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

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**FORM 10-Q**

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(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, 2023

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

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**AMERICAN SOFTWARE, INC.**

(Exact name of registrant as specified in its charter)

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**Georgia**

(State or other jurisdiction of  
incorporation or organization)

**58-1098795**

(IRS Employer  
Identification Number)

**470 East Paces Ferry  
Road, N.E.**

(Address of principal executive offices)

**Atlanta**

**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

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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 8, 2023</u> |
|---------------------------------------|--|
| Class A Common Stock, \$.10 par value | 32,344,863 Shares                      |
| Class B Common Stock, \$.10 par value | 1,821,587 Shares                       |

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES  
Form 10-Q

Quarter ended October 31, 2023

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**PART I—FINANCIAL INFORMATION**
**Item 1. Financial Statements**

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

|   | <u>October 31,<br/>2023</u> | <u>April 30,<br/>2023</u> |
|---|-----------------------------|---------------------------|
| <b>ASSETS</b>   |                             |                           |
| Current assets:   |                             |                           |
| Cash and cash equivalents   | \$ 62,971                   | \$ 90,059                 |
| Investments   | 20,917                      | 23,451                    |
| Trade accounts receivable, less allowance for doubtful accounts of \$254 at October 31, 2023 and \$418 at April 30, 2023:   |                             |                           |
| Billed  | 20,630                      | 23,476                    |
| Unbilled  | 929                         | 1,569                     |
| Prepaid expenses and other current assets   | 7,785                       | 7,831                     |
| Current assets of discontinued operations   | —                           | 3,603                     |
| Total current assets  | <u>113,232</u>              | <u>149,989</u>            |
| Investments—noncurrent  | —                           | 486                       |
| Property and equipment, net of accumulated depreciation of \$33,005 at October 31, 2023 and \$32,371 at April 30, 2023  | 6,228                       | 6,444                     |
| Capitalized software, net of accumulated amortization of \$43,445 at October 31, 2023 and \$43,202 at April 30, 2023  | 149                         | 391                       |
| Goodwill  | 46,417                      | 29,558                    |
| Other intangibles, net of accumulated amortization of \$15,092 at October 31, 2023 and \$14,062 at April 30, 2023   | 11,915                      | 2,143                     |
| Other assets  | 5,740                       | 6,609                     |
| Total assets  | <u>\$ 183,681</u>           | <u>\$ 195,620</u>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                             |                           |
| Current liabilities:  |                             |                           |
| Accounts payable  | \$ 1,080                    | \$ 2,131                  |
| Accrued compensation and related costs  | 2,845                       | 4,077                     |
| Dividends payable   | 3,758                       | 3,756                     |
| Other current liabilities   | 2,983                       | 3,638                     |
| Deferred revenue  | 38,310                      | 43,124                    |
| Current liabilities of discontinued operations  | —                           | 318                       |
| Total current liabilities   | <u>48,976</u>               | <u>57,044</u>             |
| Other long-term liabilities   | 255                         | 288                       |
| Total liabilities   | <u>49,231</u>               | <u>57,332</u>             |
| Shareholders' equity:   |                             |                           |
| Common stock:   |                             |                           |
| Class A, \$.10 par value. Authorized 50,000,000 shares: 36,929,495 (31,910,287, net) shares issued and outstanding at October 31, 2023 and 36,907,242 (32,318,610, net) shares issued and outstanding at April 30, 2023 | 3,693                       | 3,691                     |
| Class B, \$.10 par value. Authorized 10,000,000 shares: 1,821,587 shares issued and outstanding at October 31, 2023 and April 30, 2023; convertible into Class A Common Shares on a one-for-one basis                   | 182                         | 182                       |
| Additional paid-in capital  | 186,100                     | 182,722                   |
| Retained deficit  | (25,152)                    | (22,748)                  |
| Class A treasury stock, 5,019,208 shares at October 31, 2023 and 4,588,632 shares at April 30, 2023, at cost  | (30,373)                    | (25,559)                  |
| Total shareholders' equity  | <u>134,450</u>              | <u>138,288</u>            |
| Commitments and contingencies   |                             |                           |
| Total liabilities and shareholders' equity  | <u>\$ 183,681</u>           | <u>\$ 195,620</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)**

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|   | Three Months Ended October 31, |           | Six Months Ended October 31, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2023                           | 2022      | 2023                         | 2022      |
| <b>Revenues:</b>  |                                |           |                              |           |
| Subscription fees   | \$ 13,358                      | \$ 12,326 | \$ 27,121                    | \$ 24,388 |
| License   | 229                            | 688       | 518                          | 1,008     |
| Professional services and other                                     | 4,003                          | 5,435     | 7,689                        | 10,929    |
| Maintenance   | 8,100                          | 8,830     | 16,263                       | 17,735    |
| Total revenues  | 25,690                         | 27,279    | 51,591                       | 54,060    |
| <b>Cost of revenues:</b>  |                                |           |                              |           |
| Subscription fees   | 4,607                          | 4,059     | 8,824                        | 7,677     |
| License   | 93                             | 94        | 165                          | 183       |
| Professional services and other                                     | 2,856                          | 3,490     | 5,916                        | 7,184     |
| Maintenance   | 1,733                          | 1,577     | 3,428                        | 3,150     |
| Total cost of revenues  | 9,289                          | 9,220     | 18,333                       | 18,194    |
| Gross margin  | 16,401                         | 18,059    | 33,258                       | 35,866    |
| Research and development  | 4,269                          | 4,364     | 8,518                        | 8,818     |
| Sales and marketing   | 5,313                          | 5,229     | 11,044                       | 10,633    |
| General and administrative  | 5,461                          | 5,884     | 10,922                       | 11,467    |
| Amortization of acquisition-related intangibles                     | 129                            | 32        | 153                          | 56        |
| Total operating expenses  | 15,172                         | 15,509    | 30,637                       | 30,974    |
| Operating income  | 1,229                          | 2,550     | 2,621                        | 4,892     |
| <b>Other income (loss):</b>   |                                |           |                              |           |
| Interest income   | 1,073                          | 364       | 2,161                        | 573       |
| Other, net  | (1,650)                        | (509)     | (852)                        | (599)     |
| Earnings before income taxes  | 652                            | 2,405     | 3,930                        | 4,866     |
| Income tax expense  | 31                             | 489       | 695                          | 975       |
| Net earnings from continuing operations                             | \$ 621                         | \$ 1,916  | \$ 3,235                     | \$ 3,891  |
| <b>Discontinued operations (Note F)</b>                             |                                |           |                              |           |
| Earnings from operations of discontinued operations                 | 79                             | 241       | 255                          | 387       |
| Gain on disposal of discontinued operations                         | 2,124                          | —         | 2,124                        | —         |
| Income tax expense  | 461                            | 52        | 503                          | 109       |
| Earnings from discontinued operations, net of income taxes          | 1,742                          | 189       | 1,876                        | 278       |
| Net earnings  | \$ 2,363                       | \$ 2,105  | \$ 5,111                     | \$ 4,169  |
| <b>Earnings per common share from continuing operations (a):</b>    |                                |           |                              |           |
| Basic   | \$ 0.02                        | \$ 0.06   | \$ 0.10                      | \$ 0.11   |
| Diluted   | \$ 0.02                        | \$ 0.06   | \$ 0.10                      | \$ 0.11   |
| <b>Earnings per common share from discontinued operations (a):</b>  |                                |           |                              |           |
| Basic   | \$ 0.05                        | \$ —      | \$ 0.05                      | \$ 0.01   |
| Diluted   | \$ 0.05                        | \$ —      | \$ 0.05                      | \$ 0.01   |
| <b>Earnings per common share: (a)</b>                               |                                |           |                              |           |
| Basic   | \$ 0.07                        | \$ 0.06   | \$ 0.15                      | \$ 0.12   |
| Diluted   | \$ 0.07                        | \$ 0.06   | \$ 0.15                      | \$ 0.12   |
| Cash dividends declared per common share                            | \$ 0.11                        | \$ 0.11   | \$ 0.22                      | \$ 0.22   |
| <b>Shares used in the calculation of earnings per common share:</b> |                                |           |                              |           |
| Basic   | 34,071                         | 33,720    | 34,113                       | 33,688    |
| Diluted   | 34,094                         | 34,072    | 34,127                       | 34,040    |

