

PEGASYSTEMS INC
Form 4
March 13, 2017

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KAPLAN STEVEN F

(Last) (First) (Middle)

C/O PEGASYSTEMS INC., 1
ROGERS STREET

(Street)

CAMBRIDGE, MA 02142

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
PEGASYSTEMS INC [PEGA]

3. Date of Earliest Transaction
(Month/Day/Year)
03/10/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock	03/10/2017		M	(A) or (D) A	1,150 \$ 43.45	61,272	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Fair Market Value of Underlying Securities (Instr. 3 and 4)
Restricted Stock Units	\$ 0	03/10/2017		M	1,150 (1)	06/10/2016 (2)	Common Stock	4,603

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KAPLAN STEVEN F C/O PEGASYSTEMS INC. 1 ROGERS STREET CAMBRIDGE, MA 02142		X		

Signatures

/s/ Janet Mesrobian, Esq., Attorney-In-Fact for Steven Kaplan 03/13/2017

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Represents 25% vesting on March 10, 2017. Original grant was 4,603 restricted stock units, with 25% vesting immediately on June 10, 2016, and the remaining 75% vesting in equal quarterly installments over the remaining three quarters thereafter.
- (2) Once vested, the shares of common stock are not subject to expiration.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Common Shares receiving any dividend and holders of Class A Common Shares shall receive a dividend at least equal to Class B Common Shares dividends on a per share basis. As a result, we have computed the earnings per share in accordance with Earnings Per Share within the Presentation Topic of the FASB's Accounting Standards Codification, which requires companies that have multiple classes of equity securities to use the two-class method in computing earnings per share.

For our basic earnings per share calculation, we use the two-class method. Basic earnings per share are calculated by dividing net earnings attributable to each class of common stock by the weighted average number of shares outstanding. All undistributed earnings are allocated evenly between Class A and B Common Shares in the earnings per share calculation to the extent that earnings equal or exceed \$0.05 per share. This allocation is based on

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management's judgment after considering the dividend rights of the two classes of common stock, the control of the Class B shareholders and the convertibility rights of the Class B Common Shares to Class A Common Shares.

The calculation of diluted earnings per share is similar to the calculation of basic earnings per share, except that the calculation includes the dilutive effect of the assumed exercise of options issuable under our stock incentive plans. For our diluted earnings per share calculation for Class A Common Shares, we use the if-converted method. This calculation assumes that all Class B Common Shares are converted into Class A Common Shares (if antidilutive) and, as a result, assumes there are no holders of Class B Common Shares to participate in undistributed earnings.

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

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

Basic earnings per common share:

	Three Months Ended July 31, 2016		Three Months Ended July 31, 2015	
	Class A Common Shares	Class B Common Shares	Class A Common Shares	Class B Common Shares
Distributed earnings	\$ 0.11	\$ 0.11	\$ 0.10	\$ 0.10
Undistributed earnings	(0.05)	(0.05)	(0.01)	(0.01)
Total	\$ 0.06	\$ 0.06	\$ 0.09	\$ 0.09
Distributed earnings	\$ 2,933	\$ 268	\$ 2,604	\$ 259
Undistributed earnings	(1,383)	(130)	(264)	(27)
Total	\$ 1,550	\$ 138	\$ 2,340	\$ 232
Basic weighted average common shares outstanding	26,457	2,481	26,027	2,587

Diluted EPS for Class A Common Shares Using the If-Converted Method**Three Months Ended July 31, 2016**

	Undistributed & Distributed Earnings to Class A Common Shares	Class A Common Shares	EPS*
Per Basic	\$ 1,550	26,457	\$ 0.06
Common Stock Equivalents		316	
Class B Common Share Conversion	1,550 138	26,773 2,481	0.06

Diluted EPS for Class A Common Shares	\$	1,688	29,254	\$ 0.06
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Three Months Ended July 31, 2015

		Undistributed & Distributed Earnings to Class A Common Shares	Class A Common Shares	EPS*
Per Basic	\$	2,340	26,027	\$ 0.09
Common Stock Equivalents			268	
		2,340	26,295	0.09
Class B Common Share Conversion		232	2,587	
Diluted EPS for Class A Common Shares	\$	2,572	28,882	\$ 0.09

