
**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 October 31, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of
incorporation or organization)

58-1098795

(IRS Employer
Identification Number)

470 East Paces Ferry
Road, N.E.

Atlanta Georgia
(Address of principal executive offices)

Georgia

30305

(Zip Code)

(404) 261-4381

(Registrant's telephone number, including area code)

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

Title of each class

Common Stock

Trading Symbol

AMSWA

Name of each exchange on which registered

NASDAQ Global Select Market

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

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

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

Large Accelerated Filer Accelerated Filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

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

<u>Classes</u>	<u>Outstanding at December 1, 2022</u>
Class A Common Stock, \$.10 par value	31,918,863 Shares
Class B Common Stock, \$.10 par value	1,821,587 Shares

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Form 10-Q

Quarter ended October 31, 2022

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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)

	October 31, 2022	April 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 83,962	\$ 110,690
Investments	22,805	16,826
Trade accounts receivable, less allowance for doubtful accounts of \$354 at October 31, 2022 and \$423 at April 30, 2022:		
Billed	24,127	20,619
Unbilled	2,690	2,989
Prepaid expenses and other current assets	5,384	5,067
Total current assets	<u>138,968</u>	<u>156,191</u>
Property and equipment, net of accumulated depreciation of \$31,755 at October 31, 2022 and \$31,242 at April 30, 2022	5,847	3,654
Capitalized software, net of accumulated amortization of \$42,726 at October 31, 2022 and \$42,007 at April 30, 2022	867	1,586
Goodwill	29,558	25,888
Other intangibles, net of accumulated amortization of \$13,597 at October 31, 2022 and \$13,228 at April 30, 2022	2,609	147
Lease right of use assets	646	935
Deferred sales commissions—noncurrent	1,702	2,050
Deferred income taxes	227	—
Other assets	2,588	2,384
Total assets	<u>\$ 183,012</u>	<u>\$ 192,835</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,485	\$ 2,506
Accrued compensation and related costs	3,723	6,918
Dividends payable	3,711	3,700
Operating lease obligations	441	541
Other current liabilities	2,361	1,871
Deferred revenue	36,008	41,953
Total current liabilities	<u>48,729</u>	<u>57,489</u>
Deferred income taxes	—	1,772
Long-term operating lease obligations	250	461
Other long-term liabilities	465	137
Total liabilities	<u>49,444</u>	<u>59,859</u>
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: 36,503,495 (31,914,863, net) shares issued and outstanding at October 31, 2022 and 36,405,695 (31,817,063, net) shares issued and outstanding at April 30, 2022	3,650	3,641
Class B, \$.10 par value. Authorized 10,000,000 shares: 1,821,587 shares issued and outstanding at October 31, 2022 and April 30, 2022; convertible into Class A Common Shares on a one-for-one basis	182	182
Additional paid-in capital	175,733	171,948
Retained deficit	(20,438)	(17,236)
Class A treasury stock, 4,588,632 shares at October 31, 2022 and April 30, 2022, at cost	(25,559)	(25,559)
Total shareholders' equity	<u>133,568</u>	<u>132,976</u>
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 183,012</u>	<u>\$ 192,835</u>

See accompanying notes to condensed consolidated financial statements—unaudited.

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2022	2021	2022	2021
Revenue:				
Subscription fees	\$ 12,326	\$ 10,361	\$ 24,388	\$ 20,149
License	688	805	1,008	1,297
Professional services and other	9,594	10,779	19,603	20,308
Maintenance	8,830	9,266	17,735	18,728
Total revenue	<u>31,438</u>	<u>31,211</u>	<u>62,734</u>	<u>60,482</u>
Cost of revenue:				
Subscription fees	4,059	3,404	7,677	6,628
License	94	198	183	357
Professional services and other	6,847	7,477	14,151	14,487
Maintenance	1,577	1,746	3,150	3,720
Total cost of revenue	<u>12,577</u>	<u>12,825</u>	<u>25,161</u>	<u>25,192</u>
Gross margin	<u>18,861</u>	<u>18,386</u>	<u>37,573</u>	<u>35,290</u>
Research and development	4,364	4,278	8,818	8,702
Sales and marketing	5,697	5,892	11,609	12,012
General and administrative	6,001	5,476	11,766	10,010
Amortization of acquisition-related intangibles	32	53	56	106
Total operating expenses	<u>16,094</u>	<u>15,699</u>	<u>32,249</u>	<u>30,830</u>
Operating income	<u>2,767</u>	<u>2,687</u>	<u>5,324</u>	<u>4,460</u>
Other income (loss):				
Interest income	364	97	573	190
Other, net	(509)	833	(599)	1,177
Earnings before income taxes	<u>2,622</u>	<u>3,617</u>	<u>5,298</u>	<u>5,827</u>
Income tax expense (benefit)	541	303	1,084	(434)
Net earnings	<u>\$ 2,081</u>	<u>\$ 3,314</u>	<u>\$ 4,214</u>	<u>\$ 6,261</u>
Earnings per common share (a):				
Basic	<u>\$ 0.06</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.19</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.18</u>
Cash dividends declared per common share	<u>\$ 0.11</u>	<u>\$ 0.11</u>	<u>\$ 0.22</u>	<u>\$ 0.22</u>
Shares used in the calculation of earnings per common share:				
Basic	<u>33,720</u>	<u>33,337</u>	<u>33,688</u>	<u>33,195</u>
Diluted	<u>34,071</u>	<u>34,685</u>	<u>34,040</u>	<u>34,448</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 \$0.06 and \$0.10 for the three months ended October 31, 2022 and 2021 and \$0.12 and \$0.19 for the six months ended October 31, 2022 and 2021. See Note D to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements—unaudited.

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

For the Three Months Ended	Common stock				Additional paid-in capital	Retained deficit	Treasury stock	Total shareholders' equity
	Class A		Class B					
	Shares	Amount	Shares	Amount				
October 31, 2021								
Balance at July 31, 2021	36,028,566	\$ 3,603	1,821,587	\$ 182	\$ 164,299	\$(15,991)	\$ (25,559)	\$ 126,534
Proceeds from stock options exercised	146,242	14	—	—	1,628	—	—	1,642,000
Stock-based compensation	—	—	—	—	1,042	—	—	1,042
Net earnings	—	—	—	—	—	3,314	—	3,314
Dividends declared*	—	—	—	—	—	(3,685)	—	(3,685)
Balance at October 31, 2021	36,174,808	\$ 3,617	1,821,587	\$ 182	\$ 166,969	\$(16,362)	\$ (25,559)	\$ 128,847
For the Three Months Ended October 31, 2022								
Balance at July 31, 2022	36,448,695	\$ 3,645	1,821,587	\$ 182	\$ 173,721	\$(18,808)	\$ (25,559)	\$ 133,181
Proceeds from stock options exercised*	54,800	5	—	—	669	—	—	674,000
Stock-based compensation	—	—	—	—	1,343	—	—	1,343
Net earnings	—	—	—	—	—	2,081	—	2,081
Dividends declared	—	—	—	—	—	(3,711)	—	(3,711)
Balance at October 31, 2022	36,503,495	\$ 3,650	1,821,587	\$ 182	\$ 175,733	\$(20,438)	\$ (25,559)	\$ 133,568

*Amounts adjusted for rounding

For the Six Months Ended	Common stock				Additional paid-in capital	Retained deficit	Treasury stock	Total shareholders' equity
	Class A		Class B					
	Shares	Amount	Shares	Amount				
October 31, 2021								
Balance at April 30, 2021	35,629,566	3,563	1,821,587	182	159,492	(15,287)	(25,559)	122,391
Proceeds from stock options exercised	545,242	54	—	—	5,660	—	—	5,714
Stock-based compensation	—	—	—	—	1,817	—	—	1,817
Net earnings	—	—	—	—	—	6,261	—	6,261
Dividends declared*	—	—	—	—	—	(7,336)	—	(7,336)
Balance at October 31, 2021	36,174,808	3,617	1,821,587	182	166,969	(16,362)	(25,559)	128,847
For the Six Months Ended October 31, 2022								
Balance at April 30, 2022	36,405,695	3,641	1,821,587	182	171,948	(17,236)	(25,559)	132,976
Proceeds from stock options exercised*	97,800	9	—	—	1,136	—	—	1,145
Stock-based compensation	—	—	—	—	2,649	—	—	2,649
Net earnings	—	—	—	—	—	4,214	—	4,214
Dividends declared*	—	—	—	—	—	(7,416)	—	(7,416)
Balance at October 31, 2022	36,503,495	3,650	1,821,587	182	175,733	(20,438)	(25,559)	133,568

*Amounts adjusted for rounding

See accompanying notes to condensed consolidated financial statements—unaudited.