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- (a) Basic per share amounts are the same for Class A and Class B shares. Diluted per share amounts for Class A shares are shown above. Diluted earnings per share for Class B shares under the two-class method are \$0.07 and \$0.06 for the three months ended October 31, 2023 and 2022, and \$0.15 and \$0.12 for the six months ended October 31, 2023 and 2022. 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)

| <b>For the Three Months<br/>Ended October 31, 2022</b> | Common stock |         |           |        | Additional<br>paid-in<br>capital | Retained<br>deficit | Treasury<br>stock | Total<br>shareholders'<br>equity |
|--|--------------|---------|-----------|--------|----------------------------------|---------------------|-------------------|----------------------------------|
|  | Class A      |         | Class B   |        |                                  |                     |                   |                                  |
|  | Shares       | Amount  | Shares    | Amount |                                  |                     |                   |                                  |
| Balance at July 31, 2022                               | 36,448,695   | \$3,645 | 1,821,587 | \$ 182 | \$ 173,721                       | \$(19,812)          | \$ (25,559)       | \$ 132,177                       |
| Proceeds from stock options exercised                  | 54,800       | 5       | —         | —      | 669                              | —                   | —                 | 674                              |
| Stock-based compensation                               | —            | —       | —         | —      | 1,343                            | —                   | —                 | 1,343                            |
| Net earnings   | —            | —       | —         | —      | —                                | 2,105               | —                 | 2,105                            |
| Dividends declared*                                    | —            | —       | —         | —      | —                                | (3,711)             | —                 | (3,711)                          |
| Balance at October 31, 2022                            | 36,503,495   | \$3,650 | 1,821,587 | \$ 182 | \$ 175,733                       | \$(21,418)          | \$ (25,559)       | \$ 132,588                       |
| <b>For the Three Months<br/>Ended October 31, 2023</b> | Common stock |         |           |        | Additional<br>paid-in<br>capital | Retained<br>deficit | Treasury<br>stock | Total<br>shareholders'<br>equity |
| Class A  |              | Class B |           |        |                                  |                     |                   |                                  |
| Shares   | Amount       | Shares  | Amount    |        |                                  |                     |                   |                                  |
| Balance at July 31, 2023                               | 36,929,495   | \$3,693 | 1,821,587 | \$ 182 | \$ 184,520                       | \$(23,757)          | \$ (25,559)       | \$ 139,079                       |
| Stock-based compensation                               | —            | —       | —         | —      | 1,580                            | —                   | —                 | 1,580                            |
| Purchases of common stock                              | —            | —       | —         | —      | —                                | —                   | (4,814)           | (4,814)                          |
| Net earnings   | —            | —       | —         | —      | —                                | 2,363               | —                 | 2,363                            |
| Dividends declared                                     | —            | —       | —         | —      | —                                | (3,758)             | —                 | (3,758)                          |
| Balance at October 31, 2023                            | 36,929,495   | \$3,693 | 1,821,587 | \$ 182 | \$ 186,100                       | \$(25,152)          | \$ (30,373)       | \$ 134,450                       |
| <b>For the Six Months Ended<br/>October 31, 2022</b>   | Common stock |         |           |        | Additional<br>paid-in<br>capital | Retained<br>deficit | Treasury<br>stock | Total<br>shareholders'<br>equity |
| Class A  |              | Class B |           |        |                                  |                     |                   |                                  |
| Shares   | Amount       | Shares  | Amount    |        |                                  |                     |                   |                                  |
| Balance at April 30, 2022                              | 36,405,695   | \$3,641 | 1,821,587 | \$ 182 | \$ 171,948                       | \$(18,171)          | \$ (25,559)       | \$ 132,041                       |
| Proceeds from stock options exercised*                 | 97,800       | 9       | —         | —      | 1,136                            | —                   | —                 | 1,145                            |
| Stock-based compensation                               | —            | —       | —         | —      | 2,649                            | —                   | —                 | 2,649                            |
| Net earnings   | —            | —       | —         | —      | —                                | 4,169               | —                 | 4,169                            |
| Dividends declared*                                    | —            | —       | —         | —      | —                                | (7,416)             | —                 | (7,416)                          |
| Balance at October 31, 2022                            | 36,503,495   | \$3,650 | 1,821,587 | \$ 182 | \$ 175,733                       | \$(21,418)          | \$ (25,559)       | \$ 132,588                       |
| <b>For the Six Months Ended<br/>October 31, 2023</b>   | Common stock |         |           |        | Additional<br>paid-in<br>capital | Retained<br>deficit | Treasury<br>stock | Total<br>shareholders'<br>equity |
| Class A  |              | Class B |           |        |                                  |                     |                   |                                  |
| Shares   | Amount       | Shares  | Amount    |        |                                  |                     |                   |                                  |
| Balance at April 30, 2023                              | 36,907,242   | \$3,691 | 1,821,587 | \$ 182 | \$ 182,722                       | \$(22,748)          | \$ (25,559)       | \$ 138,288                       |
| Proceeds from stock options exercised*                 | 22,253       | 2       | —         | —      | 244                              | —                   | —                 | 246                              |
| Stock-based compensation                               | —            | —       | —         | —      | 3,134                            | —                   | —                 | 3,134                            |
| Purchases of common stock                              | —            | —       | —         | —      | —                                | —                   | (4,814)           | (4,814)                          |
| Net earnings   | —            | —       | —         | —      | —                                | 5,111               | —                 | 5,111                            |
| Dividends declared*                                    | —            | —       | —         | —      | —                                | (7,515)             | —                 | (7,515)                          |
| Balance at October 31, 2023                            | 36,929,495   | \$3,693 | 1,821,587 | \$ 182 | \$ 186,100                       | \$(25,152)          | \$ (30,373)       | \$ 134,450                       |

\*Amounts adjusted for rounding

See accompanying notes to condensed consolidated financial statements



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

|   | Six Months Ended October 31, |                  |
|---|------------------------------|------------------|
|   | 2023                         | 2022             |
| Cash flows from operating activities:   |                              |                  |
| Net earnings  | \$ 5,111                     | \$ 4,169         |
| Earnings from discontinued operations, net of tax                                   | (1,876)                      | (278)            |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                              |                  |
| Depreciation and amortization   | 2,007                        | 1,601            |
| Stock-based compensation expense  | 3,134                        | 2,633            |
| Net loss on investments   | 727                          | 331              |
| Deferred income taxes   | 1,023                        | (1,999)          |
| Gain on sale of discontinued operations   | (2,124)                      | —                |
| Changes in operating assets and liabilities:  |                              |                  |
| Purchases of trading securities   | (3,958)                      | (7,094)          |
| Proceeds from maturities and sales of trading securities                            | 6,251                        | 784              |
| Accounts receivable, net  | 6,845                        | (3,757)          |
| Prepaid expenses and other assets   | (2,004)                      | 112              |
| Accounts payable and other liabilities  | (3,822)                      | (2,379)          |
| Deferred revenue  | (4,878)                      | (5,945)          |
| Net cash provided by (used in) operating activities of continuing operations        | 6,436                        | (11,822)         |
| Net cash provided by operating activities of discontinued operations                | 1,618                        | 561              |
| Net cash provided by (used in) operating activities                                 | 8,054                        | (11,261)         |
| Cash flows from investing activities:   |                              |                  |
| Purchases of property and equipment, net of disposals                               | (490)                        | (2,706)          |
| Purchase of business, net of cash acquired  | (25,032)                     | (6,500)          |
| Net cash used in investing activities of continuing operations                      | (25,522)                     | (9,206)          |
| Net cash provided by investing activities of discontinued operations                | 1,825                        | —                |
| Net cash used in investing activities   | (23,697)                     | (9,206)          |
| Cash flows from financing activities:   |                              |                  |
| Proceeds from exercise of stock options   | 246                          | 1,145            |
| Purchases of common stock   | (4,814)                      | —                |
| Dividends paid  | (7,514)                      | (7,406)          |
| Net cash used in financing activities of continuing operations                      | (12,082)                     | (6,261)          |
| Net change in cash and cash equivalents   | (27,725)                     | (26,728)         |
| Cash and cash equivalents at beginning of period                                    | 90,696                       | 110,690          |
| Cash and cash equivalents at end of period  | <u>\$ 62,971</u>             | <u>\$ 83,962</u> |
| Supplemental disclosure of cash flow information:                                   |                              |                  |
| Cash paid during the period for:  |                              |                  |
| Income taxes, net of refunds  | 2,498                        | 2,997            |
| Supplemental disclosures of noncash operating, investing and financing activities:  |                              |                  |
| Accrual of dividends payable  | 3,758                        | 3,711            |

See accompanying notes to condensed consolidated financial statements—unaudited.

**AMERICAN SOFTWARE, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—Unaudited**  
October 31, 2023

**A. Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements ("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, 2023, results of operations for the three and six months ended October 31, 2023 and 2022, consolidated statements of shareholders' equity for the three and six months ended October 31, 2023 and 2022, and cash flows for the six months ended October 31, 2023 and 2022. The Company's results for the three months ended October 31, 2023 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, 2023. The terms "fiscal 2024" and "fiscal 2023" refer to our fiscal years ending April 30, 2024 and 2023, 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 2023 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 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.

In September 2023, we disposed of our 100% equity interest in our information technology consulting firm, The Proven Method ("TPM") for approximately \$2.1 million in cash. For further information regarding the transaction, see Note F to the accompanying consolidated financial statements.

**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. The Company adopted this update prospectively on May 1, 2023 and it did not have a material impact to our condensed consolidated financial statements.

**B. Revenue Recognition**

In accordance with ASU 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, 2023 and 2022.

