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AMERICAN SOFTWARE INC
Form 10-K405
July 24, 2001

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 [Fee Required]

For the fiscal year ended April 30, 2001

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [No Fee Required]

For the transition period from to

Commission File Number 0-12456

AMERICAN SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

| | |
|--|---------------------|
| Georgia | 58-1098795 |
| (State or other jurisdiction of | (IRS Employer |
| incorporation or organization) | Identification No.) |
| 470 East Paces Ferry Road, N.E. | 30305 |
| Atlanta, Georgia | (Zip Code) |
| (Address of principal executive offices) | |

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

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

| Title of each class ----- | Name of each exchange on which registered ----- |
|------------------------------|--|
| None | None |

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

Class A Common Shares, \$.10 Par Value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports

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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 if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

At July 12, 2001, 18,697,107 Class A Common Shares and 4,082,289 Class B Common Shares of the registrant were outstanding. The aggregate market value (based upon the closing price of Class A Common Shares as quoted on the NASDAQ National Market System at July 12, 2001) of the Class A shares held by nonaffiliates was approximately \$28 million.

DOCUMENTS INCORPORATED BY REFERENCE; LOCATION IN FORM 10-K

1. 2001 Proxy Statement into Part III.
 2. Form S-1 Registration Statement No. 2-81444 into Part IV.
 3. Form S-8 Registration Statement Nos. 333-55214, 333-67533, 333-86141 and 333-44744 into Part IV.
 4. Form 10-K's for fiscal years ended April 30, 1998, 1999 and 2000 into Part IV.
 5. Form 10-Q's for the quarters ended January 31, 1990, October 31, 1990 and January 31, 2000 into Part IV.
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Forward-Looking Statements

In addition to the historical information contained herein, the discussion in this Form 10-K contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties, such as statements concerning: growth and future operating results; developments in our market and strategic focus; future economic, business and regulatory conditions; strategic relationships; new products and product enhancements; potential acquisitions and the integration of acquired businesses; and future customer benefits attributable to our products and business and regulatory conditions. The cautionary statements made in this Form 10-K should be read as being applicable to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the section captioned "Risk Factors" in Item 1 of this Form 10-K, as well as the cautionary statements and other factors set forth elsewhere herein.

PART I

ITEM 1. BUSINESS

Company Overview

American Software, Inc., through its subsidiaries, develops, markets and

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supports a portfolio of software and services that deliver e-business and enterprise management solutions to the global marketplace. Our software and services are designed to bring business value to enterprises by supporting their operations over intranets, extranets, client/servers or the Internet. We launched our comprehensive suite of e-business solutions in December 1999, positioning ourselves as a single source e-business solution provider. References to "the Company," "our products," "our software," "our services" and similar references include the appropriate business unit actually providing the product or service.

We focus our e-business solutions in five major product and services groups: (i) e-intelliprise, a fully web-based Enterprise Resource Planning (ERP) solution that includes both traditional and Flow Manufacturing capabilities; (ii) e-applications, e-business solutions that focus on web-enabling a specific task; (iii) e-collaboration, which is Logility Voyager Solutions(TM) offered through the Logility subsidiary; (iv) e-services, comprehensive services to support traditional and e-business solutions and (v) e-hosting, Managed Services Provider (MSP) services for American Software products offered through the AmQUEST subsidiary. American Software's products are designed to bring rapid business value to clients and to support their transition into e-business. We also provide support for our software products, such as software enhancements, documentation, updates, customer education, consulting, systems integration services, maintenance and IT hosting.

The e-intelliprise solution is a fully web-based ERP system that can be run over the Internet or an intranet, extranet or traditional client/server. This allows any function within the ERP system to be easily deployed over the Internet using a dynamic role-based web page capability. Users no longer require separate implementations to achieve differing e-business views over the Internet. This solution supports e-businesses and traditional businesses with full front-to-back office integration, which is critical to successful fulfillment and seamless processing and reporting throughout the enterprise. e-intelliprise is a fully global system, capable of operating in multiple languages and logistical organizations. This system is built around a flexible enterprise architecture that enables centralized management of enterprisewide processes while allowing delegation of other business process decisions to lower levels of the organization.

Flow Manufacturing is a software solution that supports pull-based manufacturing. Many industry experts believe that Flow Manufacturing, also referred to as Lean or Agile Manufacturing, will become a key competitive advantage to companies as e-business increases consumer expectations for faster deliveries, reduced pricing and more highly customized products.

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American Software's e-applications are e-business solutions that can web-enable specific business functions through integration with existing ERP or legacy system. Currently, e-applications are available for the following applications: procurement, store, expenses, forms, payables, receivables and connect, a seamless, XML-enabled data exchange. We believe that these products represent a cost-effective solution for customers with a focused e-business requirement.

Logility, Inc., our approximately 85% owned subsidiary, is a leading provider of e-Business solutions for business-to-business (B2B) collaborative commerce that optimize internal and external value chain efficiencies of manufacturers, suppliers, distributors, retailers and other organizations. The value chain refers to the complex network of relationships that organizations maintain with trading partners to source, manufacture, and deliver products to the customer and includes demand chain, supply chain, logistics, warehouse

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management and business-to-business process management for collaborative relationships between customers, suppliers and carriers. Logility's solutions enable enterprises to significantly improve efficiencies, collaborate with suppliers and customers, respond to market demands and engage in dynamic business relationships via the Internet. Logility Voyager Solutions(TM) consists of an Internet-based, integrated software suite that provides advanced supply chain management, including collaborative planning, supply chain execution and collaborative logistics capabilities that are designed to increase revenues, reduce inventory costs, improve forecast accuracy, decrease order cycle times, optimize production scheduling, streamline logistics operations, reduce transportation costs and improve customer service across our customers' value chains, corporate Internet portals and public e-Business trading exchanges.

AmQUEST, Inc., our wholly-owned subsidiary, is a managed services provider, or MSP, which delivers a comprehensive suite of technology infrastructure management services. These services provide monitoring and management of our customers' computer and network systems on a local and remote basis. Our managed services include Enterprise Monitoring System Administration, Network Monitoring, and Hosting. We provide these services in complex system environments where our customers can benefit from our value added technical expertise and our 24x7x365 support. We are able to provide services for most of the major hardware platforms, including leading servers, midrange, and mainframe computing platforms. Our Network Operations Center, or NOC, which is located in Atlanta, Georgia, and our direct access to the fiber optic networks of Level 3 and Bell South, provide us with the capability to deliver our managed services to a number of locations, including data centers operated by colocation providers and customer locations, as well as our hosting center.

Industry Background

Business is becoming increasingly complex. The e-business revolution is changing the way companies do business, presenting both opportunities and challenges. The Internet is an effective vehicle to manage relations with both customers and suppliers, but these operations must merge with traditional operations. Enterprises are dealing with new business models, dynamic global markets, increased competition and higher customer service expectations. To effectively compete in this marketplace, companies must leverage technology to deliver competitive advantage and business value. IT solutions must support traditional and e-business operations and provide decision support.

As companies transform their businesses to compete in the Internet age, e-business solutions must provide integration to all of the operations within the enterprise via the ERP system. This front-to-back office integration will support all areas of the business by improving communications with customers and suppliers, supporting fulfillment of customer orders, streamlining administration, reducing cycle times, enhancing planning and providing consistent information for decision-making. Front-to-back office integration is critical to fully leverage the business value that the Internet can bring to an enterprise. By integrating the front office with the back office, enterprises can also have consistent real-time information that may be used for advanced decision support.

Manufacturing organizations will experience increasing pressures as the Internet increases customer expectations for quicker deliveries, lower prices and higher levels of customization. Flow Manufacturing is

designed to streamline the manufacturing process and eliminate waste by building product at the rate of demand. This enables manufacturers to respond

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to these increased customer expectations.

As demands on the enterprise increase, relationships with vendors become increasingly important. The value chain must create a collaborative environment where suppliers and buyers work together to ensure that the right products are in the right place at the right time.

The Internet has emerged as a new medium for communicating, collaborating and transacting business. The rapid growth of the Internet is challenging corporate IT organizations with dynamic technology infrastructures, changing business models, and staffing difficulties.

Products and Services

Our product line consists of software and services that operate on four strategic computer platforms: (1) IBM System/390 Mainframe or compatible, (2) IBM Midrange--AS/400, (3) UNIX--HP 9000, IBM RS/6000 and other Unix platforms, and (4) Intel-based servers and clients that operate Windows 3.1, Windows 95, 98 and 2000, and Windows NT. The products are written in various standard programming languages utilized for business application software, including ANS COBOL, Micro Focus COBOL, C, C++, Visual Basic, JAVA and other programming languages. Many have both on-line and batch capabilities.

The following is a summary of our main software solutions:

ENTERPRISE SOLUTIONS SOFTWARE

Our enterprise solutions are comprehensive global solutions that link critical functions throughout the enterprise. All of our enterprise solutions support e-business functions.

e-intelliprise(TM) is a fully Web-based ERP system (Manufacturing, Logistics and Financials), which can support ERP functions over the Internet, intranet, extranet or on a client/server basis. This comprehensive solution provides front-to-back office integration. e-intelliprise supports an enterprise in approaching the global "Market of One" by creating dynamic views of information, and employing multiple language, currency and business rules based on an individual's profile. This solution is available in a license fee or Application Service Provider (ASP) pricing model.

Manufacturing Modules

Companies may use e-intelliprise with Traditional Manufacturing and/or Flow Manufacturing modules. The modules listed below are the solution components within Traditional Manufacturing:

1. Master Scheduling
2. Material Requirements Planning II (MRP II)
3. Bill of Materials
4. Capacity Planning
5. Production Order Status
6. Route and Work Center Maintenance
7. Shop Floor Control

Logistics Modules

Our logistics solution consists of an integrated system of modules that provide information concerning the status of purchasing activities, customer orders, inventory position and internal inventory requisition requirements. These modules perform primarily the following functions:

Inventory Asset Management

- . Inventory Asset Control
- . Lot Processing
- . Receipt & Shipment Management
- . Serialized Inventory Processing
- . Replenishment Processing
- . Requisition Management
- . Inspection

Procurement

- . e-Procurement
- . Trading Portal
- . Auction/Reverse Auction
- . Blanket Purchasing
- . Approval Routing

Customer Order Management

- . E-Store
- . Order Management
- . Pricing & Promotions Management
- . Shipping Management
- . Billing Management
- . Credit Control Processing
- . Customer Management

Financial Modules

Our comprehensive financial solutions provide functions such as financial reporting, budgeting, asset management, cash management, credit management and receivables management. These systems assist in resolving customers' specific financial control issues faster and more effectively. The e-intelligence

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financial module is fully global, allowing the use and reporting of multiple currencies, including the European Monetary Unit (EMU). The specific applications available are:

General Ledger

- . Chart of Accounts Processing
- . Budgeting
- . Journal Entry Processing

Accounts Payable

- . e-Payables
- . Voucher Entry Processing
- . Payment Processing

Treasury

- . Bank Reconciliation
- . Cash Management
- . Netting & Write-Offs

Accounts Receivable

- . E-Receivables
- . Collections Management
- . Credit Management
- . Cash Receipts Management
- . Financial Notices & Dunning Management
- . Activity Manager

Key Benefits of Enterprise Solutions Include the Following:

American Software is a single-source solution provider for the Internet age. Our comprehensive e-business solution suite supports the e-business requirements of most enterprises throughout their adoption of Internet technology. e-intelliprise is a comprehensive solution to support the operations of enterprises and provide advanced decision support tools.

Front-to-Back Office Integration is critical to the success of an enterprise. e-intelliprise provides complete integration of e-business transactions to the entire ERP system. This assures complete and consistent flow of information throughout the enterprise and supply chain. Fulfillment issues that have been experienced by some e-tailers can be resolved through front-to-back office integration. e-intelliprise is a single solution for support of traditional and e-business activities.

Rules-based architecture allows different views based upon user role. e-intelliprise is very flexible due to its rules-based architecture. This allows the ERP data to be presented based upon the profile of the user.

Deployable over the Internet, Intranet, Extranet or Client/Server. Companies can deploy e-intelliprise over multiple channels without a separate implementation. e-intelliprise allows users to create multiple secure role-based views of the system. We believe this system flexibility provides greater business value by extending the information within the ERP securely across to employees, customers and trading partners, as determined by the enterprise.

Full Global Capabilities. e-intelliprise provides full global support of the entire ERP with multiple language, currency and books. This allows users to view information in their native language and currency without impacting the corporate books.

Modular Solution. Companies may purchase one or more modules, which can be integrated with other enterprise software. They may also purchase an integrated product suite to handle increased requirements for enterprise management, processing and transaction volume.

Availability in an Application Service Provider (ASP) Model. All of American Software's solutions are available in an ASP model, which provides customers with complete solution functionality on a hosted basis with a cost-effective monthly per user fee. This eliminates issues associated with operating a data center and hiring IT staff and reduces capital expenditures, while the customer enjoys state-of-the-art IT capabilities and support.

Extensive Functionality. Our enterprise solutions meet the demands of doing business in the Internet age by combining traditional and e-business functionality into a comprehensive yet flexible system. e-intelliprise offers full operational and decision support functionality for global enterprises.

Rapid Deployment. Our products utilize a modular design and a flexible rules-based architecture, thereby streamlining implementation and reducing project time and expenses. We have announced a 120-day implementation program that is appropriate for many customers.

Flow Manufacturing Modules

American Software's Flow Manufacturing solution is designed to operate on a stand-alone basis, with the e-intelliprise ERP suite or with an ERP suite provided by another vendor. Flow Manufacturing can be used in conjunction with traditional manufacturing or can be the sole manufacturing solution provided throughout an enterprise. Flow Manufacturing represents the industry's most comprehensive solution designed expressly for companies looking to move manufacturing to the next level. The solution is comprised of the following modules:

1. Line Design
2. Kanban Management
3. Demand Smoothing
4. Product Costing
5. Engineering Change
6. Method Sheets

Flow Manufacturing Benefits:

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e-business support. To meet e-business demands, many manufacturers are replacing traditional mass production methods with Flow Manufacturing techniques. The benefits of Flow Manufacturing, including reduced cost and reduced lead-time, offer more appropriate structure for responding to e-business demands. With Flow Manufacturing, product is built on customer demand.

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Scaleable Implementation. Flow Manufacturing can be scaled to handle a single production line up to the requirements of a complex multi-plant, multi-source manufacturing environment. The solution can also co-exist with traditional manufacturing so that Flow Manufacturing can be used for some portions of production and assembly while traditional manufacturing is maintained for others. We believe this hybrid approach offers manufacturers flexibility.

Integration. Flow Manufacturing can be licensed in conjunction with American Software's e-intelliprise ERP suite, or it can be licensed to companies that are using the enterprise solutions of other vendors. Industry-standard data formats, interfaces and protocols facilitate this integration.

Rapid Deployment. Flow Manufacturing has a modular design, which we believe streamlines implementation and allows deployment in a relatively short time frame. The comprehensive functionality of each module generally permits customers to implement the solutions with nominal modifications. In addition, Flow Manufacturing's Windows-based interface and other tools and techniques reduces training requirements and implementation tasks.

e-APPLICATIONS

e-applications streamline business processes and create competitive advantage that helps businesses leverage the full value of their existing ERP and legacy systems. Our e-applications provide added value by extending the reach of the ERP to trading partners, establishing the groundwork for collaborative trading.

Procurement. This self-service online procurement solution reduces the time, cost and effort associated with "buy side" activities. This e-application can also help an enterprise become more efficient and productive by streamlining the procurement process and eliminating purchasing bottlenecks, by streamlining procurement, not only are purchasing delays eliminated, but enterprises are positioned to respond faster to change and and to capitalize on e-bussiness opportunities.

Store. This e-business storefront solution offers a cost-effective way to expand an enterprise's market by providing around-the-clock access to web-based ordering solution. Store acquires and retains customers', employees' and distributors' access to catalog information, pricing, product availability and order status.

Expenses. This paperless workflow solution enables employees to submit expense reports via the Internet, documenting receipts via fax and merging receipts and electronic documents. By giving employees access into expense status at all stages of the processing cycle (routing, approval and payment) and by supplying company management with a systemwide look into expense behavior, the Expenses solution offers a new level of control over and accountability for the expense of the function.

Forms. By providing the ability via e-mail to route specific forms like requisition orders. We believe that forms offers an effective, easy-to-use

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communication channel to external partners. We intend for forms to provide a secure, self-service link between non-host users and purchasing, material request, AP, AR, customer order processing and manufacturing systems. Using e-mail, fax and XML/FTP gateways, this solution's workflow engine routes documents from host applications. The review, approval and update loop uses HTML formatting and receives instructions interactively.

Payables. This new accounts payable and requisition orders module streamlines administrative processes regarding non-PO-related purchases online, enabling users to cost-effectively transact business from any location. Using the Internet or internal intranets, Payables provides a secure interface into an accounts payable system. We believe that this paperless method of disbursement enables customers to cost-effectively transact business anywhere, anytime.

Receivables. This solution is designed to supply account information online to an enterprise's customers. The customers can remit payments online via credit cards and Electronic Funds Transfer (EFT) anytime,

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anywhere in a secure environment. We believe that receivables can help improve cash flow, reduce the cost of financing sales and, by automating routine tasks such as customer queries, enable strategic focus on profit creation.

Connect. This solution is designed to enable the exchange of XML-enabled data. Connect provides the link to extend ERP software to the Web and to enable the Web to interact with the ERP software. Connect enables the interactive communication between Web applications, marketplaces, trading exchanges, suppliers, B2B transactions and the back office ERP systems.

LOGILITY VOYAGER SOLUTIONS AND SERVICES

Voyager Solutions are provided through Logility, Inc. We currently own approximately 85% of the common stock of Logility, the remaining 15% being publicly held.

Logility's Voyager Solutions is an e-Business suite of business-to-business collaborative commerce solutions that enables end-to-end supply chain management within and between manufacturers, suppliers, distributors and retailers to more effectively manage the activities along their respective value chains and enable collaboration among external trading partners. Logility also provides collaborative commerce products to expand the number of business processes that can be executed via intranets, extranets and the Internet. Logility's services include the i-Community, which facilitates Collaborative Planning, Forecasting and Replenishment (CPFR)-based collaborative commerce within a web-based network of trading partners including suppliers, manufacturers, retailers and customers. Logility Voyager Solutions are also designed to power Internet-based trading exchanges, marketplaces and private company portals. The i-Community is powered by the Logility Voyager Solutions suite and enables companies to quickly reap the benefits of collaboration with external trading partners.

The key benefits of Logility's software solutions and services include the following:

e-Business Solution for End-to-End Supply Chain Management. Our Logility Voyager Solutions provide functionality that addresses both the flow of information and the flow of products throughout the supply chain. By synchronizing our comprehensive planning software products with our transportation and warehouse management software solutions, our product suite

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can more efficiently and accurately coordinate the delivery of products to the customer. This end-to-end approach allows maximum synchronization of activities along the supply chain including collaboration with external trading partners.

Advanced Collaborative Planning and Supply Chain Execution Functionality. Our products allow for collaboration among the various levels within an organization and among external constituents (trading partners) throughout the supply chain. The architecture of Logility Voyager Solutions enables key constituents to participate in the planning process, including marketing, sales, manufacturing, procurement, logistics and transportation personnel, so that the requirements of all groups are factored in to create one consensus plan. Our collaborative planning functionality is further enhanced with collaborative commerce tools such as Logility Voyager Collaborate(TM) (formerly Logility Voyager XPS(TM), eXtensible Planning Solution), which leverages Internet technology to facilitate information sharing directly with trading partners. Voyager Collaborate supports the business processes and practices defined in the VICS' CPFR guidelines, enabling B2B collaborative commerce via the Internet between two or more trading partners. Complementing Voyager Collaborate for supply chain planning is Logility Voyager Fulfill(TM) (formerly Logility Voyager XES(TM), eXtensible Execution Solution) on the supply chain execution side. Voyager Fulfill extends collaboration to transportation and distribution center management trading partners. Through our i-CommunitySM, a collaborative network of trading partners, customers will be able to exchange information and conduct collaborative planning, forecasting and replenishment as well as streamline the order fulfillment process through collaboration amongst warehouse, transportation and carrier trading partners. Voyager Fulfill supports emerging industry standards for collaborative transportation management.

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Comprehensive Planning Solution. Our planning solution is comprised of demand, inventory, event, life cycle, replenishment, supply, manufacturing, and transportation planning modules that balance demand opportunities with supply constraints through the synchronization of information gathered from supply chain participants. A key benefit of our planning solution components is its emphasis on addressing the full range of complex demand planning requirements of our customers, including comprehensive forecasting capabilities that take into account each user's unique perspective of the supply chain. Additionally, the solution implements and manages key business initiatives like profit maximization or cost minimization, advancing traditional distribution resource planning (DRP), and advanced planning systems (APS) by applying financial and optimization capabilities to sourcing decisions, enabling companies with complex supply chains to balance profits, costs, and service while simultaneously considering all supply chain constraints.

Robust Supply Chain Execution Solution. The Supply Chain Execution components of Logility Voyager Solutions support the needs of single or multi-site operations by systematically balancing logistics strategies, customer service policies, carrier effectiveness and inventory levels to optimize warehouse and transportation operations. During fiscal year 2001, Logility introduced the industry's first Internet-based collaborative transportation management solution, Voyager Fulfill, that incorporates the carrier in the buyer/seller relationship to optimize order fulfillment, increase on-time shipments, and provide greater visibility of the status of customer orders.

Rapid Deployment. Our products utilize a modular design centered around proven business processes to streamline implementation and accelerate deployment. The comprehensive functionality of each module generally permits customers to implement the solutions with nominal modifications. In addition,

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our software combines sophisticated techniques and tools with intuitive, Windows-and browser-based interfaces to reduce training requirements and implementation tasks. The Logility i-Community provides a complete solution for web-based networking of trading partners that facilitates collaboration with suppliers, manufacturers, distributors, retailers and customers. The i-Community allows trading partners to quickly access and leverage the Logility Voyager Solutions suite and gain the benefits of e-Business via a hosted deployment with a web-browser access.

Open, Scaleable, Internet and Client-Server Architecture. Logility's software has been designed to leverage the Internet to reach remote corporate users and incorporate external trading partners. The application suite integrates with existing in-house and third-party software applications and a variety of operating environments and platforms. The software is scaleable to manage complex processes involving tens of thousands of products across multiple sites.