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	Undistributed & Distributed Earnings to Class B Common Shares	Class B Common Shares	EPS*
Per Basic	\$ 138	2,481	\$ 0.06
Reallocation of undistributed earnings to Class A Common Shares from Class B Common Shares	2		
Diluted EPS for Class B Common Shares	\$ 140	2,481	\$ 0.06

Three Months Ended July 31, 2015

	Undistributed & Distributed Earnings to Class B Common Shares	Class B Common Shares	EPS*
Per Basic	\$ 232	2,587	\$ 0.09
Reallocation of undistributed earnings to Class B Common Shares from Class A Common Shares			
Diluted EPS for Class B Common Shares	\$ 232	2,587	\$ 0.09

* Amounts adjusted for rounding

For the three months ended July 31, 2016 and 2015, we excluded options to purchase 855,439 and 1,016,500 Class A Common Shares, respectively, from the computation of diluted earnings per Class A Common Shares. We excluded these option share amounts because the exercise prices of those options were greater than the average market price of the Class A Common Shares during the applicable period. As of July 31, 2016, we had a total of 3,599,581 options outstanding and, as of July 31, 2015, we had a total of 3,011,169 options outstanding.

E. Stock-Based Compensation

During the three months ended July 31, 2016 and 2015, we granted options for 333,000 and 336,000 shares of common stock, respectively. We recorded stock option compensation cost of approximately \$388,000 and \$398,000 and related income tax benefits of approximately \$145,000 and \$146,000 during the three months ended July 31, 2016 and 2015, respectively. We record stock-based compensation expense on a straight-line basis over the vesting period directly to additional paid-in capital.

Prior to the adoption of ASU No. 2016-09, cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) were classified as financing cash flows. During the three months ended July 31, 2015, we realized excess tax benefits of approximately \$13,000 which are included as a component of cash flows from financing activities in the accompanying 2015 consolidated statements of cash flows.

During the three months ended July 31, 2016 and 2015, we issued 223,276 and 44,050 shares of common stock, respectively, resulting from the exercise of stock options. The total intrinsic value of options exercised during the three months ended July 31, 2016 and 2015 based on market value at the exercise dates was approximately \$856,000 and \$159,000, respectively. As of July 31, 2016, unrecognized compensation cost related to unvested stock option awards approximated \$3.3 million, which we expect to recognize over a weighted average period of 1.73 years.

Table of Contents**F. Fair Value of Financial Instruments**

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

Level 1 Quoted prices in active markets for identical instruments.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

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

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

The following tables present our assets and liabilities that we measured at fair value on a recurring basis as of July 31, 2016 and April 30, 2016, respectively, and indicates the fair value hierarchy of the valuation techniques we used to determine such fair value (in thousands):

	July 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 48,293	\$	\$	\$ 48,293
Marketable securities	7,894	18,211		26,105

Total	\$ 56,187	\$ 18,211	\$	\$ 74,398
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April 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash equivalents	\$ 45,977	\$	\$	\$ 45,977
Marketable securities	7,374	21,487		28,861
Total	\$ 53,351	\$ 21,487	\$	\$ 74,838

In addition to cash equivalents and marketable securities classified as trading securities, we also have an equity method investment valued at approximately \$20,000 as of July 31, 2016 and April 30, 2016, that is not recorded at fair value and, thus, is not included in the tables above.

G. Stock Repurchases

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to an additional 2.0 million shares of our Class A common stock. We have made and will make these repurchases through open market purchases at prevailing market prices. The timing of any repurchase will depend upon market conditions, the market price of our common stock and

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management's assessment of our liquidity and cash flow needs. Under this repurchase plan, through July 31, 2016, we have repurchased 1,053,679 shares of common stock at a cost of approximately \$6.2 million. As of July 31, 2016, under all repurchase plans previously authorized, including this most recent plan, we have repurchased a total of 4,588,632 shares of common stock at a cost of approximately \$25.6 million.

H. Comprehensive Income

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

I. Industry Segments

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) Enterprise Resource Planning (ERP), (2) Supply Chain Management (SCM), and (3) Information Technology (IT) Consulting.

The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry-specific business software to both retailers and manufacturers in the apparel, sewn products and furniture industries. The SCM segment, which consists of Logility, a wholly-owned subsidiary, as well as its subsidiary, DMI, provides collaborative supply chain solutions to streamline and optimize the forecasting, inventory, production, supply, allocation, distribution and management of products between trading partners. The IT Consulting segment consists of The Proven Method, Inc., an IT staffing and consulting services firm. We also provide support for our software products, such as software enhancements, documentation, updates, customer education, consulting, systems integration services, maintenance and support services.