***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 six months ended October 31, 2023, we recognized \$30.3 million of revenue that was included in the deferred revenue balance as of April 30, 2023.

|                  | October 31,<br>2023 | April 30,<br>2023 |
|------------------|---------------------|-------------------|
|                  | (in thousands)      |                   |
| Deferred revenue | \$ 38,310           | \$ 43,124         |

**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, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$113.0 million. The Company expects to recognize revenue on approximately 53% 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<br>October 31, |                  | Six Months Ended<br>October 31, |                  |
|---------------|-----------------------------------|------------------|---------------------------------|------------------|
|               | 2023                              | 2022             | 2023                            | 2022             |
|               | (in thousands)                    |                  | (in thousands)                  |                  |
| Revenues:     |                                   |                  |                                 |                  |
| Domestic      | \$ 20,058                         | \$ 21,411        | \$ 40,606                       | \$ 42,555        |
| International | 5,632                             | 5,868            | 10,985                          | 11,505           |
|               | <u>\$ 25,690</u>                  | <u>\$ 27,279</u> | <u>\$ 51,591</u>                | <u>\$ 54,060</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 other assets, respectively, in the Company's Condensed Consolidated Balance Sheets. Total deferred commissions at October 31, 2023 and April 30, 2023 were \$2.9 million and \$3.0 million, respectively. Amortization of sales commissions was \$0.4 million and \$0.8 million for the three and six months ended October 31, 2023 and \$0.4 million and \$0.8 million for the three and six months ended October 31, 2022, 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 23, 2023, 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 was payable on December 1, 2023 to Class A and Class B shareholders of record at the close of business on November 11, 2023.

### **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. 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 is adjusted to give effect to dilutive elements including stock options and restricted stock units ("RSUs") issuable under the Company's stock incentive plans, to the extent these are dilutive. 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 and RSUs 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, 2023 |                       | Six Months Ended October 31, 2023 |                       |
|--|-------------------------------------|-----------------------|-----------------------------------|-----------------------|
|  | 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                             | (0.04)                              | (0.04)                | (0.07)                            | (0.07)                |
| Total from continuing operations                 | \$ 0.02                             | \$ 0.07               | \$ 0.10                           | \$ 0.15               |
| Total from discontinued operations               | \$ 0.05                             | \$ —                  | \$ 0.05                           | \$ —                  |
| Total  | \$ 0.07                             | \$ 0.07               | \$ 0.15                           | \$ 0.15               |
| Distributed earnings                             | \$ 3,556                            | \$ 201                | \$ 7,114                          | \$ 401                |
| Undistributed losses                             | (1,319)                             | (75)                  | (2,276)                           | (128)                 |
| Total from continuing operations                 | \$ 495                              | \$ 126                | \$ 2,962                          | \$ 273                |
| Total from discontinued operations               | \$ 1,742                            | \$ —                  | \$ 1,876                          | \$ —                  |
| Total  | \$ 2,237                            | \$ 126                | \$ 4,838                          | \$ 273                |
| Basic weighted average common shares outstanding | 32,249                              | 1,822                 | 32,291                            | 1,822                 |

|  | 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 from continuing operations                 | \$ 0.06                             | \$ 0.06               | \$ 0.11                           | \$ 0.12               |
| Total from discontinued operations               | \$ —                                | \$ —                  | \$ 0.01                           | \$ —                  |
| Total  | \$ 0.06                             | \$ 0.06               | \$ 0.12                           | \$ 0.12               |
| Distributed earnings                             | \$ 3,511                            | \$ 200                | \$ 7,017                          | \$ 400                |
| Undistributed losses                             | (1,519)                             | (87)                  | (3,072)                           | (176)                 |
| Total from continuing operations                 | \$ 1,803                            | \$ 113                | \$ 3,667                          | \$ 224                |
| Total from discontinued operations               | \$ 189                              | \$ —                  | \$ 278                            | \$ —                  |
| Total  | \$ 1,992                            | \$ 113                | \$ 3,945                          | \$ 224                |
| Basic weighted average common shares outstanding | 31,898                              | 1,822                 | 31,866                            | 1,822                 |

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

**Three Months Ended October 31, 2023**

|                                       | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*    |
|---------------------------------------|--|-----------------------------|---------|
| Per Basic                             | \$ 2,237   | 32,249                      | \$ 0.07 |
| Common Stock Equivalents              | —  | 23                          | —       |
|                                       | 2,237  | 32,272                      | 0.07    |
| Class B Common Share Conversion*      | 126  | 1,822                       | —       |
| Diluted EPS for Class A Common Shares | \$ 2,363   | 34,094                      | \$ 0.07 |

**Six Months Ended October 31, 2023**

|                                       | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*    |
|---------------------------------------|--|-----------------------------|---------|
| Per Basic                             | \$ 4,838   | 32,291                      | \$ 0.15 |
| Common Stock Equivalents              | —  | 14                          | —       |
|                                       | 4,838  | 32,305                      | 0.15    |
| Class B Common Share Conversion*      | 273  | 1,822                       | —       |
| Diluted EPS for Class A Common Shares | \$ 5,111   | 34,127                      | \$ 0.15 |

**Three Months Ended October 31, 2022**

|                                       | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*    |
|---------------------------------------|--|-----------------------------|---------|
| Per Basic                             | \$ 1,992   | 31,898                      | \$ 0.06 |
| Common Stock Equivalents              | —  | 352                         | —       |
|                                       | 1,992  | 32,250                      | 0.06    |
| Class B Common Share Conversion       | 113  | 1,822                       | —       |
| Diluted EPS for Class A Common Shares | \$ 2,105   | 34,072                      | \$ 0.06 |

**Six Months Ended October 31, 2022**

|                                       | Undistributed<br>& Distributed<br>Earnings<br>to Class A<br>Common<br>Shares | Class A<br>Common<br>Shares | EPS*           |
|---------------------------------------|--|-----------------------------|----------------|
| Per Basic                             | \$ 3,945   | 31,866                      | \$ 0.12        |
| Common Stock Equivalents              | —  | 352                         | —              |
|                                       | 3,945  | 32,218                      | 0.12           |
| Class B Common Share Conversion*      | 224  | 1,822                       | —              |
| Diluted EPS for Class A Common Shares | <u>\$ 4,169</u>  | <u>34,040</u>               | <u>\$ 0.12</u> |

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

**Three Months Ended October 31, 2023**

|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 126   | 1,822                       | \$ 0.07        |
| Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares | 1  | —                           | —              |
| Diluted EPS for Class B Common Shares   | <u>\$ 127</u>  | <u>1,822</u>                | <u>\$ 0.07</u> |

**Six Months Ended October 31, 2023**

|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 273   | \$ 1,822                    | \$ 0.15        |
| Reallocation of undistributed earnings/losses from Class A Common Shares to Class B Common Shares | —  | —                           | —              |
| Diluted EPS for Class B Common Shares   | <u>\$ 273</u>  | <u>1,822</u>                | <u>\$ 0.15</u> |

**Three Months Ended October 31, 2022**



|   | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|---|--|-----------------------------|----------------|
| Per Basic   | \$ 113   | \$ 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>\$ 114</u>  | <u>\$ 1,822</u>             | <u>\$ 0.06</u> |

**Six Months Ended October 31, 2022**

|  | Undistributed<br>& Distributed<br>Earnings<br>to Class B<br>Common<br>Shares | Class B<br>Common<br>Shares | EPS*           |
|--|--|-----------------------------|----------------|
| Per Basic  | \$ 224   | \$ 1,822                    | \$ 0.12        |
| Reallocation of undistributed earnings from Class A Common Shares to Class B Common Shares | 2  | —                           | —              |
| Diluted EPS for Class B Common Shares  | <u>\$ 226</u>  | <u>\$ 1,822</u>             | <u>\$ 0.12</u> |

\*Amounts adjusted for rounding

For the three and six months ended October 31, 2023 we excluded options to purchase 6,282,441 and 6,041,068 Class A Common Shares, respectively, and 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. 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, 2023, we had a total of 6,569,004 options outstanding and as of October 31, 2022, we had a total of 5,728,204 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 September 5, 2023, the Company entered into a Stock Purchase Agreement (“Garvis Purchase Agreement”) with privately-held Garvis AI Limited, a private limited company organized and registered under the laws of England and Wales (“Garvis”). Pursuant to the Garvis Purchase Agreement, the Company acquired 100% of the total issued and outstanding shares of capital stock of Garvis, a visionary SaaS startup that combines large language models (ChatGPT) with AI-native demand forecasting.

Garvis designed from the ground up an AI-first forecasting solution now called DemandAI+. Fusing Generative AI with machine learning algorithms, DemandAI+ creates a modern, more inclusive, and intuitive planning paradigm that quickly digitizes supply chain relationships and exposes that data to any stakeholder across the organization. By simply asking questions planners, executives, and non-planners alike get answers to unanticipated queries in real-time, providing transparency for more informed decisions that saves precious planning time. Demand AI+, built for the cloud, will be embedded into the Logility Digital Supply Chain Platform. The combined solutions will enable a new supply chain planning paradigm with DemandAI+ that moves beyond conventional methods to plan demand and inventory at the speed of the market.

Under the terms of the Garvis Purchase Agreement, the Company acquired the capital stock for cash consideration paid net of cash acquired of approximately \$25.0 million, subject to certain post-closing adjustments. The Company incurred acquisition costs of approximately \$337,000 during the three and six months ended October 31, 2023. The operating results of Garvis are not material for proforma disclosure. The Company preliminarily allocated \$16.9 million of the total purchase price to goodwill, which has been assigned to the Supply Chain Management segment and is not deductible for income tax purposes.