Product Features

Logility Voyager Solutions is designed to synchronize demand opportunities with supply constraints and logistics operations. The suite is comprised of a series of Internet-based, integrated modules that provide a robust solution for supply chain management resulting in both external and internal collaboration to streamline the supply chain. These modules can be implemented individually, as well as in combinations or as a full solution suite. Logility Voyager Solutions supports multiple communications protocols and is designed to operate with industry-standard open technologies, including leading web-based and client-server environments, such as UNIX AS/400 and Intel-based servers running Windows NT/Windows 2000 on Oracle, Microsoft SQL Server 2000 and DB2 databases. The following table summarizes our product line:

| Module ----- | Features ----- |
|--|--|
| Supply Chain Collaborative Commerce Logility Voyager Collaborate (formerly Logility Voyager XPS) | <ul style="list-style-type: none">. VICS Collaborative Planning, Forecasting and Replenishment (CPFR) compliant. Collaborative planning with trading partners (customers and suppliers). Configurable deployment |

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| Module ----- | Features ----- |
|--------------------------|---|
| Logility Voyager Fulfill | <ul style="list-style-type: none">. Open integration architecture supports rapid integration with any forecasting scenario. Value Chain Workflow(TM). Exception-based management of business conditions across the supply chain. Deployable in both private and public trading exchanges. Collaborative warehouse and |

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| | |
|--|---|
| (formerly Logility Voyager XES) | <ul style="list-style-type: none"> transportation planning with trading (suppliers, customers, and carriers) . Configurable deployment . Open integration architecture . Value Chain Workflow(TM) . Exception-based management of order fulfillment business conditions . Deployable in both private and public trading exchanges |
| Logility Voyager Select(TM) | <ul style="list-style-type: none"> . Optimizes transportation performance and pricing for total landed cost calculations . Targets private and public trading exchanges . Extends order sourcing, procurement and logistics offerings |
| Supply Chain Event Management Logility Voyager Navigate(TM) | <ul style="list-style-type: none"> . Provides supply chain event management for increased visibility . Exception-based management of the supply chain . Efficiently monitors, notifies, controls and measures supply chain performance . Incorporates any Open Database Connectivity (ODBC)-compliant data source for an accurate view of key business conditions |
| Value Chain Strategy Value Chain Designer(TM) | <ul style="list-style-type: none"> . Strategic distribution network optimization . Customer assignment . Facility location . Balancing customer service levels and cost . Sourcing selection and capacity planning |
| Demand Chain Planning Life Cycle Planning | <ul style="list-style-type: none"> . Plans each phase of a products life cycle from introduction, maturity, replacement, substitution and retirement . Flexible demand profile definition . Self-correcting model management automatically reforecasts based on POS data . Exception-based management alerts users of key business conditions |
| Demand Planning | <ul style="list-style-type: none"> . Item and Group forecasting . Self-selecting forecast models . Personalized data views |

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Module

Features

. Item stratification

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| | |
|--------------------------|---|
| | <ul style="list-style-type: none"> . Product life cycle management with simulation . Drag and drop data manipulation |
| Inventory Planning | <ul style="list-style-type: none"> . Time-phased view of inventory . Graphical simulations of inventory trade-off . Views of dependent and independent demand |
| Event Planning | <ul style="list-style-type: none"> . Inventory management variables . Promotion planning . Self-learning capabilities using artificial intelligence . Causal-based forecasting |
| Demand Chain Voyager(TM) | <ul style="list-style-type: none"> . Promotion profitability simulations . Forecast retrieval and modifications via the Internet and Corporate Intranets . Tight integration with Demand Planning . Promotion planning calendars |
| Supply Chain Planning | <ul style="list-style-type: none"> . Comprehensive security features |
| Manufacturing Planning | <ul style="list-style-type: none"> . Collaborative planning with trading partners . Enterprise-wide capacity planning . Plant-level scheduling . Supports activity-based costing . Optimizes sourcing decisions' actual costs . Interactive simulation . Real-time, in memory model . Distributed and remote visual capacity planning |
| Supply Planning | <ul style="list-style-type: none"> . Remote and collaborative manufacturing . Comprehensive constraint-based management of sourcing process . Supports business goals such as profit maximization or cost minimization . Provides available to promise (ATP), capable to promise (CTP) and profitable to promise (PTP) . Exception-based management of supply chain conditions |
| Replenishment Planning | <ul style="list-style-type: none"> . Supports continuous replenishment strategies . Provides time-phased distribution requirements planning . Proactive action messages . EDI integration . ATP methodologies |
| Transportation Planning | <ul style="list-style-type: none"> . Multi-site sourcing and allocation . Load Control Center . Shipment planning and consolidation . Freight rating and routing . Carrier selection . Optimized inbound and outbound planning |

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| Module | Features |
|---------------------------|---|
| ----- | ----- |
| Supply Chain Execution | |
| Transportation Management | <ul style="list-style-type: none"> . Load tendering . Shipment confirmation . Freight audit and payment control . Shipment documentation and tracking |
| WarehousePRO(R) | <ul style="list-style-type: none"> . Customizable workflows and attributes . Incorporate best-of-breed warehouse practices |

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- . Directs all pick, pack, and ship activities thorough hand-held radio frequency devices
- . User terminals support a variety of languages
- . Dynamic label and report printing
- . Integrated graphical user interface

Logility Voyager Solutions for B2B Collaborative Commerce

These e-Business applications allow companies to execute and manage strategic trading partner relationships for direct material procurement, logistics and customer order fulfillment over intranets, extranets or the Internet.

Supply Chain Collaboration

Logility Voyager Collaborate enables companies to communicate easily and share real-time information with trading partners by uniting suppliers, manufacturers, distributors and retailers under the power of common goals, common business processes and VICS Collaborative Planning, Forecasting and Replenishment (CPFR) standards that eliminates traditional barriers among trading partners. Voyager Collaborate is a completely CPFR-compliant application that provides configurable deployment, scalability, Microsoft-centric architecture, open-integration architecture, value chain workflow and an exception-based management of business conditions both within the enterprise and across the supply chain network.

Logility Voyager Fulfill extends collaboration to transportation and distribution center management trading partners to allow real-time information sharing and collaboration between customers, suppliers and carriers to ensure that customer orders are efficiently scheduled, executed and tracked for on-time delivery. Voyager Fulfill is compliant with emerging collaborative transportation management standards and provides configurable deployment, scalability, Microsoft-centric architecture, open-integration architecture, value chain workflow and an exception-based management of business conditions.

Logility Voyager Select optimizes transportation performance and pricing for private and public trading exchanges by enabling a total landed cost calculation within order sourcing, procurement and logistics processes.

Supply Chain Event Management

Logility Voyager Navigate provides the benefits of Supply Chain Event Management (SCEM) by allowing trading partners to efficiently monitor, notify, control and measure supply chain processes on an exception basis, both within the company and throughout the supply chain to improve the efficiency and effectiveness of the overall operation.

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Value Chain Strategy

The Value Chain Designer module provides a strategic view of the Supply Chain Network. Companies can optimize location decisions, resource allocation, customer assignment and transportation strategies to minimize costs or maximize profitability.

Demand Chain Planning

These solutions provide the visibility to increase forecast accuracy by as

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much as 40%. They create a comprehensive overview of demand. And with demand patterns revealed, companies can build plans that are totally attuned to the market.

Life Cycle Planning provides collaborative life cycle planning, enabling the supply chain to effectively control each phase in a product's sunrise-to-sunset cycle--including introduction, maturity, replacement, substitution and retirement--to ensure that the right products are available at the point of customer demand.

The Demand Planning module reconciles demand history, existing customer orders, point-of-sale data, market forecasts and other information to generate a graphical representation of demand by item, location, customer and/or group. Demand Planning has an automatic self-correcting, self-selecting modeling process that utilizes a number of advanced forecasting models to generate sales, marketing, logistics and other forecasts. The system allows for user-override of certain modeling parameters, such as quantities or percentages, to account for promotions, supply constraints and other "what-if" scenarios.

The Inventory Planning module is designed to determine the optimal balance between inventory and service levels. With extensive simulation capabilities, Inventory Planning helps manufacturers and distributors reduce inventory costs while meeting customer service requirements at the individual stock keeping unit (SKU) level. Built around industry best practices, Inventory Planning can enhance planning and scheduling of inventory while taking into consideration replenishment frequency and order size, seasonal build and manufacturing plans. Service level targets and policies can be applied individually to every product within an enterprise or uniformly throughout the various product lines.

Event Planning is a causal-based forecasting solution designed to facilitate product life-cycle management and promotion planning, and provide forecasting capabilities to help determine the impact of promotions, price changes or other events, enabling manufacturers to adjust production to match changing demand. Event Planning utilizes advanced algorithms based on neural network techniques that allow the system to refine forecasting by incorporating the results of ongoing promotions and other activities.

Demand Chain Voyager. Through the use of the Internet, the Demand Chain Voyager module extends the reach of Demand Planning by allowing remote users to view corporate forecasts and to input demand data in real-time. Demand Chain Voyager provides an online, updated schedule of events including promotions, product launches and holidays. In addition, it allows for the revision of inventory goals and objectives such as service levels and turns.

Supply Chain Planning

Logility offers superior support for optimizing assets, synchronizing supply, and planning order fulfillment. With multiple and simultaneous sourcing capabilities, supply issues and alternatives are immediately visible.

The Manufacturing Planning module is designed as a constraint-based planning solution that balances manufacturing processes and resources with demand priorities and corporate objectives. Manufacturing Planning models the operations of a business by capturing capacity constraints such as equipment capabilities, intermediate storage limitations, shop floor calendars and raw material availability and production constraints such as synchronization of multi-step operations, product sequencing, production changeovers and inventory

policies. Manufacturing Planning enables collaborative decision-making by

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comparing the feasibility and cost effectiveness of various scheduling strategies through the use of simulation.

Supply Planning supports sourcing options based on business goals such as profit maximization or cost minimization, balances manufacturing constraints, and applies advanced financial and optimization capabilities to sourcing decisions. Supply Planning also enables companies with complex supply chains to balance profits, costs, and service while simultaneously considering all supply chain constraints to satisfy business requirements.

The Replenishment Planning module addresses the planning needs of an organization to determine the optimal balance between customer service levels and inventory. Replenishment Planning takes into account manufacturing constraints, inventory investment, desired service levels, and current orders and commitments. Features of Replenishment Planning include automatic detailed item planning to balance delivery loads and orders, filtered order review, SKU change simulation and constrained distribution requirements planning. The benefits of Replenishment Planning include, among others, faster inventory turns, optimized inventory levels and the ability to allocate customer orders based on user-defined priorities. Replenishment Planning provides support for continuous replenishment strategies, such as Vendor Managed Inventory, Quick Response and Efficient Consumer Response.

The Transportation Planning module synchronizes transportation plans with demand, inventory, manufacturing and replenishment strategies. Transportation Planning consolidates shipments and determines the optimal transportation mode and carrier while providing a list of alternatives. The solution includes a Load Control Center that reviews all inbound, outbound and inter-facility shipments and provides an integrated view of all orders requiring shipping decisions. The product is designed to reduce freight costs, improve customer service levels and increase responsiveness to customer requirements.

Supply Chain Execution

Logility provides capabilities for managing both inventory and transportation with our Supply Chain Execution Solution. With these applications, companies can systematically balance logistics strategies, customer service policies, carrier effectiveness and inventory management.

Transportation Management facilitates the timely execution of the optimized shipping plan developed by the Transportation Planning module. Load tendering and shipment tracking are included via Electronic Data Interchange (EDI), e-mail or automatic fax. The freight audit and payment capabilities enable flexible reporting of landed cost by shipment, customer or product group. The module is designed to reduce freight costs, improve carrier utilization and provide comprehensive freight management reporting.

WarehousePRO incorporates advanced workflow technology, industry-specific practices and radio frequency data collection terminals to optimize warehouse operations. The software's object-oriented design allows users to define the properties of specific items, locations, or processes, thereby reducing the need for custom programming. The solution is highly flexible and can be reconfigured by the user to adapt to changing business requirements. WarehousePRO features an extensive workflow library of user-selected templates incorporating industry-specific best-practice warehousing techniques. With built-in standard interfaces to major radio frequency data collection systems, the software delivers more accurate inventory accountability and improved warehouse efficiency. WarehousePRO's performance analysis tools generate graphical reports that illustrate productivity gains, warehouse efficiency and inventory controls, enabling users to make real-time management decisions.

AMQUEST SERVICES

AmQUEST provides complex managed hosting and network management services for enterprise applications across a broad array of computing platforms. AmQUEST provides a complete solution including infrastructure and both operational and technical support functions to successfully maintain our customers' mission-critical information systems and other e-commerce and network applications. We provide our services to enterprises, Application Service Providers (ASPs) and Network Service Providers (NSPs). Our advanced managed hosting services provide a single-source, highly scalable, high performance platform for hosted business, e-commerce and multimedia applications. AmQUEST offers the following three services:

- . Complex Managed Hosting
- . Enterprise Monitoring
- . Network Management

Unique Capability to Host and Manage Complex Systems

While many small to medium-sized businesses are currently capable of running their enterprise software applications on small rack-based servers, as these companies grow to be much larger, they will require servers that have the power to handle enormous amounts of data with the ability to process such data reliably and with ultra-fast speed. Fortune 500 and other multinational corporations use these high-powered servers for software programs that need to handle large amounts of data and that are constantly being accessed and updated.

Our operations center, which combines advanced network capabilities, data hosting and monitoring, is built to handle these large servers as well as the traditional, rack-based servers. In addition, our technical support personnel are trained to operate all types of servers. This allows us the opportunity to service customers of all sizes and with many different application requirements. Many corporations utilize both large, more powerful servers for their enterprise applications and rack-based servers for their web sites. We can handle our customers entire server and application needs, whereas traditional hosting companies could only handle a portion of these needs.

Advanced Network Management/Monitoring Capabilities

The Network Operations Center (NOC) is monitored 24 hours a day, 365 days a year by qualified, trained personnel. The NOC is equipped with advanced monitoring tools, back-up power supplies, redundant network architecture and standard security and fire protection measures. AmQUEST's center has been audited by PricewaterhouseCoopers and has been certified SAS70 compliant. AmQUEST has entered into an agreement with Level 3 Communications, which will allow us to utilize Level 3's data centers for the hosting of traditional, rack-based servers. This strategic alliance provides AmQUEST with the ability to rapidly expand capacity in a cost-effective manner. Currently, AmQUEST has hosting capabilities in nine U.S. cities. To access the backbone quickly and most effectively, AmQuest is currently evaluating growth through expansion of strategic relationships, acquisitions, and building additional data centers.

AmQUEST has expertise in complete enterprise hosting of both front and back office systems on every major platform. Over the last eight years, AmQUEST has demonstrated success in hosting the entire IT infrastructure of over 50 companies. Demand for enterprise hosting services is expected to increase as IT environments become increasingly complex and as the expansion of the Internet

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places additional stress upon corporate IT resources by requiring tighter front to back office integration of systems.

AmQUEST offers a comprehensive suite of Managed Hosting Solutions that supports complex enterprise systems as well as NT and UNIX servers.

- . Security Management
- . System Backup

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- . System Administration
- . Reporting
- . Disaster Recovery
- . Enterprise Monitoring
- . Networking Services

AmQUEST has a multi-tiered solution suite to address the monitoring needs of any organization. The AmQUEST Enterprise Monitoring Services are based upon state-of-the-art technology and methodology, including leading Tivoli solutions and proprietary software applications that greatly increase the software's usability and functionality. These cost-effective services can create a world-class environment by monitoring all servers and applications across the entire enterprise. Enterprise Monitoring Services are offered on customized levels.

- . Basic Server Monitoring--Health Status
- . Enhanced Server Monitoring
- . Application Monitoring
- . Database Monitoring
- . Microsoft IIS Web Monitoring
- . Microsoft Exchange Monitoring
- . Event Scheduling

AmQUEST offers high quality Network Management services that provide value both to enterprises and to NSPs. The comprehensive solution suite includes:

- . Private Network Management
- . Frame Relay
- . VPNs (Virtual Private Networks)
- . Design and Implementation Support
- . Network Operation Center Monitoring
- . Security

Strategy

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Our objective is to become the leading provider of enterprise-wide solutions to mid-market distributors and manufacturers. Our strategy includes the following key elements:

Leverage and Expand Installed Base of Customers. We currently target businesses in the consumer goods, chemicals and pharmaceuticals, food and beverage, and oil and gas industries. We intend to continue to leverage our installed base of more than 700 customers to introduce additional functionality, product upgrades, complementary modules, and application hosting services. In addition, we intend to expand sales to new customers in our existing vertical markets and to target additional vertical markets over time.

Continue to Expand Sales and Marketing. We intend to continue to pursue an increased share of the market for value chain management software solutions by expanding our sales and marketing activities. We intend to continue building a direct sales force that is focused on selected vertical markets, such as consumer goods manufacturers.

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Maintain Technology Leadership. We believe that we are a technology leader in the field of value chain management software solutions and intend to continue to provide innovative, advanced solutions and services to this market. We believe that we were one of the earliest providers of value chain planning software solutions on a client-server platform and on Windows NT, and the first to introduce a value chain planning software solution that operates over the Internet and provides application hosting services. We intend to continue to develop and introduce new or enhanced products and keep pace with technological developments and emerging industry standards.

Implement E-Business Strategy. We have launched an e-Business initiative that will enable us to build on current applications while moving toward total Internet-based value chain management. Our e-Business strategy includes three levels of products and services designed to enable the optimization of the customer's value chain and improve collaboration. In launching this initiative, we intend to do the following:

- . Continue to develop and sell e-Intelliprise capabilities that capitalize on the speed and flexibility of the Internet with the collaborative planning and logistics capabilities of Intelliprise.
- . Continue to develop and sell the e-application products that leverage the Internet to improve processes and communications.
- . Continue the growth of our AmQUEST subsidiary by focusing on its web-based hosting capabilities, including operating as an ASP.

Focus on Integrated Planning and Logistics Execution Solution. We believe we are one of the few providers of integrated value chain management software solutions addressing both demand and supply planning as well as transportation and warehousing logistics requirements. We are focusing on providing the most comprehensive planning and execution solution aimed at optimizing operations along the value chain. We intend to continue focusing our development initiatives on enhancing our end-to-end solution and introducing additional capabilities that complement an integrated solution.

Focus on MidMarket. We have defined as "MidMarket" those corporations or divisions of corporations that have annual revenues ranging from \$200 million to \$2 billion. Organizations of this size fit our historical customer profile, and are prime candidates for the purchase and use of our unique full suite of integrated products.

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Increase Penetration of International Markets. In the fiscal year ended April 30, 2001, we generated 10% of our total revenues from international sales and established marketing relationships with a number of international distributors. We intend to expand our international presence by adding additional direct sales personnel to address international markets and creating additional relationships with distributors in Europe, Latin America and the Asia/Pacific region.

Expand Strategic Relationships. We intend to expand the depth and number of strategic relationships with leading enterprise software, systems integrators and e-commerce vendors. We have a number of varying marketing and/or product relationships with ERP vendors, systems integrators and service organizations, including Accenture, GERS Retail Systems, IBM, INSIGHT, Inc., JBA International, Level3, March First, Microsoft, Microsoft Great Plains Business Solutions (formerly Great Plains Software), Pitney Bowes, Ross Systems, Tompkins Associates, and 3Plex. In addition, we have developed a network of international agents who assist in the selling our products. We intend to utilize these and future relationships with software and service organizations to enhance our sales and marketing position.

Continue to Focus on Providing High Quality Customer Service. Providing high quality customer service is a critical element of our strategy. We intend to continue to invest in technology and personnel to accommodate the needs of our growing customer base.

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Customers

We primarily target businesses in the consumer-packaged goods, chemicals, pharmaceuticals, industrial products and other manufacturing industries. During fiscal 2001, we provided software and services to approximately 700 customers. No single customer accounted for 10% or greater of our revenues for the fiscal year ended April 30, 2001. A sample of companies that have purchased one or more of our products and services is as follows:

| Consumer Packaged Goods ----- | Chemicals, Oil & Gas, Pharmaceuticals ----- | Manufacturing and Others ----- |
|-------------------------------------|---|--------------------------------------|
| Ashley Furniture | Beyschlag Centralab Component | Appleton Paper |
| Aurora Foods | BOC Distribution Services | Corning Cable Systems |
| Bausch & Lomb | Boots the Chemist | Crown Crafts, Inc. |
| Bell Sports | CITGO | Dal-Tile Corporation |
| Broyhill Furniture | Eastman Chemical Company | Epson America, Inc |
| Canandaigua Wine Company | Gulf Petrochemical | Harley Davidson |
| ConAgra, Inc. | Intesa | HugoBoss |
| Eagle Family Foods | Kaiser Foundation | IBM/Synertech |
| Haverty Furniture Company | Nordic Synthesis AB | Koch Industries |
| Heineken USA | Norton Chemical | Komatsu America |
| L'Oreal USA | Pharmacia & Upjohn | Magneti Marelli |
| Maybelline, Inc. | Phizer, Inc. | Mercury Marine |
| McCormick & Company | Sigma-Aldrich Corporation | Mohawk Paper |
| Nestle France | Solvay Pharmaceuticals Inc. | Peugeot International |
| Sara Lee Knit Products | Warner-Lambert Company | Plastics, Inc. |
| Johnson Polymer | | Porsche Cars of North America, Inc. |
| Saks, Inc. | Telecommunications | Powerware Corporation |

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| | | |
|------------------------|-----------------------------|-----------------------------|
| Seagram's | ----- | Newell Company |
| The Franklin Mint | British Telecom | Rand McNally & Company |
| The HoneyBaked Ham Co. | GTE | Raytheon Marine |
| Tiffany & Company | Sprint PCS | Reynolds Metals |
| Unilever Research | | Rheem Manufacturing |
| VF Corporation | Utilities | RJ Reynolds |
| Wickes Furniture | ----- | Robert Horne Paper Company |
| | Alabama Gas Corporation | Saks, Incorporated |
| | Allegheny Power Corporation | Siecor |
| | Florida Power & Light | Snap On, Incorporated |
| | Saudi Consolidated Electric | Sony Electronics |
| | Texas Utilities | Subaru of America, Inc. |
| | | Tyco Plastics and Adhesives |
| | | Union Camp |
| | | US Ceramic Tile |
| | | Wells/Bloomfield |
| | | WestPoint Stevens |
| | | Xpedx |

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Integrated System Design

While our software applications can be used individually, they are designed to be combined as integrated systems to meet unique customer requirements. The user may select virtually any combination of modules to form an integrated solution for a particular business problem. The license fee for such a solution could range from \$7,000 for a single module to \$1,200,000 or more for a multi-module, multiple-user solution incorporating the full range of our products.

Customers frequently require services beyond those provided by our standard support/maintenance agreement. To meet those customers' needs, we established a separate professional services division which provides specialized business and software implementation consulting, custom programming, on-site installation, system-to-system interfacing and extensive training. These services, frequently referred to as "systems integration services," are provided for an additional fee normally under a separate contract, based upon time and materials utilized.

Marketing and Sales

Typically, our customers are medium-sized companies or divisions of larger companies with substantial data processing budgets.

First-time customers may license a single module or a system composed of several modules. These customers often license other modules to expand the range of software available to them, and may also license additional modules or systems similar to those already licensed for use at additional locations.

We sell our products directly to the end-user through our sales and presales staff, which consists of 66 persons located in five areas worldwide: Mid U.S. (13), Northeast U.S. (3), Southern U.S. (38), and Europe (12). The presales staff provides consultation, advice and assistance to the sales executives and the customer in selecting an appropriate configuration of application software modules to address the user's needs. We obtain sales leads from advertising in trade publications, participation in industry trade shows and exhibitions, Company-conducted seminars, telemarketing activities and referrals from existing customers.

In fiscal 2001, we continued our program to develop a network of sales agents to support our sales internationally. These agents, along with a

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designated Company-employed country manager, are establishing a national presence for us in targeted countries throughout Latin America, Europe and the Middle East.

The price for our products typically is determined based upon the number of modules licensed and the number of servers, users and sites for which the solution is designed. During the fiscal year ended April 30, 2001, license fees generally ranged from \$50,000 to \$1.2 million.