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

	Six Months Ended October 31,	
	2022	2021
Cash flows from operating activities:		
Net earnings	\$ 4,214	\$ 6,261
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,601	2,170
Stock-based compensation expense	2,649	1,817
Net gain on investments	331	(1,193)
Deferred income taxes	(1,999)	(99)
Changes in operating assets and liabilities:		
Purchases of trading securities	(7,094)	(174)
Proceeds from maturities and sales of trading securities	784	210
Accounts receivable, net	(3,209)	4,502
Prepaid expenses and other assets	(173)	(2,013)
Accounts payable and other liabilities	(2,420)	(2,595)
Deferred revenue	(5,945)	(1,174)
Net cash (used in) provided by operating activities	<u>(11,261)</u>	<u>7,712</u>
Cash flows from investing activities:		
Purchases of property and equipment, net of disposals	(2,706)	(615)
Purchases of business	(6,500)	—
Net cash (used in) investing activities	<u>(9,206)</u>	<u>(615)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,145	5,714
Dividends paid	(7,406)	(7,268)
Net cash (used in) financing activities	<u>(6,261)</u>	<u>(1,554)</u>
Net change in cash and cash equivalents	(26,728)	5,543
Cash and cash equivalents at beginning of period	110,690	88,658
Cash and cash equivalents at end of period	<u>\$ 83,962</u>	<u>\$ 94,201</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net of refunds	\$ 2,997	\$ 176
Supplemental disclosures of noncash operating, investing and financing activities:		
Accrual of dividends payable	\$ 3,711	\$ 3,676

See accompanying notes to condensed consolidated financial statements—unaudited.

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements—Unaudited
October 31, 2022

A. Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete consolidated financial statements. In the opinion of our management, these Condensed Consolidated Financial Statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company's financial position at October 31, 2022, results of operations for the three and six months ended October 31, 2022 and 2021, consolidated statements of shareholders' equity for the three and six months ended October 31, 2022 and 2021 and cash flows for the six months ended October 31, 2022 and 2021. The Company's results for the three months ended October 31, 2022 are not necessarily indicative of the results expected for the full year. You should read these statements in conjunction with our audited consolidated financial statements and management's discussion and analysis and results of operations included in our Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended April 30, 2022. The terms "fiscal 2023" and "fiscal 2022" refer to our fiscal years ending April 30, 2023 and 2022, respectively.

The preparation of these Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements for fiscal 2022 contained in the Annual Report describes the significant accounting policies that we have used in preparing our Consolidated Financial Statements. On an ongoing basis, we evaluate our estimates, including, but not limited to, those related to revenue/reserves and allowances. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

Principles of Consolidation

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

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") 2021-08 — In October 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-08, "Business Combinations (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*." Under current GAAP, an acquirer generally recognizes assets acquired and liabilities assumed in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers and other similar contracts that are accounted for in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), at fair value on the acquisition date. ASU 2021-08 requires that an entity recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts, which should generally result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements. This update also provides certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption is permitted, including adoption in an interim period. Adoption during an interim period requires retrospective application to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application. We are evaluating the potential effects of ASU 2021-08 on our consolidated financial statements.

B. Revenue Recognition

In accordance with the ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), we recognize revenue when we transfer control of the promised goods or services to our clients, in an amount that reflects the consideration we expect to receive, in exchange for those goods or services. We derive our revenue from software licenses, maintenance services,

consulting, implementation and training services, and Software-as-a-Service (“SaaS”), which includes a subscription to our software, as well as support, hosting and managed services.

The Company recognizes revenue in accordance with the following steps:

Step 1 - Identification of the Contract with the Client

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

Step 3 - Determination of the Transaction Price

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

Step 5 - Attribution of Revenue for Each Distinct Performance Obligation

Nature of Products and Services

Subscription. Subscription fees include SaaS revenue for the right to use the software for a limited period of time in an environment hosted by the Company or by a third party. The client accesses and uses the software on an as needed basis over the Internet or via a dedicated line; however, the client has no right to take delivery of the software. The underlying arrangements typically include a single fee for the service that is billed monthly, quarterly or annually. The Company’s SaaS solutions represent a series of distinct services that are substantially the same and have the same pattern of transfer to the client. Revenue from a SaaS solution is generally recognized ratably over the term of the arrangement.

License. Our perpetual software licenses provide the client with a right to use the software as it exists at the time of purchase. We recognize revenue for distinct software licenses once the license period has begun and we have made the software available to the client. Our perpetual software licenses are sold with maintenance under which we provide clients with telephone consulting, product updates on a when available basis, and releases of new versions of products previously purchased by the client, as well as error reporting and correction services.

Professional Services and Other. Our services revenue consists of fees generated from consulting, implementation and training services, including reimbursements of out-pocket expenses in connection with our services. Services are typically optional to our clients, and are distinct from our software. Fees for our services are separately priced and are generally billed on an hourly basis, and revenue is recognized over time as the services are performed. We believe the output method of hours worked provides the best depiction of the transfer of our services since the client is receiving the benefit from our services as the work is performed. The total amount of expense reimbursement included in professional services and other revenue was immaterial for the three and six months ended October 31, 2022 and October 31, 2021.

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

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

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

Contract Balances. Timing of invoicing to clients may differ from timing of revenue recognition and these timing differences result in unbilled accounts receivables or contract liabilities (deferred revenue) on the Company’s Condensed Consolidated Balance Sheets. Fees for our software licenses are generally due within 30 days of contract execution. We have an established history of collecting under the terms of our software license contracts without providing refunds or concessions to our clients. SaaS solutions and maintenance are typically billed in advance on a monthly, quarterly, or annual basis. Services are typically billed as performed. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include significant financing component. The primary purpose of our

invoicing terms is to provide clients with predictable ways to purchase our software and services, not to provide or receive financing. Additionally, we are applying the practical expedient to exclude any financing component from consideration for any contracts with payment terms of one year or less since we rarely offer terms extending beyond one year. The consideration in our client contracts is fixed.

We have an unconditional right to consideration for all goods and services transferred to our clients. That unconditional right to consideration is reflected in billed and unbilled accounts receivable in the accompanying Condensed Consolidated Balance Sheets in accordance with Topic 606.

Deferred revenue consists of amounts collected prior to having completed the performance of maintenance, SaaS, hosting, and managed services. We typically invoice clients for cloud subscription and support fees in advance on a monthly, quarterly or annual basis, with payment due at the start of the cloud subscription or support term. During the three months ended October 31, 2022, we recognized \$17.6 million of revenue that was included in the deferred revenue balance as of July 31, 2022. During the six months ended October 31, 2022, we recognized \$29.6 million of revenue that was included in the deferred revenue balance as of April 30, 2022.

	October 31, 2022	April 30, 2022
(in thousands)		
Deferred revenue, current	36,008	41,953
Deferred revenue, long-term	—	—
Total deferred revenue	<u>\$ 36,008</u>	<u>\$ 41,953</u>

Remaining Performance Obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the client and is the unit of account under Topic 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied by transferring the promised good or service to the client. The Company identifies and tracks the performance obligations at contract inception so that the Company can monitor and account for the performance obligations over the life of the contract. Remaining performance obligations represent the transaction price of orders for which products have not been delivered or services have not been performed. As of October 31, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$122.7 million. The Company expects to recognize revenue on approximately 50% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter.

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

The Company's revenue by geography is as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2022	2021	2022	2021
(in thousands)				
Revenue:				
Domestic	\$ 25,570	\$ 26,197	\$ 51,229	\$ 50,624
International	5,868	5,014	11,505	9,858
	<u>\$ 31,438</u>	<u>\$ 31,211</u>	<u>\$ 62,734</u>	<u>\$ 60,482</u>

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

- The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify.

- The costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- The costs are expected to be recovered.

Certain sales commissions incurred by the Company were determined to be incremental costs to obtain the related contracts, which are deferred and amortized ratably over the economic benefit period. These deferred commission costs are classified as current or non-current based on the timing of when the Company expects to recognize the expense. The current and non-current portions of deferred commissions are included in prepaid expenses and other current assets and deferred sales commissions—noncurrent, respectively, in the Company’s Condensed Consolidated Balance Sheets. Total deferred commissions at October 31, 2022 and April 30, 2022 were \$3.1 million and \$3.4 million, respectively. Amortization of sales commissions was \$0.4 million and \$0.8 million for the three and six months ended October 31, 2022, respectively, and \$0.5 million and \$1.0 million for the three and six months ended October 31, 2021, respectively, which is included in "Sales and marketing" expense in the accompanying Condensed Consolidated Statements of Operations. No impairment losses were recognized during the periods.