The following preliminary allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of September 5, 2023 (in thousands):

|                                  |                   | <u>Useful Life</u> |
|----------------------------------|-------------------|--------------------|
| Cash                             | 76                |                    |
| Accounts receivable, net         | 457               |                    |
| <b>Current assets</b>            | <b>205</b>        |                    |
| Property and equipment, net      | 30                |                    |
| Goodwill                         | 16,859            |                    |
| Non-compete                      | 2,000             | 3 years            |
| Current technology               | 8,800             | 3 years            |
| <b>Total assets acquired</b>     | <b>28,427</b>     |                    |
| Current liabilities              | (611)             |                    |
| Long-term liabilities            | (2,708)           |                    |
| <b>Total liabilities assumed</b> | <b>\$ (3,319)</b> |                    |
| <b>Net assets acquired</b>       | <b>\$ 25,108</b>  |                    |

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

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 “Starboard 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 assess better locations for future plants, warehouses or third-party logistic locations. The intuitive design and ease of configuration makes the Starboard network design solution stand out. The Starboard software is built for recurring 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 Starboard 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 in the period(s) payments are accruable. The cumulative earnout paid as of October 31, 2023 was \$0. The Company incurred acquisition costs of approximately \$0, \$0, \$81,500 and \$136,000 during the three and six months ended October 31, 2023 and 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 following allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of June 28, 2022 (in thousands):

|                              |                 | <u>Useful Life</u> |
|------------------------------|-----------------|--------------------|
| Other assets                 | 90              |                    |
| Goodwill                     | 3,670           |                    |
| Non-compete agreements       | 170             | 5 years            |
| Current technology           | 2,500           | 3 years            |
| Customer relationships       | 160             | 6 years            |
| <b>Total assets acquired</b> | <u>6,590</u>    |                    |
| Long-term liabilities        | <u>(90)</u>     |                    |
| <b>Net assets acquired</b>   | <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. Discontinued Operations**

On September 18, 2023, the Company disposed of its 100% equity interest in its information technology consulting firm, TPM to Marathon TS, Inc., an IT professional services firm for approximately \$2.1 million in cash, of which \$300,000 is held in escrow. The amounts held in escrow are limited to claims arising out of or relating to any pre-closing taxes. Any escrow amounts that are not subject to then outstanding indemnification claims shall be released to the Company in equal \$100,000 increments on the 12, 24 and 36 month anniversary of the transaction closing date and are included in prepaid expenses and other current assets and other assets in the Condensed Consolidated Balance Sheet as of October 31, 2023. There have not been any submitted, or expected, indemnification claims against these escrowed funds. This transaction enables us to focus on our core supply chain planning business allowing Logility to continue to expand its AI-first supply chain management platform.

In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of TPM are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results in the accompanying Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows. TPM was previously reported in the former IT Consulting segment. During the second quarter of fiscal 2024, the Company identified an error, originating in 2017, resulting in an understatement of professional services and other cost of revenue and other current liabilities. The error was determined to be immaterial to all impacted periods and has been corrected in the previously issued condensed consolidated financial statements presented herein. Subsequent to presenting the results of TPM as discontinued operations, the amounts related to the error resulted in an adjustment to increase earnings from operations of discontinued operations by \$24,000 in the three months ended October 31, 2022 and decrease earnings from operations of discontinued operations by \$45,000 in the six months ended October 31, 2022. The error resulted in an increase to retained deficit and an increase to other current liabilities of approximately \$1.0 million in prior periods presented.

The following is selected financial information included in Earnings from discontinued operations for TPM:

|   | Three Months Ended<br>October 31, |          | Six Months Ended<br>October 31, |          |
|---|-----------------------------------|----------|---------------------------------|----------|
|   | 2023                              | 2022     | 2023                            | 2022     |
| Revenue   | \$ 1,666                          | \$ 4,159 | \$ 4,932                        | \$ 8,674 |
| Cost of revenue                                     | \$ 1,411                          | \$ 3,333 | \$ 3,959                        | \$ 7,012 |
| Total operating expenses                            | \$ 176                            | \$ 585   | \$ 718                          | \$ 1,275 |
| Gain on disposal of discontinued operations         | \$ 2,124                          | \$ —     | \$ 2,124                        | \$ —     |
| Earnings before income taxes                        | \$ 2,203                          | \$ 241   | \$ 2,379                        | \$ 387   |
| Income tax expense                                  | \$ 461                            | \$ 52    | \$ 503                          | \$ 109   |
| Earnings from discontinued operations, net of taxes | \$ 1,742                          | \$ 189   | \$ 1,876                        | \$ 278   |

The following is selected financial information included in current assets and current liabilities from discontinued operations for TPM:

|   | October 31,<br>2023 | April 30,<br>2023 |
|---|---------------------|-------------------|
| Cash and cash equivalents                                       | \$ —                | \$ 637            |
| Trade accounts receivable, less allowance for doubtful accounts | \$ —                | \$ 2,964          |
| Prepaid expenses and other current assets                       | \$ —                | \$ 2              |
| Current assets of discontinued operations                       | \$ —                | \$ 3,603          |
| Current liabilities of discontinued operations                  | \$ —                | \$ 318            |

### G. Stock-Based Compensation

In the first quarter of fiscal 2024, the Compensation Committee of our Board of Directors awarded RSUs to independent directors not employed by the Company that will vest, and shares of Class A common stock will be issued, on the first anniversary of the date of the grant. The RSU awards replace option grants for Class A common stock previously awarded to independent directors. In addition, stock option grants for employees and contractors for Class A common shares were issued, as follows:

|                             | Six Months Ended October 31, |                  |
|-----------------------------|------------------------------|------------------|
|                             | 2023                         | 2022             |
| <b>Awards granted:</b>      |                              |                  |
| Options                     | 1,460,000                    | 1,424,000        |
| RSUs                        | 95,411                       | —                |
| <b>Total awards granted</b> | <b>1,555,411</b>             | <b>1,424,000</b> |

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model and the fair value of each RSU award is estimated on the date of grant using the fair value method. The forfeiture rates are estimated using historical data. We recorded total compensation cost related to stock options and RSUs of approximately \$1.6 million and \$1.3 million of which, \$0 and \$8,000 was included in discontinued operations, and income tax benefits of approximately \$0 and \$29,000 from option exercises during the three months ended October 31, 2023 and 2022, respectively. We recorded total compensation cost related to stock options and RSUs of approximately \$3.1 million and \$2.6 million, of which \$0 and \$16,000 was included in discontinued operations, and income tax benefits of approximately \$0 and \$63,000 from option exercises during the six months ended October 31, 2023 and 2022, 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, 2023 and 2022, we issued 22,253 and 97,800 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, 2023 and 2022 based on market value at the exercise dates was approximately \$40,000 and \$0.5 million, respectively. As of October 31, 2023, unrecognized compensation cost related to unvested stock option and RSU awards approximated \$16.4 million, respectively, which we expect to recognize over a weighted average period of 1.81 years.

## H. 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, 2023 and April 30, 2023, and indicate the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

|                         | October 31, 2023   |   |  |                  |
|-------------------------|--|---|--|------------------|
|                         | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance          |
| Cash equivalents        | \$ 58,544  | \$ —  | \$ —   | \$ 58,544        |
| U.S Treasury securities | 5,096  | —   | —  | 5,096            |
| Marketable securities   | 15,821   | —   | —  | 15,821           |
| Total                   | <u>\$ 79,461</u>   | <u>\$ —</u>   | <u>\$ —</u>  | <u>\$ 79,461</u> |

|                         | April 30, 2023   |   |  |                   |
|-------------------------|--|---|--|-------------------|
|                         | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance           |
| Cash equivalents        | \$ 81,352  | \$ —  | \$ —   | \$ 81,352         |
| U.S Treasury securities | 7,305  | —   | —  | 7,305             |
| Marketable securities   | 16,632   | —   | —  | 16,632            |
| Total                   | <u>\$ 105,289</u>  | <u>\$ —</u>   | <u>\$ —</u>  | <u>\$ 105,289</u> |

## I. 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 1,484,255 shares of Class A common stock at a cost of approximately \$11.0 million, which had a \$4.8 million impact on fiscal 2024. As of October 31, 2023, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 5,019,208 shares of common stock at a cost of approximately \$30.4 million.

**J. 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.



## K. 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 two segments, assess performance and allocate resources in a manner that is consistent with the changing market dynamics that we have experienced. The two operating segments are: (1) Supply Chain Management (“SCM”) and (2) 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 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, 2023 and 2022 (in thousands):

|  | Three Months Ended October 31, |                  | Six Months Ended October 31, |                  |
|--|--------------------------------|------------------|------------------------------|------------------|
|  | 2023                           | 2022             | 2023                         | 2022             |
| <b>Revenue:</b>                              |                                |                  |                              |                  |
| Supply Chain Management                      | \$ 25,188                      | \$ 26,752        | \$ 50,549                    | \$ 52,934        |
| Other  | 502                            | 527              | 1,042                        | 1,126            |
|  | <u>\$ 25,690</u>               | <u>\$ 27,279</u> | <u>\$ 51,591</u>             | <u>\$ 54,060</u> |
| <b>Operating income\ (loss):</b>             |                                |                  |                              |                  |
| Supply Chain Management                      | \$ 5,835                       | \$ 7,646         | \$ 12,277                    | \$ 14,825        |
| Other  | (4,606)                        | (5,096)          | (9,656)                      | (9,933)          |
|  | <u>\$ 1,229</u>                | <u>\$ 2,550</u>  | <u>\$ 2,621</u>              | <u>\$ 4,892</u>  |
| <b>Capital expenditures:</b>                 |                                |                  |                              |                  |
| Supply Chain Management                      | \$ 37                          | \$ 151           | \$ 387                       | \$ 1,590         |
| Other  | 19                             | 983              | 134                          | 1,116            |
|  | <u>\$ 56</u>                   | <u>\$ 1,134</u>  | <u>\$ 521</u>                | <u>\$ 2,706</u>  |
| <b>Depreciation and amortization:</b>        |                                |                  |                              |                  |
| Supply Chain Management                      | \$ 1,102                       | \$ 714           | \$ 1,653                     | \$ 1,367         |
| Other  | 175                            | 119              | 354                          | 234              |
|  | <u>\$ 1,277</u>                | <u>\$ 833</u>    | <u>\$ 2,007</u>              | <u>\$ 1,601</u>  |
| <b>Earnings\ (loss) before income taxes:</b> |                                |                  |                              |                  |
| Supply Chain Management                      | \$ 5,855                       | \$ 7,572         | \$ 12,543                    | \$ 14,601        |
| Other  | (5,203)                        | (5,167)          | (8,613)                      | (9,735)          |
|  | <u>\$ 652</u>                  | <u>\$ 2,405</u>  | <u>\$ 3,930</u>              | <u>\$ 4,866</u>  |

## L. Major Clients

No single client accounted for more than 10% of total revenue for the three and six months ended October 31, 2023 and 2022.

