

AMERICAN SOFTWARE INC
Form 10-Q
March 07, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 0-12456

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

Georgia	58-1098795
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

470 East Paces Ferry Road, N.E., Atlanta, Georgia	30305
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

Classes	Outstanding at March 5, 2019
Class A Common Stock, \$.10 par value	29,303,235 Shares
Class B Common Stock, \$.10 par value	1,821,587 Shares

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

American Software, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share data)

	January 31, 2019	April 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,058	\$ 52,794
Investments	28,106	26,121
Trade accounts receivable, less allowance for doubtful accounts of \$132 at January 31, 2019 and \$159 at April 30, 2018:		
Billed	20,298	18,643
Unbilled	2,992	3,375
Prepaid expenses and other current assets	6,184	6,592
Total current assets	112,638	107,525
Investments—noncurrent	998	8,893
Property and equipment, net of accumulated depreciation of \$29,130 at January 31, 2019 and \$28,644 at April 30, 2018	3,562	3,034
Capitalized software, net of accumulated amortization of \$27,506 at January 31, 2019 and \$24,113 at April 30, 2018	10,497	9,728
Goodwill	25,888	25,888
Other intangibles, net of accumulated amortization of \$10,047 at January 31, 2019 and \$8,255 at April 30, 2018	3,328	5,120
Other assets	3,910	2,777
Total assets	\$ 160,821	\$ 162,965
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,789	\$ 1,974
Accrued compensation and related costs	2,909	6,310
Dividends payable	3,417	3,367
Other current liabilities	1,279	1,246
Deferred revenue	32,947	33,226
Total current liabilities	42,341	46,123
Deferred income taxes	3,027	2,615
Long-term deferred revenue	—	147
Other long-term liabilities	1,097	1,496
Total liabilities	46,465	50,381
Shareholders' equity:		
Common stock:		
Class A, \$.10 par value. Authorized 50,000,000 shares: 33,833,676 and 29,245,044 shares issued and outstanding respectively at January 31, 2019 and 33,141,760 and 28,553,128 shares issued and outstanding respectively at April 30, 2018	3,383	3,314
Class B, \$.10 par value. Authorized 10,000,000 shares: 1,821,587 shares issued and outstanding at January 31, 2019 and 2,057,390 shares issued and outstanding at April 30, 2018; convertible into Class A Common Shares on a one-for-one basis	182	205
Additional paid-in capital	136,522	131,258

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Retained (deficit) earnings	(172) 3,366
Class A treasury stock, 4,588,632 shares at January 31, 2019 and April 30, 2018, at cost	(25,559) (25,559)
Total shareholders' equity	114,356	112,584
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 160,821	\$ 162,965
See accompanying notes to condensed consolidated financial statements—unaudited.		

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

	Three Months Ended January 31, 2019		Nine Months Ended January 31, 2018	
Revenues:				
License	\$1,718	\$5,955	\$5,432	\$12,420
Subscription Fees	3,687	2,584	10,196	6,244
Professional Services and other	10,176	10,342	32,240	31,773
Maintenance	11,422	11,236	34,567	32,903
Total revenues	27,003	30,117	82,435	83,340
Cost of revenues:				
License	1,831	1,727	5,305	4,692
Subscription Fees	1,389	1,028	3,746	2,779
Professional Services and other	7,714	7,912	24,484	22,673
Maintenance	2,030	2,404	6,442	6,919
Total cost of revenues	12,964	13,071	39,977	37,063
Gross margin	14,039	17,046	42,458	46,277
Research and development	2,811	3,099	9,818	8,250
Sales and marketing	4,699	5,385	15,183	15,055
General and administrative	4,302	4,263	12,903	11,418
Amortization of acquisition-related intangibles	97	95	291	486
Total operating expenses	11,909	12,842	38,195	35,209
Operating income	2,130	4,204	4,263	11,068
Other (expense)/income:				
Interest income	523	403	1,551	1,120
Other, net	4	1,171	(461)	1,729
Earnings before income taxes	2,657	5,778	5,353	13,917
Income tax expense	356	198	424	3,132
Net earnings	\$2,301	\$5,580	\$4,929	\$10,785
Earnings per common share (a):				
Basic	\$0.07	\$0.18	\$0.16	\$0.36
Diluted	\$0.07	\$0.18	\$0.16	\$0.36
Cash dividends declared per common share	\$0.11	\$0.11	\$0.33	\$0.33
Shares used in the calculation of earnings per common share:				
Basic	31,010	30,244	30,887	29,940
Diluted	31,183	30,701	31,351	30,299

