AMERICAN SOFTWARE INC
Form 10-Q/A
October 12, 2005

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended January 31, 2005

OR

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

For the transition period from ______ to ______

Commission File Number: 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia **(State or other jurisdiction of** **incorporation or organization)**	**58-1098795** **(IRS Employer** **Identification Number)**
470 East Paces Ferry Road, N.E., Atlanta, Georgia **(Address of principal executive offices)**	**30305** **(Zip Code)**

(404) 261-4381

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

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

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 October 4, 2005**
Class A Common Stock, $.10 par value	20,502,638 Shares
Class B Common Stock, $.10 par value	3,489,994 Shares

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

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Quarter ended January 31, 2005

EXPLANATORY NOTE TO AMENDMENT NO. 1 ON FORM 10-Q/A

American Software, Inc. (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended January 31, 2005, which was originally filed with the Securities and Exchange Commission on March 14, 2005, to reflect the restatement of the Company s financial statements for the quarter ended January 31, 2005. As more fully described in Note B (Restatement) to the condensed consolidated financial statements, the adjustments principally relate to errors identified in the Company s accounting for income taxes.

The following items of the Form 10-Q have been modified or revised in this Amendment No. 1 to reflect the restatement:

Part I, Item 1. Financial Statements

Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4. Controls and Procedures

Part II, Item 6. Exhibits

This Amendment No. 1 does not modify or update disclosures presented in the original Form 10-Q, except as required to reflect the effects of the restatement. Except for disclosures affected by the restatement, Amendment No. 1 speaks as of the original filing date of the Form 10-Q on March 14, 2005 and does not modify or update disclosures in the Form 10-Q, including the nature and character of such disclosures, to reflect events occurring or items discovered after the original filing date of the Form 10-Q. Accordingly, this Amendment No. 1 should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to the original filing date of the Form 10-Q, including any amendments to those filings.

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

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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, 2005 (Restated) (Note B)	April 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,204	$ 37,530
Investments current	25,752	28,297
Trade accounts receivable, less allowance for doubtful accounts of $784 at January 31, 2005 and $768 at April 30, 2004:		
Billed	11,220	7,097
Unbilled	2,881	2,487
Prepaid expenses and other current assets	2,779	876
Total current assets	71,836	76,287
Investments noncurrent	1,953	539
Property and equipment, net	7,675	7,570
Capitalized computer software development costs, net	7,310	7,119
Goodwill	10,505	4,346
Other intangibles, net	2,250	
Deferred taxes-noncurrent	2,252	
Other assets	1,528	1,375
	$ 105,309	$ 97,236
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,374	$ 678
Accrued compensation and related costs	1,890	1,987
Dividends payable	1,670	1,412
Other current liabilities	4,375	2,190
Deferred taxes-current	101	
Deferred revenue	13,345	10,059
Total current liabilities	22,755	16,326

Minority interest	4,010	4,457
Shareholders equity:		
Common stock:		
Class A, $.10 par value. Authorized 50,000,000 shares; Issued 24,096,115 shares at January 31, 2005 and 23,638,927 shares at April 30, 2004	2,409	2,364
Class B, $.10 par value. Authorized 10,000,000 shares; Issued and outstanding 3,549,994 shares at January 31, 2005 and 3,649,994 shares at April 30, 2004; convertible into Class A shares on a one-for-one basis	355	365
Additional paid-in capital	75,406	70,948
Accumulated other comprehensive income	137	236
Retained earnings	20,742	23,045
Class A treasury stock, at cost, 3,782,185 shares at January 31, 2005 and April 30, 2004	(20,505)	(20,505)
Total shareholders equity	78,544	76,453
Commitments and contingencies		
	$ 105,309	$ 97,236

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,		Nine Months Ended January 31,	
	2005 (Restated) (Note B)	2004	2005 (Restated) (Note B)	2004
Revenues:				
License fees	$ 3,760	$ 3,823	$ 8,864	$ 9,396
Services and other	8,541	6,277	22,957	18,244
Maintenance	5,061	4,541	14,123	13,633
Total revenues	17,362	14,641	45,944	41,273
Cost of revenues:				
License fees	1,366	1,103	3,161	3,268
Services and other	6,019	4,502	16,072	12,375
Maintenance	1,705	1,118	4,205	3,508
Total cost of revenues	9,090	6,723	23,438	19,151
Gross Margin	8,272	7,918	22,506	22,122
Operating expenses:				
Research and development costs	1,320	1,059	3,601	3,292
Sales and marketing	3,275	2,899	9,061	8,448
General and administrative	3,066	2,494	7,820	6,892
Acquisition related amortization of intangibles	79		117	
Total operating expenses	7,740	6,452	20,599	18,632
Operating income	532	1,466	1,907	3,490
Other income:				
Interest income	336	302	980	879
Gain on investments and other	496	453	1,088	1,365
Earnings before income taxes	1,364	2,221	3,975	5,734
Income tax (expense) / benefit	(1,337)		(1,337)	
Minority interest income / (expense)	23	(160)	43	(238)
Net earnings	$ 50	$ 2,061	$ 2,681	$ 5,496
Net earnings per common share:				
Basic	$ 0.00	$ 0.09	$ 0.11	$ 0.24

Diluted	$ 0.00	$ 0.08	$ 0.11	$ 0.22
Cash dividends declared per basic common share:	$ 0.07	$ 0.06	$ 0.21	$ 0.18
Shares used in the calculation of net earnings per common share:				
Basic	23,781	22,947	23,679	22,655
Diluted	25,189	25,055	25,094	24,571

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,	
	2005 (Restated) (Note B)	2004
Cash flows from operating activities:		
Net earnings	$ 2,681	$ 5,496
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,224	4,255
Minority interest	(43)	238
Investment impairment and other non-cash items	100	
Net gain on investments	(670)	(953)
Deferred taxes	1,600	
Bond amortization	208	243
Change in operating assets and liabilities, net of effects of acquisition:		
Purchases of trading securities	(13,001)	(10,890)
Proceeds from sales of trading securities	9,876	5,889
Proceeds from maturities of investments	1,900	3,052
Accounts receivable	(2,520)	1,711
Prepaid expenses and other assets	(1,117)	(269)
Accounts payable and other accrued liabilities	656	(1,504)
Deferred revenue	2,136	(930)
Net cash provided by operating activities	5,030	6,338
Cash flows from investing activities:		
Capitalized software development costs	(2,535)	(2,532)
Purchases of property and equipment	(814)	(166)
Purchases of investments	(68,137)	(78,607)
Proceeds from maturities of investments	70,955	74,714
Purchase of Logility, Inc. common shares	(633)	(317)
Purchase of Demand Management, Inc., net of cash acquired	(8,691)	
Proceeds from sale of life insurance policy	159	
Net cash used in investing activities	(9,696)	(6,908)
Cash flows from financing activities:		
Repurchase of common stock		(794)
Dividends paid	(4,726)	(2,733)
Proceeds from exercise of stock options and shareholder stock purchase plan	1,066	3,458
Net cash used in financing activities	(3,660)	(69)

Net change in cash and cash equivalents	(8,326)	(639)
Cash and cash equivalents at beginning of period	37,530	30,724
Cash and cash equivalents at end of period	$ 29,204	$ 30,085
Supplemental disclosures of cash paid during the period for:		
Income taxes	$ 45	$ 276
Interest	$	$
Supplemental disclosures of noncash operating, investing, and financing activities:		
Accrual of dividend payable	$ 1,670	$ 1,399

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, 2005

A. Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), we have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. You should review these consolidated financial statements in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004, as filed with the SEC. The financial information we present in the condensed consolidated financial statements reflects all normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of the period indicated. This information is not necessarily indicative of the results for the full year or for any other future period. Certain prior year balances have been reclassified to conform to the current year presentation.