## **M. 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.

## **N. Subsequent Event**

On November 15 2023, we signed an asset purchase agreement for the sale of our Transportation Rating Solutions ("TRS") business which consists of on-premise freight shipping solutions for LTL, truckload and rail shipments within North America to FOG Software Group ("FOG") a division of Vela Software for approximately \$1.1 million in cash, of which, \$440,000 is subject to various holdback provisions, which will expire 120 days following the date of the agreement. The divestiture of TRS will allow us to focus on our core supply chain planning business allowing Logility to continue to expand its AI-first supply chain management platform. The purchase price is subject to a working capital adjustment. TRS was previously reported in the SCM segment.

On November 20, 2023, 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 16, 2024 to Class A and Class B shareholders of record at the close of business on February 2, 2024.

## 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 2023, the International Monetary Fund (“IMF”) provided an update to the World Economic Outlook for 2023. The update noted that, “*Global growth is forecast to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The projections remain below the historical (2000–19) average of 3.8 percent, and the forecast for 2024 is down by 0.1 percentage point from the July 2023 Update to the World Economic Outlook. For advanced economies, the expected slowdown is from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024, amid stronger-than-expected US momentum but weaker-than-expected growth in the euro area. Emerging market and developing economies are projected to have growth modestly decline, from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024, with a downward revision of 0.1 percentage point in 2024, reflecting the property sector crisis in China. Forecasts for global growth over the medium term, at 3.1 percent, are at their lowest in decades, and prospects for countries to catch up to higher living standards are weak. Global inflation is forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. But the forecasts for 2023 and 2024 are revised up by 0.1 percentage point and 0.6 percentage point, respectively, and inflation is not expected to return to target until 2025 in most cases.*

*Risks to the outlook are more balanced than they were six months ago, on account of the resolution of US debt ceiling tensions and Swiss and US authorities’ having acted decisively to contain financial turbulence. The likelihood of a hard landing has receded, but the balance of risks to global growth remains tilted to the downside. China’s property sector crisis could deepen, with global spillovers, particularly for commodity exporters. Elsewhere, as Chapter 2 explains, near-term inflation expectations have risen and could contribute—along with tight labor markets—to core inflation pressures persisting and requiring higher policy rates than expected. More climate and geopolitical shocks could cause additional food and energy price spikes. As Chapter 3 explains, intensifying geoeconomic fragmentation could constrain the flow of commodities across markets, causing additional price volatility and complicating the green transition. Amid rising debt service costs, more than half of low-income developing countries are in or at high risk of debt distress.”*

For fiscal 2024, we believe that the important nature of our software, combined with a challenging global macro economic environment from increased global disruptions on companies’ supply chains will require them to improve

productivity and profitability by upgrading their technology systems, which may result in an improved selling environment. Although this improvement could slow or regress at any time, due in part to the effects of a possible recession and trade conflicts on global capital markets, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. That said, the current business climate within the United States and geographic regions in which we operate may affect clients' and prospects' decisions regarding timing of strategic capital expenditures by taking longer periods to evaluate discretionary software purchases.

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 and Miami; and international offices in Belgium, the United Kingdom, India, Germany, New Zealand and Australia.

We provide our software and services solutions through two major operating segments: (1) Supply Chain Management and (2) Other. The SCM software business is our core market. We continue to provide limited services to our legacy ERP clients included in the Other segment.

American Software through its operating entity Logility, delivers prescriptive demand, inventory, manufacturing, and supply planning tools – helping to provide executives the confidence and control to increase margins and service levels, while delivering sustainable supply chains. Designed for speed and agility, Logility's (SaaS) cloud-based platform provides an innovative blend of artificial intelligence (AI), machine learning, and predictive analytics to help deliver integrated planning and operations across the end-to-end supply chain. Our prescriptive approach drives team alignment for enterprises with prioritized outcomes that assure demonstrable value.

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, Integrated Business Planning, supply and inventory optimization, manufacturing planning and scheduling, network design and optimization, retail merchandise and assortment planning and allocation, product lifecycle management, sourcing management, vendor quality and compliance, and product traceability.

We believe enterprises are facing unprecedented rates of change and disruption across their operations with a significant transformation in supply chain planning due to advancements in technology, generational shifts of planners, and the significant speed of market changes and disruptions. With increasing consumer expectations for convenience and personalization, fast and free delivery and product freshness 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. Logility, Inc ("Logility"), our wholly-owned subsidiary, is named a leader in multiple *IDC MarketScape reports including; the September 2022 report IDC MarketScape: Worldwide Holistic Supply Chain Planning 2022 Vendor Assessment*; the September 2022 report *IDC MarketScape: Worldwide Supply Chain Demand Planning 2022 Vendor Assessment*; the September 2022 report *IDC MarketScape: Worldwide Supply Chain Sales and Operations Planning 2022 Vendor Assessment*; and the September 2022 report *IDC MarketScape: Worldwide Supply Chain Inventory Optimization 2022 Vendor Assessment*. Logility, Inc. was also named as a Major Player in the September 2022 *IDC MarketScape: Worldwide Holistic Supply Planning 2022 Vendor Assessment*.

Logility has been positioned in the Challenger quadrant in Gartner, Inc.'s May 2, 2023 report, *Magic Quadrant for Supply Chain Planning Solutions* and positioned in the Leadership quadrant in the Peer Insights for the Gartner Voice of the Customer. We believe our platform is rated highly due to our flexible advanced analytics, underlying Software as a Service ("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 2023. 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 dollars for such items for the three months ended October 31, 2023 and 2022:

|   | Three Months Ended October 31, |       |                        |
|---|--------------------------------|-------|------------------------|
|   | Percentage of Total Revenue    |       | Pct. Change in Dollars |
|   | 2023                           | 2022  | 2023 vs. 2022          |
| <b>Revenue:</b>   |                                |       |                        |
| Subscription fees   | 52 %                           | 45 %  | 8 %                    |
| License   | 1 %                            | 3 %   | (67)%                  |
| Professional services and other                             | 16 %                           | 20 %  | (26)%                  |
| Maintenance   | 31 %                           | 32 %  | (8)%                   |
| Total revenue   | 100 %                          | 100 % | (6)%                   |
| <b>Cost of revenue:</b>                                     |                                |       |                        |
| Subscription fees   | 18 %                           | 15 %  | 14 %                   |
| License   | — %                            | — %   | (1)%                   |
| Professional services and other                             | 11 %                           | 13 %  | (18)%                  |
| Maintenance   | 7 %                            | 6 %   | 10 %                   |
| Total cost of revenue                                       | 36 %                           | 34 %  | 1 %                    |
| Gross margin  | 64 %                           | 66 %  | (9)%                   |
| Research and development                                    | 17 %                           | 16 %  | (2)%                   |
| Sales and marketing   | 21 %                           | 19 %  | 2 %                    |
| General and administrative                                  | 21 %                           | 22 %  | (7)%                   |
| Total operating expenses                                    | 59 %                           | 57 %  | (2)%                   |
| Operating income  | 5 %                            | 9 %   | (52)%                  |
| <b>Other income:</b>  |                                |       |                        |
| Other, net  | (2)%                           | (1)%  | nm                     |
| Earnings before income taxes                                | 3 %                            | 8 %   | (73)%                  |
| Income tax expense  | — %                            | 2 %   | (94)%                  |
| Net earnings from continuing operations                     | 3 %                            | 6 %   | (68)%                  |
| Earnings from discontinuing operations, net of income taxes | 7 %                            | 1 %   | 822 %                  |
| Net earnings  | 10 %                           | 7 %   | 12 %                   |