C. Declaration of Dividend Payable

On August 17, 2022, our Board of Directors declared a quarterly cash dividend of \$0.11 per share of our Class A and Class B common stock. The cash dividend is payable on December 2, 2022 to Class A and Class B shareholders of record at the close of business on November 18, 2022.

D. Earnings Per Common Share

The Company has two classes of common stock. Class B common shares are convertible into Class A common shares at any time, on a one-for-one basis. Under the Company’s Articles of Incorporation, if dividends are declared, holders of Class A common shares shall receive a \$0.05 dividend per share prior to the Class B common shares receiving any dividend and holders of Class A common shares shall receive a dividend at least equal to Class B common shares dividends on a per share basis. As a result, the Company has computed the earnings per share in compliance with the Earnings Per Share Topic of the FASB ASC 260, *Earnings Per Share*, which requires companies that have multiple classes of equity securities to use the “two-class” method in computing earnings per share.

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

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

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

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

Basic earnings per common share:

	Three Months Ended October 31, 2022		Six Months Ended October 31, 2022	
	Class A Common Shares	Class B Common Shares	Class A Common Shares	Class B Common Shares
Distributed earnings	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.22
Undistributed losses	(0.05)	(0.05)	(0.10)	(0.10)
Total	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12
Distributed earnings	\$ 3,511	\$ 200	\$ 7,016	\$ 400
Undistributed losses	(1,542)	(88)	(3,030)	(172)
Total	\$ 1,969	\$ 112	\$ 3,986	\$ 228
Basic weighted average common shares outstanding	31,898	1,822	31,866	1,822

	Three Months Ended October 31, 2021		Six Months Ended October 31, 2021	
	Class A Common Shares	Class B Common Shares	Class A Common Shares	Class B Common Shares
Distributed earnings	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.22
Undistributed losses	(0.01)	(0.01)	(0.03)	(0.03)
Total	\$ 0.10	\$ 0.10	\$ 0.19	\$ 0.19
Distributed earnings	\$ 3,475	\$ 201	\$ 6,926	\$ 401
Undistributed losses	(342)	(20)	(1,007)	(59)
Total	\$ 3,133	\$ 181	\$ 5,919	\$ 342
Basic weighted average common shares outstanding	31,515	1,822	31,373	1,822

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

Three Months Ended October 31, 2022

	Undistributed & Distributed Earnings to Class A Common Shares	Class A Common Shares	EPS*
Per Basic	\$ 1,969	31,898	\$ 0.06
Common Stock Equivalents		352	
	1,969	32,250	0.06
Class B Common Share Conversion*	112	1,822	
Diluted EPS for Class A Common Shares	\$ 2,081	34,072	\$ 0.06

Six Months Ended October 31, 2022

	Undistributed & Distributed Earnings to Class A Common Shares	Class A Common Shares	EPS*
Per Basic*	\$ 3,986	31,866	\$ 0.12
Common Stock Equivalents	—	352	
	3,986	32,218	0.12
Class B Common Share Conversion*	228	1,822	
Diluted EPS for Class A Common Shares	<u>\$ 4,214</u>	<u>34,040</u>	<u>\$ 0.12</u>

Three Months Ended October 31, 2021

	Undistributed & Distributed Earnings to Class A Common Shares	Class A Common Shares	EPS*
Per Basic	\$ 3,133	31,515	\$ 0.10
Common Stock Equivalents	—	1,348	
	3,133	32,863	0.10
Class B Common Share Conversion	181	1,822	
Diluted EPS for Class A Common Shares	<u>\$ 3,314</u>	<u>34,685</u>	<u>\$ 0.10</u>

Six Months Ended October 31, 2021

	Undistributed & Distributed Earnings to Class A Common Shares	Class A Common Shares	EPS*
Per Basic	\$ 5,919	31,373	\$ 0.19
Common Stock Equivalents	—	1,253	
	5,919	32,626	0.18
Class B Common Share Conversion	342	1,822	
Diluted EPS for Class A Common Shares	<u>\$ 6,261</u>	<u>34,448</u>	<u>\$ 0.18</u>

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

Three Months Ended October 31, 2022

	Undistributed & Distributed Earnings to Class B Common Shares	Class B Common Shares	EPS*
Per Basic	\$ 112	1,822	\$ 0.06
Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares	1	—	
Diluted EPS for Class B Common Shares	<u>\$ 113</u>	<u>1,822</u>	<u>\$ 0.06</u>

Six Months Ended October 31, 2022

	Undistributed & Distributed Earnings to Class B Common Shares	Class B Common Shares	EPS*
Per Basic*	\$ 228	1,822	\$ 0.12
Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares	2	—	
Diluted EPS for Class B Common Shares*	<u>\$ 230</u>	<u>1,822</u>	<u>\$ 0.12</u>

Three Months Ended October 31, 2021

	Undistributed & Distributed Earnings to Class B Common Shares	Class B Common Shares	EPS*
Per Basic	\$ 181	\$ 1,822	\$ 0.10
Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares	1	—	
Diluted EPS for Class B Common Shares	<u>\$ 182</u>	<u>1,822</u>	<u>\$ 0.10</u>

Six Months Ended October 31, 2021

	Undistributed & Distributed Earnings to Class B Common Shares	Class B Common Shares	EPS*
Per Basic	\$ 342	\$ 1,822	\$ 0.19
Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares	2	—	
Diluted EPS for Class B Common Shares	<u>\$ 344</u>	<u>1,822</u>	<u>\$ 0.19</u>

*Amounts adjusted for rounding

For the three and six months ended October 31, 2022, we excluded options to purchase 3,426,398 and 3,286,253 Class A Common Shares, respectively, and for the three and six months ended October 31, 2021, we excluded options to purchase 1,098,815 and 704,554 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 October 31, 2022, we had a total of 5,728,204 options outstanding and as of October 31, 2021, we had a total of 4,831,991 options outstanding.

E. Acquisitions

We account for business combinations using the acquisition method of accounting and accordingly, the identifiable assets acquired and liabilities assumed are recorded based upon management's estimates of current fair values as of the acquisition date. The estimation process includes analyses based on income and market approaches. Goodwill represents the excess purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The goodwill generated is due in part to the synergies that are not included in the fair value of identifiable intangible assets. Goodwill recorded in an acquisition is assigned to applicable reporting units based on expected revenues. Identifiable intangible assets with finite lives are amortized over their useful lives. Amortization of current technology is recorded in cost of revenue-subscription fees and amortization of all other intangible assets is recorded in amortization of acquisition-related intangibles. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs, are expensed in general and administrative expenses in the periods in which such costs are incurred. The results of operations of acquired businesses are included in the Condensed Consolidated Financial Statements from the acquisition date.

Effective June 28, 2022, the Company acquired certain assets of privately-held Starboard Solutions Corp., a Michigan based innovator of supply chain network design software ("Starboard"), pursuant to the terms of an asset purchase agreement, dated as of June 28, 2022 (the "Purchase Agreement").

Starboard creates an interactive supply chain digital twin of the physical supply chain network and uses gaming technology to provide an intuitive user experience where users can easily explore answers to various "what if" questions. Starboard offers a unique supply chain visualization solution that can optimize for unknown locations, meaning users do not have to map their plans to a physical location. Applying Starboard's rich set of reference costs with Logility's lane rates and time data structures, users have the ability to quickly analyze options in regions for which they have no prior data and locate the absolute best location for future plants, warehouses or Third-party logistic locations ("3PL") locations. The intuitive design and ease of configuration makes the Starboard network design solution stand out. The solution is built for continuous use, eliminating the need for a consulting project to model potential resolutions to unexpected supply chain disruptions. The integration of Starboard's capabilities into the Logility Digital Supply Chain Platform will offer supply chain leaders enhanced integrated business planning outcomes. Users will be able to model a response to disruptions and update their operating plan within the Logility Digital Supply Chain Platform in minutes to enact the new operating paradigm.