B. Restatement

The Company s previously issued condensed consolidated financial statements as of January 31, 2005 and for the three and nine month periods ending January 31, 2005, have been restated to reflect adjustments identified principally as a result of the errors identified in accounting for income taxes. Initially, and without adequately assessing the need for a valuation allowance as of January 31, 2005, the Company believed that it had sufficient deferred tax assets with a corresponding valuation allowance to offset income tax expense for the year ended April 30, 2005. However, upon further review of the Company s deferred tax assets it was determined that certain assets were overstated and, thereby, not available to offset income tax expense in fiscal 2005. The correction of the identified errors in accounting for income taxes resulted in a reduction in the Company s available valuation allowance due to the elimination of the overstated deferred tax assets and an increase in income tax expense because the Company did not have sufficient deferred tax assets with a corresponding valuation allowance available to offset income tax expense. In addition, the Company did not adequately assess the need to reverse its valuation allowance as of January 31, 2005. Upon further review, the Company determined that based upon its expectations of future profitability and management s belief that the realization of the benefits of the Company s deferred tax assets were more likely than not, it should have released its valuation allowance as of January 31, 2005. The restatement impacts the three months and nine months ended January 31, 2005 as described hereunder.

In order to correct the Company s financial statements for the errors noted above, the Company:

(a) increased the provision for income taxes by approximately $1.1 million due to the lack of sufficient tax assets with corresponding valuation allowance available to offset income tax expense.

(b) increased additional paid in capital by approximately $3.6 million related to the tax benefit from the exercise of stock options. This benefit was recorded due to the reduction in valuation allowance as a result of expected future profitability and management s belief that the realization of the benefit from the Company s deferred tax assets was more likely than not;

In addition, the Company made the following adjustments to correct for other known errors:

(c) increased prepaid expenses and other current assets as well as total current assets by approximately $60,000 as a result of recognizing a previously unrecorded income tax receivable;

(d) increased capitalized software and decreased deferred tax assets non-current by approximately $284,000, net of approximately $31,000 in amortization, related to the tax effects of the purchase accounting impact of Logility Inc. s stock repurchases;

(e) reduced goodwill by approximately $105,000 due to the tax effect of certain contingent liabilities resulting from the acquisition of Demand Management, Inc. (DMI);

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

(f) decreased other current liabilities by approximately $174,000 related to reductions in the calculation of current income taxes payable from alternative minimum tax and state income taxes;

(g) decreased other current liabilities and increased accumulated other comprehensive income by approximately $44,000 related to reclassifying certain foreign currency translation adjustments that were previously classified within other current liabilities; and

(h) the net effect of correcting for the errors identified above results in adjustments to deferred tax assets non-current totaling approximately $2.3 million and current deferred tax liabilities totaling approximately $101,000.

The adjustments above did not have a material impact on the Company s cash flows from operating, investing or financing activities for the three months or nine months ended January 31, 2005.

As a result of the foregoing adjustments, earnings per common diluted share were reduced for the three months ended January 31, 2005 from $0.04 to $0.00, and earnings per common diluted share were reduced for the nine months ended January 31, 2005 from $0.15 to $0.11 as compared to amounts in the previously filed Form 10-Q for this period. Also, as a result of these adjustments and the related impact on the Company s effective tax rate, the diluted shares used in the calculation of net earnings per common share decreased from approximately 25,238,000 shares to approximately 25,189,000 shares for the three months ended January 31, 2005 and decreased from approximately 25,136,000 shares to approximately 25,094,000 shares for the nine months ended January 31, 2005.

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

The financial results as of January 31, 2005 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the corrections as follows:

Balance Sheet Data:

	January 31, 2005 as previously reported	Adjustments	January 31, 2005 Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 29,204	$	$ 29,204
Investments	25,752		25,752
Trade accounts receivable, less allowance for doubtful accounts			
Billed	11,220		11,220
Unbilled	2,881		2,881
Prepaid expenses and other current	2,719	60(c)	2,779
Total current assets	71,776	60	71,836
Investments - noncurrent	1,953		1,953
Property and equipment, less accumulated depreciation and amortization	7,675		7,675
Capitalized Software, less accumulated amortization	7,026	284(d)	7,310
Goodwill, less accumulated amortization	10,610	(105)(e)	10,505
Other intangible, net	2,250		2,250
Deferred taxes-noncurrent		2,252(h)	2,252
Other assets	1,528		1,528
	$ 102,818	$ 2,491	$ 105,309
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 1,374	$	$ 1,374
Accrued compensation and related costs	1,890		1,890
Dividends payable	1,670		1,670
Other current liabilities	4,593	(218)(f)(g)	4,375
Deferred taxes-current		101(h)	101
Deferred revenue	13,345		13,345
Total current liabilities	22,872	(117)	22,755

Minority Interest	4,010		4,010
Shareholders equity:			
Common stock:			
Class A	2,409		2,409
Class B	355		355
Additional paid-in capital	71,760	3,646(b)	75,406
Accumulated other comprehensive income	93	44(g)	137
Retained earnings	21,824	(1,082)(a)(d)	20,742
Class A treasury stock	(20,505)		(20,505)
Total shareholders equity	75,936	2,608	78,544
	$ 102,818	$ 2,491	$ 105,309

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

Statement of Operations Data:

	Three Months Ended January 31, 2005			Nine Months Ended January 31, 2005		
	as previously reported	Adjustments	Restated	as previously reported	Adjustments	Restated
Revenues:						
License fees	$ 3,760	$	$ 3,760	$ 8,864	$	$ 8,864
Services and other	8,541		8,541	22,957		22,957
Maintenance	5,061		5,061	14,123		14,123
Total revenues	17,362		17,362	45,944		45,944
Cost of revenues:						
License fees	1,335	31(d)	1,366	3,130	31	3,161
Services and other	6,019		6,019	16,072		16,072
Maintenance	1,705		1,705	4,205		4,205
Total cost of revenues	9,059	31	9,090	23,407	31	23,438
Gross Margin	8,303	(31)	8,272	22,537	(31)	22,506
Operating expenses:						
Research and development costs	1,320		1,320	3,601		3,601
Sales and marketing	3,275		3,275	9,061		9,061
General and administrative	3,066		3,066	7,820		7,820
Acquisition related amortization of intangibles	79		79	117		117
Total operating expenses	7,740		7,740	20,599		20,599
Operating income	563	(31)	532	1,938	(31)	1,907
Other income:						
Interest income	336		336	980		980
Gain on investments and other	496		496	1,088		1,088
Earnings before income taxes	1,395	(31)	1,364	4,006	(31)	3,975
Income tax (expense) / benefit	(286)	(1,051)(a)	(1,337)	(286)	(1,051)	(1,337)
Minority interest income / (expense)	23		23	43		43

Net earnings	$ 1,132	$ (1,082)	$ 50	$ 3,763	$ (1,082)	$ 2,681
Net earnings per common share:						
Basic	$ 0.05	$ (0.05)	$ 0.00	$ 0.16	$ (0.05)	$ 0.11
Diluted	$ 0.04	$ (0.04)	$ 0.00	$ 0.15	$ (0.04)	$ 0.11
Shares used in the calculation of net earnings per common share:						
Basic	23,781		23,781	23,679		23,679
Diluted	25,238	(49)	25,189	25,136	(42)	25,094

C. Revenue Recognition

We recognize revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions.*

License. We recognize license revenue in connection with license agreements for standard proprietary software upon delivery of the software, provided that we consider collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific objective evidence (VSOE) exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, we recognize revenue under the residual method as permitted by SOP 98-9, whereby (1) we defer the total fair value of the undelivered elements, as indicated by VSOE, and subsequently recognize the value of these elements in accordance with SOP 97-2 and (2) we recognize the difference between the total arrangement fee and the deferred amount as revenue related to the delivered elements.