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 dollars for such items for the six months ended October 31, 2023 and 2022:

|   | Six Months Ended October 31, |       |                        |
|---|------------------------------|-------|------------------------|
|   | Percentage of Total Revenue  |       | Pct. Change in Dollars |
|   | 2023                         | 2022  | 2023 vs. 2022          |
| <b>Revenue:</b>   |                              |       |                        |
| Subscription fees   | 53 %                         | 45 %  | 11 %                   |
| License   | 1 %                          | 2 %   | (49)%                  |
| Professional services and other                             | 15 %                         | 20 %  | (30)%                  |
| Maintenance   | 32 %                         | 33 %  | (8)%                   |
| Total revenue   | 100 %                        | 100 % | (5)%                   |
| <b>Cost of revenue:</b>                                     |                              |       |                        |
| Subscription fees   | 17 %                         | 14 %  | 15 %                   |
| License   | — %                          | — %   | (10)%                  |
| Professional services and other                             | 11 %                         | 13 %  | (18)%                  |
| Maintenance   | 7 %                          | 6 %   | 9 %                    |
| Total cost of revenue                                       | 36 %                         | 34 %  | 1 %                    |
| Gross margin  | 64 %                         | 66 %  | (7)%                   |
| Research and development                                    | 17 %                         | 16 %  | (3)%                   |
| Sales and marketing   | 21 %                         | 20 %  | 4 %                    |
| General and administrative                                  | 21 %                         | 21 %  | (5)%                   |
| Total operating expenses                                    | 59 %                         | 57 %  | (1)%                   |
| Operating income  | 5 %                          | 9 %   | (46)%                  |
| <b>Other income:</b>  |                              |       |                        |
| Other, net  | 3 %                          | — %   | nm                     |
| Earnings before income taxes                                | 8 %                          | 9 %   | (19)%                  |
| Income tax expense  | 1 %                          | 2 %   | (29)%                  |
| Net earnings from continuing operations                     | 7 %                          | 7 %   | (17)%                  |
| Earnings from discontinuing operations, net of income taxes | 4 %                          | 1 %   | 575 %                  |
| Net earnings  | 11 %                         | 8 %   | 23 %                   |

nm - not meaningful

**COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2023 AND 2022**

**REVENUE**

|                                 | Three Months Ended October 31, |           |          |                    |       |
|---------------------------------|--------------------------------|-----------|----------|--------------------|-------|
|                                 |                                |           |          | % of Total Revenue |       |
|                                 | 2023                           | 2022      | % Change | 2023               | 2022  |
| (in thousands)                  |                                |           |          |                    |       |
| Subscription fees               | \$ 13,358                      | \$ 12,326 | 8 %      | 52 %               | 45 %  |
| License                         | 229                            | 688       | (67)%    | 1 %                | 3 %   |
| Professional services and other | 4,003                          | 5,435     | (26)%    | 16 %               | 20 %  |
| Maintenance                     | 8,100                          | 8,830     | (8)%     | 31 %               | 32 %  |
| Total revenue                   | \$ 25,690                      | \$ 27,279 | (6)%     | 100 %              | 100 % |

|                                 | <b>Six Months Ended October 31,</b> |                  |                 |                           |              |
|---------------------------------|-------------------------------------|------------------|-----------------|---------------------------|--------------|
|                                 |                                     |                  |                 | <b>% of Total Revenue</b> |              |
|                                 | <b>2023</b>                         | <b>2022</b>      | <b>% Change</b> | <b>2023</b>               | <b>2022</b>  |
|                                 | <b>(in thousands)</b>               |                  |                 |                           |              |
| Subscription fees               | \$ 27,121                           | \$ 24,388        | 11 %            | 53 %                      | 45 %         |
| License                         | 518                                 | 1,008            | (49)%           | 1 %                       | 2 %          |
| Professional services and other | 7,689                               | 10,929           | (30)%           | 15 %                      | 20 %         |
| Maintenance                     | 16,263                              | 17,735           | (8)%            | 32 %                      | 33 %         |
| <b>Total revenue</b>            | <b>\$ 51,591</b>                    | <b>\$ 54,060</b> | <b>(5)%</b>     | <b>100 %</b>              | <b>100 %</b> |

For the three months ended October 31, 2023, revenue decreased by 6% when compared to the same period last year, which was attributable primarily to a 67% decrease in license revenue, a 26% decrease in professional services and other revenue and an 8% decrease in maintenance revenue, partially offset by an 8% increase in subscription fees.

For the six months ended October 31, 2023, revenue decreased by 5% when compared to the same period last year, which was attributable primarily to a 49% decrease in license revenue, a 30% decrease in professional services and other revenue and an 8% decrease in maintenance revenue, partially offset by a 11% increase in subscription fees.

Due to intense competition in our industry, we sometimes discount SaaS and 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 22% and 21% of total revenue in the three and six months ended October 31, 2023 compared to 22% and 21% in the three and six months ended October 31, 2022. 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***

|                                 | <b>Three Months Ended October 31,</b> |                  |                 |
|---------------------------------|---------------------------------------|------------------|-----------------|
|                                 | <b>2023</b>                           | <b>2022</b>      | <b>% Change</b> |
|                                 | <b>(in thousands)</b>                 |                  |                 |
| Supply Chain Management         | \$ 13,358                             | \$ 12,326        | 8 %             |
| Total subscription fees revenue | <u>\$ 13,358</u>                      | <u>\$ 12,326</u> | 8 %             |

  

|                                 | <b>Six Months Ended October 31,</b> |                  |                 |
|---------------------------------|-------------------------------------|------------------|-----------------|
|                                 | <b>2023</b>                         | <b>2022</b>      | <b>% Change</b> |
|                                 | <b>(in thousands)</b>               |                  |                 |
| Supply Chain Management         | \$ 27,121                           | \$ 24,388        | 11 %            |
| Total subscription fees revenue | <u>\$ 27,121</u>                    | <u>\$ 24,388</u> | 11 %            |

For the three and six months ended October 31, 2023, subscription fees revenue increased 8% and 11%, respectively, when compared to the same period 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.



### License Revenue

|                         | Three Months Ended October 31, |        |          |
|-------------------------|--------------------------------|--------|----------|
|                         | 2023                           | 2022   | % Change |
|                         | (in thousands)                 |        |          |
| Supply Chain Management | \$ 229                         | \$ 687 | (67)%    |
| Other                   | —                              | —      | — %      |
| Total license revenue   | \$ 229                         | \$ 687 | (67)%    |

  

|                         | Six Months Ended October 31, |          |          |
|-------------------------|------------------------------|----------|----------|
|                         | 2023                         | 2022     | % Change |
|                         | (in thousands)               |          |          |
| Supply Chain Management | \$ 502                       | \$ 992   | (49)%    |
| Other                   | 16                           | 16       | — %      |
| Total license revenue   | \$ 518                       | \$ 1,008 | (49)%    |

For the three and six months ended October 31, 2023, license fee revenue decreased 67% and 49%, respectively, when compared to the same period 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, as the market and we have moved away from on-premise licensed software. The decrease is due to the timing of purchases and the trend of on-premise clients moving to SaaS. For the three months ended October 31, 2023 and 2022, our SCM segment constituted approximately 100% and 97% of total license fee revenue, respectively. For the six months ended October 31, 2023 and 2022, our SCM segment constituted approximately 97% and 98% of total license fee revenue, respectively. Our Other segment revenue remained flat for the three and six months ended October 31, 2023 when compared to the same periods in the prior year primarily due to timing of sales to our existing ERP clients.

The direct sales channel provided 100% of license fee revenues for both the three and six months ended October 31, 2023 and 2022, due to expanding user licenses and products.

For the three months ended October 31, 2023 and 2022 our margins after commissions on direct sales were approximately 93% and 91%, respectively. For the six months ended October 31, 2023 and 2022 our margins after commissions on direct sales were approximately 91% and 91%, respectively. The slight 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, 2023 and 2022, our margins after commissions on indirect sales were approximately 51% and 60%, respectively. For the six months ended October 31, 2023 and 2022, our margins after commissions on indirect sales were approximately 54% and 59%, respectively. The indirect channel margins decreased for the three and six months ended October 31, 2023 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.

### Professional Services and Other Revenue

|   | <b>Three Months Ended October 31,</b> |                 |                 |
|---|---------------------------------------|-----------------|-----------------|
|   | <b>2023</b>                           | <b>2022</b>     | <b>% Change</b> |
|   | <b>(in thousands)</b>                 |                 |                 |
| Supply Chain Management                       | \$ 3,820                              | \$ 5,224        | (27)%           |
| Other   | 183                                   | 211             | (13)%           |
| Total professional services and other revenue | <u>\$ 4,003</u>                       | <u>\$ 5,435</u> | (26)%           |

  

|  | <b>Six Months Ended October 31,</b> |                  |                 |
|--|-------------------------------------|------------------|-----------------|
|  | <b>2023</b>                         | <b>2022</b>      | <b>% Change</b> |
|  | <b>(in thousands)</b>               |                  |                 |
| Supply Chain Management                        | \$ 7,298                            | \$ 10,444        | (30)%           |
| Other  | 391                                 | 485              | (19)%           |
| Total professional services and other revenues | <u>\$ 7,689</u>                     | <u>\$ 10,929</u> | (30)%           |

For the three and six months ended October 31, 2023, professional services and other revenue decreased by 26% and 30%, respectively, when compared to the same periods in the prior year primarily due to lower professional services and other revenue derived from our Other and SCM segments. For the three and six months ended October 31, 2023, our SCM segment's revenue decreased 27% and 30% when compared to the same periods in the prior year primarily due to lower bookings in recent quarters resulting in lower project work and the timing of implementation project work in recent periods. For the three and six months ended October 31, 2023, our Other segment's revenue decreased 13% and 19% when compared to the same period in the prior year due to the timing of project work with existing clients. We have observed that there is a tendency for services and other revenue 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***

|                           | <b>Three Months Ended October 31,</b> |                 |                 |
|---------------------------|---------------------------------------|-----------------|-----------------|
|                           | <b>2023</b>                           | <b>2022</b>     | <b>% Change</b> |
|                           | <b>(in thousands)</b>                 |                 |                 |
| Supply Chain Management   | \$ 7,782                              | \$ 8,514        | (9)%            |
| Other                     | 318                                   | 316             | 1 %             |
| Total maintenance revenue | <u>\$ 8,100</u>                       | <u>\$ 8,830</u> | (8)%            |