Licenses

Like many business application software firms, we typically enter into license agreements that grant non-exclusive rights to use our products. Our standard license agreements contain provisions designed to prevent disclosure and unauthorized use of our software. These agreements warrant that our products will function in accordance with the specifications set forth in our product documentation. These licenses generally limit the use of the software to a specific number of individual users and servers for a one-time fee. A significant portion of the license fee is generally payable upon the delivery of product documentation, with the balance due upon installation.

Services and Support

We offer a full range of services that allow our customers to maximize the benefits of our software products including: project management, implementation, product education, technical consulting, programming, system integration, network management and maintenance and support. The customer receives documentation manuals or imbedded help software, which describe the system's features and its method of

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operation. The user is normally entitled to telephone support for a period of at least six months at no additional charge. Our software products are continually enhanced and improved to accommodate technological changes and other factors, which may affect the customer's information requirements. Our services are priced separately, and fees for our services generally are not included in the price of our software products. To receive maintenance and enhancements from us after the initial period, customers must pay fees which are based on the then-current price of the product.

As a part of our support service, we provide experienced application and data processing personnel to answer telephone inquiries on a 24-hours-a-day, seven days-a-week basis, and furnish consulting support in implementing and maintaining our systems. In addition, training courses and documentation materials are available to train personnel and update them on new system features.

Research and Development

We are committed to the development and acquisition of new products and to the continued enhancement of our existing products. During fiscal 2001, 2000, and 1999, we expensed approximately \$11,624,000, \$9,675,000 and \$11,511,000, respectively, for research and development. In addition, we capitalized \$3,949,000, \$10,446,000 and \$10,902,000, in software development costs during fiscal years 2001, 2000 and 1999, respectively, in accordance with the Statement of Financial Accounting Standards No. 86. Our new internal product development and enhancements of existing products include two categories: research and development expenditures and additions to capitalized computer software development costs. These combined categories totaled \$15,573,000, \$20,121,000 and \$22,413,000 in fiscal years 2001, 2000 and 1999, respectively,

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and represented 24%, 19% and 21%, respectively, of total revenues in those years.

We believe that our client/server and Internet-based solutions, which utilize the latest technologies, will be important for our long-term growth. As of April 30, 2001, we employed 88 persons in research, development and enhancement activities.

Competition

The market for enterprise applications is intensely competitive, rapidly changing and significantly affected by new product offerings and other market activities. In the application software market, we compete directly with a number of firms, including computer manufacturers, large diversified computer service companies and independent suppliers of software products. Approximately six firms that market mainframe application software products and over thirty firms that market midrange and client/server application software products are significant competitors for one or more of our products. A number of these competitors have significant worldwide presence, longer operating and product development history and financial, marketing, management and technical resources substantially greater than we do.

The primary markets for our software include manufacturers and distributors in consumer packaged goods, food & beverage, chemicals, pharmaceuticals, industrial products, and textiles, as well as retailers, wholesale distributors, health & beauty care, public utilities and public transportation. Our software and services operate on IBM mainframe, AS/400, RS/6000, HP 9000, and additional UNIX platforms, as well as Intel-based servers and clients that operate Windows 3.1, Windows 95, 98, 2000 and Windows NT.

We believe that purchasers of software products are principally concerned with the range of product modules available, ease of integration, variety of features, performance, simplicity of use, documentation, technical support and training. We further believe that our software products and services are competitive in these areas. Price considerations are a key factor and we believe our pricing is competitive. We believe the market trend to open systems, allowing software to operate across hardware platforms, will increase the number of competitors and intensity of competition. Management believes that it is necessary for us to expend significant development monies annually to remain competitive in the marketplace.

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Trademarks and Copyrights

We seek to protect our proprietary interest in software products and trade secrets. We maintain non-disclosure and confidentiality agreements and other contractual arrangements with customers, consultants, employees and others. While the strict enforceability of such agreements cannot be assured, we believe that they provide a deterrent to the use of information which may be proprietary to us and in the event of any breach of such agreements, we intend to take appropriate legal action. We also copyright our programs and software documentation related to these programs. In addition, certain trademarks of ours have been registered and others have registration applications pending.

Existing copyright laws afford only limited protection of our intellectual property. Moreover, the laws of some countries in which our software products are or may be licensed do not protect our software products and intellectual property rights to the same extent as the laws of the United States. Management believes that the rapid technological change in the computer software industry

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has made trade secret and copyright protection less significant than factors such as the knowledge, ability and experience of our employees, frequent software product enhancements and the timeliness and quality of our support services.

Despite measures we have taken to protect our proprietary rights, unauthorized parties may attempt to reverse engineer or copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult. In addition, litigation may be necessary to enforce our intellectual property rights to the extent that unauthorized parties may attempt to reverse engineer or copy aspects of our products or obtain and use information that we regard as proprietary. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results and financial condition.

In the future, we may increasingly be subject to claims of intellectual property infringement as the number of products and competitors in our industry segment grows and the functionality of products in different industry segment overlaps. There can be no assurance that third parties will not claim infringement by us with respect to current or future products. Any such claims against us, with or without merit, can be time consuming and expensive to defend, prosecute or resolve. Moreover, an adverse outcome in litigation or similar adversarial proceedings could subject us to significant liabilities to third parties, require the expenditure of significant resources to develop non-infringing technology, require a substantial amount of attention from management, require disputed rights to be licensed from others, require us to enter into royalty arrangements or require us to cease the marketing or use of certain products, any of which could have a material adverse effect on our business, operating results and financial condition. To the extent that we are required to obtain licenses to patents or proprietary rights of others there can be no assurance that any such licenses will remain acceptable to us, if at all.

Employees

As of April 30, 2001, we had 444 full-time employees, including 88 in product research, development and enhancement, 236 in customer support and professional services, 79 in marketing, sales and sales support, and 41 in accounting, facilities and administration. We believe that our continued success will depend in part on our ability to continue to attract and retain highly skilled technical, marketing and management personnel, who are in great demand.

We have never had a work stoppage and no employees are represented under collective bargaining arrangements. We consider our employee relations to be excellent.

RISK FACTORS

Factors That May Affect Future Results and Market Price of Stock.

We have included certain forward-looking statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-K. We may also make oral and written forward-looking statements from time to time, in reports filed with the Securities and Exchange Commission, and otherwise. Actual results may differ materially from those projected in any such forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Form 10-K.

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We operate in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of the risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. This section should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal years ended April 30, 1999, 2000 and 2001 contained elsewhere in this Form 10-K.

We Could Experience Fluctuations in Quarterly Operating Results That Could Adversely Impact Our Stock Price.

Our revenues and results of operations are difficult to predict and may fluctuate substantially from quarter to quarter. License revenues in any quarter depend substantially upon the combined contracting activity of the American Software group of companies and our ability to recognize revenues in that quarter in accordance with our revenue recognition policies.

Our contracting activity is difficult to forecast for a variety of reasons, including the following:

- . a significant portion of our license agreements are completed within the last few weeks of each quarter;
- . our sales cycle is relatively long and variable because of the complex and mission-critical nature of our products;
- . the size of our license transactions can vary significantly;
- . the possibility of economic downturns, both domestic and international, characterized by decreased product demand, price erosion, technological shifts, work slowdowns and layoffs, may substantially reduce customer demand and contracting activity;
- . customers may unexpectedly postpone or cancel system replacement or new system evaluations due to changes in their strategic priorities, project objectives, budgetary constraints or company management;
- . customer evaluations and purchasing processes vary from company to company, and a customer's internal approval and expenditure authorization process can be difficult and time consuming, even after selection of a vendor; and
- . the number, timing and significance of software product enhancements and new software product announcements by us and by our competitors may affect purchase decisions.

Several factors may require us to defer recognition of license revenue for a significant period of time after entering into a license agreement, including:

- . whether the license agreement relates to then unavailable software products;
- . whether transactions include both currently deliverable software products and software products that are under development or other undeliverable elements;
- . whether the customer demands services that includes significant modifications, customizations or complex interfaces that could delay products delivery or acceptance;

- . whether the transaction involves acceptance criteria that may preclude revenue recognition or if there are identified product-related issues, such as known defects; and
- . whether the transaction involves payment terms or fees that depend upon contingencies.

Because of the factors listed above and other specific requirements under GAAP for software revenue recognition, we must have very precise terms in our license agreements in order to recognize revenue when we initially deliver software or perform services. Although we have a standard form of license agreement that meets the criteria under GAAP for current revenue recognition on delivered elements, we negotiate and revise these terms and conditions in some transactions. Negotiation of mutually acceptable terms and conditions can extend the sales cycle, and sometimes we do not obtain terms and conditions that permit revenue recognition at the time of delivery or even as work on the project is completed.

Variances or slowdowns in our contracting activity in prior quarters may affect current and future consulting, training and maintenance service revenues since these revenues typically follow license fee revenues. Our ability to maintain or increase services revenue primarily depends on our ability to increase the number of our licensing agreements. In addition, our expense levels, operating costs and hiring plans are based on projections of future revenues and are relatively fixed. If our actual revenues fall below expectations, our net income is likely to be disproportionately adversely affected.

There Is Intense Competition in Our Industry, Which Requires Us to Constantly Create New Products, Improve Our Existing Products and Sell Our Products at Competitive Prices.

We compete with a variety of software vendors, including:

- . internet application vendors in the enterprise application software market segment;
- . vendors in the manufacturing software application market segment;
- . vendors in the emerging enterprise resource optimization software solutions market segment;
- . providers of human resource management system software products;
- . providers of financial management systems software products;
- . internal development efforts by Corporate Information Technology departments.
- . application hosting services vendors; and
- . numerous other firms that offer products and services with new or advanced features.

As a result, the market for business application software and related services has been and continues to be intensely competitive. Some competitors have become more aggressive with their prices and payment terms and issuance of contractual implementation terms or guarantees. We may be unable to continue to compete successfully with new and existing competitors without lowering prices

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or offering other favorable terms.

In addition, we believe we must differentiate ourselves through different or more subtle architectural and technological factors.

Some of our competitors may have an advantage over us due to their:

- . significant worldwide presence;
- . longer operating and product development history; and
- . substantially greater financial, technical and marketing resources than ours.

Furthermore, potential customers may consider outsourcing options, including application service providers, data center outsourcing and service bureaus as viable alternatives to licensing our software products.

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A Significant Portion of Our Revenue in any Quarter May be Derived from a Limited Number of Large, Non-Recurring License Sales.

We expect to continue to experience from time to time large, individual license sales, which may cause significant variations in quarterly license fees. We also believe that purchasing our products is relatively discretionary and generally involves a significant commitment of a customer's capital resources. Therefore, a downturn in any potential customer's business could result in order cancellations that could have a significant adverse impact on our revenue and quarterly results. Moreover, declines in general economic conditions could precipitate significant reductions in corporate spending for information technology, which could result in delays or cancellations of orders for our products.

We Are Dependent Upon Key Personnel, and Need to Hire Additional Personnel in All Areas.

Our future operating results depend significantly upon the continued service of a relatively small number of key senior management and technical personnel, including our Chief Executive Officer, James C. Edenfield. None of our key personnel are bound by long-term employment agreements. The loss of Mr. Edenfield or one or more other key individuals could have an adverse effect on us.

Our future success also depends on our continuing ability to attract and retain other highly qualified managerial and technical personnel. Competition for these personnel is intense, and we have at times experienced difficulty in recruiting and retaining qualified personnel. We may be unable to retain our key managerial and technical employees and we may not be successful in attracting, assimilating and retaining other highly qualified managerial and technical personnel in the future. If our competitors increase their use of non-compete agreements, the pool of available sales and technical personnel may further narrow in certain areas, even if the non-compete agreements ultimately prove to be unenforceable. We may grant large numbers of stock options to attract and retain personnel, which could be highly dilutive to our stockholders. The loss of key management and technical personnel or the inability to attract and retain additional qualified personnel would have an adverse effect on us.

Our Principal Stockholders May Control Our Management Decisions.

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James C. Edenfield, Chief Executive Officer of the Company, and Thomas L. Newberry, Chairman of the Board of Directors, own 100% of our outstanding Class B common stock between them, giving them the right to elect a majority of the Board of Directors. Current directors and executive officers as a group beneficially own approximately 3.9% of our Class A common stock. Mr. Edenfield, Dr. Newberry and members of their immediate families currently constitute four of the eight members of the Board and, thus, have significant influence in directing the actions of the Board of Directors.

The Impact of Changes in Global Economic Conditions on Our Customers May Cause Us to Fail to Meet Expectations, Which Would Negatively Impact the Price of Our Stock.

Our operating results can vary significantly based upon the effect of changes in global economic conditions on our customers. In particular, the current macro-economic environment is more uncertain than in recent periods and has the potential to materially and adversely affect us. The revenue growth and profitability of our business depends on the overall demand for computer software and services, particularly in the areas in which we compete. Because we sell primarily to major corporate customers whose businesses fluctuate with general economic and business conditions, a softening of demand for computer software caused by a weakening economy may result in decreased revenues and lower growth rates. Because historically we have relied upon relatively large license transactions, we may be especially prone to this risk. Customers may defer or reconsider purchasing products if they experience a downturn in their business or if there is a downturn in the general economy.

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We Have Recently Expanded Our Technology into Several New Business Areas and Cannot Be Certain that Our Expansion Will Be Successful.

Our future success depends to a large degree on the Internet being accepted and widely used for commerce. We have recently expanded our technology into a number of new business areas to foster long-term growth, including electronic commerce, on-line business services and other products and services that can be offered over the Internet. These areas are relatively new to our product development, sales and marketing personnel and we cannot be assured that the markets for these products will develop or that we will be able to compete effectively or will generate significant revenues in these new areas. As a result, our success in this area is difficult to predict.

Future Regulation of the Internet May Slow its Growth, Resulting in Decreased Demand for Our Products and Services and Increased Costs of Doing Business.

Due to increasing popularity of the Internet, it is possible that state, federal and international regulators could adopt laws and regulations that impose additional burdens on companies conducting business online. For example, the growth and development of the market for Internet-based services may prompt calls for more stringent consumer protection laws. Moreover, the applicability to the Internet of existing laws in various jurisdictions governing issues such as property ownership, sales tax, libel and personal privacy is uncertain and may take years to resolve. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could inhibit the expansion of the Internet, causing our costs to increase and our growth to be harmed.

The Viability of Electronic Marketplaces Is Uncertain.

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Electronic marketplaces that allow collaboration over the Internet among trading partners are relatively new and unproven. There can be no assurance that trading partners will adopt electronic marketplaces as a method of doing business. Trading partners may fail to participate in electronic marketplaces for a variety of reasons, including:

- . concerns about the confidentiality of information provided electronically to electronic marketplaces;
- . the inability of technological advances to keep pace with the volume of information processed by electronic marketplaces; and
- . regulatory issues, including antitrust issues that may arise when trading partners collaborate through electronic marketplaces.

Any of these factors could limit the growth of electronic marketplaces as an accepted means of commerce. Slower growth or the abandonment of the electronic marketplace concept in one or more industries could have a material adverse effect on our results of operations and financial condition.

We Depend on Third-Party Technology that Could Result in Increased Costs or Delays in the Production and Improvement of Our Products.

We license critical third-party software products that we incorporate into our own software products. If any of the third-party software vendors were to change their product offerings or terminate our licenses, we might need to incur additional development or acquisition costs to ensure continued performance of our products. In addition, if the cost of licensing any of these third-party software products significantly increases, our gross margin levels could significantly decrease.

We rely on existing relationships with certain other software vendors who are also competitors. If these vendors change their business practices in the future, we may be compelled to find alternative vendors with

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complementary software, which may not be available on attractive terms, or may not be as widely accepted or as effective as the software provided by our existing vendors.

Services Revenues Carry Lower Gross Margins than License Revenues and an Overall Increase in Services Revenue as a Percentage of Total Revenues Could Have an Adverse Impact on Our Business.

Because service revenues have lower gross margins than license revenues, an increase in the percentage of total revenue represented by service revenues could have a detrimental impact on our overall gross margins and could adversely affect operating results. As a result, our gross margins can be negatively affected based on the percentage of service revenues as a percentage of total revenue and the mix between services that are provided by our employees versus services provided by third-party consultants.

We May Change Our Pricing Practices, Which Could Impact Operating Margins or Customer Ordering Patterns.

In the future, we may choose to make changes to our pricing practices. For example, we may (i) offer additional discounts to customers, (ii) increase (or decrease) the use of pricing that involves periodic fees based on the number of users of a product, or (iii) change maintenance pricing. Such changes could reduce margins or inhibit our ability to sell our products.

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Recent Accounting Pronouncements Could Adversely Impact Our Profitability by Delaying Some Revenue Recognition into Future Periods.

In recent years, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition;" SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition;" and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." These standards address software revenue recognition matters primarily from a conceptual level and do not include specific implementation guidance. We believe that we currently comply with SOPs 97-2 and 98-4. SOP 98-9 was effective beginning January 1, 2000 and imposes significant new requirements such as establishing vendor-specific objective evidence. We have changed certain business policies to meet the requirements of SOP 98-9. The effect of the SOP 98-9 on our fiscal 2002 financial results is not presently determinable due to numerous factors, including the actual implementation of such policies, specifically negotiated exceptions to such policies, changes in market conditions and changes in interpretations of the SOPs. However, we believe that SOP 98-9 may require significantly more revenue to be deferred for certain types of transactions.

The American Institute of Certified Public Accountants has issued implementation guidelines for these standards and the accounting profession is still discussing a wide range of potential interpretations. These implementation guidelines, once finalized, could lead to unanticipated changes in our current revenue accounting practices that could cause us to recognize lower profits. As a result, we may change our business practices significantly in order to continue to recognize a substantial portion of our license revenues when we deliver our software products and services. These changes may adversely affect our business.

Our Continued Growth Depends Upon Our Ability to Build and Maintain Strategic Relationships with Third Parties.

A key aspect of our sales and marketing strategy is to build and maintain strong working relationships with businesses that we believe play an important role in the successful marketing of our software products and the marketing of our managed services and other services. Our current and potential customers often rely on third-party system integrators to implement, deploy and manage client/server and other platform-based applications. We believe that our marketing and sales efforts are enhanced by the worldwide presence of these companies. However, these companies, most of which have significantly greater financial and marketing resources than us, may start, or in some cases increase, the marketing of business application software in

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competition with us, or may otherwise discontinue their relationships with or support of us. In addition, if these strategic partners are unable to recruit and adequately train a sufficient number of consulting personnel to support the implementation of our software products, we may lose customers.

As we have done in the past, in the future we may enter into various development or joint business arrangements to develop new software products or extensions to our existing software products. Under these joint business arrangements, we may distribute ourself or jointly sell with our business partners an integrated software product and pay a royalty to the business partner based on end-user license fees. While we intend to develop business applications that are integrated with our software products, these software products may in fact not be integrated or brought to market or the market may not accept the integrated enterprise solution. As a result, we may not achieve

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the revenues that we anticipated at the time we entered into the joint business arrangement.

Our Software Products and Product Development Are Complex, Which Make It Increasingly Difficult to Innovate, Extend Our Product Offerings, and Avoid Costs Related to Correction of Program Errors.

The market for our software products is characterized by rapid technological change, evolving industry standards, changes in customer requirements and frequent new product introductions and enhancements. Our future success will depend in part upon our ability to:

- . continue to enhance and expand our core applications;
- . continue to sell our products;
- . continue to successfully integrate third-party products;
- . enter new markets; and
- . develop and introduce new products that keep pace with technological developments, including developments related to the Internet, satisfy increasingly sophisticated customer requirements and achieve market acceptance. We may not be able to enhance existing products or develop and introduce new products in a timely manner.

Our software products can be licensed for use with a variety of popular industry standard database management systems. There may be future or existing database management system platforms that achieve popularity within the business application marketplace and on which we may desire to offer our applications. These future or existing database management system products may or may not be architecturally compatible with our software product design. We may not be able to develop software products on additional platforms with the specifications and within the time frame necessary for market success.

Despite testing by us, our software programs, like all software programs generally, may contain a number of undetected errors when they are first introduced or as new releases are subsequently released. This may result in increased costs to correct such errors and reduced acceptance of our software products in the marketplace. The effort and expense of developing, testing and maintaining software product lines will increase with the increasing number of possible combinations of:

- . vendor hardware platforms;
- . operating systems and updated versions;
- . application software products and updated versions; and
- . database management system platforms and updated versions.

Developing consistent software product performance characteristics across all of these combinations could place a significant strain on our development resources and software product release schedules.

Implementation of Our Products Can Be Complex, Time-Consuming and Expensive and Customers May Be Unable to Implement Our Products Successfully or Otherwise Achieve the Benefits Attributable to Our Products.

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Our products must integrate with the many existing computer systems and software programs of our customers. This can be complex, time-consuming and expensive, and may cause delays in the deployment of our products. Our customers may be unable to implement our products successfully or otherwise achieve the benefits attributable to our products.

Our Recent and Future Acquisitions May Not Be Successful.

We have in the recent past acquired and invested, and may continue to acquire or invest, in complementary companies, products and technologies, and enter into joint ventures and strategic alliances with other companies. Risks commonly encountered in such transactions include:

- . the difficulty of assimilating the operations and personnel of the combined companies;
- . the risk that we may not be able to integrate the acquired technologies or products with our current products and technologies;
- . the potential disruption of our ongoing business;
- . the inability to retain key technical and managerial personnel;
- . the inability of management to maximize our financial and strategic position through the successful integration of acquired businesses;
- . adverse impact on our annual effective tax rate;
- . dilution of existing equity holders caused by capital stock issuances to the stockholders of acquired companies or to retain employees of the acquired companies;
- . difficulty in maintaining controls, procedures and policies;
- . potential adverse impact on our relationships with partner companies or third-party providers of technology or products;
- . the impairment of relationships with employees and customers; and
- . issues with product quality, product architecture, legal contingencies, product development issues, or other significant issues that may not be detected through our due diligence process.

Recent changes in the law require the use of the purchase method of accounting in all new business acquisitions. The purchase method of accounting for business combinations may require large write-offs of any in-process research and development costs related to companies being acquired, as well as ongoing amortization costs for goodwill and other intangible assets valued in combinations of companies. Such write-offs and ongoing amortization charges may have a significant negative impact on operating margins and net income in the quarter of the combination and for several subsequent years. We may not be successful in overcoming these risks or any other problems encountered in connection with such transactions.

Our International Operations and Sales Subject Us to Risks Associated with Unexpected Activities Outside of the United States.

The global reach of our business could cause us to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in locations within the United States. Changes in the following factors, among others, could have an adverse impact on our business

and earnings:

- . conducting business in currencies other than United States dollars subjects us to factors such as currency controls and fluctuations in currency exchange rates;

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- . we may be unable to hedge some transactions because of uncertainty or the inability to reasonably estimate our foreign exchange exposure;
- . we may hedge some anticipated transactions and transaction exposures, but could experience losses if exchange rates move in the opposite direction;
- . offering foreign technical standards;
- . increased cost and development time required to localize our products;
- . lack of experience in a particular geographic market;
- . regulatory, social, political, labor or economic conditions in a specific country or region;
- . laws, policies and other regulatory requirements affecting trade and investment including loss or modification of exemptions for taxes and tariffs, and import and export license requirements;
- . exposure to different legal standards; and
- . operating costs in many countries are higher than in the United States.