Services and Other. Revenue derived from services and other primarily includes consulting, implementation, and training. We bill under both time and materials and fixed fee arrangements, and recognize revenues as we perform the services. We classify the reimbursements that we receive for travel and other out-of-pocket expenses incurred in connection with consulting, implementation, and training services as revenue in our condensed consolidated statements of operations.

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

Maintenance. Revenue derived from maintenance contracts primarily includes telephone consulting, product updates, and releases of new versions of products previously purchased by the customer, as well as error reporting and correction services. Typically, we enter into maintenance contracts for a separate fee, with initial contractual periods ranging from one to three years, and with renewal provisions for additional periods thereafter. We generally bill maintenance fees annually in advance. We recognize maintenance revenue ratably over the term of the maintenance agreement. In situations where we bundle all or a portion of the maintenance fee with the license fee, we determine VSOE for maintenance based on prices that apply when we sell maintenance separately.

Indirect Channel Revenue. We recognize a sale that we make through indirect channels when the distributor makes the sale to an end-user, or upon delivery to the reseller, when the license fee is fixed and determinable, the license fee is nonrefundable, and all other conditions of SOP 97-2 and SOP 98-9 are met.

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

D. Major Customer

One customer accounted for 17% of our total revenues in the quarter ended January 31, 2005 and 14% of our total revenues for the nine months ended January 31, 2005. The related accounts receivable balance was approximately $930,000 at January 31, 2005. Another customer accounted for 11% of our total revenues for the nine months ended January 31, 2005 and for the nine months ended January 31, 2004. The related accounts receivable balance was approximately $1.0 million at January 31, 2005.

E. Declaration of Dividend Payable

On December 7, 2004, our Board of Directors declared a quarterly cash dividend of $0.07 per share of American Software common stock. The cash dividend was payable on March 3, 2005 to Class A and Class B shareholders of record at the close of business on February 18, 2005.

F. Net Earnings Per Common Share

We compute basic net earnings per common share available to common shareholders based on the weighted-average number of Class A and B common shares outstanding, since we consider the two classes of common stock as one class for purposes of the per share computation. For periods in which we have net earnings, we base diluted net earnings per common share available to common shareholders 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. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

We use the same numerator in calculating both basic and diluted net earnings per common share for a given period. We base the denominator on the number of common shares as shown in the following table:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005 (Restated)	2004	2005 (Restated)	2004
	(in thousands, except per share data)		(in thousands, except per share data)	
Common Shares:				
Weighted average common shares outstanding:				
Class A Shares	20,232	19,151	20,113	18,828
Class B Shares	3,549	3,796	3,566	3,827
Basic weighted average common shares outstanding	23,781	22,947	23,679	22,655
Dilutive effect of outstanding Class A common stock options outstanding, net of income taxes	1,408	2,108	1,415	1,916
Total	25,189	25,055	25,094	24,571
Net earnings	$ 50	$ 2,061	$ 2,681	$ 5,496
Net earnings per common share:				
Basic	$ 0.00	$ 0.09	$ 0.11	$ 0.24
Diluted	$ 0.00	$ 0.08	$ 0.11	$ 0.22

For the three months ended January 31, 2005, we excluded options to purchase 287,486 shares of common stock from the computation of diluted earnings per share, and for the nine months ended January 31, 2005, we excluded options to purchase 292,244 shares of common stock from that computation. For the three months ended January 31, 2004, we excluded options to purchase 199,016 shares of common stock, and for the nine months ended January 31, 2004, we excluded 306,884 shares from that computation. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the common stock during the applicable period. As of January 31, 2005, we had a total of 3,297,435 options outstanding and as of January 31, 2004 we had a total of 3,597,573 options outstanding.

G. Acquisition of Demand Management, Inc.

On September 30, 2004, our Logility subsidiary acquired, through a wholly-owned subsidiary, certain assets and the distribution channel of privately-held Demand Management, Inc. (DMI), a St. Louis-based provider of supply chain planning systems marketed under the Demand Solutions® brand, for $9.5 million in cash, less working capital and cash on hand, for a net cash consideration of $8.7 million. We have included the results of operations from DMI in the accompanying condensed consolidated financial statements effective October 1, 2004.

In accordance with SFAS No. 141, Business Combinations, we have accounted for the acquisition under the purchase method of accounting. The fair values of the assets acquired and liabilities assumed represent management s estimate of current fair values. Logility allocated the total purchase price to the net tangible assets and intangible assets acquired based on estimates of fair value at the date of acquisition. The allocation of the total purchase price to the acquired technology and other intangible assets, including trade names and maintenance contracts, was based on management s best estimate. The estimating process included a consultation and review with a third party appraiser. Logility allocated $6.2 million of the total purchase price to goodwill, which is deductible for income tax purposes.

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

The calculation of the total purchase price was as follows (in thousands):

Tangible Net Book Value	$ 981
Business Restructuring	(425)
Acquisition Expenses	(424)
Intangible Asset to be Amortized	2,400
Goodwill	6,159
Net Cash Outlay	8,691
Working Capital Adjustment	590
Closing Cash	219
Total Purchase Price	$ 9,500

The following allocation of the total purchase price reflects the fair value of the assets acquired and liabilities assumed as of September 30, 2004 (in thousands):

Accounts receivable	$ 1,997
Deferred sales commissions	780
Prepaid expenses and other current assets	185
Property and equipment	26
Other non-current assets	323
Intangible assets[1]	2,400
Goodwill	6,159
Accounts payable	(1,039)
Accrued expenses and other current liabilities	(990)
Deferred revenue	(1,150)
Total Cash Outlay	8,691
Cash and cash equivalents	219
Working capital adjustment	590
Total Purchase Price	$ 9,500

[1] Includes $1 million for contractual distributor relationships, $800,000 for customer relationships, and $300,000 for trademarks, all of which are subject to straight-line amortization over a period of six years. Also includes $300,000 for current technology, which is subject to straight-line amortization over a period of three years.

SFAS 141 requires that an acquiring enterprise allocate the cost of an entity acquired in a business combination to the individual assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The fair value of maintenance deferred revenues in a business combination generally is not readily available and, accordingly, in practice, the fair value of an assumed liability (which must arise from a legal performance obligation) related to deferred revenue is estimated based on the direct cost of fulfilling the obligation plus a normal profit margin thereon. Also, in practice, the normal profit margin is limited to the profit margin on the costs to provide the product or service (that is, the fulfillment effort).