Under the terms of the Purchase Agreement, the Company acquired the assets in exchange for a purchase price of approximately \$6.5 million in cash, subject to certain post-closing adjustments, plus up to a maximum aggregate amount of \$6.0 million (the "Aggregate Maximum Earnout Payment") of contingent earnout payments upon satisfaction of certain subscription revenue targets over a three year earnout period (the "Earnout Period"). For each year of the Earnout Period (each, a "Calculation Period"), the Company will pay, as additional consideration, \$2.0 million once subscription revenue (i.e., revenue contracted for and recorded as revenue in accordance with GAAP) for the applicable Calculation Period equals \$1.5 million, plus one dollar of additional consideration for each dollar of subscription revenue in excess of \$1.5 million, subject to the Aggregate Maximum Earnout Payment. If the subscription revenue for each Calculation Period is less than \$1.5 million, no additional payment shall be due for such Calculation Period. The contingent earnout payments are subject to the recipient's continued service with the Company; therefore, any additional consideration will be accounted for as post-combination services and will be expensed as incurred. The Company incurred acquisition costs of approximately \$81,500 and \$136,000 during the three and six months ended October 31, 2022, respectively. The operating results of Starboard are not material for proforma disclosure. We allocated \$3.7 million of the total purchase price to goodwill, which has been assigned to the Supply Chain Management segment and is deductible for income tax purposes.

The purchase price allocation herein is preliminary. The final purchase price allocation will be determined after completion of a thorough analysis to determine the fair value of all assets acquired and liabilities assumed, but in no event later than one year following completion of the acquisition. Accordingly, the final acquisition accounting adjustments could differ materially from the pro forma adjustments presented herein. Any increase or decrease in the fair value of the assets acquired and liabilities assumed, as compared to the information shown herein, could also change the portion of purchase price allocated to goodwill and could impact the operating results of the Company following the acquisition due to differences in purchase

price allocation, depreciation and amortization related to some of these assets and liabilities. The acquisition-date fair value of the consideration transferred is as follows (in thousands):

		<u>Useful Life</u>
Other assets	340	
Goodwill	3,670	
Non-compete	170	5 years
Current technology	2,500	3 years
Customer relationships	160	6 years
Total assets acquired	<u>6,840</u>	
Long-term liabilities	(340)	
Net assets acquired	<u>\$ 6,500</u>	

Non-compete agreements, current technology and customer relationships are being amortized on a straight-line basis over the remaining estimated economic life of the assets, including the period being reported.

F. Stock-Based Compensation

During the six months ended October 31, 2022 and 2021, we granted options for 1,424,000 and 1,308,500 shares of Class A common stock, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The forfeiture rates are estimated using historical data. We recorded stock option compensation cost of approximately \$1.3 million and \$1.0 million and income tax benefits of approximately \$29,000 and \$439,000 from option exercises during the three months ended October 31, 2022 and 2021, respectively. We recorded stock option compensation cost of approximately \$2.6 million and \$1.8 million and income tax benefits of approximately \$63,000 and \$1,616,000 from option exercises during the six months ended October 31, 2022 and 2021, respectively. We record stock-based compensation expense on a straight-line basis over the vesting period directly to additional paid-in capital.

During the six months ended October 31, 2022 and 2021, we issued 97,800 and 545,242 shares of Class A common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the six months ended October 31, 2022 and 2021 based on market value at the exercise dates was approximately \$0.5 million and \$7.6 million, respectively. As of October 31, 2022, unrecognized compensation cost related to unvested stock option awards approximated \$15.7 million, which we expect to recognize over a weighted average period of 1.96 years.

G. Fair Value of Financial Instruments

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

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

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

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

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

The following tables present our assets and liabilities that we measured at fair value on a recurring basis as of October 31, 2022 and April 30, 2022, and indicate the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

	October 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 77,498	\$ —	\$ —	\$ 77,498
Marketable securities	22,805	—	—	22,805
Total	<u>\$ 100,303</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 100,303</u>

	April 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	98,459	—	—	98,459
Marketable securities	16,826	—	—	16,826
Total	<u>115,285</u>	<u>—</u>	<u>—</u>	<u>115,285</u>

H. Stock Repurchases

On August 19, 2002, our Board of Directors authorized the repurchase of up to an additional 2.0 million shares of our Class A common stock. We have made and will make these repurchases through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our Class A common stock and management's assessment of our liquidity and cash flow needs. Under this repurchase plan, we have repurchased 1,053,679 shares of Class A common stock at a cost of approximately \$6.2 million, which had no impact on fiscal 2023. As of October 31,

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2022, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,588,632 shares of common stock at a cost of approximately \$25.6 million.

I. Comprehensive Income

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

J. Industry Segments

FASB ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of a public entity about which separate financial information is available that is evaluated regularly by the chief operating decision makers (“CODMs”), or decision making group, in deciding how to allocate resources and in assessing performance. Our CODMs are our Chief Executive Officer and President and our Chief Financial Officer. While our CODMs are apprised of a variety of financial metrics and information, we manage our business primarily on a segment basis, with the CODMs evaluating performance based upon segment operating profit or loss that includes an allocation of common expenses, but excludes certain unallocated corporate expenses, which are included in the Other segment. Our CODMs review the operating results of our three segments, assess performance and allocate resources in a manner that is consistent with the changing market dynamics that we have experienced. The three operating segments are: (1) Supply Chain Management (“SCM”), (2) Information Technology Consulting (“IT Consulting”) and (3) Other.

The SCM segment leverages a single platform spanning seven supply chain process areas, including product, demand, inventory, supply, deploy, integrated business planning and supply chain data management. The IT Consulting segment consists of The Proven Method, Inc., an IT staffing and consulting services firm. The Other segment consists of (i) American Software ERP, which provides purchasing and materials management, client order processing, financial, e-commerce and traditional manufacturing solutions, and (ii) unallocated corporate overhead expenses.

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

In the following table, we have broken down the intersegment transactions applicable to the three and six months ended October 31, 2022 and 2021 (in thousands):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2022	2021	2022	2021
Revenue:				
Supply Chain Management	\$ 26,752	\$ 25,380	\$ 52,934	\$ 49,631
IT Consulting	4,159	5,226	8,674	9,702
Other	527	605	1,126	1,149
	<u>\$ 31,438</u>	<u>\$ 31,211</u>	<u>\$ 62,734</u>	<u>\$ 60,482</u>
Operating income\ (loss):				
Supply Chain Management	\$ 7,646	\$ 6,718	\$ 14,825	\$ 12,073
IT Consulting	217	336	432	499
Other	(5,096)	(4,367)	(9,933)	(8,112)
	<u>\$ 2,767</u>	<u>\$ 2,687</u>	<u>\$ 5,324</u>	<u>\$ 4,460</u>
Capital expenditures:				
Supply Chain Management	\$ 151	\$ 313	\$ 1,590	\$ 615
IT Consulting	—	—	—	—
Other	983	—	1,116	—
	<u>\$ 1,134</u>	<u>\$ 313</u>	<u>\$ 2,706</u>	<u>\$ 615</u>
Depreciation and amortization:				
Supply Chain Management	\$ 714	\$ 948	\$ 1,367	\$ 1,982
IT Consulting	—	—	—	—
Other	119	91	234	188
	<u>\$ 833</u>	<u>\$ 1,039</u>	<u>\$ 1,601</u>	<u>\$ 2,170</u>
Earnings\ (loss) before income taxes:				
Supply Chain Management	\$ 7,572	\$ 6,657	\$ 14,601	\$ 11,919
IT Consulting	217	336	433	499
Other	(5,167)	(3,376)	(9,736)	(6,591)
	<u>\$ 2,622</u>	<u>\$ 3,617</u>	<u>\$ 5,298</u>	<u>\$ 5,827</u>

K. Major Clients

No single client accounted for more than 10% of total revenue for the three and six months ended October 31, 2022 and 2021.

L. Contingencies

The Company more often than not indemnifies its clients against damages and costs resulting from third party claims of intellectual property infringement associated with use of the Company's products. The Company historically has not been required to make any payments under such indemnification obligations. However, the Company continues to monitor the circumstances that are subject to indemnification to identify whether it is probable that a loss has occurred, and would recognize any such losses under such indemnification obligations when they are estimable.

In addition, the Company warrants to clients that the Company's products operate substantially in accordance with the software product's specifications. Historically, no costs have been incurred related to software product warranties and none are expected in the future, and as such no accruals for software product warranty costs have been made. Additionally, the Company is 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 the financial position or results of operations of the Company.

M. Subsequent Event

On November 16, 2022, our Board of Directors declared a quarterly cash dividend of \$0.11 per share of our Class A and Class B common stock. The cash dividend is payable on February 17, 2023 to Class A and Class B shareholders of record at the close of business on February 3, 2023.