The Euro Creates Uncertainty for Our Product Development and, as a Result, Could Impact Sales.

A number of our software releases contain European Monetary Union, or EMU, functionality that allows for dual currency reporting and information management. However, since the Euro will not be the sole legally required currency in any of the member nations until 2002, it is possible that all issues related to conversion to EMU have not surfaced yet, and may not have been adequately addressed. In addition, our products may be used with third-party products that may or may not be EMU compliant. Although we continue to take steps to address the impact, if any, of EMU compliance for such third-party products, failure of any critical technology components to operate properly under EMU may adversely affect sales or require us to incur unanticipated expenses to remedy any problems.

We Have Limited Protection of Intellectual Property and Proprietary Rights and May Potentially Infringe Third-Party Intellectual Property Rights.

We consider certain aspects of our internal operations, software and documentation to be proprietary, and rely on a combination of contract, copyright, trademark and trade secret laws and other measures to protect this information. Existing copyright laws afford only limited protection. We believe that the rapid pace of technological change in the computer software industry has made trade secret and copyright protection less significant than factors such as:

- . knowledge, ability and experience of our employees;
- . frequent software product enhancements; and

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. timeliness and quality of support services.

Our competitors may independently develop technologies that are substantially equivalent or superior to our technology. The laws of some countries in which our software products are or may be licensed do not protect our software products and intellectual property rights to the same extent as the laws of the United States. Defending our rights could be costly.

Third parties may assert infringement claims against us. These assertions could distract management, require us to enter into royalty arrangements, and could result in costly and time consuming litigation, including damage awards.

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We May Experience Liability Claims Arising Out of the Licensing of Our Software and Provision of Services.

Our agreements normally contain provisions designed to limit our exposure to potential liability claims. However, these provisions could be invalidated by unfavorable judicial decisions or by federal, state, local or foreign laws or ordinances. For example, we may not be able to avoid or limit liability for disputes relating to product performance or the provision of services. If a claim against us were to be successful, we may be required to incur significant expense and pay substantial damages. Even if we prevailed, the accompanying publicity could adversely impact the demand for our software.

Concerns That Our Products Do Not Adequately Protect the Privacy of Consumers Could Inhibit Sales of Our Products.

One of the features of our customer management software applications is the ability to develop and maintain profiles of customers for use by businesses. Typically, these products capture profile information when customers and employees visit an Internet web-site and volunteer information in response to survey questions concerning their backgrounds, interests and preferences. Our products augment these profiles over time by collecting usage data. Although our customer management products are designed to operate with applications that protect user privacy, privacy concerns may nevertheless cause visitors to resist providing the personal data necessary to support this profiling capability. If we cannot adequately address customers' privacy concerns, these concerns could seriously harm our business, financial condition and operating results.

Increased Rate of Growth in Our Operations Could Increase Demands on Our Managerial and Operational Resources.

If the rate of growth in the scope of our operating and financial systems and the geographic distribution of our operations and customers increases dramatically, it may increase demands on our management and operations. Our officers and other key employees will need to implement and improve our operational, customer support and financial control systems and effectively expand, train and manage our employee base. Further, we may be required to manage an increasing number of relationships with various customers and other third parties. We may not be able to manage future expansion successfully, and our inability to do so could harm our business, operating results and financial condition.

Our Stock Price Is Volatile and There Is a Risk of Litigation.

The trading price of our common stock has in the past and may in the future be subject to wide fluctuations in response to factors such as the following:

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- . revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- . announcements of technological innovations by us or our competitors;
- . new products or the acquisition of significant customers by us or our competitors;
- . developments with respect to our patents, copyrights or other proprietary rights or those of our competitors;
- . changes in recommendations or financial estimates by securities analysts;
- . changes in management;
- . conditions and trends in the software industry generally;
- . the announcement of acquisitions or other significant transactions by us or our competitors;

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- . adoption of new accounting standards affecting the software industry; and
- . general market conditions and other factors.

Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Although no such lawsuits are currently pending against us and we are not aware that any such lawsuit is threatened to be filed in the future, there is no assurance that we will not be sued based on fluctuations in the price of our common stock.

In Addition to Each of the Foregoing Risk Factors, Our Wholly-Owned Subsidiary, AmQUEST, Inc., May be Negatively Affected by the Following Factors, Which Could In Turn Affect Our Future Results and Market Price of Our Stock.

- . The market for the managed services offered by AmQUEST has only recently begun to develop, is evolving rapidly and is characterized by an increasing number of market entrants. The market for managed services offered by AmQUEST may not prove to be viable or, if it becomes viable, may not continue to grow. If this market fails to develop, or develops more slowly than expected, or if AmQUEST's services do not achieve market acceptance, AmQUEST's business would be adversely affected. In particular, AmQUEST has not yet determined the long-term impact on its business of recent weakness in U.S. and international technology industries. Because AmQUEST believes that companies in these industries are strong candidates for its services, continued weakness in these industries could have a material adverse effect on the business of AmQUEST.
- . The market for managed services offered by AmQUEST is highly competitive. There are few substantial barriers to entry and many of AmQUEST's current competitors have substantially greater financial, technical and marketing resources, larger customer bases, more data centers, longer operating histories, greater name recognition and more established relationships in the industry than AmQUEST possesses. AmQUEST's current and potential competitors may be able to grow their businesses at a faster pace than AmQUEST or attract AmQUEST's current and potential customers away from AmQUEST, which could negatively affect AmQUEST's customer base, revenues and results of operations.

- . Any damage to or failure of AmQUEST's systems or service providers caused by human error, physical or electronic security breaches, power loss and other facility failures, fire, earthquake, flood, telecommunications failure, sabotage, vandalism and similar events could result in reductions in, or terminations of, services to its customers, which could negatively affect its revenue, cause it to lose customers or result in litigation. AmQUEST seeks to protect its network infrastructure and customers' equipment against such damage. Despite precautions it has taken, however, a natural disaster or other unanticipated problems at AmQUEST's Network Operation Center and other service provider locations could result in interruptions in its services or significant damage to customer equipment.
- . Colocation providers have established colocation facilities in most major cities in the U.S. Because AmQUEST anticipates that many customers locating their computer equipment at those facilities will be attracted to monitoring services such as those AmQUEST provides, AmQUEST is seeking to build a direct sales force targeting these potential customers, as well as its own customers that may wish to locate in those facilities. If this new market fails to generate substantial revenues at attractive margins, this source of business will not contribute to AmQUEST's future profitability and, thus, AmQUEST's revenues and profitability would not increase at a rate consistent with its goals and projections.
- . The increased use of the Internet for retrieving, sharing and transferring information among businesses and consumers has only recently begun to develop. The increased demands that the Internet imposes on large enterprises has been an important factor in the increased demand for AmQUEST's managed services. Thus, AmQUEST's success will depend largely on the continued growth in Internet usage. In addition, AmQUEST's business plan anticipates extensive growth in the application hosting markets, which complement AmQUEST's managed services. The growth of the Internet, including the Web site

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hosting and application hosting markets, is subject to a high level of uncertainty and depends on a number of factors, including the growth in consumer and business use of new interactive technologies, the development of technologies that facilitate interactive communications, security concerns and increases in data transport capacity. If the Internet as a commercial medium fails to grow or develops more slowly than expected, AmQUEST will not be able to develop its business as anticipated.

- . AmQUEST relies on a number of public and private network interconnections to allow its customers to connect to other networks. AmQUEST must continue to expand and adapt its network arrangements to accommodate an increasing amount of data traffic and changing customer requirements. If the networks with which AmQUEST interconnects were to discontinue their interconnections, and AmQUEST is unable to access alternative networks, its ability to provide services to its customers would be significantly constrained. Furthermore, AmQUEST's business will be harmed if these networks do not add more bandwidth to accommodate increased traffic.
- . The ability to provide secure transmissions of confidential information over networks accessible to the public is a significant barrier to electronic commerce and communications. A portion of AmQUEST's services rely on security technology licensed from third parties. Despite a variety of network measures that it has taken, AmQUEST cannot provide assurance that unauthorized access, computer viruses, accidental or

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intentional actions and other disruptions will not occur. In such an event, AmQUEST could become liable to others and lose existing or potential customers.

- . Because AmQUEST's managed services are critical to many of its customers' businesses, any significant interruption in AmQUEST's services could result in lost profits or other indirect or consequential damages to its customers. AmQUEST's customers are required to sign agreements that incorporate its standard terms and conditions. Although these terms disclaim AmQUEST's liability for any such damage, a customer could still bring a lawsuit against AmQUEST claiming lost profits or other consequential damages as the result of a service interruption or other problems that the customer may ascribe to AmQUEST. If a court refuses to enforce any limitations on AmQUEST's liability and the outcome of any lawsuit is adverse to it, then AmQUEST could be required to pay a judgment and significant costs.
- . The adoption or modification of laws or regulations relating to the Internet could adversely affect AmQUEST's business. Laws and regulations passed in the United States and abroad that are directly applicable to communications and commerce over the Internet are becoming more prevalent. The law of the Internet, however, remains largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual property, privacy, libel and taxation apply to the Internet. AmQUEST provides services over the Internet in all states in the United States and in many foreign countries, and it facilitates the activities of its customers in these jurisdictions. The application of these multiple sets of laws and regulations is uncertain, and AmQUEST could find that it is subject to regulation, taxation, enforcement or other liability in unexpected ways, which could materially adversely affect its business.

ITEM 2. PROPERTIES

Our corporate headquarters are located in an approximately 100,000 square foot office building that we own, at 470 East Paces Ferry Road, N.E., Atlanta, Georgia.

We own a four-story 42,000 square foot building at 3110 Maple Drive, a one-story 1,400 square foot building at 3116 Maple Drive, a one-story 14,000 square foot building at 3120 Maple Drive, and a two-story 10,000 square foot building at 480 East Paces Ferry Road, each of which is located in Atlanta, Georgia near our headquarters. We also own a one-story 4,000 square foot building at 490 East Paces Ferry Road, Atlanta, Georgia, which we lease to a restaurant.

We lease a two-story, 17,500 square foot building at 443 East Paces Ferry Road, N.E., Atlanta, Georgia, which is used primarily for financial administration. This building is owned by a limited partnership of which Thomas L. Newberry and James C. Edenfield, principal shareholders of American Software, are the sole

partners. The term of the lease expired December 31, 1996, and has been continued on a quarterly basis with a current base rental rate of \$17.00 per square foot, pending negotiation of a new lease.

We lease approximately 30,175 square feet of office space in the United Kingdom. We have also entered into leases for sales offices located in various cities in the U. S. and overseas. Normally, these leases are for terms of less

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than five years and average 3,000 square feet of leasable space.

We own a variety of electronic and computer equipment, including two mainframe class computers, consisting of one IBM 9121 732, and one IBM 9221 150, and lease three IBM 9672 RA6, two IBM 2003 2C5, one IBM 9672 RB5, and nine IBM AS400s. In addition, twenty-eight NT and Unix systems are in service. All of these systems are used for outsourcing services, network management, program development and testing, and product demonstration.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of shareholders during the fourth quarter of our recently completed fiscal year.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Trading Market

Our Class A Common Shares are listed on the Nasdaq Stock Market--National Market under the symbol AMSWA. As of July 12, 2001, there were 9,185 holders of record of Class A Common Shares, some of whom are holders in nominee name for the benefit of different shareholders, and two holders of Class B Common Shares.

Market Price Information

The table below presents the quarterly high and low sales prices for American Software, Inc. Class A common stock as reported by NASDAQ, for the Company's last two fiscal years (2001 and 2000).

| | High | Low |
|---------------------|----------|---------|
| | ---- | --- |
| Fiscal Year 2001 | | |
| First Quarter..... | \$ 8 1/2 | \$3 7/8 |
| Second Quarter..... | 6 5/8 | 3 1/16 |
| Third Quarter..... | 3 1/2 | 1 3/8 |
| Fourth Quarter..... | 2 7/16 | 1 1/8 |

| | High | Low |
|---------------------|----------|---------|
| | ---- | --- |
| Fiscal Year 2000 | | |
| First Quarter..... | \$ 4 1/2 | \$2 1/2 |
| Second Quarter..... | 4 1/4 | 2 3/8 |
| Third Quarter..... | 14 3/4 | 2 2/3 |
| Fourth Quarter..... | 24 7/16 | 5 5/8 |

Dividends

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No dividends were paid on our common stock during the past three fiscal years. The payment of future cash dividends will be at the sole discretion of the Board of Directors and will depend upon our profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors.

Transfer Agent

First Union National Bank
Equity Services Group
1525 West W.T. Harris Blvd, 3C3
Charlotte, NC 28288
Phone: (800)829-8432
www.firstunion.com/corptrust

Inquiries regarding stock transfers, lost certificates or address changes should be directed to the above address.

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Market Makers

The following firms make a market in the common shares of American Software, Inc:

| | |
|-------------------------------|---------------------------|
| Cantor, Fitzgerald & Co. | Schwab Capital Markets |
| Fleet Trading/Div Fleet Secs. | Sherwood Securities Corp. |
| Gruntal & Co. Incorporated | Spear, Leeds & Kellogg |
| Herzog, Heine, Geduld, Inc. | The Robinson Humphrey Co. |
| Jefferies & Company, Inc. | Wachovia Securities |
| Knight Securities L.P. | Wien Securities Corp. |

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected combined financial data presented below for the years ended April 30, 2001, 2000, 1999, 1998, and 1997 are derived from our audited combined financial statements.

| | Years Ended April 30, | | | | |
|--|-----------------------|-----------|-----------|-----------|-----------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| (In thousands, except per share amounts) | | | | | |
| Combined Statements of | | | | | |
| Operations Data: | | | | | |
| Revenues | | | | | |
| Licenses..... | \$ 12,778 | \$ 20,572 | \$ 19,602 | \$ 33,548 | \$ 30,106 |
| Services..... | 52,064 | 59,740 | 63,572 | 50,090 | 32,595 |
| Maintenance..... | 23,865 | 25,198 | 26,003 | 23,834 | 22,010 |
| Total revenues..... | 88,707 | 105,510 | 109,177 | 107,472 | 84,711 |

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| | | | | | |
|---|-------------|------------|-------------|------------|------------|
| Cost of Revenues: | | | | | |
| Licenses..... | 5,681 | 5,177 | 8,254 | 8,182 | 6,754 |
| Services..... | 44,289 | 45,999 | 45,344 | 33,439 | 27,410 |
| Maintenance..... | 5,225 | 9,750 | 10,337 | 7,642 | 7,972 |
| | ----- | ----- | ----- | ----- | ----- |
| Total cost of revenues..... | 55,195 | 60,926 | 63,935 | 49,263 | 42,136 |
| | ----- | ----- | ----- | ----- | ----- |
| Gross Margin..... | 33,512 | 44,584 | 45,242 | 58,209 | 42,575 |
| Operating expenses: | | | | | |
| Research and development..... | 11,624 | 9,675 | 11,511 | 12,112 | 7,343 |
| Sales and marketing... | 22,588 | 23,985 | 28,859 | 25,915 | 20,811 |
| General and administrative..... | 13,555 | 13,365 | 14,427 | 11,354 | 11,970 |
| Provision for doubtful accounts..... | 1,627 | 385 | 1,880 | 176 | 770 |
| Charge for asset impairment..... | 10,458 | -- | 26,563 | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating expenses..... | 59,852 | 47,410 | 83,240 | 49,557 | 40,894 |
| | ----- | ----- | ----- | ----- | ----- |
| Operating earnings (loss)..... | (26,340) | (2,826) | (37,998) | 8,652 | 1,681 |
| Other income, net..... | 1,342 | 1,734 | 3,415 | 3,791 | 1,744 |
| | ----- | ----- | ----- | ----- | ----- |
| Earnings (loss) before income taxes..... | (24,998) | (1,092) | (34,583) | 12,443 | 3,425 |
| Income tax expense (benefit)..... | (2,418) | 150 | (1,766) | 4,648 | 1,093 |
| | ----- | ----- | ----- | ----- | ----- |
| Net earnings (loss)..... | \$ (22,580) | \$ (1,242) | \$ (32,817) | \$ 7,795 | \$ 2,332 |
| | ===== | ===== | ===== | ===== | ===== |
| Net earnings (loss) per common share--Basic ... | | | | | |
| Diluted..... | \$ (.99) | \$ (.06) | \$ (1.48) | \$.34 | \$.10 |
| | \$ (.99) | \$ (.06) | \$ (1.48) | \$.32 | \$.10 |
| Weighted average common shares--Basic..... | | | | | |
| Diluted..... | 22,730,101 | 21,721,636 | 22,230,656 | 22,667,283 | 22,353,192 |
| | 22,730,101 | 21,721,636 | 22,230,656 | 24,414,515 | 23,525,532 |

April 30,

| | | | | |
|------|------|------|------|------|
| 2001 | 2000 | 1999 | 1998 | 1997 |
|------|------|------|------|------|

(In thousands, except per share amounts)

Combined Balance Sheet

Data:

Cash and cash

| | | | | | |
|---|-----------|------------|------------|------------|-----------|
| equivalents..... | \$ 10,057 | \$ 12,910 | \$ 21,567 | \$ 14,466 | \$ 7,579 |
| Investments..... | \$ 21,044 | \$ 31,335 | \$ 27,297 | \$ 45,757 | \$ 16,827 |
| Working capital..... | \$ 15,601 | \$ 23,204 | \$ 34,881 | \$ 63,263 | \$ 21,492 |
| Total assets..... | \$ 82,067 | \$ 113,047 | \$ 109,736 | \$ 142,656 | \$ 99,509 |
| Total long term lease obligation and debt.... | | | | | |
| Shareholders' equity.... | \$ 1,045 | \$ 907 | \$ 1,700 | \$ 776 | \$ 1,157 |
| | \$ 47,851 | \$ 69,706 | \$ 67,197 | \$ 100,810 | \$ 67,152 |

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The discussion and analysis below contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Such forward-looking statements generally are accompanied by words such as "plan," "estimate," "expect," "believe," "should," "would," "could," "anticipate," "may" or other words that convey uncertainty of future events or outcomes. The forward-looking statements in this discussion and analysis are made in reliance upon safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The section above entitled "Risk Factors" sets forth certain factors that could cause our actual future results to differ materially from those statements.

We develop, market, and support Internet commerce, enterprise resource planning (ERP) and integrated supply chain management solutions. The product line encompasses integrated business applications such as demand forecasting, logistics planning, warehouse management, order management, financials, manufacturing, and transportation solutions. We offer professional services to our customers in support of our products and third-party products. These services include project management, implementation, product education, technical consulting, programming, system integration, network management and maintenance and support.

Our revenues are derived primarily from three sources: software licenses, services and maintenance. Software licenses generally are based upon the number of modules, servers, users and/or sites licensed. We recognize revenue in accordance with Statement of Position No. 97-2, Software Revenue Recognition, and Statement of Position No. 98-9, Software Revenue Recognition with Respect to Certain Transactions. License revenues in connection with license agreements for standard proprietary and tailored software are recognized upon delivery of the software, provided collection is considered probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor-specific evidence exists to allocate the total fee to all elements of the arrangement. Revenues derived from services primarily include consulting, implementation, training and network management. Fees are billed under both time and materials and fixed fee arrangements and are recognized as services are performed. Maintenance fees are generally billed annually in advance and the resulting revenues are recognized ratably over the term of the maintenance agreement. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the time revenues are recognized.

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RESULTS OF OPERATIONS

The following table sets forth certain revenue and expense items as a percentage of total revenues for the three years ended April 30, 2001, 2000, and 1999 and the percentage increases and decreases in those items for the years ended April 30, 2001 and 2000:

| Percentage of Total Revenues | Pct. Change In Dollars |
|---------------------------------|---------------------------|
|---------------------------------|---------------------------|

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| | 2001 | 2000 | 1999 | 2001 vs 2000 | 2000 vs 1999 |
|--------------------------|-------|------|-------|--------------|--------------|
| Revenues: | | | | | |
| License fees..... | 14 % | 19 % | 18 % | (38)% | 5 % |
| Services..... | 59 | 57 | 58 | (13) | (6) |
| Maintenance..... | 27 | 24 | 24 | (5) | (3) |
| | --- | --- | --- | --- | --- |
| Total revenues..... | 100 | 100 | 100 | (16) | (3) |
| | --- | --- | --- | --- | --- |
| Cost of revenues: | | | | | |
| License fees..... | 6 | 5 | 8 | 10 | (37) |
| Services..... | 50 | 44 | 42 | (4) | 1 |
| Maintenance..... | 6 | 9 | 9 | (46) | (6) |
| | --- | --- | --- | --- | --- |
| Total cost of revenues.. | 62 | 58 | 59 | (9) | (5) |
| | --- | --- | --- | --- | --- |
| Gross margin | 38 | 42 | 41 | (25) | (1) |
| | --- | --- | --- | --- | --- |
| Operating expenses: | | | | | |
| Research and development | | | | | |
| cost, net..... | 14 | 9 | 11 | 20 | (16) |
| Marketing and sales..... | 25 | 23 | 26 | (6) | (17) |
| General and | | | | | |
| administrative..... | 13 | 13 | 13 | 1 | (7) |
| Provision for doubtful | | | | | |
| accounts..... | 2 | nm | 2 | 323 | (79) |
| Charge for asset | | | | | |
| impairment and purchased | | | | | |
| R&D..... | 12 | -- | 24 | nm | nm |
| | --- | --- | --- | --- | --- |
| Total operating | | | | | |
| expenses..... | 67 | 45 | 76 | 26 | (43) |
| | --- | --- | --- | --- | --- |
| Operating earnings | | | | | |
| (loss)..... | (30) | (3) | (35) | (832) | (93) |
| Other income, net..... | 1 | 2 | 3 | (23) | (49) |
| | --- | --- | --- | --- | --- |
| Earnings (loss) before | | | | | |
| income taxes..... | (28) | (1) | (32) | (2189) | (97) |
| Income taxes..... | (3) | nm | (2) | nm | nm |
| | --- | --- | --- | --- | --- |
| Net earnings (loss)..... | (25)% | (1)% | (30)% | (1918)% | (96)% |
| | === | === | === | ===== | === |

nm--not meaningful

GENERAL MARKET CONDITIONS:

The weakness in the overall economy has resulted in delayed purchases of our software during fiscal year 2001. As a result of these economic conditions and increased competition in the ERP area, we restructured our business in the first half of fiscal 2001 in order to become profitable, which we achieved in the fourth quarter of fiscal 2001. The restructuring resulted in the write-off of certain capitalized software development costs in the amount of \$9.5 million and severance costs of approximately \$970,000.

Fiscal Years Ended April 30, 2001 and 2000:

Revenues:

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Our total revenues decreased 16% to \$88.7 million in the fiscal year ended April 30, 2001 from \$105.5 million in the fiscal year ended April 30, 2000. This decrease was primarily due to a decrease in license fee

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revenues as well as a decline in implementation and training services. International revenues represented approximately 10% of total revenues in the year ended April 30, 2001 and 7% of total revenues in the year ended April 30, 2000.

