at meetings of the Board of Directors, and except as provided by law, by the Articles of Incorporation, by the By-Laws, or by resolution of the Board of Directors, may institute or defend legal proceedings and employ counsel with respect thereto, and prescribe the duties of all other officers of the Corporation.

Section 3. President. The President shall have general and active executive management of the Corporation, shall be responsible for the operation and administration of the Corporation, and shall have such other authority and perform such other duties as shall be assigned to him by the Board of Directors. He may preside at shareholders' meetings, and at meetings of the Board of Directors, and except as provided by law, by the Articles of

Incorporation, by the By-Laws, or by resolution of the Board of Directors, may institute or defend legal proceedings and employ counsel with respect thereto, and prescribe the duties of all other officers of the Corporation.

Section 4. Vice President. A Vice President, if elected, shall have such authority and perform such duties as shall be assigned to him by the Board of Directors, and may be authorized, in the absence or disability of the President, to perform the duties and exercise the powers of the President.

Section 5. Secretary. The Secretary shall keep the corporate records, the corporate seal, give due notice of meetings of stockholders and Directors, and perform such other duties as shall be assigned to him by the Board of Directors.

Section 6. Treasurer. The Treasurer shall have custody of the funds of the Corporation, which shall be kept in such banks or depositories as the Board may designate. He shall keep full and accurate records or receipts and disbursements and perform all other duties pertaining to the office as may be assigned to him by the Board of Directors.

Section 7. Salary. The Board of Directors shall fix the salaries of the Executive Officers of the Corporation. The salaries of other agents and employees of the Corporation may be fixed by the Board of Directors, or by the officer employing such agent or employee.

ARTICLE VI Capital Shares

Section 1. Certificates of Shares. The interest of each shareholder of the Corporation, upon payment in full for his shares, shall be evidenced by certificates for shares in such form as the Board of Directors may from time to time prescribe; provided, however, that the Board of Directors may by resolution provide that some or all of any or all classes or series of the Corporation's shares shall be uncertificated shares. All references to share certificates in these By-Laws shall apply if and only to the extent that the Board of Directors has not provided for uncertificated shares. No certificate shall be valid unless it is signed by the President or a Vice President and countersigned by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer of the Corporation and sealed with its seal. The signatures may be either manual or facsimile signatures and the seal may be either facsimile or any other form of seal. In case any officer who has signed any certificate ceases to be an officer of the Corporation before the certificate is issued, the certificate may nevertheless be issued by the Corporation with the same effect as if the officer had not ceased to be such officer as of the date of its issue.

Section 2. Transfer of Shares. Shares of the Corporation shall be transferable on the books of the Corporation by the holder thereof in person or by his duly authorized attorney or legal representative, upon surrender and cancellation of certificates for the same number of shares of the same class, duly endorsed or accompanied by proper instruments of assignment and transfer, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require.

Section 3. Lost, Stolen or Destroyed Certificates. The Board of Directors or the Executive Committee may determine the conditions upon which a new share certificate of the

Corporation of any class may be issued in place of a certificate which is alleged to have been lost, stolen or destroyed; and may, in their discretion, require the owner of such certificate or his legal representative to give bond, with sufficient surety to the Corporation and the Transfer Agent, if any, to indemnify it and such Transfer Agent against any and all loss or claims which may arise by reason of the issue of a new certificate in the place of the one so lost, stolen or destroyed. The Board shall have power to determine what constitutes sufficient indemnity as to any lost certificate.

ARTICLE VII

Execution of Documents

The Board of Directors may, by a proper resolution, provide for the method of signing checks, notes, drafts, bills of exchange or other instruments for the payment of money; for the transfer and sale of property; for the endorsement and registration of securities; for the assumption of liabilities; for the voting of stock held in other corporations; and for the execution of all other legal documents.

ARTICLE VIII

Waiver of Notice, Approval and Consent

Any notice required by these by-laws, or by law, to be given to any stockholder, officer or Director, may be waived in writing, either before or after the event to which it relates, and shall be deemed waived with respect to any meeting, along with any objections to the time or place of such meeting, by appearance at such meeting, except when such person attends a meeting solely for the purpose of stating, at the beginning of the meeting, any objection to the transaction of business. Written approval of the minutes of any meeting, either before or after the meeting shall be deemed waiver of notice of such meeting, and shall be deemed an appearance at such meeting.

Any action to be taken, or any action that may be taken, at a meeting of Directors, or of any Committee thereof, or of the shareholders of the Corporation, may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all of the persons entitled to vote with respect to the subject matter thereof.

ARTICLE IX

Amendment of By-Laws

These by-laws may be amended, added to or repealed by a majority of shareholders, or by a majority vote of the entire Board of Directors, but any such action by the Board of Directors shall be reported to the shareholders in the notice of the next meeting of shareholders.

ARTICLE X

Branch Offices - Books and Records

Section 1. Branch Offices. The Corporation shall have power to have an office or offices and, subject to the provisions of the laws of the State of Georgia, to keep the books of the Corporation outside of said State, at such places as may from time to time be designated by the Board of Directors.

Section 2. Books and Records. The Board of Directors shall have power to determine which accounts and books of the Corporation, if any, shall be open to the inspection of shareholders, except such as may by law be specifically open to inspection, and shall have power to fix reasonable rules and regulations not in conflict with the applicable law for the inspection of accounts and books which by law or by determination of the Board of Directors shall be open to inspection.

ARTICLE XI

In the event that any provisions of these By-Laws shall be found to be in conflict with any provision of the Articles of Incorporation, the provisions of the Articles of Incorporation shall be deemed to prevail.

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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2010

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

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

I, Vincent C. Klinges, certify that:

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

Date: March 10, 2010

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

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

The undersigned, as the Chief Executive Officer of American Software, Inc., certifies that, to the best of his knowledge and belief, this report on Form 10-Q for the fiscal quarter ended January 31, 2010 (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 10th day of March, 2010

/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 January 31, 2010 (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 10th day of March, 2010

/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.