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

FORWARD-LOOKING STATEMENTS

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

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

Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing U.S. and global economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenue, dependence on particular market segments or clients, competitive pressures, delays, product liability and warranty claims and other risks associated with new product development, undetected software errors, market acceptance of our products, technological complexity, the challenges and risks associated with integration of acquired product lines, companies and services, as well as a number of other risk factors that could affect our future performance. All forward-looking statements included in this Quarterly Report are based upon information available to us as of the filing date of this Quarterly Report. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. We discuss certain factors in greater detail in “Business Overview” below.

ECONOMIC OVERVIEW

In October 2022, the International Monetary Fund (“IMF”) provided an update to the World Economic Outlook for 2022. The update noted that, *“The global economy is experiencing a number of turbulent challenges. Inflation higher than seen in several decades, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Normalization of monetary and fiscal policies that delivered unprecedented support during the pandemic is cooling demand as policymakers aim to lower inflation back to target. But a growing share of economies are in a growth slowdown or outright contraction. The global economy’s future health rests critically on the successful calibration of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions, for example, in China. Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies: a US GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China with a growing property sector crisis. About a third of the world economy faces two consecutive quarters of negative growth. Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Upside inflation surprises have been most widespread among advanced economies, with greater variability in emerging market and developing economies.”*

In addition to the broader economic risks noted by the IMF, for 2023, we are also cautious about the global recovery from the COVID-19 pandemic. We believe uncertain economic conditions and increasingly complex supply chain challenges may be driving some businesses to focus on achieving more process and efficiency enhancements in their operations and to invest in solutions that improve operating margins, rather than make large infrastructure-type technology purchases. If this trend continues, we believe it may tend to favor solutions such as our supply chain solutions, which are designed to provide a more rapid return on investment and are targeted at some of the largest profit drivers in a client’s business. While we do not expect

that the COVID-19 pandemic will cause any material adverse changes on our business or financial results for fiscal 2023, we are unable to accurately predict the impact that the coronavirus will have due to various uncertainties, including the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities.

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. and global credit markets. In recent years, the weakness in the overall global economy and the U.S. economy has resulted in reduced expenditures in the business software market.

COMPANY OVERVIEW

American Software was incorporated in Georgia in 1970. The Company is headquartered in Atlanta, Georgia with U.S. offices in Boston, Chicago, Dallas, Miami and San Diego; and international offices in the United Kingdom, India, Germany, New Zealand and Australia.

We provide our software and services solutions through three major operating segments: (1) Supply Chain Management, (2) Information Technology Consulting and (3) Other. The SCM software business is our core market. We also offer technology staffing and consulting services through our wholly-owned subsidiary, The Proven Method, Inc., in the IT Consulting segment, and we continue to provide limited services to our legacy ERP clients included in the Other segment.

American Software delivers an innovative technical platform that enables enterprises to accelerate their digital supply chain optimization from product concept to client availability via the Logility Digital Supply Chain Platform, a single platform spanning seven supply chain process areas, including product, demand, inventory, supply, deploy, integrated business planning and supply chain data management, and new offerings, such as Corporate Responsibility - Environmental, Social, and Governance ("ESG") and Network Design Optimization aligned with Integrated Business Planning.

Fueled by supply chain master data, allowing for the automation of critical business processes through the application of artificial intelligence and machine learning algorithms to a variety of internal and external data streams, the comprehensive Logility portfolio delivered in the cloud includes advanced analytics, supply chain visibility, demand, inventory and replenishment planning, Sales and Operations Planning (S&OP), Integrated Business Planning (IBP), supply and inventory optimization, manufacturing planning and scheduling, network design and optimization (NDO), retail merchandise and assortment planning and allocation, product lifecycle management (PLM), sourcing management, vendor quality and compliance, and product traceability.

We believe enterprises are facing unprecedented rates of change and disruption across their operations. Increasing consumer expectations for convenience and personalization, fast and free delivery and product freshness are forcing enterprises to adapt or be left behind. Given constraints arising from a shortage of skilled supply chain talent and a desire to keep costs at a minimum, we expect enterprises to embrace digital transformation initiatives to meet these challenges. Our solution reduces the business cycle time required from product concept to client availability. Our platform allows our clients to create a digital model of their physical supply chain networks that improves the speed and agility of their operations by implementing automated planning processes. These processes regularly analyze business and market signals to better inform product design and development, increase forecast accuracy, optimize inventory across the supply chain, improve sourcing of sustainable and ethically produced products, and contribute to high client satisfaction.

Our platform is highly regarded by clients and industry analysts alike. We, often through our wholly-owned subsidiary Logility, Inc., are named a leader in multiple IDC MarketScape reports including: *the September 2022 report IDC MarketScape: Worldwide Supply Chain Inventory Optimization 2022 Vendor Assessment*, *September 2020 report IDC MarketScape: Worldwide PLM Applications for Apparel, Footwear, and Retail Brands 2020 Vendor Assessment*; *the January 2020 report IDC MarketScape: Worldwide Supply Chain Supply Planning 2019 Vendor Assessment*; and *the January 2020 report IDC MarketScape: Worldwide Supply Chain Demand Planning 2019 Vendor Assessment*.

We have been positioned in the Challenger quadrant in Gartner, Inc.'s ("Gartner") May 17, 2022 report, *Magic Quadrant for Supply Chain Planning Solutions*. We believe our platform is rated highly due to our flexible advanced analytics, underlying SaaS architecture, ease of integration with third-party systems, lower total cost of ownership relative to competitors and the broad scope of supply chain planning functions supported.

We serve approximately 860 clients located in approximately 80 countries, largely concentrated within key vertical markets including apparel and other soft goods, food and beverage, consumer packaged goods, consumer durable goods, wholesale distribution, specialty chemical and other process manufacturing. Our solutions are marketed and sold through a direct sales team as well as an indirect global value-added reseller ("VAR") distribution network. Our solutions may be deployed in the cloud or with existing on-premise clients who may require additional components. We further support our clients with an array of consulting, implementation, operational and training services as well as technical support and hosting.

We derive revenue from four sources: subscriptions, software licenses, maintenance and services. We generally determine SaaS subscription and software license fees based on the breadth of functionality and number of users and/or divisions. Services and other revenues consist primarily of fees from software implementation, training, consulting services, hosting and managed services. We bill for consulting services primarily under time and materials arrangements and recognize revenue as we perform services. Subscription and maintenance agreements typically are for a three- to five-year term. We generally bill these fees annually in advance and then recognize the resulting revenue ratably over the term of the agreement. Deferred revenues represent advance payments or fees for subscriptions, software licenses, services and maintenance billed in advance of the time we recognize the related revenue.

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

- Acquisition Opportunities. There are opportunities for selective acquisitions or investments to expand our sales distribution channels and/or broaden our product offering by providing additional solutions for our target markets.
- Dependence on Capital Spending Patterns. There is risk associated with our dependence on the capital spending patterns of U.S. and international businesses, which in turn are functions of economic trends and conditions over which we have no control.
- Acquisition Risks. There are risks associated with acquisitions of complementary companies, products and technologies, including the risks that we will not achieve the financial and strategic goals that we contemplate at the time of the transaction. More specifically, in any acquisition, we will face risks and challenges associated with the uncertain value of the acquired business or assets, the difficulty of assimilating operations and personnel, integrating acquired technologies and products and maintaining the loyalty of the clients of the acquired business.
- Competitive Technologies. There is a risk that our competitors may develop technologies that are substantially equivalent or superior to our technology.
- Competition in General. There are risks inherent in the market for business application software and related services, which has been and continues to be intensely competitive; for example, some of our competitors may become more aggressive with their prices and/or payment terms, which may adversely affect our profit margins.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report for fiscal 2022. Additional information and other factors that could affect future financial results may be included, from time to time, in our filings with the Securities and Exchange Commission (“SEC”).