Management believes that the purchase accounting related to the DMI acquisition will be finalized by the end of the second quarter of fiscal year 2006. The primary outstanding issue is related to contingent liabilities with respect potential claims from customers, which totaled approximately $425,000, based on management s best estimate as of January 31, 2005.

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

Pro Forma Information

The following unaudited pro forma information presents our results of operations for the three and nine months ended January 31, 2005 and 2004 as if the acquisition had taken place at the beginning of the periods presented (in thousands, except per share data):

	Nine Months Ended January 31,		Three Months Ended January 31,	
	2005	2004	2005	2004
Total revenues	$ 51,214	$ 48,116	$ 17,968	$ 17,019
Net earnings	3,463	5,516	656	2,085
Net earnings per common share (basic)	0.15	0.24	0.03	0.09
Net earnings per common share (diluted)	$ 0.14	$ 0.22	$ 0.03	$ 0.08
Weighted average number of common shares outstanding (basic)	23,679	22,655	23,781	22,947
Weighted average number of common shares outstanding (diluted)	25,094	24,571	25,189	25,055

These pro forma results of operations include adjustments to the historical financial statements of the consolidated companies and have been prepared for comparative purposes only. These pro forma results do not purport to be indicative of our actual results of operations had the acquisition occurred at May 1, 2004 or which may occur in the future.

H. Stock Compensation Plans

As permitted under SFAS No. 148, Accounting for Stock-Based Compensation Transaction and Disclosure, which amended SFAS No. 123, Accounting for Stock-Based Compensation, we have elected to continue to follow the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for our fixed-plan stock options. Under this method, we record compensation expense on the date of grant generally if the current market price of the underlying stock exceeds the exercise price. No stock-based employee compensation cost is reflected in operations, as all options granted under those plans have an exercise price equal to or above the market value of the underlying common stock on the date of grant.

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

The following table illustrates the pro-forma effect on net earnings as if we had applied the fair-value based method in each period:

	Three months ended January 31		Nine months ended January 31	
	2005 (Restated)	2004	2005 (Restated)	2004
	(In thousands, except per share data)		(In thousands, except per share data)	
Net earnings as reported	$ 50	$ 2,061	$ 2,681	$ 5,496
Less total stock-based compensation expense expense determined under fair-value based method for all awards, net of income taxes	(267)	(240)	(827)	(763)
Pro forma net earnings (loss)	$ (217)	$ 1,821	$ 1,854	$ 4,733
Basic earnings (loss) per share:				
As reported	$ 0.00	$ 0.09	$ 0.11	$ 0.24
Pro forma	$ (0.01)	$ 0.08	$ 0.08	$ 0.21
Diluted earnings (loss) per share:				
As reported	$ 0.00	$ 0.08	$ 0.11	$ 0.22
Pro forma	$ (0.01)	$ 0.07	$ 0.07	$ 0.19

I. Comprehensive Income

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

J. Industry Segments

We have adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. We operate and manage our business in three segments based on software and services provided in three key product markets: (i) Collaborative Supply Chain Management, which

provides business-to-business collaborative commerce solutions to optimize supply chain operations for manufacturers, distributors and retailers; (ii) Enterprise Resource Planning (ERP), which automates customers internal financing, human resources, and manufacturing functions; and (iii) IT Consulting, which consists of IT staffing and consulting services. The Collaborative Supply Chain Management segment represents the business of our 87%-owned subsidiary Logility, Inc., as well as the recently acquired DMI. In the following table, we have broken down the intersegment transactions applicable to the three and nine months ended January 31, 2005 and January 31, 2004:

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2005 (Restated)	2004	2005 (Restated)	2004
Revenues:				
Enterprise Resource Planning	$ 5,565	$ 5,937	$ 17,066	$ 18,141
Collaborative Supply Chain Management	7,115	6,514	17,377	17,043
IT Consulting	4,682	2,190	11,501	6,089
	$ 17,362	$ 14,641	$ 45,944	$ 41,273
Operating income (loss) before intersegment eliminations:				
Enterprise Resource Planning	$ 422	$ 470	$ 1,737	$ 1,738
Collaborative Supply Chain Management	(224)	944	(502)	1,425
IT Consulting	334	52	672	327
	$ 532	$ 1,466	$ 1,907	$ 3,490
Intersegment eliminations:				
Enterprise Resource Planning	$ (427)	$ (387)	$ (1,180)	$ (1,168)
Collaborative Supply Chain Management	427	387	1,180	1,168
IT Consulting				
	$	$	$	$
Operating income after intersegment eliminations:				
Enterprise Resource Planning	$ (5)	$ 83	$ 557	$ 570
Collaborative Supply Chain Management	203	1,331	678	2,593
IT Consulting	334	52	672	327
	$ 532	$ 1,466	$ 1,907	$ 3,490
Capital expenditures:				
Enterprise Resource Planning	$ 89	$ 37	$ 587	$ 86
Collaborative Supply Chain Management	127	33	227	80
IT Consulting				
	$ 216	$ 70	$ 814	$ 166
Capitalized Software:				
Enterprise Resource Planning	$ 315	$ 25	$ 451	$ 80
Collaborative Supply Chain Management	703	801	2,084	2,452
IT Consulting				

	$ 1,018	$ 826	$ 2,535	$ 2,532
Depreciation and amortization:				
Enterprise Resource Planning	$ 315	$ 326	$ 839	$ 1,030
Collaborative Supply Chain Management	725	1,134	2,383	3,224
IT Consulting			2	1
	$ 1,040	$ 1,460	$ 3,224	$ 4,255

	January 31, 2005 (Restated)	April 30, 2004
Identifiable assets:		
Enterprise Resource Planning	$ 54,981	$ 53,117
Collaborative Supply Chain Management	46,710	42,368
IT Consulting	4,175	1,751
	$ 105,866	$ 97,236

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AMERICAN SOFTWARE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements Unaudited (continued)

January 31, 2005

K. Leases

In September, 2003, we discontinued the lease of a two-story, 17,500 square foot building at 443 East Paces Ferry Road, N.E., Atlanta, Georgia, which in recent years we had used primarily for financial administration and technical staffing. 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 initially expired December 31, 1996, and had been continued on a quarterly basis with a base annual rental rate of $17.00 per square foot, or $300,000 per year. We have various other operating and facilities leases. Expense under these operating and facilities leases was $330,000 for the three months ended January 31, 2005 and $921,000 for the nine months ended January 31, 2005.

L. Investment Impairment

In the quarter ended October 31, 2004, our Logility subsidiary recorded a $100,000 investment impairment charge related to a minority investment. The impairment charge adjusted the carrying value of the investment to its estimated fair market value due to an other than temporary impairment having occurred.

M. Subsequent Event

On February 21, 2005, our Board of Directors declared a quarterly cash dividend of $0.07 per share of American Software common stock. The cash dividend was payable on June 2, 2005 to Class A and Class B shareholders of record at the close of business on May 18, 2005.

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

FORWARD-LOOKING STATEMENTS

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

results of operations;

liquidity, cash flow and capital expenditures;

demand for and pricing of our products and services;

acquisition activities and the effect of completed acquisitions;

industry conditions and market conditions; and

general economic conditions.