  

|                           | <b>Six Months Ended October 31,</b> |                  |                 |
|---------------------------|-------------------------------------|------------------|-----------------|
|                           | <b>2023</b>                         | <b>2022</b>      | <b>% Change</b> |
|                           | <b>(in thousands)</b>               |                  |                 |
| Supply Chain Management   | \$ 15,628                           | \$ 17,110        | (9)%            |
| Other                     | 635                                 | 625              | 2 %             |
| Total maintenance revenue | <u>\$ 16,263</u>                    | <u>\$ 17,735</u> | (8)%            |

For the three and six months ended October 31, 2023, maintenance revenue decreased 8% when compared to the same periods in the prior year primarily due to our SCM segment. Our SCM maintenance revenue decreased 9% for the three and six months ended October 31, 2023, when compared to the same periods last year due to normal client attrition. The SCM segment accounted for 96% of total maintenance revenue for the three and six months ended October 31, 2023 and 2022. 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, |      |                  |      |
|---|--------------------------------|------|------------------|------|------------------------------|------|------------------|------|
|   | 2023                           | %    | 2022             | %    | 2023                         | %    | 2022             | %    |
| Gross margin on subscription fees         | \$ 8,751                       | 66 % | \$ 8,267         | 67 % | \$ 18,297                    | 67 % | \$ 16,711        | 69 % |
| Gross margin on license fees              | 136                            | 59 % | 594              | 86 % | 353                          | 68 % | 825              | 82 % |
| Gross margin on professional services and | 1,147                          | 29 % | 1,945            | 36 % | 1,773                        | 23 % | 3,745            | 34 % |
| Gross margin on maintenance               | 6,367                          | 79 % | 7,253            | 82 % | 12,835                       | 79 % | 14,585           | 82 % |
| Total gross margin                        | <u>\$ 16,401</u>               | 64 % | <u>\$ 18,059</u> | 66 % | <u>\$ 33,258</u>             | 64 % | <u>\$ 35,866</u> | 66 % |

For the three and six months ended October 31, 2023, our total gross margin percentage decreased by 2% and 2%, respectively, when compared to the same periods in the prior year, primarily due to lower margins on license fees, professional services and other, subscription fees and maintenance.

### *Gross Margin on Subscription Fees*

For the three months ended October 31, 2023, our gross margin percentage on subscription fees revenue decreased from 67% to 66%, when compared to the same period in the prior year, primarily due to increased hosting costs, personnel costs and amortization of acquired software.

For the six months ended October 31, 2023, our gross margin percentage on subscription fees revenue decreased from 69% to 67%, when compared to the same period in the prior year, primarily due to increased hosting costs and amortization of acquired software.

### *Gross Margin on License Fees*

License fee gross margin percentage for the three and six months ended October 31, 2023 decreased by 27% and 14%, 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 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 36% to 29% and 34% to 23%, respectively, for the three and six months ended October 31, 2023 and 2022, primarily due to a decrease in revenues and utilization. Our gross margin percentage on professional services and other revenue in our SCM segment decreased from 36% to 28% and 34% to 22% for the three and six months ended October 31, 2023 and 2022, respectively. 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, 2023 and 2022. 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 decreased from 82% to 79% for the three and six months ended October 31, 2023 and 2022, respectively. The decrease is primarily due to a decrease in maintenance revenue when compared to the same periods 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 Revenues |      |
|   | 2023                           | 2022     | 2023         | 2022 | 2023                         | 2022      | 2023          | 2022 |
|   | (in thousands)                 |          |              |      | (in thousands)               |           |               |      |
| Research and development                              | \$ 4,269                       | \$ 4,364 | 17 %         | 16 % | \$ 8,518                     | \$ 8,818  | 17 %          | 16 % |
| Sales and marketing                                   | \$ 5,313                       | \$ 5,229 | 21 %         | 19 % | \$ 11,044                    | \$ 10,633 | 21 %          | 20 % |
| General and administrative                            | \$ 5,461                       | \$ 5,884 | 21 %         | 22 % | \$ 10,922                    | \$ 11,467 | 21 %          | 21 % |
| Amortization of acquisition-related intangible assets | \$ 129                         | \$ 32    | 1 %          | — %  | \$ 153                       | \$ 56     | — %           | — %  |
| Other income (loss)                                   | \$ (577)                       | \$ (145) | (2)%         | (1)% | \$ 1,309                     | \$ (26)   | 3 %           | — %  |
| Income tax expense                                    | \$ 31                          | \$ 489   | — %          | 2 %  | \$ 695                       | \$ 975    | 1 %           | 2 %  |

### **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, |         |          | Six Months Ended October 31, |         |          |
|---|--------------------------------|---------|----------|------------------------------|---------|----------|
|   | 2023                           | 2022    | % Change | 2023                         | 2022    | % Change |
|   | (in thousands)                 |         |          | (in thousands)               |         |          |
| Total research and development expense                                  | \$4,269                        | \$4,364 | (2)%     | \$ 8,518                     | \$8,818 | (3)%     |
| Percentage of total revenue   | 17 %                           | 16 %    |          | 17%                          | 16 %    |          |
| Total amortization of capitalized computer software development costs * | \$104                          | \$262   | (60)%    | \$ 242                       | \$ 719  | (66)%    |

\*Included in cost of license fees and subscription fees.

For the three and six months ended October 31, 2023, total product research and development costs decreased by 2% and 3%, respectively, when compared to the same periods in the previous year, primarily due to a decrease in the use of third-party contractors. For the three and six months ended October 31, 2023 and 2022, amortization of capitalized software development costs decreased 60% and 66%, respectively, as some projects were fully amortized.

### **Sales and Marketing**

For the three and six months ended October 31, 2023, sales and marketing expenses as a percentage of revenue increased from 19% to 21% and 20% to 21%, respectively, when compared to the same periods last year. The increase in sales and marketing cost is primarily due to an increase in personnel costs and timing of marketing events.

### **General and Administrative**

For the three and six months ended October 31, 2023, general and administrative expenses decreased from 22% to 21% and remained flat at 21% as a percentage of revenue when compared to the same period a year ago, primarily due to personnel costs, professional services and third-party contractors.

At October 31, 2023, the total number of full-time personnel was 423, which includes 339 employees and 84 third-party contractors, compared to 563 full-time personnel, which includes 406 employees and 157 third-party contractors at October 31, 2022.

**Operating Income/(Loss)**

|                         | Three Months Ended October 31, |                 |          | Six Months Ended October 31, |                 |          |
|-------------------------|--------------------------------|-----------------|----------|------------------------------|-----------------|----------|
|                         | 2023                           | 2022            | % Change | 2023                         | 2022            | % Change |
|                         | (in thousands)                 |                 |          | (in thousands)               |                 |          |
| Supply Chain Management | \$ 5,835                       | \$ 7,646        | (24)%    | \$ 12,277                    | \$ 14,825       | (17)%    |
| Other*                  | (4,606)                        | (5,096)         | (10)%    | (9,656)                      | (9,933)         | (3)%     |
| Total operating income  | <u>\$ 1,229</u>                | <u>\$ 2,550</u> | (52)%    | <u>\$ 2,621</u>              | <u>\$ 4,892</u> | (46)%    |

\* Includes all corporate overhead and other common expenses.

Our SCM segment operating income decreased by 24% and 17%, respectively, for the three and six months ended October 31, 2023, compared to the same periods in the prior year primarily due to a reduction in professional services and other revenue.

Our Other segment operating loss decreased by 10% and 3%, respectively, for the three and six months ended October 31, 2023, when compared to the same periods in the prior year due primarily to a decrease in variable compensation, and third-party contractors.

**Other Income (Loss)**

Other income (loss) is comprised of net interest and dividend income, rental income, asset gains and losses, exchange rate gains and losses, and realized and unrealized gains and losses from investments. For the three months ended October 31, 2023, the increase in Other income (loss) is mainly due to increases in interest income and realized gains, partially offset by unrealized losses on investments when compared to the same period in the prior year. We recorded unrealized losses of approximately \$1.6 million and realized gains of approximately \$0.1 million for the three months ended October 31, 2023 from our trading securities portfolio.

For the six months ended October 31, 2023, the increase in Other income (loss) is mainly due to an increase in interest income, realized gains on investments and a decrease in exchange rate losses, partially offset by higher unrealized losses on investments compared to the same period in the prior year. We recorded unrealized losses of approximately \$0.8 million and realized gains of approximately \$0.1 million for the six months ended October 31, 2023 from our trading securities portfolio.