Recent Accounting Pronouncements

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

COMPARISON OF RESULTS OF OPERATIONS

Three-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenue and the percentage changes in those items for the three months ended October 31, 2022 and 2021:

	Three Months Ended October 31,		
	Percentage of Total Revenue		Pct. Change in Dollars
	2022	2021	2022 vs. 2021
Revenue:			
Subscription fees	39 %	33 %	19 %
License	2 %	2 %	(15)%
Professional services and other	31 %	35 %	(11)%
Maintenance	28 %	30 %	(5)%
Total revenue	100 %	100 %	1 %
Cost of revenue:			
Subscription fees	13 %	11 %	19 %
License	— %	1 %	(53)%
Professional services and other	22 %	24 %	(8)%
Maintenance	5 %	6 %	(10)%
Total cost of revenue	40 %	42 %	(2)%
Gross margin	60 %	58 %	3 %
Research and development	14 %	14 %	2 %
Sales and marketing	18 %	19 %	(3)%
General and administrative	19 %	18 %	10 %
Total operating expenses	51 %	51 %	3 %
Operating income	9 %	7 %	3 %
Other income:			
Other, net	— %	3 %	nm
Earnings before income taxes	9 %	10 %	(28)%
Income tax expense	2 %	1 %	79 %
Net earnings	7 %	9 %	(37)%

nm - not meaningful

Six-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenue and the percentage changes in those items for the six months ended October 31, 2022 and 2021:

	Six Months Ended October 31,		
	Percentage of Total Revenue		Pct. Change in Dollars
	2022	2021	2022 vs. 2021
Revenue:			
Subscription fees	39 %	33 %	21 %
License	2 %	2 %	(22)%
Professional services and other	31 %	34 %	(3)%
Maintenance	28 %	31 %	(5)%
Total revenue	100 %	100 %	4 %
Cost of revenue:			
Subscription fees	12 %	11 %	16 %
License	— %	1 %	(49)%
Professional services and other	23 %	24 %	(2)%
Maintenance	5 %	6 %	(15)%
Total cost of revenue	40 %	42 %	— %
Gross margin	60 %	58 %	6 %
Research and development	14 %	14 %	1 %
Sales and marketing	19 %	20 %	(3)%
General and administrative	19 %	17 %	18 %
Total operating expenses	51 %	51 %	5 %
Operating income	9 %	7 %	19 %
Other income:			
Other, net	— %	2 %	nm
Earnings before income taxes	9 %	9 %	(9)%
Income tax expense (benefit)	2 %	(1)%	nm
Net earnings	7 %	10 %	(33)%

nm - not meaningful

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2022 AND 2021

REVENUE

	Three Months Ended October 31,				
				% of Total Revenue	
	2022	2021	% Change	2022	2021
	(in thousands)				
Subscription fees	\$ 12,326	\$ 10,361	19 %	39 %	33 %
License	\$ 688	805	(15)%	2 %	2 %
Professional services and other	9,594	10,779	(11)%	31 %	35 %
Maintenance	8,830	9,266	(5)%	28 %	30 %
Total revenue	\$ 31,438	\$ 31,211	1 %	100 %	100 %

	Six Months Ended October 31,				
			% Change	% of Total Revenue	
	2022	2021		2022	2021
	(in thousands)				
Subscription fees	\$ 24,388	\$ 20,149	21 %	39 %	33 %
License	\$ 1,008	1,297	(22)%	2 %	2 %
Professional services and other	19,603	20,308	(3)%	31 %	34 %
Maintenance	17,735	18,728	(5)%	28 %	31 %
Total revenue	\$ 62,734	\$ 60,482	4 %	100 %	100 %

For the three months ended October 31, 2022 revenue increased by 1%, which was attributable primarily to a 19% increase in subscription fees, partially offset by a 15% decrease in license revenue, a 11% decrease in professional services and other revenue, and a 5% decrease in maintenance revenue, when compared to the same period last year.

For the six months ended October 31, 2022 revenue increased by 4%, which was attributable primarily to a 21% increase in subscription fees, partially offset by a 22% decrease in license revenue, a 5% decrease in maintenance revenue and a 3% decrease in professional services and other revenue, when compared to the same period last year.

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

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

International revenue represented approximately 19% and 18% of total revenue in the three and six months ended October 31, 2022, respectively, compared to 16% for the same periods in the prior year. Our revenue, particularly our international revenue, may fluctuate substantially from period to period, primarily because we derive most of our license and subscription fee revenue from a relatively small number of clients in a given period.

Subscription Fees

	Three Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 12,326	\$ 10,361	19 %
Total subscription fees revenue	\$ 12,326	\$ 10,361	19 %

	Six Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 24,388	\$ 20,149	21 %
Total subscription fees revenue	\$ 24,388	\$ 20,149	21 %

For the three and six months ended October 31, 2022, subscription fees revenue increased 19% and 21%, respectively, compared to the same periods in the prior year, primarily due to an increase in the number of contracts, including contracts with a higher cloud services annual contract value, as well as an increase in multi-year contracts. This is evidenced by our successful transition to the cloud subscription model.

License Revenue

	Three Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 688	\$ 800	(14)%
Other	—	5	— %
Total license revenue	<u>\$ 688</u>	<u>\$ 805</u>	(15)%

	Six Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 992	\$ 1,276	(22)%
Other	16	21	(24)%
Total license revenue	<u>\$ 1,008</u>	<u>\$ 1,297</u>	(22)%

For the three and six months ended October 31, 2022, license fee revenue decreased 15% and 22%, respectively, when compared to the same periods in the prior year, which was primarily attributable to our SCM segment. The majority of our current license fee revenue is generated from additional users and expanded scope from our existing on-premise clients. For the three and six months ended October 31, 2022 and 2021, our SCM segment constituted approximately 100%, 98%, 99%, 98% of total license fee revenue, respectively. Our Other segment license fee revenue remained flat for the three months ended October 31, 2022 compared to the same period in the prior year. Our Other segment revenue decreased by 24% for the six months ended October 31, 2022 when compared to the same period in the prior year primarily due to timing of sales to our existing ERP clients.

The direct sales channel provided approximately 100% of license fee revenues for the three and six months ended October 31, 2022, compared to approximately 95% and 86% in the comparable periods last year due to larger customers obtained through our direct sales channel moving to the Cloud platform faster than those in the mid-sized market that are primarily served by our indirect sales channel. For the three and six months ended October 31, 2022, our margins after commissions on direct sales were approximately 91% and 91%, compared to 90% and 89% in the comparable periods last year. The increase in margins is due to the mix of sales commission rates based on each individual salesperson’s quotas and related achievement. For the three months ended October 31, 2022 and 2021, our margins after commissions on indirect sales were approximately 60% and 67%, respectively. For the six months ended October 31, 2022 and 2021, our margins after commissions on indirect sales were approximately 59% and 67%, respectively. The indirect channel margins increased for the three and six months ended October 31, 2022 compared to the same periods in the prior year due to the 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.

	Three Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 5,224	\$ 5,263	(1)%
IT Consulting	4,159	5,226	(20)%
Other	211	290	(27)%
Total professional services and other revenue	<u>\$ 9,594</u>	<u>\$ 10,779</u>	(11)%

	Six Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 10,444	\$ 10,099	3 %
IT Consulting	8,674	9,702	(11)%
Other	485	507	(4)%
Total professional services and other revenue	<u>\$ 19,603</u>	<u>\$ 20,308</u>	(3)%

For the three and six months ended October 31, 2022, professional services and other revenue decreased by 11% and 3%, respectively, primarily due to lower professional services and other revenue derived from our Other and IT Consulting segments. For the three and six months ended October 31, 2022, our Other segment’s revenue decreased 27% and 4%,

respectively, due to the timing of project work with existing clients. For the three and six months ended October 31, 2022, our SCM segment's revenue decreased 1% and increased 3%, respectively, primarily due to the timing of implementation project work in recent periods. For the three and six months ended October 31, 2022, our IT Consulting segment's revenue decreased 20% and 11%, respectively, when compared to the same periods in the prior year due to the demand of project work from existing clients during the applicable period. We have observed that there is a tendency for services and other revenue, other than from IT Consulting, to lag changes in license and subscription revenue by one to three quarters, as new licenses and subscriptions in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenue only as we perform those services.

Maintenance Revenue

	Three Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 8,514	\$ 8,956	(5)%
Other	316	310	2 %
Total maintenance revenue	<u>\$ 8,830</u>	<u>\$ 9,266</u>	<u>(5)%</u>

	Six Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Supply Chain Management	\$ 17,110	\$ 18,107	(6)%
Other	625	621	1 %
Total maintenance revenue	<u>\$ 17,735</u>	<u>\$ 18,728</u>	<u>(5)%</u>

For the three and six months ended October 31, 2022, maintenance revenue decreased 5% when compared to the same periods in the prior year primarily due to our SCM segment. Our SCM maintenance revenue decreased 5% and 6% for the three and six months ended October 31, 2022, respectively, when compared to the same periods last year due to a normal client attrition rate. The SCM segment accounted for 96% of total maintenance revenue for the three and six months ended October 31, 2022 and 97% for the same periods in the prior year. Typically, our maintenance revenue has had a direct relationship to current and historic license fee revenue, since licenses are the source of maintenance clients.