Basic per share amounts are the same for Class A and Class B shares. Diluted per share amounts for Class A shares are shown above. Diluted earnings per share for Class B shares under the two-class method are \$0.07 and \$0.18 for the three months ended January 31, 2019 and 2018, and \$0.16 and \$0.36 for the nine months ended January 31, 2019 and 2018, respectively. See Note D to the Condensed Consolidated Financial Statements. See accompanying notes to condensed consolidated financial statements—unaudited.

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

	Nine Months Ended January 31,	
	2019	2018
Cash flows from operating activities:		
Net earnings	\$4,929	\$10,785
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,671	4,305
Stock-based compensation expense	1,308	1,108
Net loss (gain) on investments	393	(1,378)
Deferred income taxes	(166)	208
Changes in operating assets and liabilities:		
Purchases of trading securities	(7,427)	(20,010)
Proceeds from maturities and sales of trading securities	12,944	11,656
Accounts receivable, net	(831)	(2,926)
Prepaid expenses and other assets	724	(1,494)
Accounts payable and other liabilities	(4,031)	(999)
Deferred revenue	94	4,096
Net cash provided by operating activities	13,608	5,351
Cash flows from investing activities:		
Capitalized computer software development costs	(4,162)	(3,652)
Purchases of property and equipment, net of disposals	(1,014)	(413)
Purchases of business, net of cash acquired	—	(9,253)
Net cash used in investing activities	(5,176)	(13,318)
Cash flows from financing activities:		
Proceeds from exercise of stock options	4,004	6,719
Dividends paid	(10,172)	(9,841)
Net cash used in financing activities	(6,168)	(3,122)
Net change in cash and cash equivalents	2,264	(11,089)
Cash and cash equivalents at beginning of period	52,794	66,001
Cash and cash equivalents at end of period	\$55,058	\$54,912
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net of refunds	\$505	\$6,764
See accompanying notes to condensed consolidated financial statements—unaudited.		

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements—Unaudited

January 31, 2019

A. Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete consolidated financial statements. In the opinion of our management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company's financial position at January 31, 2019, results of operations for the three and nine months ended January 31, 2019 and 2018 and cash flows for the nine months ended January 31, 2019 and 2018. The Company's results for the three and nine months ended January 31, 2019 are not necessarily indicative of the results expected for the full year. You should read these statements in conjunction with our audited consolidated financial statements and management's discussion and analysis and results of operations included in our Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended April 30, 2018. The terms "fiscal 2019" and "fiscal 2018" refer to our fiscal years ending April 30, 2019 and 2018, respectively.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements for fiscal 2018 contained in the Annual Report describes the significant accounting policies that we have used in preparing our consolidated financial statements. On an ongoing basis, we evaluate our estimates, including but not limited to those related to revenue/collectability, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could differ materially from these estimates under different assumptions or conditions. The accompanying condensed consolidated balance sheet as of April 30, 2018 and the condensed consolidated statements of operations for the three and nine months and cash flows for the nine months ended January 31, 2018 have not been revised for the effects of Topic 606 and are therefore not comparable to the January 31, 2019 period.

Principles of Consolidation

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which replaced the previous revenue recognition guidance. The Company adopted the new revenue standard effective May 1, 2018 using the modified retrospective transition method. Under this method, the Company elected to apply the cumulative effect method to contracts that are not complete as of the adoption date. The Company's total revenue impact is \$1.2 million, with approximately 70% impacting fiscal 2019, which is the result of recognizing revenue for the license component of its term licenses and certain perpetual license contracts that were previously recognized over time due to the lack of vendor-specific objective evidence (VSOE) of fair value at the point in time at which control of the software license is transferred to the customer, rather than ratably over the term of the contract. In addition, under the new standard, the Company will capitalize a portion of sales commission expenses and recognize them ratably over the associated period of economic benefit, which the Company has determined to be six years, which will have an impact of \$1.1 million. As a result, the cumulative impact due to the adoption of the new revenue standard on the opening consolidated balance sheet will be an increase in opening retained earnings, with a corresponding increase in contract assets and a decrease in deferred

revenue.

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