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Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, competitive pressures, delays and other risks associated with new product development, the difficulty of predicting the effectiveness and duration of third-party marketing agreements, undetected software errors, and risks associated with market acceptance of our products and services. We discuss certain factors in greater detail in Business Overview , below. The terms fiscal 2005 and fiscal 2004 refer to our fiscal years ending April 30, 2005 and 2004, respectively.

RESTATEMENT

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended January 31, 2005, which was originally filed with the Securities and Exchange Commission on March 14, 2005, to reflect the restatement of our financial statements for the nine-month period and quarter ended January 31, 2005.

As described in Note B (Restatement) to the condensed consolidated financial statements, the adjustments principally relate to errors identified in the Company s accounting for income taxes.

The restatement is the result of the Company s income tax accounting policies and procedures not providing effective supervisory review of income tax accounting amounts and analyses, and the related recordkeeping activities thereof. The net effect of these adjustments was an increase in income tax expense of approximately $1.1 million and a decreased in net earnings of the same amount.

This Amendment No. 1 does not materially modify or update disclosures presented in the original Form 10-Q, except as required to reflect the effects of the restatement. Except for disclosures affected by the restatement, Amendment No. 1 speaks as of the original filing date of the Form 10-Q on March 14, 2005 and does not materially modify or update disclosures in the Form 10-Q, including the nature and character of such disclosures, to reflect events occurring or items discovered after the original filing date of the Form 10-Q. Accordingly, this Amendment No. 1 should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to the original filing date of the Form 10-Q, including any amendments to those filings

BUSINESS OVERVIEW

We develop, market, and support enterprise resource planning (ERP) and supply chain management software solutions. Our 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 and maintenance and support. We make sales through a dedicated sales force and through relationships with third-party vendors and service providers. We have sales offices in the United States, United Kingdom, France, and Spain.

We provide our software solutions through three major business segments, which are further broken down into a total of four major product and service groups. The three business segments are (1) Collaborative Supply Chain Management, (2) Enterprise Resource Planning (ERP), and (3)

IT Consulting. The Collaborative Supply Chain Management segment consists of Logility, Inc. (Logility), an 87% owned subsidiary, as well as recently acquired Demand Management, Inc. (DMI). Both

companies provide collaborative supply chain solutions to help streamline and optimize the management, production, and distribution of products between manufacturers, suppliers, distributors, retailers, carriers and their respective trading partners. The IT Consulting segment consists of The Proven Method, Inc., a consulting services firm that specializes in assisting a diverse customer base to solve business issues with custom-developed technology solutions.

The DMI acquisition brings an additional set of solutions to our product offering suite, as well as an increased focus on the small and medium sized business markets. We expect the acquisition to be accretive to Logility s net earnings and cash flow within 12 months from the September 30, 2004 acquisition date, and to contribute approximately $10 million in annual revenue, with approximately 50% as a recurring component occurring through maintenance contracts.

Some of the assets that Logility acquired through the DMI acquisition include:

Contractual Distributor Relationships. DMI has a worldwide value-added reseller (VAR) network of 23 organizations with 67 sales, implementation and support resources. This network is continuing to sell Demand Solutions products, and Logility has introduced components of the Logility Voyager Solutions suite into appropriate areas of this proven distribution channel.

Customer Base. DMI has approximately 800 active customers in over 70 countries in consumer goods, food and beverage, apparel, life sciences, service parts and retail industries. The VAR channel and DMI subsidiary of Logility continues to support these Demand Solutions customers.

Technology. DMI designed the Demand Solution products for small and medium sized businesses, and the products include supply chain forecasting, demand planning, inventory planning and replenishment planning. The Demand Solution Stores product enables store-level forecast modeling and replenishment capabilities for retailers.

The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce, Flow Manufacturing and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry specific ERP, shop floor control, and sourcing software to both retailers and manufacturers in the Apparel and Sewn Products industry. The IT Consulting segment consists of The Proven Method, an IT staffing and consulting services firm that is a wholly-owned subsidiary. We also provide support for our software products, such as software enhancements, documentation, updates, customer education, consulting, systems integration services, and maintenance.

We derive revenues primarily from three sources: software licenses, services and other, and maintenance. We generally determine software license fees based on the number of modules, servers, users and/or sites licensed. Services and other revenues consist primarily of fees from software implementation, training, consulting and customization services. We bill under both time and materials and fixed fee arrangements, and recognize revenues as we perform services. We typically enter into maintenance agreements for a one- to three-year term at the time of the initial product license. We generally bill maintenance fees annually in advance under agreements with terms of one to three years, and then recognize the resulting revenues ratably over the term of the maintenance agreement. Deferred revenues represent advance payments or billings for software licenses, services and maintenance billed in advance of the time we recognize the related revenues.

Our cost of revenue for licenses includes amortization of capitalized computer software development costs, salaries and benefits, and royalties paid to third-party software vendors. Costs for maintenance and services include the cost of personnel to conduct implementations and customer

support, consulting, and

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other personnel-related expenses. We account for the development costs of software intended for sale in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* We monitor the net realizable value of our capitalized software on a quarterly basis based on an estimate of future product revenues. We currently expect to fully recover the value of the capitalized software asset recorded on our consolidated balance sheet; however, if future product revenues are less than management s current expectations, we may incur a write-down of capitalized software costs.

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

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

Strategic Relationships. The opportunity to expand the depth and number of strategic relationships with leading enterprise software, systems integrators and service providers to integrate our software applications into their services and products and to create joint marketing opportunities. Logility currently has a number of marketing alliances, including those with IBM and SSA Global Technologies, and plans to use DMI s existing relationships to expand these efforts.

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

Acquisition Opportunities. The opportunity for select acquisitions or investments to provide opportunities to expand our sales distribution channels and/or broaden our product offering by providing additional solutions for our target markets. We believe Logility s recent acquisition of DMI will provide such an opportunity.

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

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

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

Sarbanes-Oxley Section 404. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports beginning with the fiscal year ending April 30, 2005. Our independent registered public accounting firm is also required to attest to whether or not our assessment is fairly

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stated in all material respects and to separately report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting as of April 30, 2005. If we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure, as well as difficulties in implementing required new or improved controls, could result in our inability to provide timely and reliable financial information and could adversely affect our business.

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004.

ECONOMIC OVERVIEW

Corporate capital spending trends and commitments are the primary determinants of the size of the market for business software. Corporate capital spending is, in turn, a function of general economic conditions in the U.S. and abroad. In recent years, the weakness in the overall world economy and the U.S. economy in particular, has resulted in reduced expenditures in the business software market. Primarily as a result of these economic conditions, as well as increased competition in the business application area, we restructured our business in recent years in order to streamline our operations and maintain profitability. Our restructuring consisted of changes in sales management, a redirection of marketing efforts, and general reductions in expenditure levels across all functional areas.

We continue to believe that the overall world economy, the U.S. economy, and the economic environment for business software spending appear to be improving slightly. However, our results for the nine months ended January 31, 2005 were adversely affected by significant delays in the software purchasing process by several prospective customers. It is our belief that these prospective customers may, in future periods, commit to the purchase of our software licenses and services, although we can give no assurance that such commitments will occur.