GROSS MARGIN

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

	Three Months Ended October 31,				Six Months Ended October 31,			
	2022	%	2021	%	2022	%	2021	%
Gross margin on subscription fees	\$ 8,267	67 %	\$ 6,957	67 %	\$ 16,711	69 %	\$ 13,521	67 %
Gross margin on license fees	594	86 %	607	75 %	825	82 %	940	72 %
Gross margin on professional services and other	2,747	29 %	3,302	31 %	5,452	28 %	5,821	29 %
Gross margin on maintenance	7,253	82 %	7,520	81 %	14,585	82 %	15,008	80 %
Total gross margin	<u>\$ 18,861</u>	<u>60 %</u>	<u>\$ 18,386</u>	<u>58 %</u>	<u>\$ 37,573</u>	<u>60 %</u>	<u>\$ 35,290</u>	<u>58 %</u>

For the three and six months ended October 31, 2022, our total gross margin percentage increased by 2% when compared to the same periods in the prior year primarily due to higher margins on subscription fees revenue, license fees and maintenance revenue, partially offset by lower margins on professional services and other revenue.

Gross Margin on Subscription Fees

For the three and six months ended October 31, 2022, our gross margin percentage on subscription fees revenue remained flat at 67% and increased from 67% to 69% when compared to the same periods in the prior year, primarily due to the increased subscription revenue and related cost efficiencies.

Gross Margin on License Fees

License fee gross margin percentage for the three and six months ended October 31, 2022 increased by 11% and 10%, respectively, when compared to the same periods in the prior year. License fee gross margin percentage tends to be directly related to the level of license fee revenue due to the relatively fixed cost of computer software amortization expense, amortization of acquired software and the sales mix between our direct and indirect channels.

Gross Margin on Professional Services and Other

Our gross margin percentage on professional services and other revenue decreased from 31% to 29% and from 29% to 28% for the three and six months ended October 31, 2022, respectively, primarily due to an decrease in revenues and utilization. Our gross margin percentage in our SCM segment services decreased from 40% to 36% and from 36% to 34%, respectively, for the three and six months ended October 31, 2022 and 2021. This is primarily the result of a decrease in professional services and other revenue, which is being driven by timing of projects and utilization. Our Other segment professional services gross margin remained flat at 43% for the three and six months ended October 31, 2022 and 2021, respectively, due to higher margin projects and cost containment year to date. Our IT Consulting segment professional services gross margin decreased to 19% for the three months ended October 31, 2022, when compared to 21% for the same period last year due to the timing of project work. For the six months ended October 31, 2022, our IT Consulting segment services gross margin remained flat at 20% compared to the same period in the prior year. Professional services and other gross margin is directly related to the level of services and other revenue. The primary component of cost of services and other revenue is services staffing, which is relatively inelastic in the short term.

Gross Margin on Maintenance

Maintenance gross margin percentage increased from 81% to 82% for the three months ended October 31, 2022 when compared to the same period in the prior year. Maintenance gross margin percentage increased from 80% to 82% for the six months ended October 31, 2022, when compared to the same period in the prior year. The increase is primarily due to a decrease in personnel costs and computer software expense, compared to the same period in the prior year. The primary cost component is maintenance staffing, which is relatively inelastic in the short term.

EXPENSES

	Three Months Ended October 31,				Six Months Ended October 31,			
			% of Revenue				% of Revenue	
	2022	2021	2022	2021	2022	2021	2022	2021
	(in thousands)				(in thousands)			
Research and development	\$ 4,364	\$ 4,278	14 %	14 %	\$ 8,818	\$ 8,702	14 %	14 %
Sales and marketing	\$ 5,697	\$ 5,892	18 %	19 %	\$ 11,609	\$ 12,012	19 %	20 %
General and administrative	\$ 6,001	\$ 5,476	19 %	18 %	\$ 11,766	\$ 10,010	19 %	17 %
Amortization of acquisition-related intangible assets	\$ 32	\$ 53	— %	— %	\$ 56	\$ 106	— %	— %
Other (expense) income, net	\$ (145)	\$ 930	— %	3 %	\$ (26)	\$ 1,367	— %	2 %
Income tax expense (benefit)	\$ 541	\$ 303	2 %	1 %	\$ 1,084	\$ (434)	2 %	(1)%

Research and Development

Research and development costs include personnel costs, third-party contractors, travel expense, rent, software expense and other non-capitalized software development costs. A breakdown of the research and development costs is as follows:

	Three Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Total research and development expense	\$ 4,364	\$ 4,278	2 %
Percentage of total revenue	14 %	14 %	
Total amortization of capitalized computer software development costs *	\$ 262	\$ 807	(68)%

	Six Months Ended October 31,		
	2022	2021	% Change
	(in thousands)		
Total research and development expense	\$ 8,818	\$ 8,702	1 %
Percentage of total revenue	14 %	14 %	
Total amortization of capitalized computer software development costs *	\$ 719	\$ 1,710	(58)%

*Included in cost of license fees and subscription fees.

For the three and six months ended October 31, 2022, total product research and development costs increased by 2% and 1%, respectively, when compared to the same periods in the previous year, primarily due to an increase in the use of third-party contractors. For the three and six months ended October 31, 2022, amortization of capitalized software development costs decreased 68% and 58%, when compared to the same periods in the previous year, as some projects were fully amortized.

Sales and Marketing

For the three and six months ended October 31, 2022, sales and marketing expenses decreased from 19% to 18% and from 20% to 19%, respectively, of revenue when compared to the same periods last year due to marketing cost containment.

General and Administrative

For the three and six months ended October 31, 2022, general and administrative expenses increased from 18% to 19% and from 17% to 19% as a percentage of revenue when compared to the same periods a year ago, primarily due to personnel costs, third-party contractors and insurance.

At October 31, 2022, the total number of employees was 406 compared to 426 at October 31, 2021.

Operating Income/(Loss)

	Three Months Ended October 31,			Six Months Ended October 31,		
	2022	2021	% Change	2022	2021	% Change
	(in thousands)			(in thousands)		
Supply Chain Management	\$ 7,646	\$ 6,718	14 %	\$ 14,825	\$ 12,073	23 %
IT Consulting	217	336	(35)%	432	499	(13)%
Other*	(5,096)	(4,367)	17 %	(9,933)	(8,112)	22 %
Total Operating Income	<u>\$ 2,767</u>	<u>\$ 2,687</u>	3 %	<u>\$ 5,324</u>	<u>\$ 4,460</u>	19 %

* Includes all corporate overhead and other common expenses.

Our SCM segment operating income increased by 14% and 23%, respectively, for the three and six months ended October 31, 2022, compared to the same periods in the prior year primarily due to improved gross margins.

Our IT Consulting segment operating income decreased by 35% and 13%, respectively, for the three and six months ended October 31, 2022, compared to same periods last year primarily due timing of project work and an increase in expenses related to sales and third-party contractors.

Our Other segment operating loss increased by 17% and 22%, respectively, for the three and six months ended October 31, 2022, when compared to the same periods in the prior year due primarily to an increase in variable compensation and stock option expenses.

Other Income

Other income is comprised of net interest and dividend income, rental income, exchange rate gains and losses, and realized and unrealized gains and losses from investments. For the three months ended October 31, 2022, the decrease in Other income is mainly due to unrealized losses on investments when compared to unrealized gains in the same period last year. This decrease was partially offset by an increase in interest income compared to the prior year. We recorded unrealized losses of approximately \$0.3 million and realized losses of approximately \$0.1 million for the three months ended October 31, 2022 from our trading securities portfolio.

For the six months ended October 31, 2022, the decrease in Other income is mainly due to unrealized losses on investments when compared to unrealized gains in the same period last year. This decrease was partially offset by an increase in interest income compared to the prior year. We recorded unrealized losses of approximately \$0.2 million and realized losses of approximately \$1.2 million for the three months ended October 31, 2022 from our trading securities portfolio.

For the six months ended October 31, 2022 and 2021, our investments generated an annualized yield of approximately 1.41% and 1.33%, 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 losses, credit carry-forwards and nonqualified stock options. Under the Income Tax Topic of the FASB ASC 740, *Income Taxes*, we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is “more likely than not” that the deferred tax asset would be realized.