Software Licenses. Our license fee revenues decreased 38% in the fiscal year ended April 30, 2001 to \$12.8 million compared to \$20.6 million in the prior year. This decrease was primarily due to a 36% decrease in license fees for the software products of our 85% owned subsidiary, Logility. The Logility license fee revenues decreased to \$ 8.6 million in the fiscal year ended April 30, 2001 compared to \$13.5 million in the prior fiscal year. This decrease was due to the general slowing in economic conditions and transition and restructuring within our executive sales management team, which has since been completed. Logility software product sales constituted approximately 68% of license fees in fiscal 2001 and 66% of license fee revenues in fiscal 2000. Software revenues have fluctuated and we expect them to continue to fluctuate based on competition, demand for our products and other factors.

Services. Services revenues, which consist primarily of consulting, implementation, training and network management services, decreased 13% to \$52.1 million in fiscal year 2001 from \$59.7 million in fiscal year 2000. This decrease was primarily a result of a reduction in new consulting and implementation projects due to lower prior period license fee sales. Due to the decrease in new projects for the ERP area, a reduction in services personnel occurred during the twelve-month period as part of our restructuring efforts. Services revenues for Logility constituted 18% of total services revenues, for the twelve months ended April 30, 2001 and constituted 16% of total services revenues for the twelve months ended April 30, 2000. Services revenues for AmQUEST constituted 34% of total services revenue for the twelve months ended April 30, 2001 and 31% of total services revenue for the twelve months ended April 30, 2000. Services revenues constituted 59% of total revenues in fiscal year 2001 and 57% of total revenues in fiscal year 2000. Service revenues as a percentage of total revenues have fluctuated, and are expected to continue to fluctuate on a period-to-period basis based upon the demand for implementation, consulting and network services.

Maintenance. Maintenance revenues, which consist of product support activities and ongoing product enhancements provided to customers who license our products and purchase maintenance agreements, decreased 5% to \$23.9 million in fiscal year 2001 compared to \$25.2 million in fiscal year 2000. This decrease was due primarily to the lower ERP license fee revenues. Maintenance revenues have a direct relationship to current and historic license fee revenues, since licenses are the source of potential new maintenance customers, as well as renewals for maintenance services; accordingly, maintenance revenues will fluctuate on the basis of new license sales and renewal rates. Maintenance revenues constituted 27% of total revenues in fiscal year ended April 30, 2001 and 24% of total revenues in fiscal year ended April 30, 2000.

Gross Margin:

Total gross margin in fiscal 2001 was 38% compared to 42% in the prior fiscal year. This decrease was primarily due to the decrease of license fee margin to 56% in fiscal 2001 compared to 75% in fiscal 2000, as a result of lower license fee sales and the relatively fixed amount of amortization expense

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on capitalized software, which made up the largest component of cost of license fees during fiscal 2001. We are continually developing software enhancements and new products. We will monitor the market acceptance of these new products. Services gross margin decreased to 15% in fiscal 2001 from 23% in the prior year due mainly to the higher margin services work related to the "Year 2000" remediation being performed in the first and second quarters of fiscal year 2000 compared to the lower margin services work that we performed in fiscal year 2001 and the second half of fiscal year 2000. Maintenance gross margin increased to 78% in fiscal 2001 compared to 61% in fiscal year 2000. This increase was primarily due to the increased maintenance revenues of Logility and the cost management efforts by the ERP area that we began in the prior fiscal year.

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Operating Expenses:

Research and Development. Gross product development costs include all non-capitalized and capitalized software development costs. A breakdown of the research and development costs for the two most recent fiscal years is as follows:

| | Years Ended (000's omitted) | | |
|---|--------------------------------|-------------------|----------------------|
| | April 30, 2001 | Percent Change | April 30, 2000 |
| Gross product development costs..... | \$15,573 | (23)% | \$20,121 |
| Percentage of total revenues..... | 18 % | | 19 % |
| Less: capitalized development..... | (3,949) | (62)% | (10,446) |
| Percentage of gross product development costs..... | 26 % | | 52 % |
| Product development expenses..... | \$11,624 | 20 % | \$ 9,675 |
| Percentage of total revenues..... | 14 % | | 9 % |

Gross product development costs decreased 23% in fiscal 2001 compared to fiscal 2000 as a result of cost reduction efforts in response to lower license fees. Capitalized development decreased by 62% from a year ago, while the rate of capitalized development decreased to 26% from 52% in fiscal year 2000 due to cost reduction efforts, as well as the reduction in capitalized projects. Product development expenses as a percentage of total revenues increased to 14% in fiscal year 2001 compared to 9% in fiscal year 2000 primarily as a result of the decrease in total revenues and the reduction in capitalized development costs.

Sales and Marketing. Sales and marketing expenses decreased 6% in the fiscal year ended April 30, 2001 as a result of cost containment and restructuring efforts that occurred during the current year. Sales and marketing expenses as a percentage of total revenues increased to 25% for fiscal year 2001 when compared to 23% for fiscal year 2000. This increase is due to the reduced revenues in the current year.

General and Administrative. General and administrative expenses remained relatively constant at \$13.6 million in fiscal year 2001 compared to \$13.4

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million during the same period in the prior year.

Provision for Doubtful Accounts. For the twelve months ended April 30, 2001 we incurred a charge for doubtful accounts of \$1.6 million compared to \$385,000 in fiscal year 2000. The current year charge was a result of difficult customer collections of Internet-related businesses and the overall weakness in the economy.

Charge for Asset Impairment and Restructuring. For the twelve months ended April 30, 2001, we incurred a charge against earnings of \$10.5 million. This charge was a result of the write-off of certain capitalized software development costs in the amount of \$9.5 million, and a restructuring charge of \$970,000. These charges were primarily a result of lower than anticipated sales of our ERP products in recent periods. We believe the charge for the asset impairment will bring the amount of capitalized software in line with the revised forecasts of future ERP sales. The restructuring charge is the result of severance expenses for approximately 110 employees in Sales, Marketing, Services and Research and Development. Included in the \$970,000 was a non-cash charge of approximately \$270,000 related to the accelerated vesting of stock options for the severed employees.

Other Income/Minority Interest. Other income is comprised predominantly of interest income, gains and losses from sales of investments and changes in the market value of investments. Other income decreased to \$1.3 million for the twelve months, ended April 30, 2001 compared to \$1.7 million for the same period a year ago, primarily due to a reduction in invested assets related to the write down of certain investments in early stage companies and a reduction in rates of return. Minority interest income (loss) is an adjusting entry based on our subsidiaries' earnings (loss). Minority interest income was \$914,000 for the twelve months, ended April 30, 2001 compared to a loss of \$261,000 for the same period a year ago. This increase is primarily related to Logility's losses in the current fiscal year, compared to Logility's earnings in the prior year.

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Income Taxes. For the twelve months ended April 30, 2001, we recorded an income tax benefit of \$2.4 million as a result of an income tax refund in the amount of \$705,000 and a reduction in income tax liability in the amount of \$1.7 million based on current estimates of future tax liabilities based on the conclusion of an Internal Revenue Service audit. In the prior year income tax expense in the amount of \$150,000 was recorded based on an estimate for our tax liability for fiscal year 2000.

Fiscal Years Ended April 30, 2000 and 1999:

Revenues:

Our total revenues decreased 3% to \$105.5 million in the fiscal year ended April 30, 2000 from \$109.2 million in the fiscal year ended April 30, 1999. This decrease was primarily due to a decrease in implementation and training services as well as a decline in maintenance revenues. This was offset by an increase in license fees revenue. International revenues represented approximately 7% of total revenue in the fiscal year ended April 30, 2000 and 10% of total revenues in the fiscal year ended April 30, 1999.

Software Licenses. Our license fee revenues increased 5% in the fiscal year ended April 30, 2000 to \$20.6 million compared to \$19.6 million in the prior year. This increase was primarily due to a 19% increase in License fees for the Logility software products of our 85%-owned Logility subsidiary, partially offset by a 14% decrease in the Enterprise Solution software products. The

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Logility license fee revenue increased to \$13.5 million in the fiscal year ended April 30, 2000 compared to \$11.4 million in the prior fiscal year. Logility software product sales constituted approximately 66% of license fee revenues in fiscal 2000 and 58% of license fee revenues in fiscal 1999.

Services. Services revenues, which consist primarily of consulting, implementation, training and network management services, decreased 6% to \$59.7 million in fiscal year 2000 from \$63.6 million in fiscal year 1999. This decrease was primarily due to the completion of "Year 2000" projects in fiscal year 2000 that were active in the prior fiscal period, as well as lower license fees in the prior period. Services revenues constituted 57% of total revenues in fiscal 2000 and 58% of total revenues in fiscal 1999.

Maintenance. Maintenance revenues, which consist of product support activities and on-going product enhancements provided to customers who license the Company's products and purchase maintenance agreements, decreased 3% to \$25.2 million in fiscal year 2000 compared to \$26.0 million in fiscal year 1999, respectively. This decrease was due to the lower ERP license fee revenues. Maintenance revenues constituted 24% of total revenues in both in the fiscal year ended April 30, 2000 and the fiscal year ended April 30, 1999.

Gross Margin:

Total gross margin in fiscal 2000 was 42% compared to 41% in the prior year. This increase was primarily due to the increase of license fee margin to 75% in fiscal 2000 compared to 58% in fiscal 1999 as a result of higher license fee sales and lower capitalized software amortization expense during fiscal 2000, which has occurred as a result of the write-off of capitalized software during fiscal year 1999. Services gross margin decreased to 23% in fiscal 2000 from 29% in the prior year due mainly to the completion of higher margin services work related to the "Year 2000" remediation performed in fiscal year 1999 compared to lower margin services work being performed in fiscal 2000. Maintenance gross margin remained relatively constant for fiscal 2000 as compared to fiscal 1999.

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Operating Expenses:

Research and Development. Gross product development costs include all non-capitalized and capitalized software development costs. A breakdown of the research and development costs in fiscal 2000 and fiscal 1999 is as follows:

| | Years Ended (000's omitted) | | |
|---|--------------------------------|-------------------|----------------------|
| | April 30, 2000 | Percent Change | April 30, 1999 |
| Gross product development costs..... | \$ 20,121 | (10)% | \$ 22,413 |
| Percentage of total revenues..... | 19 % | | 21 % |
| Less: capitalized development..... | (10,446) | (4)% | (10,902) |
| Percentage of gross product development costs..... | 52 % | | 49 % |
| Product development expenses..... | \$ 9,675 | (16)% | \$ 11,511 |
| Percentage of total revenues..... | 9 % | | 11 % |

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Gross product development costs decreased 10% in fiscal 2000 compared to fiscal 1999 as a result of the cost reduction efforts in the prior year. Capitalized development decreased by 4% from a year ago, while the rate of capitalized development increased to 52% from 49% in fiscal year 1999. This increase was due to the significant effort in the early part of fiscal 2000 to complete revision and enhancement work on Flow Manufacturing product. Product development expenses as a percentage of total revenues decreased to 9% in fiscal year 2000 compared to 11% in fiscal year 1999. The net product development expenses decreased 16% due to the cost containment efforts that were begun in fiscal 1999.

Sales and Marketing. Sales and marketing expenses decreased 17% in fiscal year ended April 30, 2000 as a result of cost containment. Sales and marketing expenses as a percentage of total revenues decreased to 23% for fiscal year 2000 when compared to 26% for fiscal year 1999.

General and Administrative. General and Administrative expenses (including the provision for doubtful accounts) decreased 16% in fiscal year 2000 to approximately \$13.7 million from the prior year primarily due to a significant decrease in fiscal 2000 in the provision for doubtful accounts when compared to the prior period. The decrease can also be attributed to our reduction in leased facilities and cost management policies that were put in place during the period.

Other Income. Other income is comprised predominantly of interest income, gains and losses from sales of investments, changes in the market value of investments, and minority interest in our subsidiaries' earnings. Other income decreased 50% to \$1.7 million due primarily to the change in minority interest. The decrease is also due to a lower average cash investment balance during the year.

Income Taxes. There was no effective income tax rate in fiscal year 2000 compared to 5% of pretax income in fiscal year 1999.

Operating Pattern

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

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Liquidity And Capital Resources

The following table shows information about our cash flows during the fiscal years ended April 30, 2001 and April 30, 2000. You should read this table and the discussion that follows in conjunction with our consolidated statements of cash flows.

| Twelve Months Ended April 30, | |
|----------------------------------|------|
| 2001 | 2000 |

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| | | |
|---|---------|----------|
| Net cash provided by operating activities before | | |
| Changes in operating assets and liabilities..... | (2,340) | 9,084 |
| Increase in operating assets and liabilities..... | 2,018 | 4,695 |
| | ----- | ----- |
| Net cash provided by operating activities..... | (322) | 13,779 |
| Net cash provided by (used for) investing | | |
| activities..... | (896) | (22,393) |
| Net cash provided by (used for) financing | | |
| activities..... | (1,635) | (43) |
| | ----- | ----- |
| Net (decrease) increase in cash and cash | | |
| equivalents..... | (2,853) | (8,657) |
| | ===== | ===== |

We fund our operations and capital expenditures primarily with cash generated from operating activities. The changes in net cash used for operating activities generally reflect the changes in net income and non-cash operating items plus the effect of changes in operating assets and liabilities, especially trading securities, trade accounts receivable, trade accounts payable, accrued expenses and deferred revenue.

Our operating activities used cash of approximately \$322,000 for the year ended April 30, 2001, and provided cash of approximately \$13.8 million in the fiscal year ended April 30, 2000. Operating cash flows decreased for the period primarily because the net loss for the period and the net changes in operating assets and liabilities, such as trade accounts payable and deferred revenue, and were only partially offset by non-cash operating items, such as charges for asset impairment, depreciation and amortization and provisions for doubtful accounts.

Cash used in investing activities was approximately \$896,000 and \$22.4 million for the years ended April 30, 2001 and 2000, respectively. Investing cash flows increased for the period primarily because additions to capitalized software development was \$3.9 million in the current period, compared to \$10.5 in the same prior year period. In addition, there were sales of short term investments in the amount of \$5.8 million for the fiscal year ended April 30, 2001 compared to purchases of investments in the amount of \$7.1 million in the corresponding prior year period.

Cash used in financing activities was approximately \$1.6 million for the fiscal year ended April 30, 2001 and \$43,000 for the fiscal year ended April 30, 2000. Financing cash flows decreased for the period primarily because there was no repurchase of common stock during the fiscal year ended April 30, 2001 and there were repurchases of common stock in the prior year period of \$1.3 million. In addition, proceeds from exercise of stock options were \$396,000 in the current fiscal period, compared to \$4.4 million in the prior year period.

Days Sales Outstanding in accounts receivable were 70 days both as of April 30, 2001 and as of April 30, 2000.

Our current ratio was 1.6 to 1 and cash and investments totaled 38% of total assets at April 30, 2001 compared to a current ratio of 1.7 to 1 and cash and investments totaling 39% of total assets at April 30, 2000. Our principal sources of liquidity are our cash and investments, which totaled approximately \$31.1 million at April 30, 2001. We believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, we may need to seek additional sources of capital to meet our requirements, either through equity or debt financing. We do not currently have a bank line of credit. No assurance can be given that bank lines of credit or other financing will be available on

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terms acceptable to us. If available, such financing may result in further dilution to our shareholders and higher interest expense.

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On December 18, 1997, our Board of Directors approved a resolution authorizing the Company to repurchase up to 1.5 million shares of our Class A common stock. On March 11, 1999, our Board of Directors approved a resolution authorizing us to repurchase an additional 700,000 shares for a total of up to 2.2 million shares of our Class A common stock. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchases will depend upon market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. As of April 30, 2001, we have repurchased approximately 1.6 million shares of common stock at a cost of approximately \$5.6 million.

On December 15, 1997, Logility's Board of Directors approved a resolution authorizing it to repurchase up to 350,000 shares of its common stock through open market purchases at prevailing market prices. Logility completed this repurchase plan in November 1998, at which time Logility adopted an additional repurchase plan for up to 800,000 shares. The timing of any repurchases depends on market conditions, the market price of Logility's common stock and management's assessment of its liquidity and cash flow needs. For both plans, through July 6, 2001, Logility had repurchased a cumulative total of 631,700 shares at a total cost of \$4.5 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Foreign Currency. In the fiscal year ended April 30, 2001, the Company generated 10% of its revenues outside the United States. International sales usually are made by our foreign subsidiaries or our Logility subsidiary and are denominated typically in U.S. Dollars or British Pounds Sterling. However, the expense incurred by foreign subsidiaries is denominated in the local currencies. The effect of foreign exchange rate fluctuations on us in fiscal 2001 was not material.

Interest rates and other market risks. We manage our interest rate risk by maintaining an investment portfolio of available-for-sale instruments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. dollars. The fair market value of securities as of April 30, 2001 was approximately \$21 million. Interest income on our investments is carried in "Other income/(expense)."

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.

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

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fixed-rate securities to maturity, but, if our liquidity needs force us to sell fixed-rate securities prior to maturity, we may experience a loss of principal. We believe that a 10% fluctuation in interest rates would not have a material effect on our accompanying statement of operations.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement was amended in June 2000 by Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities."

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Statement No. 138 will be effective for the Company beginning May 1, 2001. Statement No.138 requires all derivatives to be recorded on the balance sheet at fair value and establishes accounting treatment for three types of hedges: hedges of changes in the fair value of assets, liabilities, or firm commitments; hedges of the variable cash flows of forecasted transactions; and hedges of foreign currency exposures of net investments in foreign operations. We have not invested in derivative instruments nor participated in hedging activities and, accordingly there was no impact on the results of operations or financial position from the adoption of Statement No 133.

Forward-Looking Statements

The foregoing discussion contains forward-looking statements, which are subject to substantial risks and uncertainties. There are a number of factors that could cause actual results to differ materially from those anticipated by statements made herein. These factors include, but are not limited to, changes in general economic conditions, technology and the market for our products and services, including economic conditions within the e-commerce markets, the timely availability and market acceptance of these products and services, the effect of competitive products and pricing, the continued viability and effectiveness of strategic alliances, and the irregular pattern of our revenues, as well as a number of other risk factors that could affect our future performance.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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AMERICAN SOFTWARE, INC.

CONSOLIDATED BALANCE SHEETS (in thousands, except share data) April 30, 2001 and 2000

| | 2001 | 2000 |
|---|-----------|-----------|
| | ----- | ----- |
| ASSETS | | |
| ----- | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 10,057 | \$ 12,910 |
| Investments--current..... | 15,118 | 21,457 |
| Trade accounts receivable, less allowance for doubtful accounts of \$1,656 in 2001 and \$1,739 in 2000: | | |
| Billed..... | 12,303 | 15,233 |
| Unbilled..... | 3,321 | 5,143 |
| Deferred income taxes..... | 1,280 | 1,975 |
| Prepaid expenses and other current assets..... | 1,579 | 2,099 |
| | ----- | ----- |
| Total current assets..... | 43,658 | 58,817 |
| Investments--noncurrent..... | 5,926 | 9,878 |
| Property and equipment, less accumulated depreciation..... | 16,842 | 18,614 |
| Intangible assets, less accumulated amortization..... | 13,913 | 23,391 |
| Other assets..... | 1,728 | 2,347 |
| | ----- | ----- |
| | \$ 82,067 | \$113,047 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDER' EQUITY | | |
| ----- | | |
| Current liabilities: | | |
| Current portion of obligations under capital leases..... | \$ 1,587 | \$ 1,493 |
| Accounts payable..... | 2,658 | 3,505 |
| Accrued compensation and related costs..... | 3,523 | 4,545 |
| Income tax payable..... | 1,126 | 3,122 |
| Other current liabilities..... | 5,530 | 7,012 |
| Deferred revenue..... | 13,633 | 15,936 |
| | ----- | ----- |
| Total current liabilities..... | 28,057 | 35,613 |
| Obligations under capital leases, net of current portion... | 1,045 | 907 |
| Deferred income taxes..... | 1,280 | 1,975 |
| | ----- | ----- |
| Total liabilities..... | 30,382 | 38,495 |
| | ----- | ----- |
| Minority interest..... | 3,834 | 4,846 |
| Shareholders' equity: | | |
| Common stock: | | |
| Class A, \$.10 par value. Authorized 50,000,000 shares; issued 21,622,290 shares in 2001 and 21,476,284 shares in 2000..... | 2,162 | 2,148 |
| Class B, \$.10 par value. Authorized 10,000,000 shares; | | |

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| | | |
|---|-----------|-----------|
| issued and outstanding 4,082,289 shares in 2001 and 4,086,289 shares in 2000; convertible into Class A shares on a one-for-one basis..... | 409 | 409 |
| Additional paid-in capital..... | 65,956 | 65,241 |
| Other comprehensive income..... | 243 | 247 |
| Retained earnings (accumulated deficit)..... | (3,415) | 19,165 |
| Class A treasury stock, 2,925,188 shares as of April 30, 2001 and 2000..... | (17,504) | (17,504) |
| | ----- | ----- |
| Total shareholders' equity..... | 47,851 | 69,706 |
| Commitments and contingencies..... | | |
| | ----- | ----- |
| | \$ 82,067 | \$113,047 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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AMERICAN SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except share data) Years ended April 30, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|--|-----------|----------|----------|
| | ----- | ----- | ----- |
| Revenues: | | | |
| License fees..... | \$ 12,778 | 20,572 | 19,602 |
| Services..... | 52,064 | 59,740 | 63,572 |
| Maintenance..... | 23,865 | 25,198 | 26,003 |
| | ----- | ----- | ----- |
| Total revenues..... | 88,707 | 105,510 | 109,177 |
| | ----- | ----- | ----- |
| Cost of revenues: | | | |
| License fees..... | 5,681 | 5,177 | 8,254 |
| Services..... | 44,289 | 45,999 | 45,344 |
| Maintenance..... | 5,225 | 9,750 | 10,337 |
| | ----- | ----- | ----- |
| Total cost of revenues..... | 55,195 | 60,926 | 63,935 |
| | ----- | ----- | ----- |
| Research and development costs..... | 15,573 | 20,121 | 22,413 |
| Less capitalizable software..... | (3,949) | (10,446) | (10,902) |
| Marketing and sales expense..... | 22,588 | 23,985 | 28,859 |
| General and administrative expenses..... | 13,555 | 13,365 | 14,427 |
| Provision for doubtful accounts..... | 1,627 | 385 | 1,880 |
| Charge for asset impairment, purchased R&D, and restructuring..... | 10,458 | -- | 26,563 |
| | ----- | ----- | ----- |
| Operating loss..... | (26,340) | (2,826) | (37,998) |
| Other income (expense): | | | |
| Interest income..... | 1,993 | 2,135 | 2,094 |
| Minority interest..... | 914 | (261) | 1,396 |
| Other, net..... | (1,565) | (140) | (75) |
| | ----- | ----- | ----- |
| Loss before income taxes..... | (24,998) | (1,092) | (34,583) |
| Income tax (benefit) expense..... | (2,418) | 150 | (1,766) |

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| | | | |
|---|-------------|------------|------------|
| Net loss..... | \$ (22,580) | (1,242) | (32,817) |
| | ===== | ===== | ===== |
| Net earnings (loss) per common share: | | | |
| Basic..... | \$ (0.99) | (0.06) | (1.48) |
| | ===== | ===== | ===== |
| Diluted..... | \$ (0.99) | (0.06) | (1.48) |
| | ===== | ===== | ===== |
| Shares used in the calculation of net earnings (loss) per common share: | | | |
| Basic..... | 22,730,101 | 21,701,669 | 22,230,656 |
| | ===== | ===== | ===== |
| Diluted..... | 22,730,101 | 21,701,669 | 22,230,656 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