For the six months ended October 31, 2023 and 2022, our investments generated an annualized yield of approximately 4.28% and 1.41%, 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, 2023, we recorded income tax expense from continuing operations of \$31,000 and \$695,000, respectively. During the three and six months ended October 31, 2022, we recorded income tax expense from continuing operations of \$489,000 and \$975,000, respectively, which included discrete stock compensation benefits of \$29,000 and \$63,000, respectively, net of normal income tax expense from operations. Before adjusting for these discrete tax benefits, our effective tax rate would have been 4.8% and 17.7% in the three and six months ended October 31, 2023, respectively, compared to our effective tax rate of 21.5% and 21.3% in the three and six months ended October 31, 2022, respectively. In addition, research and development credits and various permanent differences reduced our effective tax rate by 5.0% and 3.7%, respectively, in the six months ended October 31, 2023, compared to a reduction of 4.0% and 0.2%, respectively, in the six months ended October 31, 2022.

**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, 2023 and 2022. 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 2023.

|  | Six Months Ended<br>October 31, |          |
|--|---------------------------------|----------|
|  | 2023                            | 2022     |
|  | (in thousands)                  |          |
| Net cash provided by (used in) operating activities of continuing operations | 6,436                           | (11,822) |
| Net cash provided by operating activities of discontinued operations         | 1,618                           | 561      |
| Net cash provided by (used in) operating activities                          | 8,054                           | (11,261) |
| Net cash used in investing activities of continuing operations               | (25,522)                        | (9,206)  |
| Net cash provided by investing activities of discontinued operations         | 1,825                           | —        |
| Net cash used in investing activities  | (23,697)                        | (9,206)  |
| Net cash used in financing activities of continuing operations               | (12,082)                        | (6,261)  |
| Net change in cash and cash equivalents                                      | (27,725)                        | (26,728) |

For the six months ended October 31, 2023, the net increase in cash provided by operating activities when compared to cash used in operating activities in the same period last year was due primarily to the following: (1) a decrease in client accounts receivables when compared to an increase in the same period last year due to the timing of closing client sales and related collections, (2) an increase in the proceeds from the maturity and sales of trading securities, (3) a decrease in the purchases of trading securities, (4) a decrease in deferred tax assets relative to an increase in the prior year, (5) a lower decrease in deferred revenue when compared to the same period last year due to timing of revenue recognition, (6) an increase in net earnings, (7) an increase in stock-based compensation expense, (8) an increase in net loss on investments and (9) higher depreciation and amortization expense due to the Garvis acquisition.

This net increase in cash provided by operating activities was partially offset by: (1) an increase in prepaid expenses when compared to a decrease in the same period last year due to the timing of purchases, (2) a gain on sale of discontinued operations and (3) a 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 Garvis acquisition compared to the purchase of certain assets of Starboard during the prior year, partially offset by a decrease in purchases of property and equipment.

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

**Discontinued Operations**

Net cash provided by operating activities of discontinued operations was \$1.6 million in the current year compared to \$0.6 million in the prior year due primarily to the gain on the sale of discontinued operations, offset by a decrease in prepaid expenses and other assets and a lower decrease in accounts receivable.

In accordance with our policy to record the net cash received from the sale of a discontinued operation as a cash inflow from investing activities of discontinued operations, the increase in cash provided by investing activities of discontinued operations is the result of the disposal of discontinued operations.

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, |                   |
|--|-------------------|-------------------|
|  | 2023              | 2022              |
| Cash and cash equivalents  | \$ 62,971         | \$ 83,410         |
| Short and long-term investments  | 20,917            | 22,805            |
| Total cash and short and long-term investments                                     | <u>\$ 83,888</u>  | <u>\$ 106,215</u> |
| Net decrease in total cash and investments during the six months ended October 31, | \$ (29,622)       | \$ (20,602)       |

Our total activities used more cash and investments during the six months ended October 31, 2023, when compared to the prior year period, in the course of normal business operations.

Days Sales Outstanding in accounts receivable was 72 days as of October 31, 2023, compared to 78 days as of October 31, 2022. This decrease is primarily due to the timing of billings and cash collections. Our current ratio was 2.4 to 1 on October 31, 2023 and 2.9 to 1 on October 31, 2022.

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 \$83.9 million in cash and investments with no debt as of October 31, 2023, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements for continuing operations for a minimum of 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, 2023, we have repurchased 1,484,255 shares of common stock at a cost of approximately \$11.0 million. As of October 31, 2023, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 5,019,208 shares of common stock at a cost of approximately \$30.4 million.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

For the three months ended October 31, 2023, there were no significant changes to our critical accounting policies and estimates from those disclosed in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on form 10-K for fiscal 2023.

**Item 3 Quantitative and Qualitative Disclosures About Market Risk**

**Foreign Currency.** In the three and six months ended October 31, 2023, we generated approximately 22% and 21% 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 exchange rate losses of approximately \$0.3 million for the three months ended October 31, 2023 compared to exchange rate losses of approximately \$0.2 million for the same period in the prior year. We recorded an exchange rate loss of approximately \$0.3 million for the six months ended October 31, 2023 compared to an exchange rate loss of approximately \$0.4 million for the same period in the prior year. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$23,000 and \$20,000 exchange rate gain or loss for the three and six months ended October 31, 2023. 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, 2023 was approximately \$79.5 million compared to \$100.3 million as of October 31, 2022.

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 operating 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**

Management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of October 31, 2023, our disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting described below.

### **Identified Material Weaknesses**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The Company identified that certain process-level controls over the reconciliation of cash, accounts payable, accrued compensation, and related costs and cost of revenues were not operated effectively. These ineffective controls were attributable to insufficient policies and procedures and training that impaired our ability to timely investigate and resolve reconciling items.

These control deficiencies resulted in immaterial misstatements in related accounts, some of which have been corrected. Furthermore, the control deficiencies described above created a reasonable possibility that a material misstatement to the condensed consolidated financial statements would not be prevented or detected on a timely basis. Therefore, we concluded that the deficiencies, in the aggregate, represent a material weakness in the Company's internal control over financial reporting and our internal control over financial reporting was not effective as of October 31, 2023.

In light of the material weakness described above, management performed additional analyses and other procedures to ensure that our condensed consolidated financial statements were prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). Accordingly, management believes that the condensed consolidated financial statements included in this Quarterly Report fairly present, in all material respects, our financial position, results of operations, and cash flows as of and for the periods presented, in accordance with U.S. GAAP.

### **Management's Plan to Remediate the Identified Material Weaknesses**

With regard to the above-described material weakness, the Company will implement enhanced policies and procedures over reconciliations and related training, including a focus on expectations and procedures for investigating and resolving reconciling items on a timely basis.

We anticipate that the material weakness will be fully remediated before April 30, 2024, but the material weakness cannot be considered fully remediated until the updated policies and training have been in place and operated for a sufficient period of time to enable management and KPMG LLP to test and to conclude on the operating effectiveness of the controls.

### **Changes in Internal Control Over Financial Reporting**

Except as related to the identification of the material weakness described above, 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 2023. 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**

**Issuer Purchases of Equity Securities\***

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 1,484,255 shares of Class A common stock at a cost of approximately \$11.0 million, which had a \$4.8 million impact on fiscal 2024. As of October 31, 2023, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 5,019,208 shares of common stock at a cost of approximately \$30.4 million.

The following table presents information related to repurchases of common stock the Company made during the quarter ended October 31, 2023:

| <b>Fiscal Period</b>                         | <b>Total Number of Shares Purchased, which were also Part of the Publicly Announced Plans or Programs</b> | <b>Average Price Paid per Share</b> | <b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|--|---|-------------------------------------|---|
| August 1, 2023 through August 31, 2023       | —   | \$ —                                | 946,632   |
| September 1, 2023 through September 30, 2023 | 14,807  | \$ 11.47                            | 931,825   |
| October 1, 2023 through October 31, 2023     | 415,769   | \$ 11.18                            | 516,056   |
| Total Fiscal 2024 Second Quarter             | <u>430,576</u>  |                                     |   |

\*Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions or pursuant to derivative instruments and plans complying with Rule 10b5-1 under the Exchange Act, among other types of transactions and arrangements.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

|                     |  |
|---------------------|--|
| Exhibit 2.1         | <a href="#">Stock Purchase Agreement, dated as of September 5, 2023, among Logility, Inc., each of the shareholders of Garvis AI Limited and Piet Buyck, as Shareholder Representative (1)</a> |
| Exhibit 3.1         | Amended and Restated Articles of Incorporation, and amendments thereto. (2) (P)  |
| Exhibit 3.2         | <a href="#">Amended and Restated By-Laws dated May 18, 2009. (3)</a>   |
| Exhibits 31.1-31.2. | Rule <a href="#">13a-14(a)/15d-14(a)</a> Certifications  |
| Exhibit 32.1.       | <a href="#">Section 906 Certifications</a>   |
| 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.  |

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- (1) Incorporated by reference herein. Filed by the Company as Exhibit 2.1 of the Company's Form 8-K (File No. 000-12456) as filed with the SEC on September 7, 2023.
- (2) 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.
- (3) 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 11, 2023

By: /s/ H. Allan Dow

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

Date: December 11, 2023

By: /s/ Vincent C. Klinges

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

Date: December 11, 2023

By: /s/ Bryan L. Sell

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Bryan L. Sell  
Controller and Principal Accounting Officer

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

I, H. Allan Dow, certify that:

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

Date: December 11, 2023

By: \_\_\_\_\_  
/s/ H. Allan Dow  
H. Allan Dow

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



**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, 2023 (the “Report”), which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of American Software, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 11th day of December, 2023

/s/ H. Allan Dow

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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, 2023 (the “Report”), which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of American Software, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 11th day of December, 2023

/s/ Vincent C. Klinges

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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.