During the three and six months ended October 31, 2022, we recorded income tax expense of \$541,000 and \$1.1 million, respectively, primarily due to discrete stock compensation benefits of \$34,000 and \$63,000, respectively, net of normal income tax expense from operations. During the three and six months ended October 31, 2021, we recorded income tax expense of \$303,000 and an income tax benefit of \$434,000, respectively, primarily due to discrete stock compensation benefits of \$439,000 and \$1.6 million, respectively, net of normal income tax expense from operations. Before adjusting for these discrete tax benefits, our effective tax rate would have been 21.6% and 22.5% in the three and six months ended October 31, 2022, respectively, compared to our effective tax rate of 19.8% in both the three and six months ended October 31, 2021. In addition, research and development credits reduced our effective tax rate by 4.0% in the six months ended October 31, 2022, compared to a reduction of 5.4% in the six months ended October 31, 2021.

Operating Pattern

We experience an irregular pattern of quarterly operating results, caused primarily by fluctuations in both the number and size of software license and subscription contracts received and delivered from quarter to quarter and our ability to recognize revenue 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

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

The following table shows information about our cash flows and liquidity positions during the six months ended October 31, 2022 and 2021. You should read this table and the discussion that follows in conjunction with our Condensed Consolidated Statements of Cash Flows contained in Item 1 in Part I of this Quarterly Report and in our Annual Report for fiscal 2022.

	Six Months Ended October 31,	
	2022	2021
Net cash (used in) provided by operating activities	\$ (11,261)	\$ 7,712
Net cash (used in) investing activities	(9,206)	(615)
Net cash (used in) financing activities	(6,261)	(1,554)
Net change in cash and cash equivalents	<u>\$ (26,728)</u>	<u>\$ 5,543</u>

For the six months ended October 31, 2022, the net decrease in cash used in operating activities when compared to the same period last year was due primarily to the following: (1) an increase in client accounts receivables when compared to a decrease in the same period last year due to the timing of closing client sales and related collections, (2) an increase in purchases of trading securities, (3) a relative decrease in deferred revenue when compared to a lower decrease in the same period last year due to timing of revenue recognition, (4) a decrease in net earnings, (3) an increase in deferred income taxes and (5) a decrease in depreciation and amortization.

This net decrease in cash used in operating activities was partially offset by: (1) a relative decrease in prepaid expenses when compared to a larger decrease in the same period last year due to the timing of purchases, (2) an increase in losses on investments when compared to a gain in the prior year, (3) an increase in stock-based compensation expense, (4) an increase in the proceeds from the maturity and sales of trading securities and (5) smaller decrease in accounts payable and other liabilities compared to the same period last year due to timing of payments.

The increase in cash used in investing activities when compared to the same period in the prior year was mainly due to the purchase of Starboard and an increase in purchases of property and equipment.

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

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

	As of October 31, (in thousands)	
	2022	2021
Cash and cash equivalents	\$ 83,962	\$ 94,201
Short-term investments	22,805	17,163
Total cash and short and long-term investments	<u>106,767</u>	<u>111,364</u>
Net increase/decrease in total cash and investments during six months ended October 31,	<u>\$ (20,749)</u>	<u>\$ 6,700</u>

Our total activities used more cash and investments during the months ended October 31, 2022, when compared to the prior year period, in the course of normal business operations.

Days Sales Outstanding in accounts receivable were 78 days as of October 31, 2022, compared to 65 days as of October 31, 2021. This increase is primarily due to the timing of billings and cash collections. Our current ratio was 2.9 to 1 on October 31, 2022 and 3.0 to 1 on October 31, 2021.

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 \$106.8 million in cash and investments with no debt as of October 31, 2022, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. We do not currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to an additional 2.0 million shares of our Class A common stock. We have made and will make these repurchases through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. Under this repurchase plan, through October 31, 2022, we have repurchased 1,053,679 shares of common stock at a cost of approximately \$6.2 million. As of October 31, 2022, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,588,632 shares of common stock at a cost of approximately \$25.6 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have based the following discussions and analysis of financial condition and results of operations on our consolidated financial statements, which we have prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Note 1 to the Consolidated Financial Statements in our Annual Report for fiscal 2022, describes the significant accounting policies that we have used in preparing our consolidated financial statements. On an ongoing basis, we evaluate our estimates, including, but not limited to, those related to revenue/collectability. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions.

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

Revenue Recognition. The most critical judgments required in applying ASC 606, Revenue Recognition from Customers, and our revenue recognition policy relate to the determination of distinct performance obligations and the evaluation of the standalone selling price (SSP) for each performance obligation.

Our client contracts with a software license, include multiple performance obligations. Judgment is required in determining whether each performance obligation within a client contract is distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as a single performance obligation may require significant judgment that requires us to assess the nature of the promise and the value delivered to the client. Our products and services generally function on a standalone basis and do not require a significant amount of integration or interdependency. Therefore, multiple products and services contained within a client contract are generally considered to be distinct and are not combined for revenue recognition purposes.

We allocate the transaction price for each contract to each performance obligation based on the relative SSP for each performance obligation within each contract. Judgment is required to determine the SSP for each distinct performance obligation. We evaluate the SSP for each element by considering prices we charge for similar offerings, size of the order and historical pricing practices. We typically establish an SSP range for our products and services, which is reassessed on a periodic basis or when facts and circumstances change. If our judgment is incorrect for a particular item within an arrangement, the timing of our revenue could be impacted between periods, such that we would recognize revenue in a different period than we would have if a different judgment had been used; however, the revenue for the full arrangement would have the same result.

For substantially all performance obligations except on-premise licenses, we are able to establish SSP as described above. Our on-premise licenses have not historically been sold on a standalone basis, as the vast majority of all clients elect to purchase on-premise license support contracts at the time of a on-premise license purchase. Support contracts are generally priced as a percentage of the net fees paid by the client to access the on-premise license. We are unable to establish the SSP for our on-premise licenses based on observable prices given the same products are sold for a broad range of amounts (that is, the selling price is highly variable) and a representative SSP is not discernible from past transactions or other observable evidence. As a result, the SSP for an on-premise license included in a contract with multiple performance obligations is determined by applying a residual approach whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective SSPs, with any residual amount of transaction price allocated to on-premise license revenue.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three and six months ended October 31, 2022, we generated approximately 19% and 18%, respectively, of our revenue outside the United States. We typically make international sales through our VARs and employees located in foreign countries and denominate those sales in U.S. and New Zealand dollars, British pounds sterling or euros. However, expenses incurred in connection with these sales are typically denominated in the local currencies. We recorded an exchange rate loss of approximately \$0.2 million for the three months ended October 31, 2022 compared to an exchange rate loss of approximately \$0.1 million for the same periods in the prior year. We recorded an exchange rate loss of approximately \$0.4 million for the six months ended October 31, 2022 compared to an exchange rate loss of approximately \$0.2 million for the same periods in the prior year. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$56,000 and \$50,000 rate gain or loss for the three and six months ended October 31, 2022, respectively. We have not engaged in any hedging activities.

Interest Rates and Other Market Risks. We have no debt, and therefore limit our discussion of interest rate risk to risk associated with our investment profile. We manage our interest rate risk by maintaining an investment portfolio of trading investments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies. These instruments are denominated in U.S. dollars. The fair market value of these instruments as of October 31, 2022 was approximately \$100.3 million compared to \$104.4 million as of October 31, 2021.

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

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

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

Item 4. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

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

Our principal executive officer and principal financial officer, with the assistance of our Disclosure Committee, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our Annual Report and Quarterly Reports. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors disclosed in Item 1A, “Risk Factors,” of our Annual Report for fiscal 2022. There have been no material changes to the risk factors as previously disclosed in such Annual Report.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

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

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

SIGNATURES

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

AMERICAN SOFTWARE, INC.

Date: December 2, 2022

By: /s/ H. Allan Dow

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

Date: December 2, 2022

By: /s/ Vincent C. Klinges

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

Date: December 2, 2022

By: /s/ Bryan L. Sell

Bryan L. Sell
Controller and Principal Accounting Officer

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

The undersigned, as the Principal 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 October 31, 2022 (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 2nd day of December, 2022

/s/ H. Allan Dow

H. Allan Dow

Chief Executive Officer and President (Principal
Executive Officer) and Director

The undersigned, as the Principal 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 October 31, 2022 (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 2nd day of December, 2022

/s/ Vincent C. Klinges

Vincent C. Klinges

Chief Financial Officer
(Principal 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.