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AMERICAN SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
Years ended April 30, 2001, 2000, and 1999

| | Common stock | | | | Additional paid-in capital | Accumulated other comprehensive income | Retained earnings (accumulated deficit) |
|--|--------------|-------------|-----------|-----------|----------------------------------|---|--|
| | Class A | | Class B | | | | |
| | Shares | Amount | Shares | Amount | | | |
| Balance at April 30, 1998..... | 19,369,756 | \$1,936,977 | 4,798,289 | \$479,829 | 57,655,806 | 273,568 | 53,224,787 |
| Revised presentation on purchase of Logility shares from minority interest..... | -- | -- | -- | -- | 1,882,149 | -- | -- |
| Proceeds from stock options exercised at \$2.22 to \$6.50 per share and other stock option transactions... | 69,649 | 6,963 | -- | -- | 222,126 | -- | -- |
| Conversion of Class B shares into Class A shares..... | 30,000 | 3,000 | (30,000) | (3,000) | -- | -- | -- |
| Grants of compensatory stock options.. | -- | -- | -- | -- | 24,319 | -- | -- |
| Repurchase of 1,179,000 Class A shares..... | -- | -- | -- | -- | -- | -- | -- |
| Issuance of | | | | | | | |

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| | | | | | | | |
|--|------------|-----------|-----------|----------|------------|----------|--------------|
| 3,604 Class A shares under Dividend Reinvestment and Stock Purchase Plan.. | -- | -- | -- | -- | -- | -- | -- |
| Decrease in minority interest in subsidiary, resulting from purchase of stock..... | -- | -- | -- | -- | 583,500 | -- | -- |
| Net loss..... | -- | -- | -- | -- | -- | -- | (32,817,060) |
| Translation adjustments.... | -- | -- | -- | -- | -- | (28,656) | -- |
| Comprehensive income for fiscal 1998.... | | | | | | | |
| Balance at April 30, 1999..... | 19,469,405 | 1,946,940 | 4,768,289 | 476,829 | 60,367,900 | 244,912 | 20,407,727 |
| Proceeds from stock options exercised..... | 1,321,995 | 132,200 | -- | -- | 4,288,933 | -- | -- |
| Conversion of Class B shares into Class A shares..... | 682,000 | 68,200 | (682,000) | (68,200) | -- | -- | -- |
| Noncash stock compensation... | -- | -- | -- | -- | 208,217 | -- | -- |
| Repurchase of 321,562 Class A shares.. | -- | -- | -- | -- | -- | -- | -- |
| Issuance of 2,884 Class A shares under Dividend Reinvestment and Stock Purchase Plan.. | 2,884 | 288 | -- | -- | 9,753 | -- | -- |
| Decrease in minority interest in subsidiary, resulting from purchase of stock..... | -- | -- | -- | -- | 366,325 | -- | -- |
| Net loss..... | -- | -- | -- | -- | -- | -- | (1,242,778) |
| Translation adjustments.... | -- | -- | -- | -- | -- | 1,997 | -- |
| Comprehensive income for fiscal 1999.... | | | | | | | |
| Balance at April 30, 2000..... | 21,476,284 | 2,147,628 | 4,086,289 | 408,629 | 65,241,128 | 246,909 | 19,164,949 |
| Proceeds from stock options exercised..... | 125,398 | 12,540 | -- | -- | 383,127 | -- | -- |
| Conversion of Class B shares | | | | | | | |

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| | | | | | | | |
|---|----------------------------------|-------------|-----------|-----------|------------|---------|--------------|
| into Class A shares..... | 4,000 | 400 | (4,000) | (400) | -- | -- | -- |
| Noncash stock compensation... | -- | -- | -- | -- | 265,085 | -- | -- |
| Issuance of 16,608 Class A shares under Dividend Reinvestment and Stock Purchase Plan.. | 16,608 | 1,661 | -- | -- | 37,975 | -- | -- |
| Decrease in minority interest in subsidiary, resulting from purchase of stock..... | -- | -- | -- | -- | 24,734 | -- | -- |
| Net loss..... | -- | -- | -- | -- | -- | -- | (22,580,504) |
| Translation adjustments.... | -- | -- | -- | -- | -- | 533 | -- |
| Comprehensive income for fiscal 2000.... | -- | -- | -- | -- | -- | -- | -- |
| Balance at April 30, 2001..... | 21,622,290 | \$2,162,229 | 4,082,289 | \$408,229 | 65,952,049 | 247,442 | (3,415,555) |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| | Comprehensive income ----- | | | | | | |
| Balance at April 30, 1998..... | | | | | | | |
| Revised presentation on purchase of Logility shares from minority interest..... | | | | | | | |
| Proceeds from stock options exercised at \$2.22 to \$6.50 per share and other stock option transactions... | | | | | | | |
| Conversion of Class B shares into Class A shares..... | | | | | | | |
| Grants of compensatory stock options.. | | | | | | | |
| Repurchase of 1,179,000 Class A shares..... | | | | | | | |
| Issuance of 3,604 Class A shares under | | | | | | | |

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| | |
|--|-----------------|
| Dividend Reinvestment and Stock Purchase Plan.. | |
| Decrease in minority interest in subsidiary, resulting from purchase of stock..... | |
| Net loss..... | \$ (32,817,060) |
| Translation adjustments.... | (28,656) |
| | ----- |
| Comprehensive income for fiscal 1998.... | \$ (32,845,716) |
| | ===== |
| Balance at April 30, 1999..... | |
| Proceeds from stock options exercised..... | |
| Conversion of Class B shares into Class A shares..... | |
| Noncash stock compensation... | |
| Repurchase of 321,562 Class A shares.. | |
| Issuance of 2,884 Class A shares under Dividend Reinvestment and Stock Purchase Plan.. | |
| Decrease in minority interest in subsidiary, resulting from purchase of stock..... | |
| Net loss..... | \$ (1,242,778) |
| | ----- |
| Translation adjustments.... | 1,997 |
| Comprehensive income for fiscal 1999.... | \$ (1,240,781) |
| | ===== |
| Balance at April 30, 2000..... | |
| Proceeds from stock options exercised..... | |
| Conversion of Class B shares | |

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into Class A
 shares.....
 Noncash stock
 compensation...
 Issuance of
 16,608 Class A
 shares under
 Dividend
 Reinvestment
 and Stock
 Purchase Plan..
 Decrease in
 minority
 interest in
 subsidiary,
 resulting from
 purchase of
 stock.....
 Net loss..... \$ (22,580,504)
 Translation
 adjustments.... 533

 Comprehensive
 income for
 fiscal 2000.... \$ (22,579,971)
 =====
 Balance at April
 30, 2001.....

See accompanying notes to consolidated financial statements.

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AMERICAN SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)

Years ended April 30, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|---|-------------|---------|----------|
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net loss..... | \$ (22,580) | (1,242) | (32,817) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | | |
| Charge for asset impairment and purchased R&D..... | 9,446 | -- | 26,389 |
| Depreciation and amortization..... | 11,377 | 10,034 | 11,846 |
| Net loss (gain) on investments..... | 65 | (250) | 833 |
| Loss on disposal of property..... | -- | 73 | -- |
| Minority interest in net (loss) earnings of subsidiary..... | (914) | 261 | (1,396) |
| Grants of compensatory stock options..... | 266 | 208 | 24 |
| Deferred income taxes..... | -- | -- | (5,437) |
| Changes in operating assets and liabilities: | | | |
| Purchases of trading securities..... | (1,591) | (7,998) | (3,471) |
| Proceeds from sale of trading securities.... | 5,711 | 7,894 | 3,421 |

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| | | | |
|---|-----------|----------|----------|
| Proceeds from maturities of trading securities..... | 273 | 3,455 | 2,152 |
| Accounts receivable..... | 4,752 | 697 | 6,641 |
| Prepaid expenses and other current assets... | 27 | (508) | 2,025 |
| Accounts payable and other current liabilities..... | (4,850) | 1,517 | 5,610 |
| Deferred revenue..... | (2,304) | (362) | (1,641) |
| | ----- | ----- | ----- |
| Net cash (used in) provided by operating activities..... | (322) | 13,779 | 14,179 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Capitalized software development costs..... | (3,949) | (10,446) | (10,902) |
| Purchased software..... | (587) | (603) | (93) |
| Purchase of majority interest in subsidiaries, net of cash received..... | -- | (658) | (1,929) |
| Minority investment and additional funding in business..... | (517) | (601) | (857) |
| Purchases of property and equipment..... | (1,571) | (2,178) | (1,647) |
| (Purchases) sales of investments, net..... | 5,833 | (7,139) | 15,534 |
| Purchases of common stock by subsidiary..... | (105) | (768) | (1,660) |
| | ----- | ----- | ----- |
| Net cash used in investing activities..... | (896) | (22,393) | (1,554) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Repayment of long-term debt..... | -- | (950) | -- |
| Payments of capital lease obligations..... | (2,075) | (2,268) | (2,266) |
| Repurchases of common stock..... | -- | (1,256) | (3,510) |
| Proceeds from Dividend Reinvestment Plan..... | 44 | 10 | 23 |
| Proceeds from exercise of stock options..... | 396 | 4,421 | 229 |
| | ----- | ----- | ----- |
| Net cash used in financing activities..... | (1,635) | (43) | (5,524) |
| | ----- | ----- | ----- |
| Net change in cash and cash equivalents... | (2,853) | (8,657) | 7,101 |
| Cash and cash equivalents at beginning of year.... | 12,910 | 21,567 | 14,466 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year..... | \$ 10,057 | 12,910 | 21,567 |
| | ===== | ===== | ===== |
| Supplemental disclosures of cash paid during the year for: | | | |
| Income taxes..... | \$ 131 | 248 | 219 |
| | ===== | ===== | ===== |
| Interest..... | \$ 365 | 106 | 226 |
| | ===== | ===== | ===== |
| Supplemental disclosures of noncash operating, investing, and financing activities: | | | |
| Net assets acquired..... | \$ -- | -- | 2,579 |
| | ===== | ===== | ===== |
| Assumption of capital lease obligations for property and equipment..... | \$ 2,443 | 2,289 | 1,941 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

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April 30, 2001, 2000 and 1999

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

The Company is engaged in the development, marketing, and support activities of a broad range of computer business application software. The Company's operations are principally in the computer software industry with a network management services business.

(b) Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, Software Revenue Recognition, and SOP 98-9, Software Revenue Recognition with Respect to Certain Transactions.

License. License revenues in connection with license agreements for standard proprietary and tailored software are recognized upon delivery of the software, providing collection is considered probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific evidence exists to defer any revenue related to undelivered elements of the arrangement.

Maintenance. Maintenance fees are generally billed annually in advance and the resulting revenues are recognized ratably over the term of the maintenance agreement.

Services. Revenues derived from services primarily include consulting, implementation, and training. Fees are billed under both time and materials and fixed fee arrangements and are recognized as services are performed

The percentage-of-completion method of accounting is utilized to recognize revenue on products under development for fixed amounts. Progress under the percentage-of-completion method is measured based on management's best estimate of the cost of work completed in relation to the total cost of work to be performed under the contract. Any estimated losses on products under development for fixed amounts are immediately recognized in the consolidated financial statements.

Deferred Revenues. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the time revenues are recognized.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

(d) Investments

Investments at April 30, 2001 and 2000 consist of money market funds, debt securities, and marketable equity securities. The Company accounts for its investments under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. Pursuant to the provisions of SFAS 115, the Company has classified its investment portfolio as "trading" and

AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

"held-to-maturity" in 2001 and 2000. "Trading" securities are bought and held principally for the purpose of selling them in the near term and are recorded at fair value. Unrealized gains and losses on trading securities are included in the determination of net earnings. "Held-to-maturity" investments are recorded at amortized cost. No adjustment is made for unrealized gains and losses on held-to-maturity investments.

(e) Property and Equipment

Property and equipment are recorded at cost. Depreciation of buildings, computer equipment, and office furniture and equipment is calculated using the straight-line method based upon estimated useful lives of 30 years, three to five years, and five years, respectively. Assets held under capital leases and leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets or the lease term, whichever is shorter.

(f) Intangible Assets

Capitalized Computer Software Development Costs. The Company capitalizes certain computer software development costs in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers. The Company makes ongoing evaluations of the recoverability of its capitalized software projects by comparing the amount capitalized for each product to the estimated realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes off the amount by which the unamortized software development costs exceed net realizable value. Capitalized computer software development costs are being amortized ratably over three years.

Purchased Computer Software Costs, Goodwill, and Other Intangible Assets. Purchased computer software costs, goodwill, and other intangibles are amortized on a straight-line basis over the expected periods to be benefited, generally three to seven years. The Company evaluates the recoverability of these intangible assets at each period-end using the undiscounted estimated future net operating cash flows expected to be derived from such assets. If such an evaluation indicates a potential impairment, the Company uses the fair value to determine the amount of these intangible assets that should be written off. During 2001, goodwill additions of \$513,000 and \$106,000 relate to the purchase of additional interests in New Generation Computing and Logility, Inc., respectively.

Purchased Computer Software Costs, Goodwill, and Other Intangible Assets. Purchased computer software costs, goodwill, and other intangibles are amortized on a straight-line basis over the expected periods to be benefited, generally three to seven years. The Company evaluates the recoverability of these intangible assets at each period-end using the undiscounted estimated

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future net operating cash flows expected to be derived from such assets. If such an evaluation indicates a potential impairment, the Company uses the fair value to determine the amount of these intangible assets that should be written off. During 2001, goodwill additions of \$513,000 and \$106,000 relate to the purchase of additional interests in New Generation Computing and Logility, Inc., respectively.

Total Expenditures, Amortization, and Write-offs. Total expenditures for capitalized computer software development costs, total research and development expense, total amortization of capitalized computer software

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

development costs, total amortization of purchased computer software costs and write-off of capitalized computer software costs are as follows:

| | Years ended April 30, | | |
|---|-----------------------|----------|----------|
| | 2001 | 2000 | 1999 |
| | (in thousands) | | |
| Total capitalized computer software development costs..... | \$ 3,949 | \$10,446 | \$10,902 |
| Total research and development expense..... | 11,624 | 9,675 | 11,511 |
| | ----- | ----- | ----- |
| Total research and development expense and capitalized computer software development costs... | \$15,573 | \$20,121 | \$22,413 |
| | ===== | ===== | ===== |
| Total amortization of capitalized computer software development costs..... | \$ 3,790 | \$ 3,632 | \$ 6,104 |
| | ----- | ----- | ----- |
| Total amortization of purchased computer software costs and goodwill..... | 1,461 | 346 | 924 |
| | ----- | ----- | ----- |
| Write-off of capitalized software costs as a result of net realizable value analyses..... | \$ 9,446 | \$ -- | \$24,152 |
| | ===== | ===== | ===== |

(h) Income Taxes

The Company accounts for income taxes using the asset and liability method of SFAS No. 109, Accounting for Income Taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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(i) Net Loss Per Common Share

Basic loss per common share available to common shareholders are based on the weighted-average number of Class A and B common shares outstanding, since the Company considers the two classes of common stock as one class for the purposes of the per share computation. Diluted loss per common share available to common shareholders are based on the weighted-average number of common shares outstanding and dilutive potential common shares, such as dilutive stock options.

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

The numerator in calculating both basic and diluted loss per common share for each year is the same as net loss. The denominator is based on the following number of common shares:

| | Years ended April 30, | | |
|--|-----------------------|------------|-------------|
| | 2001 | 2000 | 1999 |
| | (in thousands) | | |
| Common shares: | | | |
| Weighted-average common shares outstanding: | | | |
| Class A shares..... | 18,648 | 17,016 | 17,463 |
| Class B shares..... | 4,082 | 4,706 | 4,768 |
| | ----- | ----- | ----- |
| Basic weighted-average common shares outstanding..... | 22,730 | 21,722 | 22,231 |
| Dilutive effect of outstanding Class A common stock options outstanding..... | -- | -- | -- |
| | ----- | ----- | ----- |
| Total..... | 22,730 | 21,722 | 22,231 |
| | ===== | ===== | ===== |
| Net loss..... | \$ (22,580) | \$ (1,242) | \$ (32,817) |
| | ===== | ===== | ===== |
| Net loss per common share: | | | |
| Basic..... | \$ (.99) | \$ (.06) | \$ (1.48) |
| | ===== | ===== | ===== |
| Diluted..... | \$ (.99) | \$ (.06) | \$ (1.48) |
| | ===== | ===== | ===== |

For the years ended April 30, 2001, 2000, and 1999 approximately 3,775,000, 2,750,000 and 3,418,796 stock options, respectively, were excluded from the computation of diluted loss per share because they were antidilutive.

(j) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of

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contingent assets and liabilities as of the date of the consolidated financial statements and revenues and expenses for reporting periods to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

(k) Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets using SFAS No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles held and used by a company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 also requires that long-lived assets and certain identifiable intangibles held for sale, other than those related to discontinued operations, be reported at the lower of carrying amount or fair value less cost to sell.

(l) Stock Compensation Plans

The Company applies the intrinsic-value-based method of accounting for its nonvariable stock option plans in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

Issued to Employees (APB Opinion No. 25), and related interpretations. As such, compensation expense would generally be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

(m) Sales of Subsidiary Stock

The Company has elected to record gains and losses from sales of subsidiary stock as a component of equity.

(n) Reclassifications

Certain reclassifications have been made to the 2000 and 1999 consolidated financial statements to conform to the presentation adopted in 2001.

(o) Comprehensive Income

On May 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the consolidated statements of shareholders' equity and comprehensive income. The statement requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations.

(2) Investments

Investments consist of the following:

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| | April 30, | |
|---|----------------|----------|
| | 2001 | 2000 |
| Trading | | |
| ----- | | |
| | (in thousands) | |
| Debt securities: | | |
| U.S. Treasury securities..... | \$ -- | \$ 579 |
| Tax-exempt state and municipal bonds..... | 2,416 | 5,865 |
| | ----- | ----- |
| Total debt securities..... | 2,416 | 6,444 |
| Equity securities..... | 3,298 | 3,729 |
| | ----- | ----- |
| | \$5,714 | \$10,173 |
| | ===== | ===== |

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

| | April 30, 2001 | | |
|----------------------------|----------------|----------|------------|
| | | | |
| | Carrying | Fair | Unrealized |
| | value | value | gain |
| Held-to-maturity | | | (loss) |
| ----- | | | |
| | (in thousands) | | |
| Government securities..... | \$ 2,749 | \$ 2,778 | \$ 29 |
| Commercial paper..... | 7,175 | 7,175 | -- |
| Corporate bonds..... | 5,406 | 5,507 | 101 |
| | ----- | ----- | ---- |
| | \$15,330 | \$15,460 | \$130 |
| | ===== | ===== | ===== |
| | April 30, 2000 | | |
| | | | |
| | Carrying | Fair | Unrealized |
| | value | value | gain |
| Held-to-maturity | | | (loss) |
| ----- | | | |
| | (in thousands) | | |
| Government securities..... | \$ 2,480 | \$ 2,472 | \$ (8) |
| Commercial paper..... | 7,958 | 7,988 | 30 |
| Corporate bonds..... | 10,724 | 10,701 | (23) |
| | ----- | ----- | ---- |
| | \$21,162 | \$21,161 | \$ (1) |
| | ===== | ===== | ===== |

The total carrying value of all investments on a consolidated basis was

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\$21,044,000 and \$31,335,000 at April 30, 2001 and 2000, respectively, of which \$5,926,000 mature beyond April 30, 2002 and are classified as noncurrent, accordingly, at April 30, 2001.

In 2001, 2000, and 1999, the Company's investment portfolio of trading securities experienced net unrealized holding gains (losses) of approximately \$(1,073,143), \$(1,415,642), and \$(878,000), respectively, which have been included in other income, net in the 2001, 2000, and 1999 consolidated statements of operations.

At April 30, 2001, 96% of the tax-exempt state and municipal bonds related to state and municipal governments and authorities in Georgia.

(3) Fair Value of Financial Instruments

The Company's financial instruments, excluding investments, consisted of cash; trade accounts receivable and unbilled accounts receivable; refundable income taxes; accounts payable; accrued compensation and related costs; accrued royalties; and other current liabilities. These aforementioned financial instruments carrying amounts approximate fair value because of the short maturity of those instruments. For the Company's investments classified as "trading," the carrying value represents fair value. See note 2 for the fair value of the Company's investments classified as "held-to-maturity."

(4) Property and Equipment

Property and equipment consist of the following at April 30, 2001 and 2000 (in thousands):

| | 2001 | 2000 |
|---|----------|-----------|
| | ----- | ----- |
| Buildings and leasehold improvements..... | \$17,850 | \$ 20,982 |
| Computer equipment..... | 13,923 | 32,387 |
| Office furniture and equipment..... | 10,429 | 4,742 |
| | ----- | ----- |
| | 42,202 | 58,111 |
| Less accumulated depreciation and amortization..... | 25,360 | 39,497 |
| | ----- | ----- |
| | \$16,842 | \$ 18,614 |
| | ===== | ===== |

AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

(5) Intangible Assets

Intangible assets consist of the following at April 30, 2001 and 2000 (in thousands):

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| | 2001 | 2000 |
|--|----------|----------|
| | ----- | ----- |
| Capitalized computer software development costs..... | \$23,404 | \$56,666 |
| Purchased computer software costs..... | 5,205 | 6,956 |
| Goodwill..... | 7,014 | 6,395 |
| | ----- | ----- |
| | 35,623 | 70,017 |
| Less accumulated amortization..... | 21,710 | 46,626 |
| | ----- | ----- |
| | \$13,913 | \$23,391 |
| | ===== | ===== |

(6) Income Taxes

Income tax expense (benefit) consists of the following:

| | Years ended April 30, | | |
|--------------|-----------------------|--------|------------|
| | ----- | ----- | ----- |
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| | (in thousands) | | |
| Current: | | | |
| Federal..... | \$ (2,418) | \$ -- | \$ 3,453 |
| State..... | -- | 150 | 218 |
| | ----- | ----- | ----- |
| | (2,418) | 150 | 3,671 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal..... | -- | -- | (4,862) |
| State..... | -- | -- | (575) |
| | ----- | ----- | ----- |
| | -- | -- | (5,437) |
| | ----- | ----- | ----- |
| | \$ (2,418) | \$ 150 | \$ (1,766) |
| | ===== | ===== | ===== |

The Company's effective income tax rate of 10%, 14%, and 5% for the years ended April 30, 2001, 2000, and 1999, respectively, differs from the "expected" income tax expense (benefit) for those years calculated by applying the Federal statutory rate of 34% to earnings (loss) before income taxes as follows:

| | Years ended April 30, | | |
|---|-----------------------|----------|-------------|
| | ----- | ----- | ----- |
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| | (in thousands) | | |
| Computed "expected" income tax expense (benefit) .. | \$ (8,500) | \$ (371) | \$ (11,758) |
| Increase (decrease) in income taxes resulting from: | | | |
| State income taxes, net of Federal income tax effect..... | (1,092) | 57 | (235) |
| IRS settlement..... | (2,957) | -- | 650 |

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| | | | |
|---|------------|--------|------------|
| Tax-exempt interest income..... | (54) | (64) | (161) |
| Change in the beginning-of-the year balance of the valuation allowance for deferred tax assets allocated to income tax benefit..... | 10,625 | 404 | 4,416 |
| Estimated liabilities..... | -- | -- | 3,020 |
| Permanent differences..... | (269) | 179 | 1,310 |
| Other..... | (171) | (55) | 992 |
| | ----- | ----- | ----- |
| | \$ (2,418) | \$ 150 | \$ (1,766) |
| | ===== | ===== | ===== |

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

Permanent differences are primarily derived from non-deductible in-process research and development charges and amortization of goodwill.