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COMPARISON OF RESULTS OF OPERATIONS

Three-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the three months ended January 31, 2005 and 2004:

	Percentage of Total Revenues		Pct. Change in Dollars
	2005 (Restated)	2004	2005 vs 2004
Revenues:			
License fees	22%	26%	(2)%
Services and other	49	43	36
Maintenance	29	31	11
Total revenues	100	100	19
Cost of revenues:			
License fees	8	8	24
Services and other	34	30	34
Maintenance	10	8	53
Total cost of revenues	52	46	35
Gross Margin	48	54	4
Operating expenses:			
Research and development costs	8	7	25
Sales and marketing	19	20	13
General and administrative	18	17	23
Acquisition related amortization of intangibles			nm
Total operating expenses	45	44	20
Operating income	3	10	(64)
Other income:			
Interest income	2	2	11
Gain on investments and other	3	3	9
Earnings before income taxes	8	15	(39)
Income tax (expense) / benefit	(8)		nm
Minority interest income / (expense)		(1)	nm
Net earnings	0%	14%	(98)%

nm - not meaningful

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Nine-Month Comparisons. The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage changes in those items for the nine months ended January 31, 2005 and 2004:

	Percentage of Total Revenues		Pct. Change in Dollars
	2005 (Restated)	2004	2005 vs 2004
Revenues:			
License fees	19%	23%	(6)%
Services and other	50	44	26
Maintenance	31	33	4
Total revenues	100	100	11
Cost of revenues:			
License fees	7	8	-3
Services and other	35	30	30
Maintenance	9	8	20
Total cost of revenues	51	46	22
Gross Margin	49	54	2
Operating expenses:			
Research and development costs	8	8	9
Sales and marketing	20	21	7
General and administrative	17	17	13
Acquisition related amortization of intangibles			nm
Total operating expenses	45	46	11
Operating income	4	8	(45)
Other income:			
Interest income	2	2	11
Gain on investments and other	2	3	-20
Earnings before income taxes	9	13	(31)
Income tax (expense) / benefit	(3)		nm
Minority interest income / (expense)			nm
Net earnings	6%	13%	(51)%

nm - not meaningful

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COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2005 AND 2004

REVENUES:

For both the quarter and nine months ended January 31, 2005, the increase in total revenues when compared to the quarter and nine months ended January 31, 2004 was primarily attributable to an increase in services and other revenues, and to a lesser extent an increase in maintenance revenues, partially offset by a decrease in license fee revenues. DMI contributed $2.0 million in total revenues for the three months ended January 31, 2005, and $2.4 million in total revenues in the nine months ended January 31, 2005, although nine month period results only include DMI revenues since the acquisition on September 30, 2004. International revenues represented approximately 7% of total revenues in the quarters ended January 31, 2005 and January 31, 2004. International revenues were approximately 6% in the nine months ended January 31, 2004, compared to approximately 7% in the same period a year ago. Our international revenues may fluctuate substantially from period to period primarily because we derive these revenues from a relatively small number of customers in a given period.

LICENSES. For the quarter ended January 31, 2005, the decrease in license fee revenues was due primarily to decreased license fees from our Logility subsidiary, partially offset by increased license fees from our NGC subsidiary. License fee revenues from Logility decreased 5% to $2.4 million and constituted 65% of total license fee revenues for the quarter ended January 31, 2005, compared to $2.6 million for the same prior year period, which comprised 67% of total license fee revenues for that period. For the nine months ended January 31, 2005, license fee revenues from Logility decreased 7% to $4.5 million and constituted 51% of total license fee revenues, compared to $4.8 million for the same prior year period, which comprised 52% of total license fee revenues for that period. For both the three and nine month periods, we believe the decreases were primarily the result of significant delays in the software purchasing process by several prospective Logility customers. These decreases were partially offset by new license fees contributed by the DMI acquisition.

The direct sales channel provided approximately 68% of license fee revenues for the quarter ended January 31, 2005, compared to approximately 89% in the comparable quarter a year ago. For the nine months ended January 31, 2005, the direct sales channel provided approximately 83% of license fee revenues, compared to approximately 89% in the comparable period a year ago. These decreases were due primarily to greater indirect channel sales resulting from the DMI acquisition, as DMI sales are made primarily through its VAR network. For the quarter ended January 31, 2005, our margins after commissions on direct sales were approximately 78%, and our margins after commissions on indirect sales were approximately 48%. For the nine months ended January 31, 2005, our margins after commissions on direct sales were approximately 81%, and our margins after commissions on indirect sales were approximately 56%. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

SERVICES AND OTHER. For both the three and nine months ended January 31, 2005, the increases in services and other revenues were due primarily to increased services revenues from our IT consulting segment. This segment realized increased revenues from both new and existing customers. For the quarter ended January 31, 2005, our IT Consulting segment s revenues increased 114% when compared to the prior year quarter, from $2.2 million to $4.7 million, and for the nine months ended January 31, 2005, that segment s revenues increased 89% when compared to the prior year period, from $6 million to $11.5 million. For the quarter ended January 31, 2005, services and other revenues from Logility

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increased 9%, to $1.2 million, and comprised 14% of total services and other revenues, compared to $1.1 million for the corresponding prior year period, which comprised 18% of total services and other revenues. This increase was due primarily to increased services revenues resulting from the DMI acquisition. For the nine months ended January 31, 2005, services and other revenues from Logility decreased 6%, to $3.6 million, and comprised 16% of total services and other revenues, compared to $3.9 million for the corresponding prior year period, which comprised 21% of total services and other revenues. We have observed that there is a tendency for services and other revenues, other than IT consulting, to lag changes in license revenues by one to three quarters, as new licenses in one quarter often involve implementation and consulting services in subsequent quarters, for which we recognize revenues only as we perform those services.

MAINTENANCE. For the quarter ended January 31, 2005, maintenance revenues from Logility increased 22% to $3.5 million, and constituted 68% of total maintenance revenues, compared to $2.8 million for the corresponding prior year period, which comprised 62% of total maintenance revenues. For the nine months ended January 31, 2005, maintenance revenues from Logility increased 11% to $9.2 million, and constituted 65% of total maintenance revenues, compared to $8.3 million for the corresponding prior year period, which comprised 61% of total maintenance revenues. The increases in maintenance revenues for the quarter and nine months ended January 31, 2005 were due primarily to increased maintenance revenues resulting from the acquisition of DMI. Typically, our maintenance revenues have had a direct relationship to current and historic license fee revenues, since new licenses are the potential source of new maintenance customers.

GROSS MARGIN:

The following table provides both dollar amounts and percentage measures of gross margin:

($000 s omitted)	Three months ended January 31,				Nine months ended January 31,			
	2005		2004		2005		2004	
Gross margin on license fees:	$ 2,394	64%	$ 2,720	71%	$ 5,703	64%	$ 6,128	65%
Gross margin on services and other:	$ 2,522	30%	$ 1,775	28%	$ 6,885	30%	$ 5,869	32%
Gross margin on maintenance:	$ 3,356	66%	$ 3,423	75%	$ 9,918	70%	$ 10,125	74%
Total gross margin:	$ 8,272	48%	$ 7,918	54%	$ 22,506	49%	$ 22,122	54%

For the quarter ended January 31, 2005, the decrease in total gross margin percentage was due primarily to a decrease in maintenance gross margin percentage, and to a lesser extent a decrease in gross margin percentage on license fees. These decreases were partially offset by an increase in the services and other gross margin percentage. For the nine months ended January 31, 2005, the decrease in total gross margin percentage was due primarily to a decrease in maintenance gross margin percentage, and to a lesser extent a decrease in services and other gross margin percentage.