The significant components of deferred income tax expense attributable to earnings (loss) before income taxes for the years ended April 30, 2001, 2000, and 1999 are as follows:

| | Years ended April 30, | | |
|--|-----------------------|----------|------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| | (in thousands) | | |
| Deferred tax (benefit) expense..... | \$ (10,625) | \$ (404) | \$ (9,853) |
| Increase in beginning-of-the year balance of the valuation allowance for deferred tax assets..... | 10,625 | 404 | 4,416 |
| | ----- | ----- | ----- |
| | \$ -- | \$ -- | \$ (5,437) |
| | ===== | ===== | ===== |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at April 30, 2001 and 2000, are presented as follows:

| | April 30, | |
|---|----------------|----------|
| | 2001 | 2000 |
| | ----- | ----- |
| | (in thousands) | |
| Deferred tax assets: | | |
| Expenses, due to accrual for financial reporting purposes..... | \$ 1,048 | \$ 1,700 |
| Accounts receivable, due to allowance for doubtful accounts..... | 642 | 674 |

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| | | |
|---|----------|---------|
| Compensation expense related to grants of nonqualified stock options..... | 275 | 175 |
| Net operating loss carryforwards..... | 16,567 | 8,838 |
| Foreign tax credit carryforwards..... | 777 | 777 |
| Intangible asset amortization..... | 922 | 922 |
| Gain on investments not recognized for tax purposes... | 1,272 | 865 |
| Other..... | 64 | 718 |
| Credits..... | 718 | -- |
| | ----- | ----- |
| Total gross deferred tax assets..... | 22,285 | 14,669 |
| Less valuation allowance..... | (17,425) | (6,800) |
| | ----- | ----- |
| Net deferred tax assets..... | 4,860 | 7,869 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Capitalized computer software development costs..... | (1,800) | (4,976) |
| Property and equipment, primarily due to differences in depreciation..... | (1,378) | (1,629) |
| Stock and bond valuation..... | (1,013) | (1,196) |
| Other..... | (669) | (68) |
| | ----- | ----- |
| Total gross deferred tax liabilities..... | (4,860) | (7,869) |
| | ----- | ----- |
| Net deferred tax liability..... | \$ -- | \$ -- |
| | ===== | ===== |

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon reversal of deferred tax liabilities, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at April 30, 2001 and 2000.

At April 30, 2001, the Company has net operating loss carry forwards for federal income tax purposes of approximately \$43.0 million which are available to offset future federal taxable income, if any, through 2022. In addition, the Company has foreign tax credit carry forwards for federal income tax purposes of approximately \$777,000 which are available to offset future federal income taxes pursuant to the income tax laws. Such credits expire in varying amounts through 2002.

(7) Acquisitions

In July 1998, the Company purchased an 80% majority interest in New Generation Computing ("NGC"), a company which specializes in accounting and manufacturing control software for the sewn goods industry (apparel, handbags,

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shoes, hats, etc.). This investment was accounted for based on the purchase accounting method with the results of operations included from the date of acquisition. Of the \$2.6 million purchase price, the Company acquired \$1.2 million in current assets, \$1.8 million in liabilities (including long-term debt of \$950,000) and purchased research and development of \$1.8 million which was expensed upon acquisition. The related goodwill of \$1.4 million is being amortized over a seven-year period. During fiscal year 2000, the Company purchased an additional 7% interest in NGC for \$658,000 which was recorded as goodwill.

In January 1996, the Company acquired a 60% interest in Intellimedia Commerce, Inc. ("Intellimedia"), a company which builds and maintains systems for commerce on the Internet, for \$850,000. In April 1998, the Company acquired an additional 3% interest in Intellimedia for \$115,000. To maintain its majority ownership interest, the Company invested an additional \$367,500 in 2000. The acquisition has been accounted for as a purchase and, accordingly, the results of operations have been included since the date of acquisition. The related minority interest is not significant.

In January 2001, the Intellimedia board of directors declared to wind down the Company due to a substantial slowdown in their industry. The Company wrote off the investment in Intellimedia, including all of their assets in January 2001. The total amount written off in January was \$975,000.

(8) Asset Impairment and Restructuring

During October 2000, the Company incurred a charge against earnings of \$9.5 million related to the write-off of certain capitalized software development costs. This write-off was the result of lower than anticipated sales of the Company's ERP products in recent periods. The Company also experienced a restructuring charge of approximately \$970,000, which was a result of severance expenses for involuntarily terminated employees in Sales, Marketing, Services, and Research and Development. Included in the charge was a noncash charge of approximately \$270,000 related to the accelerating of vesting of stock options for the severed employees. As of April 30, 2001 there were no outstanding costs to be incurred related to the restructuring plan.

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

(9) Shareholders' Equity

Certain Class A and Class B Common Stock Rights

Except for the election or removal of Directors and class votes as required by law or the Articles of Incorporation, holders of both classes of common stock vote as a single class on all matters with each share of Class A common stock entitled to cast one-tenth vote per share and each share of Class B common stock entitled to cast one vote per share. Neither has cumulative voting rights. Holders of Class A common stock, as a class, are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number of Directors) if the number of outstanding shares of Class A common stock is at least 10% of the number of outstanding shares of both classes of common stock. No cash or property dividend may be paid to holders of shares of Class B common stock during any fiscal year of the Company unless a dividend of \$.05 per share has

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been paid in such year on each outstanding share of Class A common stock. This \$.05 per share annual dividend preference is noncumulative. Dividends per share of Class B common stock during any fiscal year may not exceed dividends paid per share of Class A common stock during each year. Each share of Class B common stock is convertible at any time into one share of Class A common stock at the option of the shareholder. Class A and B shares are considered as one class for purpose of the earnings (loss) per share computation.

Employee Stock Purchase Plan

In December 1998 the Company began an Employee Stock Purchase Plan that offers employees the right to purchase shares of the Company's common stock at 85% of the market price, as defined, pursuant to the Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, full-time employees, except persons owning 5% or more of the Company's common stock, are eligible to participate after one month of employment. Employees may contribute up to 15% of their annual salary toward the Purchase Plan up to a maximum of \$15,000 per year. During the fiscal year ended April 30, 2001, shares issued under the Purchase Plan were 36,350.

In November 1998, Logility, Inc., a subsidiary of the Company, began an Employee Stock Purchase Plan that offers employees the right to purchase shares of Logility's common stock at 85% of the market price, as defined, pursuant to the Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, full-time employees, except persons owning 5% or more of Logility's common stock, are eligible to participate after one month of employment. Employees may contribute up to 15% of their annual salary toward the Purchase Plan up to a maximum of \$15,000 per year. A maximum of 200,000 shares of common stock may be purchased under the Purchase Plan. Common stock is purchased in the open market on behalf of the participants. The Company contributes to the purchase price in order to provide for the 15% discount to market price. During the fiscal year ended April 30, 2001, shares issued under the Purchase Plan were 48,397.

Stock Option Plans

In fiscal 1992, the Company discontinued issuing options under its Incentive Stock Option Plan and its Nonqualified Stock Option Plan. There were no options outstanding under these plans at April 30, 2001. These plans were replaced with the 1991 Employee Stock Option Plan ("1991 Plan") and the Director and Officer Stock Option Plan ("D & O Plan"). Under the 1991 Plan, the Board of Directors was authorized to grant key employees options to purchase up to 3.6 million shares of Class A common stock, plus any shares granted under the terminated plans that terminate or expire without being wholly exercised.

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

These options vest in four equal annual installments commencing one year from the effective date of grant. All options must be exercised within ten years of the effective date of grant, but will expire sooner if the optionee's employment terminates. Under the D & O Plan, the Board of Directors is authorized to grant directors and officers options to purchase up to one million shares of Class A common stock. These options typically are exercisable based upon the terms of such options up to 10 years after the date of grant,

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but will expire sooner if the optionee's employment terminates. Additionally, both the 1991 Plan and D & O Plan could issue either incentive stock options or nonqualified stock options. Both the 1991 Plan and D & O Plan terminated September 1, 2000 and no further option grants will be made pursuant to these plans.

On August 29, 1999, the Company amended the 1991 Plan to increase the number of authorized options from 3.6 million to 4.6 million. The Company also modified the 1991 Plan to allow the exercise of options beyond the initial three-month allowance from the termination date of an option holder's employment, but not to exceed 10 years, for retired employees, as defined, or any employee as designated by the Board of Directors at its sole discretion. This right was granted to certain employees during 2001 and 2000 and created a compensation charge of \$265,000 and \$208,000, respectively, for the difference between the original exercise price of the option and the fair market value of the Company's common stock at the date the right was granted.

On May 16, 2000, the Company established the American Software, Inc. 2001 Stock Option Plan (the "2001 Plan," which became effective on September 1, 2000. Under the 2001 Plan, the Company is authorized to grant executive officers and other key employees options to purchase up to 2.0 million shares of Class A common stock. All option grants since September 1, 2000 have been made under the 2001 Plan.

Incentive and nonqualified options exercisable at April 30, 2001 are 966,182 and 375,250 shares, respectively. Options available for grant at April 30, 2001, for the 2001 Plan are 1,524,088 shares.

Effective August 7, 1997, Logility Inc., a subsidiary of the Company, adopted the Logility, Inc. 1997 Stock Plan ("Subsidiary Stock Plan"). The Subsidiary Stock Plan provides for grants of incentive stock options and nonqualified stock options to certain key employees and directors of Logility, Inc. The Subsidiary Stock Plan also allows for stock appreciation rights in lieu of or in addition to stock options. Options to purchase a maximum of 1.2 million shares of common stock and a maximum of 300,000 units of Stock Appreciation Rights ("SARs"), as defined, may be granted under the Subsidiary Stock Plan. The options and SARs generally vest over a four-year period. The terms of the options generally are for ten years, and the terms of the SARs generally are for five years.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net loss and diluted loss per share would have been increased to the pro forma amounts indicated below: (including amount for Subsidiary Stock Plan).

| | Years ended April 30, | | |
|-------------------------|--|------------|-------------|
| | 2001 | 2000 | 1999 |
| | (in thousands, except per share data) | | |
| Net loss: | | | |
| As reported..... | \$ (22,580) | \$ (1,242) | \$ (32,817) |
| Pro forma..... | (27,121) | (5,154) | (36,076) |
| Diluted loss per share: | | | |
| As reported..... | (.99) | (.06) | (1.48) |
| Pro forma..... | (1.19) | (.23) | (1.62) |

AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 2001 | 2000 | 1999 |
|------------------------------|---------|---------|---------|
| | ----- | ----- | ----- |
| Dividend yield..... | 0% | 0% | 0% |
| Expected volatility..... | 121.2% | 104.9% | 85.9% |
| Risk-free interest rate..... | 5.9% | 5.6% | 5.6% |
| Expected life..... | 8 years | 8 years | 8 years |

A summary of the status of the Company's stock option plans as of April 30, 2001, 2000, and 1999, and changes during the years ended on those dates is presented below:

| | 2001 | | 2000 | | 1999 | |
|---|-----------|-------------------------------|-------------|-------------------------------|-------------|----------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Fixed options | Shares | Weighted- average price | Shares | Weighted- average price | Shares | Wei av p |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Outstanding at beginning of year..... | 2,746,451 | \$3.76 | 3,418,796 | \$3.10 | 3,283,204 | \$ |
| Granted..... | 1,828,400 | 3.64 | 1,116,650 | 4.80 | 2,756,668 | |
| Exercised..... | (125,398) | 3.02 | (1,321,995) | 3.25 | (69,649) | |
| Forfeited/canceled..... | (681,304) | 4.28 | (467,000) | 2.94 | (2,551,427) | |
| | ----- | | ----- | | ----- | |
| Outstanding at end of year..... | 3,768,149 | 3.64 | 2,746,451 | 3.76 | 3,418,796 | |
| | ===== | | ===== | | ===== | |
| Options exercisable at year-end | 1,341,932 | 4.10 | 743,879 | 5.07 | 1,410,227 | |
| | ===== | | ===== | | ===== | |
| Weighted-average fair value of options granted during the year.. | \$ 3.64 | | \$ 4.38 | | \$ 1.43 | |
| | ===== | | ===== | | ===== | |

The following table summarizes information about fixed stock options outstanding at April 30, 2001:

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| Range of exercise prices | Options outstanding | | | Options exercisable | |
|--------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------|
| | Number outstanding at April 30, 2001 | Weighted-average remaining contractual life | Weighted-average exercise price | Number exercisable at April 30, 2001 | Weighted-average exercise price |
| \$ 0.00-1.69 | 31,500 | 9.9 | \$ 1.47 | -- | \$ 0.00 |
| 1.70-3.38 | 2,114,954 | 6.8 | 2.63 | 845,733 | 2.79 |
| 3.39-5.06 | 1,192,088 | 7.9 | 3.97 | 260,825 | 3.98 |
| 5.07-6.75 | 135,732 | 7.8 | 5.55 | 57,500 | 5.64 |
| 6.76-8.44 | 198,375 | 8.2 | 7.31 | 85,124 | 7.57 |
| 8.45-10.13 | 10,500 | 6.3 | 8.75 | 7,750 | 8.75 |
| 10.14-11.81 | 15,000 | 6.5 | 11.75 | 15,000 | 11.75 |
| 11.82-13.50 | 70,000 | 8.9 | 12.75 | 70,000 | 12.75 |
| | 3,768,149 | 7.3 | 3.64 | 1,341,932 | 4.10 |
| | ===== | | | ===== | |

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

A summary of the status of the Subsidiary's Stock Plan as of April 30, 2001 and 2000, and changes during the years then ended is presented below:

| Fixed options | 2001 | | 2000 | | 1999 | |
|---------------------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|
| | Shares | Weighted-average price | Shares | Weighted-average price | Shares | Weighted-average price |
| Outstanding at beginning of year..... | 764,089 | \$4.73 | 555,446 | \$4.22 | 262,070 | \$12.96 |
| Granted..... | 132,000 | 3.17 | 415,400 | 5.04 | 600,130 | 2.93 |
| Exercised..... | (5,260) | 2.75 | (43,454) | 2.96 | -- | -- |
| Forfeited/canceled..... | (111,808) | 5.53 | (163,303) | 4.28 | (306,754) | 8.78 |
| | ----- | | ----- | | ----- | |
| Outstanding at year end..... | 779,021 | 4.37 | 764,089 | 4.73 | 555,446 | 4.22 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Options exercisable at year end..... | 326,841 | 4.87 | 126,438 | 6.17 | 28,150 | 11.76 |

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| | | | |
|---|-------|-------|-------|
| Weighted-average fair value of options granted during the year..... | 2.94 | 2.63 | 1.71 |
| | ===== | ===== | ===== |

The following table summarizes information about fixed stock options outstanding at April 30, 2001 under the Subsidiary Stock Plan:

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|--------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------|
| | Number outstanding at April 30, 2001 | Weighted-average remaining contractual life | Weighted-average exercise price | Number exercisable at April 30, 2001 | Weighted-average exercise price |
| \$1.69-3.25 | 359,706 | 7.0 | \$ 2.71 | 170,781 | \$ 2.78 |
| 3.26-4.87 | 301,225 | 8.0 | 3.97 | 92,498 | 4.10 |
| 4.88-16.25 | 118,090 | 6.8 | 10.43 | 63,562 | 11.58 |
| | ----- | | | ----- | |
| | 779,021 | 7.3 | 4.37 | 326,841 | 4.87 |
| | ===== | | | ===== | |

In August 1998, the Company offered an option repricing program to its employees. Under the terms of the program, the opportunity was provided to employees to cancel any outstanding option grant in its entirety and replace it on a share-for-share basis with an option grant bearing an exercise price equal to the fair market value of the Company's stock at the new grant date. All newly issued options grants have a life of ten years and vesting occurs ratably over four years beginning on the new grant date. A total of 1,775,968 options were returned under this program.

In September 1998, Logility, Inc., the Company's subsidiary, offered an option repricing program to its employees. Under the terms of the program, the opportunity was provided to cancel any outstanding option grant in its entirety and replace it on a share-for-share basis with an option grant bearing an exercise price equal to the fair market value of the Company's stock at the new grant date. All newly issued options grants have a life of ten years and vesting occurs ratably over four years beginning on the new grant date. A total of 136,280 options were returned under this program.

(10) International Revenues

International revenues approximated \$8.5 million or 10%, \$7.8 million or 7%, and \$11.4 million or 10% of consolidated revenues for the years ended April 30, 2001, 2000, and 1999, respectively, and were primarily from customers in Canada and Europe.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

(11) Commitments

Leases

The Company is obligated under various capital leases for certain computer equipment and software that expire at various dates during the next three years. At April 30, 2001, the amount of equipment and related accumulated amortization recorded under capital leases was as follows:

| | |
|------------------------------------|-----------|
| Machinery and equipment..... | \$ 13,307 |
| Less accumulated amortization..... | (10,565) |
| | ----- |
| | \$ 2,742 |
| | ===== |

Amortization of assets held under capital leases is included with depreciation expense.

The Company leases an office facility from a partnership controlled by the two Class B shareholders, under an operating lease that by its term expired December 31, 1996. An extension of that lease, on a month-to-month basis, has been approved by the Board of Directors for the balance of the calendar year 1998 and for the subsequent years, pending negotiation of a new long-term lease. Amounts expensed under this lease for the years ended April 30, 2001, 2000, and 1999 approximated \$300,000.

The Company leases other office facilities, certain office equipment, and computer equipment under various operating and capital leases expiring through 2005. Rental expense for these leases approximated \$7.6 million, \$6.4 million, and \$5.5 million for the years ended April 30, 2001, 2000, and 1999, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of April 30, 2001 are as follows:

| Year ending April 30, ----- | Capital leases | Operating leases |
|---|-------------------|---------------------|
| | ----- | ----- |
| 2002..... | \$1,573 | \$2,073 |
| 2003..... | 945 | 1,245 |
| 2004..... | 179 | 469 |
| 2005..... | -- | 209 |
| 2006..... | -- | 13 |
| | ----- | ----- |
| Total minimum lease payments..... | 2,697 | \$4,009 |
| | | ===== |
| Less amount representing interest (at rates of 7.90%).... | 65 | |
| | ----- | |
| Present value of net minimum capital lease payments..... | 2,632 | |

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| | |
|--|---------|
| Less current installments of obligations under capital leases..... | 1,587 |
| | ----- |
| Obligations under capital leases,excluding current installments..... | \$1,045 |
| | ===== |

401(k) Profit Sharing Plan

Employees are offered the opportunity to participate in the Company's 401(k) Profit Sharing Plan (the "401(k) Plan"), which is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees are eligible to participate on the first day of the month following the date of hire. Eligible employees may contribute up to 15% of pretax income to the 401(k)

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

Plan. Subject to certain limitations, the Company may make a discretionary profit sharing contribution at an amount determined by the Board of Directors of the Company. The Company did not make profit sharing contributions for 2001, 2000, or 1999.

Effective January 1, 1999, the Company contributes an employer match in an amount equal to 25% of the eligible participant's compensation contributed to the Plan subject to a maximum of 6% of compensation. The Company's matching contributions totaled \$404,230, and \$488,942 for 2001 and 2000.

(12) Contingencies

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 affect on the financial position or results of operations of the Company.

(13) Segment information

On May 1, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information. The Company operates and manages its business in three segments based on software and services provided in three key product markets. First, Enterprise Resource Planning (ERP) automates customers' internal financing, human resources, and manufacturing functions. Second, Business-to-Business Collaborative Commerce (BBCC), provides advanced business-to-business collaborative planning and integrated logistics capabilities. Third, Application Infrastructure Provider (AIP) provides data center infrastructure, network outsourcing services, e-commerce solution hosting and monitoring, and professional services staffing. Intersegment charges are based on marketing and general administration services provided to the BBCC and AIP segments by the ERP segment. Intersegment charges are also based on application hosting services provided to the ERP and BBCC segment by the AIP segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|--|----------|---------|----------|
| | ----- | ----- | ----- |
| Revenues: | | | |
| Enterprise resource planning..... | 34,115 | 45,422 | 57,761 |
| Business-to-business collaborative commerce..... | 28,206 | 32,289 | 27,017 |
| Managed service provider: | | | |
| External customers..... | 15,958 | 18,617 | 14,502 |
| Intersegment revenues..... | 3,588 | 3,978 | 4,639 |
| Elimination of intersegment revenues..... | (3,588) | (3,978) | (4,639) |
| Other..... | 10,428 | 9,182 | 9,897 |
| | ----- | ----- | ----- |
| | 88,707 | 105,510 | 109,177 |
| Operating loss before intersegment eliminations: | | | |
| Enterprise resource planning..... | (14,669) | (4,429) | (29,129) |
| Business-to-business collaborative commerce..... | (5,692) | 1,251 | (9,282) |
| Managed service provider..... | (5,707) | (620) | 670 |
| Other..... | (273) | 972 | (257) |
| | ----- | ----- | ----- |
| | (26,340) | (2,826) | (37,998) |
| Intersegment eliminations: | | | |
| Enterprise resource planning..... | (642) | 754 | 1,546 |
| Business-to-business collaborative commerce..... | 2,682 | 2,156 | 2,131 |
| Managed service provider..... | (2,040) | (2,910) | (3,677) |
| Other..... | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| | 0 | 0 | 0 |
| Operating loss after intersegment eliminations: | | | |
| Enterprise resource planning..... | (15,311) | (3,675) | (27,583) |
| Business-to-business collaborative commerce..... | (3,010) | 3,407 | (7,151) |
| Managed service provider..... | (7,747) | (3,530) | (3,007) |
| Other..... | (273) | 972 | (257) |
| | ----- | ----- | ----- |
| | (26,340) | (2,826) | (37,998) |
| Capital expenditures: | | | |
| Enterprise resource planning..... | 684 | 623 | 583 |
| Business-to-business collaborative commerce..... | 300 | 538 | 755 |
| Managed service provider..... | 576 | 1,012 | 302 |
| Other..... | 11 | 5 | 7 |
| | ----- | ----- | ----- |
| | 1,571 | 2,178 | 1,647 |
| Capitalized Software: | | | |
| Enterprise resource planning..... | 983 | 7,073 | 6,950 |
| Business-to-business collaborative commerce..... | 2,966 | 3,373 | 3,952 |
| Managed service provider..... | 0 | 0 | 0 |
| Other..... | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| | 3,949 | 10,446 | 10,902 |
| Depreciation and amortization: | | | |
| Enterprise resource planning..... | 4,749 | 3,549 | 5,173 |
| Business-to-business collaborative commerce..... | 3,511 | 3,485 | 3,862 |
| Managed service provider..... | 2,830 | 2,671 | 2,491 |
| Other..... | 287 | 329 | 320 |

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11,377 10,034 11,846

April 30, April 30, April 30,
2001 2000 2000

Identifiable assets:

| | | | |
|--|--------|---------|---------|
| Enterprise resource planning..... | 30,471 | 59,137 | 59,596 |
| Business-to-business collaborative commerce..... | 40,346 | 42,330 | 40,678 |
| Managed service provider..... | 7,267 | 7,016 | 5,858 |
| Other..... | 3,983 | 4,564 | 3,604 |
| | ----- | ----- | ----- |
| | 82,067 | 113,047 | 109,736 |

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AMERICAN SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

April 30, 2001, 2000, and 1999

(14)Financial Statements and Supplementary Data

The following schedule represents results for each quarter in the years ended April 30, 2001 and 2000 (in thousands, except per share amounts):

| | Total Revenue | Operating Income | Net Earnings (Loss) Attributable to Common Shareholders | Diluted net earnings (loss) per share |
|-----------------------|------------------|---------------------|---|---|
| | ----- | ----- | ----- | ----- |
| Quarter ended: | | | | |
| July 31, 2000..... | \$ 22,044 | \$ (3,979) | \$ (3,692) | \$ (0.16) |
| October 31, 2000..... | 21,529 | (16,896) | (15,914) | (0.70) |
| January 31, 2001..... | 21,882 | (5,794) | (3,192) | (0.14) |
| April 30, 2001..... | 23,252 | 329 | 218 | 0.01 |
| | ----- | ----- | ----- | ----- |
| Year ended April 30, | | | | |
| 2001..... | \$ 88,707 | \$ (26,340) | \$ (22,580) | \$ (0.99) |
| | ===== | ===== | ===== | ===== |
| Quarter ended: | | | | |
| July 31, 1999..... | \$ 28,235 | \$ 585 | \$ 904 | \$ 0.04 |
| October 31, 1999..... | 28,182 | 520 | 1,003 | 0.05 |
| January 31, 2000..... | 25,803 | (871) | (418) | (0.02) |
| April 30, 2000..... | 23,290 | (3,060) | (2,731) | (0.13) |
| | ----- | ----- | ----- | ----- |
| Year ended April 30, | | | | |
| 2000..... | \$105,510 | \$ (2,826) | \$ (1,242) | \$ (0.06) |
| | ===== | ===== | ===== | ===== |

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Independent Auditors' Report

The Board of Directors and Shareholders American Software, Inc.:

We have audited the accompanying consolidated balance sheets of American Software, Inc. and subsidiaries as of April 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended April 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Software, Inc. and subsidiaries as of April 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG, LLP

June 14, 2001 Atlanta, Georgia

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of the Company are:

| Name | Age | Position |
|--------------------------|-----|---|
| ---- | --- | ----- |
| James C. Edenfield..... | 66 | President, Chief Executive Officer, Treasurer and Director; Chairman Board of Directors of Logility, Inc. |
| Thomas L. Newberry..... | 68 | Chairman of the Board of Directors |
| J. Michael Edenfield.... | 43 | Director, Executive Vice President, President and Director of Logility |

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David H. Gambrell..... 71 Director

Dennis Hogue..... 48 Director

John J. Jarvis..... 59 Director

Thomas L. Newberry, V... 34 Director

Thomas R. Williams..... 72 Director

Jeffrey W. Coombs..... 49 Executive Vice President of American Software USA, Inc.