LICENSES. For the quarter ended January 31, 2005, gross margin on license fees decreased due to higher indirect sales contribution from DMI, which in turn resulted in higher indirect commission expense, which is a component of cost of license fee revenues. For the nine months ended January 31, 2005, gross margin percentage on license fees remained constant despite a decrease in license fees due primarily to decreased expense related to amortization of capitalized software development costs. License fee gross margin normally is directly related to the level of license fee revenues due to the relatively fixed amortization level of computer software development expense, which is the primary component

of cost of license fees.

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SERVICES AND OTHER. For the nine months ended January 31, 2005, the decrease in services and other gross margin percentage was due primarily to the lower margin nature of services provided by our IT consulting segment, which accounted for a larger proportion of our total services and other revenues. However, during the three months ended January 31, 2005, our IT consulting segment was able to improve its gross margin, resulting in the increase in services and other gross margin percentage for the quarter.

MAINTENANCE. For the quarter and nine months ended January 31, 2005, maintenance gross margin percentage decreased due primarily to decreases in Logility s maintenance gross margin percentage, which in turn was the result of fair value adjustments related to the purchase accounting treatment of DMI deferred maintenance revenues.

EXPENSES

Research and Development

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

	Three Months Ended ($000 s omitted):		
	January 31, 2005	**Percent Change**	**January 31, 2004**
Gross product research and development costs	$ 2,338	24%	$ 1,885
Percentage of total revenues	13%		13%
Less: capitalized computer software research and development costs	$ (1,018)	23%	$ (826)
Percentage of gross product research and development costs	44%		44%
Product research and development expenses	$ 1,320	25%	$ 1,059
Percentage of total revenues	8%		7%

	Nine Months Ended ($000 s omitted):		
	January 31, 2005	**Percent Change**	**January 31, 2004**
Gross product research and development costs	$ 6,136	5%	$ 5,824
Percentage of total revenues	13%		14%
Less: capitalized computer software research and development costs	$ (2,535)	0%	$ (2,532)
Percentage of gross product research and development costs	41%		43%
Product research and development expenses	$ 3,601	9%	$ 3,292

Percentage of total revenues	8%	8%

For the quarter and nine months ended January 31, 2005, both gross product research and development costs and capitalized software development costs increased when compared to the prior year periods, principally due to the purchase accounting effects of Logility Inc. s treasury stock repurchases. Absent that, these costs were generally down from prior year periods. We typically capitalize higher levels of development costs towards the end of the development phase of a large project. In the quarter ended July 31, 2003, our Logility subsidiary ended the development phase of

Logility Voyager Solutions 7.0, which caused an increase in capitalized development costs during that period. Because this development phase has ended, and because Logility is in the non-capitalizable research phase of its next product, we expect capitalized development costs to show a decreasing trend in coming quarters.

Sales and Marketing

For the quarter and nine months ended January 31, 2005, the increase in sales and marketing expenses when compared to the same period a year ago was due primarily to increased marketing expenditures related to the DMI acquisition. Expenditures were made in the areas of advertising and trade shows.

General and Administrative

For the quarter and nine months ended January 31, 2005, the increases in general and administrative expenses were due to increases in employee headcount resulting from the DMI acquisition. At January 31, 2005, the total number of employees was 312, compared to 271 at January 31, 2004.

Other Income

Other income is comprised of interest and dividend income, rental income, realized and unrealized gains and losses from investments and minority interest in subsidiaries earnings (loss). For the quarter ended January 31, 2005, the increase in other income, excluding minority interest, was due primarily to higher unrealized gains on investments in the current quarter. For the nine months ended January 31, 2004, the decrease in other income was due primarily to higher unrealized gains on investments in the prior year period.

Income taxes

In the quarter and nine months ended January 31, 2005 (as restated, see Note B), we recorded income tax expense of $1.3 million. In the quarter and nine months ended January 31, 2004, we did not record any income taxes as a result of our cumulative net operating losses in prior periods. We recognize deferred tax assets and liabilities based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under Statement of Financial Accounting Standards No. 109 (SFAS No. 109), Accounting for Income Taxes , we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is more likely than not that the deferred tax asset would be realized.

Minority Interest

Minority interest is a function of our majority-owned subsidiaries earnings or losses, with minority interest losses recorded when these subsidiaries have earnings, and minority interest earnings recorded when they have losses. Due to Logility s net losses in the current periods, minority interest increased income by $23,000 in the quarter ended January 31, 2005, compared to a reduction of income of $160,000 for the same quarter a year ago. For the nine months ended January 31, 2005, minority interest increased income by $43,000, compared to a reduction of income of $238,000 for the same period a year ago.

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LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Sources and Uses of Cash

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

The following tables show information about our cash flows and liquidity positions during the nine months ended January 31, 2005 and January 31, 2004. You should read this table and the discussion that follows in conjunction with our condensed consolidated statements of cash flows contained in Item 1. Financial Statements in Part I of this report and in our Annual Report on Form 10-K for the fiscal year ended April 30, 2004.

	Nine Months Ended January 31 (in thousands)	
	2005	**2004**
Net cash provided by operating activities	$ 5,030	$ 6,338
Net cash used in investing activities	(9,696)	(6,908)
Net cash used in financing activities	(3,660)	(69)
Net change in cash and cash equivalents	$ (8,326)	$ (639)

For the nine months ended January 31, 2005, when compared to the prior year period, the decrease in cash provided by operating activities was due primarily to an increase in accounts receivable, and to a lesser extent increased purchases of trading securities, and a decrease in depreciation and amortization expense. These were partially offset by increases in deferred revenues and accounts payable, accrued costs and other current liabilities. The increase in cash used in investing activities when compared to the prior year period was due primarily to cash paid for the DMI acquisition. The increase in cash used in financing activities was due primarily to reduced proceeds from the exercise of stock options, and to a lesser extent three quarterly payments of cash dividends to our common shareholders, compared to two quarterly payments made in the prior year period.

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

As of January 31

(in thousands)

	2005	2004
Cash and cash equivalents	$ 29,204	$ 30,085
Short and Long-Term Investments	27,705	36,405
Total cash and short and long term investments	$ 56,909	$ 66,490

Net (decrease) increase in total cash and investments (nine months ended January 31) $ (9,457) $ 5,913

Our total activities used cash and investments in the nine months ended January 31, 2005, when compared to the prior year period, due primarily to the cash used in the DMI acquisition, and to a lesser extent the payment of cash dividends to common shareholders.

Days Sales Outstanding in accounts receivable were 76 days as of January 31, 2005, compared to 59 days as of January 31, 2004. This increase was due primarily to accounts receivable acquired through the purchase of DMI. Our current ratio on January 31, 2005 was 3.2 to 1 and on April 30, 2004 was 4.7 to 1. This decrease was due primarily to the decrease in cash and cash equivalents.

As a result of the positive cash flow from operations our business has generated in recent periods, and because we have $56.9 million in cash and investments with no debt, 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, due to the uncertainty in the recent economic environment, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. Neither we nor Logility currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

The sources of free cash flow that we have used for dividend payments include cash we generate through our operations (exclusive of cash that Logility generates), supplemented by our cash and investments (exclusive of Logility s cash and investments).

On August 22, 2002, our Board of Directors approved a resolution authorizing the repurchase up to 2.0 million shares of our Class A common stock. These repurchases have been and will be made through open market purchases at prevailing market prices. The timing of any repurchases will depend upon market conditions, the market price of our common stock and management s assessment of our liquidity and cash flow needs. For this repurchase plan, through March 10, 2005, we have repurchased 247,232 shares of common stock at a cost of approximately $1.1 million. We did not make any repurchases of our common stock in the quarter ended January 31, 2005. See Part II, Item 2 for a table summarizing stock repurchases in the last quarter, and the number of remaining shares available for purchase under existing repurchase programs.

In November, 1998, the Logility Board of Directors approved a resolution authorizing the repurchase of up to 800,000 shares of its common stock through open market purchases at prevailing market prices. In February 2003, Logility s Board of Directors approved a resolution authorizing it to repurchase an additional 400,000 shares for a total authorized repurchase amount of 1,200,000 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 these current repurchase plans, through March 10, 2005, Logility had repurchased a cumulative total of 658,915 shares at a total cost of approximately $2.7 million. Logility did not make any repurchases of its common stock in the quarter ended January 31, 2005. See Part II, Item 2 for a table summarizing stock repurchases in the last quarter, and the number of remaining shares available for purchase under our existing repurchase program.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

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Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We expect to implement this Statement during the first quarter of fiscal 2007.

Accounting Changes and Error Corrections: On June 7, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements* . Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. Statement 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. We do not believe adoption of Statement 154 will have a material effect on our consolidated financial position, results of operations or cash flows.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that are both important to the portrayal of our financial condition and results of operations, and they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. In our Annual Report on Form 10-K for the fiscal year ended April 30, 2004, as filed with the SEC, we described the policies and estimates relating to revenue recognition, allowance for doubtful accounts, valuation of long-lived and intangible assets, and income taxes as our critical accounting policies. In the current fiscal year, as a result of the acquisition of DMI, we also identify accounting for business combinations under SFAS 141 as a critical accounting policy. Refer to Note G of our condensed consolidated financial statements for a discussion of the application of this policy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. For the nine months ended January 31, 2005, we generated 6% of our revenues outside the United States. We usually make international sales directly through our foreign operations or through value added resellers. We typically denominate these sales in U.S. Dollars, British Pounds Sterling, or Euros. However, we denominate the expenses that we incur in our foreign operations in the local currency. The effect of foreign exchange rate fluctuations on us during the quarter and nine months ended January 31, 2005 was not material. We have not engaged in any hedging activities.

Interest rates. We have no debt, so we limit the following discussion of interest rate risk to risks associated with our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio of trading securities, or in the case of our Logility subsidiary, held-to-maturity 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,

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and local government agencies, in accordance with our investment policy. These instruments are denominated in U.S. dollars. The fair market value and carrying value of our securities, including cash equivalents, at January 31, 2005 were both approximately $56.9 million.

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 a local bank. Such operating cash balances held at banks outside the United States are minor and 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 that have seen a decline in market value due to changes in interest rates. Should our liquidity needs force us to sell fixed-rate securities prior to maturity, we may experience a loss of principal. We attempt to limit our exposure to the risks associated with interest rate fluctuations by concentrating a substantial portion of our investments in instruments with relatively short maturities. Accordingly, we believe that fluctuations in interest rates will not have a material affect on our financial condition or results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

On July 12, 2005, the Company determined that it needed to restate certain of its previously issued financial statements. As a result of such financial statement restatement, management reassessed the Company s internal control over financial reporting using the criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and identified material weaknesses in internal control over financial reporting as of January 31, 2005, as follows:

Revenue Recognition. As of January 31, 2005, the Company had ineffective policies and procedures over accounting for revenue. Specifically, the Company did not have effective secondary review policies and procedures to ensure that multiple element software arrangements with non-standard terms are recognized in accordance with U.S. generally accepted accounting principles. This deficiency resulted in material errors in the financial statements, that have been corrected in the accompanying financial statements prior to their issuance, and more than remote likelihood that a material misstatement of the Company s annual and interim financial statements would not be prevented or detected.

Accounting for Income Taxes. As of January 31, 2005, the Company had ineffective policies and procedures related to accounting for income taxes. Specifically, the Company had ineffective supervisory review policies and procedures to ensure that income tax expense and related amounts are recorded and financial statement disclosures are presented in accordance with U.S. generally accepted accounting principles. This deficiency resulted in material errors in the financial statements, that have been corrected in the accompanying financial statements prior to their issuance, and more than a remote likelihood that a material misstatement of the Company s annual and interim financial statements would not be prevented or detected.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, such

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as this quarterly report on Form 10-Q/A, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Our disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Due to the existence of the internal control deficiencies described above, our chief executive officer and chief financial officer, with the assistance of our disclosure committee, concluded that our disclosure controls and procedures were not effective as of January 31, 2005 to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

We believe our financial statements fairly present in all material respects the financial position, results of operations and cash flows for the interim periods presented in this quarterly report on Form 10-Q/A.

Changes in Internal Control over Financial Reporting

There were no changes in internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended January 31, 2005 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting. Subsequent to the fiscal year ended April 30, 2005, we have implemented certain remedial measures to address the identified material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The following table summarizes repurchases of our stock in the quarter ended January 31, 2005:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*
November 1, 2004 through November 30, 2004	0	$ 0.00	0	1,752,768

December 1, 2004 through December 31, 2004	0	$ 0.00	0	1,752,768
January 1, 2005 through January 31, 2005	0	$ 0.00	0	1,752,768
Total Fiscal 2005 Third Quarter	0	$ 0.00	0	1,752,768

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

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The following table summarizes repurchases of stock made by our Logility subsidiary in the quarter ended January 31, 2005:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*
November 1, 2004 through November 30, 2004	0	$ 0.00	0	541,085
December 1, 2004 through December 31, 2004	0	$ 0.00	0	541,085
January 1, 2005 through January 31, 2005	0	$ 0.00	0	541,085
Total Fiscal 2005 Third Quarter	0	$ 0.00	0	541,085

* The Logility Board of Directors approved the above share purchase authority in November 1998 and in February 2003, when the Logility Board approved resolutions authorizing Logility to repurchase an aggregate of up to 1.2 million shares of common stock. These actions were announced in November 1998 and on February 19, 2003, respectively. The authorizations have no expiration dates.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits 31.1-31.2. Rule 13a-14(a)/15d-14(a) Certifications

Exhibit 32.1. Section 906 Certifications

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SIGNATURES

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

	AMERICAN SOFTWARE, INC.
Date: October 11, 2005	By: /s/ James C. Edenfield
	James C. Edenfield President, Chief Executive Officer and Treasurer
Date: October 11, 2005	By: /s/ Vincent C. Klinges
	Vincent C. Klinges Chief Financial Officer
Date: October 11, 2005	By: /s/ Michael R. Dowling
	Michael R. Dowling Controller and Principal Accounting Officer

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