Vincent C. Klinges..... 38 Chief Financial Officer

James R. McGuone..... 54 Secretary

All directors hold office until the next annual meeting of the shareholders of the Company. Executive officers of the Company are elected annually and serve at the pleasure of the Board of Directors.

Mr. James C. Edenfield is one of our a co-founders and has served as our Chief Executive Officer since November 1989, and as Co-Chief Executive Officer for more than five years prior to that time. He has been a Director since 1971. Prior to founding American Software, Mr. Edenfield held several executive positions and was a director of Management Science America, Inc., an applications software development and sales company. He holds a Bachelor of Industrial Engineering degree from the Georgia Institute of Technology. Mr. Edenfield also serves as Chairman of the Board of Directors of Logility, Inc., our majority owned subsidiary.

Dr. Newberry is one of our co-founders of and has served as our Chairman of the Board since November 1989, and was Co-Chief Executive Officer prior to that for more than five years. He has been a Director since 1971. Prior to founding American Software, he held executive positions with several companies engaged in computer systems analysis and software development and sales including Management Science America, Inc., where he was also a director. Dr. Newberry holds Bachelor, Master of Science, and Ph.D. degrees in Industrial Engineering from the Georgia Institute of Technology.

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Mr. J. Michael Edenfield was elected as a Director of American Software on June 1, 2001. He has served as our Executive Vice President since June 1994. In January 1997, Mr. Edenfield was elected to President of Logility, Inc., a majority owned subsidiary of ours. Mr. Edenfield also serves as director of Logility, Inc. From June 1994 to October 1997, he served as Chief Operating Officer of the Company. Prior to holding that position, he served as Senior Vice President of North American Sales and Marketing of American Software USA, Inc. from July, 1993 to June, 1994, as Senior Vice President of North American Sales from August, 1992 to July, 1993, as Group Vice President from May, 1991 to August, 1992 and as Regional Vice President from May, 1987 to May, 1991. Mr.

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Edenfield holds a Bachelor of Industrial Management degree from the Georgia Institute of Technology. Mr. Edenfield is the son of James C. Edenfield, our Chief Executive Officer.

Mr. Gambrell has served as a Director of American Software since January 1983. He has been a practicing attorney since 1952, and is a partner with the law firm of Gambrell & Stolz, L.L.P., counsel to us. He served as a member of the United States Senate from the State of Georgia in 1971 and 1972. Mr. Gambrell holds a Bachelor of Science degree from Davidson College and a J.D. degree from the Harvard Law School.

Mr. Hogue was elected as a Director of American Software on June 1, 2001. Mr. Hogue became Chief Executive Officer of Global Food Exchange in January 2001. Prior to joining Global Food Exchange, Mr. Hogue served as President and Chief Executive Officer of E3 Corporation from December 1999 to December 2000. Prior to serving as President and Chief Executive Officer of E3, Mr. Hogue served as Vice President of Sales from November 1996 until April 1997 and President of North America from April 1997 until December 1999. He earned a Bachelor of Science degree in Psychology from Florida State University in 1974.

Dr. Jarvis was elected as a Director of American Software on June 1, 2001. He is currently Chair of the School of Industrial and Systems Engineering at the Georgia Institute of Technology, where has been a member of the faculty since 1968. Dr. Jarvis was co-founder of CAPS Logistics, Inc., a provider of software and consulting services in logistics, which was acquired by Baan NV in 1998. Dr. Jarvis has served as President of the Institute of Industrial Engineers (IIE), President of TIMS and Secretary of ORSA. He has served on the Councils of ORSA and TIMS and on the Boards of the Institute for Operations Research and Management Sciences (INFORMS) and IIE. Dr. Jarvis currently holds a Bachelor and Masters of Science degree in Industrial Engineering from the University of Alabama and a Ph.D. from Johns Hopkins University.

Mr. Newberry, V was elected as a Director of American Software on June 1, 2001. He is the founder of The 1% Club, Inc. and has acted as its Chief Executive Officer since its founding. He is also the author of motivational books and audio programs dedicated to improving performance in business operations and salesmanship. Mr. Newberry, V currently holds a Bachelor of Science degree from Georgia State University.

Mr. Williams has served as a Director of American Software since April 1989. He is currently the President of the Wales Group, Inc., a closely-held corporation engaged in investments and venture capital, and has held such position since 1987. Mr. Williams also serves as director of Conagra, Inc., National Life Insurance Company of Vermont and Avado Brands, Inc. He also served as a trustee of Fidelity Group of Mutual Funds from 1987 to 2000. He was a director of Southern Bell Corporation from 1980 to 1983 and is a Former Chairman of the Board of First Wachovia Corporation, First National Bank of Atlanta and First Atlanta Corporation. Mr. Williams currently holds a Bachelor of Science degree in Industrial Engineering from the Georgia Institute of Technology and a Master of Science degree in Industrial Management from the Massachusetts Institute of Technology.

Mr. Jeffrey W. Coombs first joined American Software in January 1985. In 1988 he was elected Vice President of Professional Services. From May 1994 to February 1996, Mr. Coombs was employed by Indus International, Inc. (formerly known as TSW International, Inc.) as Senior Vice President. Mr. Coombs rejoined us in February 1996 as Senior Vice President of Professional Services. In April 2001, Mr. Coombs was promoted to Executive Vice President of American Software USA, Inc. From March 1978 to June 1984 Mr. Coombs was employed by Saudi Arabian Airlines as a Project Manager in Information Technology. Prior to that time Mr. Coombs held various positions with the Northern Bank Ltd., Belfast.

Mr. Klinges joined American Software in February 1998 as Vice President of Finance, in September 1999 Mr. Klinges was promoted to Chief Financial Officer. From July 1995 to February 1998, Mr. Klinges was employed by Indus International, Inc. (formerly known as TSW International, Inc.), as Controller. From November 1986 to July 1995, Mr. Klinges held various positions with Dun & Bradstreet, Inc., including as Controller of Sales Technologies, a software division of Dun & Bradstreet Inc. Mr. Klinges holds a Bachelor of Business Administration from St. Bonaventure University.

Mr. McGuone was elected as our Secretary in May 1988. He has been a practicing attorney since 1972, and is a partner with the law firm of Holland & Knight, L.L.P., counsel to American Software. Mr. McGuone holds a B.A. degree from Pennsylvania State University and a J.D. degree from Fordham University School of Law.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and holders of more than 10% of the Common Stock are required by regulations promulgated by the SEC pursuant to the Exchange Act to furnish us with copies of all Section 16(a) forms they file. We assist officers and directors in complying with the reporting requirements of Section 16(a) of the Exchange Act.

Based upon review of filings made under Section 16(a) of the Exchange Act, all Section 16(a) filing requirements applicable to our directors, officers and greater than 10% beneficial owners were complied with.

ITEM 11. EXECUTIVE COMPENSATION

This information is set forth under the caption "Certain Information Regarding Executive Officers and Directors" in the Company's 2001 Proxy Statement (the "Proxy Statement"), which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is set forth under the caption "Voting Securities--Security Ownership" in the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationship with Logility, Inc. and Certain Transactions

On October 10, 1997, we completed an initial public offering of 2,200,000 shares of common stock in our subsidiary, Logility, Inc. ("Logility"). Prior to that time, Logility was a wholly-owned subsidiary of ours, operating as the supply chain planning software group, warehouse management software group and transportation management group. In anticipation of such offering, American Software and Logility entered into a number of agreements for the purpose of defining certain relationships between the parties (the "Intercompany Agreements"). The more significant of the Intercompany Agreements are summarized below. As a result of our ownership interest in Logility, the terms of such agreements were not the result of arms-length negotiation.

Services Agreement

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American Software and Logility have entered into a Services Agreement (the "Services Agreement") with respect to certain services to be provided by us (or our subsidiaries) to Logility. The Services Agreement provides that such services are provided in exchange for fees which management believes would not exceed fees that would be paid if such services were provided by independent third parties. The services initially provided by us to Logility under the Services Agreement include, among other things, certain accounting, audit,

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cash management, corporate development, employee benefit plan administration, human resources and compensation, general and administration services, and risk management and tax services. In addition to these services, we have agreed to allow eligible employees of Logility to participate in certain employee benefit plans. Logility has agreed to reimburse us for costs (including any contributions and premium costs and including third-party expenses and allocations of certain personnel expenses), generally in accordance with past practice, relating to the participation by Logility's employees in any of our benefit plans.

The Services Agreement has an initial term of three years and is renewed automatically thereafter for successive one-year terms unless either American Software or Logility elects not to renew its term by giving proper notice. Logility will indemnify us against any damages that we may incur in connection with its performance of services under the Services Agreement (other than those arising from our gross negligence or willful misconduct), and we will indemnify Logility against any damages arising out of our gross negligence or willful misconduct in connection with its rendering of services under the Services Agreement. For the fiscal years ended 2001 and 2000 the services related to this agreement were valued at \$1.5 and \$1.0 million, respectively.

Facilities Agreement

American Software and Logility have entered into a Facilities Agreement (the "Facilities Agreement"), which provides that Logility may occupy space located in certain facilities owned or leased by us (or our subsidiaries).

The Facilities Agreement has an initial term of two years and is renewed automatically thereafter for successive one-year terms unless either American Software or Logility elects not to renew its term. The Facilities Agreement may be terminated by Logility for any reason with respect to any particular facility upon thirty days' written notice. Logility's lease of space at any facility under the Facilities Agreement is limited by the term of the underlying lease between American Software and a landlord with respect to any facility leased by American Software and by the disposition by American Software of any facility owned by American Software. For the fiscal years ended 2001 and 2000 the services related to this agreement were valued at \$763,000 and \$418,000, respectively. Included in these costs are lease expense, utilities expense, telephone expense, and security expense.

Tax Sharing Agreement

Logility is included in our federal consolidated income tax group, and Logility's federal income tax liability will be included in the consolidated federal income tax liability of American Software and its subsidiaries. Logility and American Software have entered into a Tax Sharing Agreement (the "Tax Sharing Agreement") pursuant to which American Software and Logility will make payments between them such that the amount of taxes to be paid by Logility, subject to certain adjustments, will be determined as though Logility were to file separate federal, state, and local income tax returns, rather than as a consolidated subsidiary of American Software. Pursuant to the Tax Sharing

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Agreement, under certain circumstances, Logility will be reimbursed for tax attributes that it generates after deconsolidation of Logility from the consolidated tax group of American Software, such as net operating losses and loss carryforwards. Such reimbursement, if any, will be made for utilization of Logility's losses only after such losses are utilized by American Software. For that purpose, all losses of American Software and its consolidated income tax group will be deemed utilized in the order in which they are recognized. Logility will pay American Software a fee intended to reimburse American Software for all direct and indirect costs and expenses incurred with respect to our share of the overall costs and expense incurred by us with respect to tax related services.

Technology License Agreement

American Software and Logility have entered into a Technology License Agreement (the "Technology License Agreement") pursuant to which Logility has granted us a non-exclusive, worldwide license to use, execute, reproduce, display, modify, and prepare derivatives of the Logility Voyager Solutions product line,

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provided such license is limited to maintaining and supporting users that have licensed Logility Voyager Solutions products from us. Pursuant to the Technology License Agreement, American Software and Logility are required to disclose to one another any and all enhancements and improvements which they may make or acquire in relation to a Logility Voyager Solutions product, subject to confidentiality requirements imposed by third parties. The term of the Technology License Agreement is indefinite, although Logility may terminate the Technology License Agreement for cause, and we may terminate the Technology License Agreement at any time upon sixty (60) days' prior written notice to Logility. Upon termination of the Technology License Agreement, all rights to Logility Voyager Solutions products licensed by Logility to American Software revert to Logility, while all rights to enhancements and improvements made by American Software to Logility Value Chain Solutions products revert to us.

Marketing License Agreement

American Software USA, Inc. ("USA"), a wholly-owned subsidiary of American Software, and Logility have entered into a Marketing License Agreement (the "Marketing License Agreement") pursuant to which USA has agreed to act as a non-exclusive marketing representative of Logility for the solicitation of license agreements relating to the Logility Voyager Solutions product line. The Marketing License Agreement provides for the payment to USA of a commission equal to 30% (or 50% for affiliates of USA located in the United Kingdom and France if they carry out installation and provide first-line support services) of the net license revenue collected by Logility under license agreements for the Logility Voyager Solutions product line with certain end-users who are also licensees of software products of American Software which are secured and forwarded to Logility by USA and accepted by Logility. The Marketing License Agreement has a five-year term, although Logility may terminate the Marketing License Agreement for cause, and either party may terminate the Marketing License Agreement at any time upon twelve (12) months' prior written notice to the other party. For the fiscal years ended 2001 and 2000 the services related to this agreement were valued at \$367,000 and \$731,000, respectively.

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PART IV

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ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report.

1. Financial statements; All financial statements of the Company as described in Item 8 of this report on Form 10-K.

2. Financial statement schedule included in Part IV of this Form:

| | Page |
|---|------|
| | ---- |
| Report of Independent Auditors..... | 77 |
| Schedule II--Consolidated Valuation Accounts--for the three years ended April 30, 2001..... | 78 |

All other financial statements and schedules not listed above are omitted as the required information is not applicable or the information is presented in the financial statements or related notes.

3. Exhibits

The following exhibits are filed herewith or incorporated herein by reference:

- 3.1 The Company's Amended and Restated Articles of Incorporation, and amendments thereto. (1)
- 3.2 The Company's Amended and Restated By-Laws dated November 13, 1989. (2)
- 10.1 Amended and Restated 1991 Employee Stock Option Plan dated February 14, 2000. (3)
- 10.2 Amended and Restated Directors and Officers Stock Option Plan effective August 26, 1999. (4)
- 10.3 American Software, Inc. 401(k)/Profit Sharing Plan and Trust Agreement. (5)
- 10.4 Lease Agreement dated December 15, 1981, between Company and Newfield Associates. (6)
- 10.5 Amendment dated January 14, 1983, to Lease Agreement between the Company and Newfield Associates. (6)
- 10.6 Subsidiary Formation Agreement entered into among the Company, Logility, Inc., and certain subsidiaries of the Company, as amended, dated January 23, 1997. (7)
- 10.7 Services Agreement between the Company and Logility, Inc., dated August 1, 1997. (7)
- 10.8 Facilities Agreement between the Company and Logility, Inc., dated August 1, 1997. (7)
- 10.9 Tax Sharing Agreement between the Company and Logility, Inc., dated January 23, 1997. (7)
- 10.10 Stock Option Agreement between the Company and Logility, Inc., dated August 1, 1997. (7)
- 10.11 Technology License Agreement between the Company and Logility, Inc., as amended, dated August 1, 1997. (7)
- 10.12 Marketing License Agreement between USA and Logility, Inc., as amended, dated August 1, 1997. (7)
- 10.13 The Company's Employee Stock Purchase Plan dated September 30, 1998. (8)
- Logility, Inc.'s Amended and Restated 1997 Stock Plan dated August 26,

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- 10.14 1998. (9)
Logility, Inc.'s Employee Stock Purchase Plan dated September 30,
10.15 1998. (9)

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- 10.16 Split-Dollar Agreement between the Company and the J&N Edenfield
Trust, dated November 30, 1999. (10)
10.17 The Company's 2001 Stock Option Plan. (11)
21.1 List of Subsidiaries.
23.1 Independent Auditors' Consent.

- (1) Incorporated by reference herein. Filed by the Company as an exhibit to its quarterly report filed on Form 10-Q for the quarter ended October 31, 1990.
- (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 January 31, 1990.
- (3) Incorporated by reference herein. Filed by the Company as an exhibit to its quarterly report filed on Form 10-Q for the quarter ended January 31, 2000.
- (4) Incorporated by reference herein. Filed by the Company as an exhibit to its Registration Statement No. 333-86141 filed on Form S-8 on August 30, 1999.
- (5) Incorporated by reference herein. Filed by the Company as an exhibit to its Registration Statement No. 333-55214 filed on Form S-8 on December 1, 1992.
- (6) Incorporated by reference herein. Filed by the Company as an exhibit to its Registration Statement No. 2-81444 filed on Form S-1 on January 21, 1983.
- (7) Incorporated by reference herein. Filed by the Company as an exhibit to its annual report filed on Form 10-K for the fiscal year ended April 30, 1998.
- (8) Incorporated by reference herein. Filed by the Company as an exhibit to its Registration Statement No. 333-67533 filed on Form S-8 on November 19, 1998.
- (9) Incorporated by reference herein. Filed by the Company as an exhibit to its annual report filed on Form 10-K for the fiscal year ended April 30, 1999.
- (10) Incorporated by reference herein. Filed by the Company as an exhibit to its annual report filed on Form 10-K for the fiscal year ended April 30, 2000.
- (11) Incorporated by reference herein. Filed by the Company as an exhibit to its Registration Statement No. 333-44744 filed on form S-8 on August 29, 2000.

(b) Reports on Form 8-K

The Company did not file a report on Form 8-K during the fourth quarter of the recently completed fiscal year.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders American Software, Inc.:

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Under date of June 14, 2001, we reported on the consolidated balance sheets of American Software, Inc. and subsidiaries as of April 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and comprehensive income and cash flows for each of the years in the three-year period ended April 30, 2001, which are included in the April 30, 2001 annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule included in the Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG, LLP

June 14, 2001 Atlanta, Georgia

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SCHEDULE II

AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

CONSOLIDATED VALUATION ACCOUNTS

Years ended April 30, 2001, 2000, and 1999

Allowance for Doubtful Accounts

| Year ended ----- | Balance at beginning of year | Additions charged to costs and expenses | Deductions(1) | Balance at end of year |
|---------------------|------------------------------------|--|---------------|------------------------------|
| ----- | ----- | ----- | ----- | ----- |
| April 30, 1999..... | \$1,222,000 | \$1,880,000 | 1,384,000 | 1,718,000 |
| April 30, 2000..... | 1,718,000 | 385,000 | 364,000 | 1,739,000 |
| April 30, 2001..... | 1,739,000 | 1,627,000 | 1,710,000 | 1,656,000 |

(1) Write-offs of accounts receivable

Deferred Income Tax Valuation Allowance

| Year ended ----- | Balance at beginning of year | Additions charged to costs and expenses | Deductions(1) | Balance at end of year |
|---------------------|------------------------------------|--|---------------|------------------------------|
| ----- | ----- | ----- | ----- | ----- |
| April 30, 1999..... | \$1,980,000 | 4,416,000 | -- | 6,396,000 |
| April 30, 2000..... | 6,396,000 | 404,000 | -- | 6,800,000 |
| April 30, 2001..... | 6,800,000 | 10,625,000 | -- | 17,425,000 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Software, Inc.

/s/ James C. Edenfield

By: _____
James C. Edenfield
President, Chief Executive
Officer,
Treasurer and Director

Date: July 23, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signatures ----- | Title ----- | Date ---- |
|---|--|---------------|
| /s/ James C. Edenfield _____ James C. Edenfield | President, Chief Executive Officer, Treasurer and Director | July 23, 2001 |
| /s/ Thomas L. Newberry _____ Thomas L. Newberry | Chairman of the Board of Directors | July 23, 2001 |
| /s/ J. Michael Edenfield _____ J. Michael Edenfield | Director, Executive Vice President | July 23, 2001 |
| /s/ David H. Gambrell _____ David H. Gambrell | Director | July 23, 2001 |
| /s/ Dennis Hogue _____ Dennis Hogue | Director | July 23, 2001 |
| /s/ John J. Jarvis _____ John J. Jarvis | Director | July 23, 2001 |
| /s/ Thomas L. Newberry, V. _____ Thomas L. Newberry, V. | Director | July 23, 2001 |
| /s/ Thomas R. Williams _____ | Director | July 23, 2001 |

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Thomas R. Williams

/s/ Vincent C. Klinges

Chief Financial Officer

July 23, 2001

Vincent C. Klinges

/s/ Deirdre J. Lavender

Controller and Principal
Accounting Officer

July 23, 2001

Deirdre J. Lavender