Our chief operating decision maker is the President and Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, we manage our business primarily on a segment basis, with the CEO evaluating performance based upon segment operating profit or loss that includes an allocation of common expenses, but excludes certain unallocated expenses, which are included in the ERP segment.

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

In the following table, we have broken down the intersegment transactions applicable to the three months ended July 31, 2016 and 2015:

	Three Months Ended	
	July 31,	
	2016	2015
Revenues:		
Enterprise Resource Planning	\$ 3,008	\$ 3,525
Collaborative Supply Chain Management	19,411	18,573
IT Consulting	5,014	6,760

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	\$ 27,433	\$ 28,858
Operating income (loss) before intersegment eliminations:		
Enterprise Resource Planning	\$ (1,416)	\$ (962)
Collaborative Supply Chain Management	2,852	4,193
IT Consulting	210	589
	\$ 1,646	\$ 3,820
Intersegment eliminations:		
Enterprise Resource Planning	\$ (906)	\$ (729)
Collaborative Supply Chain Management	896	700
IT Consulting	10	29
	\$	\$

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	Three Months Ended July 31,	
	2016	2015
Operating income (loss) after intersegment eliminations:		
Enterprise Resource Planning	\$ (2,322)	\$ (1,691)
Collaborative Supply Chain Management	3,748	4,893
IT Consulting	220	618
	\$ 1,646	\$ 3,820

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	Three Months Ended July 31,	
	2016	2015
Capital expenditures:		
Enterprise Resource Planning	\$ 42	\$ 8
Collaborative Supply Chain Management	102	57
IT Consulting		
	\$ 144	\$ 65
Capitalized Software:		
Enterprise Resource Planning	\$	\$
Collaborative Supply Chain Management	636	817
IT Consulting		
	\$ 636	\$ 817
Depreciation and amortization:		
Enterprise Resource Planning	\$ 144	\$ 150
Collaborative Supply Chain Management	1,261	1,258
IT Consulting	2	3
	\$ 1,407	\$ 1,411
Earnings (loss) before income taxes:		
Enterprise Resource Planning	\$ (729)	\$ (578)
Collaborative Supply Chain Management	2,825	4,112
IT Consulting	210	589
	\$ 2,306	\$ 4,123

Major Customer

No one customer accounted for more than 10% of total revenues for the three months ended July 31, 2016 and 2015.

J. Contingencies

We more often than not indemnify our customers against damages and costs resulting from claims of patent, copyright or trademark infringement associated with use of our products. We have historically not been required to make any payments under such indemnifications. However, we continue to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the indemnifications when those losses are estimable. In addition, we warrant to our customers that our products operate substantially in accordance with the software products specifications. Historically, we have incurred no costs related to software product warranties and we do not expect to incur such costs in the future, and as such we have made no accruals for software product warranty costs. Additionally, we are involved in various claims arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position or results of operations.

K. Subsequent Event

On August 18, 2016, our Board of Directors declared a quarterly cash dividend of \$0.11 per share of our Class A and Class B Common Stock. The cash dividend is payable on December 2, 2016 to Class A and Class B shareholders of record at the close of business on November 11, 2016.

Effective August 23, 2016, the Company acquired certain assets of privately-held AdapChain, Inc., a Pennsylvania corporation and a provider of high quality modular integration technology (ACI), pursuant to the terms of an asset purchase agreement, dated as of August 23, 2016 (the Purchase Agreement). This acquisition will expand and complement the products and services offered by Logility.

Under the terms of the Purchase Agreement, the Company acquired the assets in exchange for a purchase price of approximately \$4.0 million in cash, subject to certain post-closing adjustments. Additional consideration is payable at the end of each three month period in the 36 month period following the Closing Date (such 36 month period being the Earnout Period) from the license fee revenues contracted for and recorded as revenue in accordance with GAAP by either ACI or the Company from the sale of ACI software during such three month period, up to a maximum aggregate amount of \$2.0 million over the Earnout Period.

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The Company will include the financial results of ACI in its consolidated financial statements commencing August 23, 2016. The acquired assets consist primarily of accounts receivable, unbilled revenue, other intangible assets and all equity interests in any subsidiary of ACI, which includes AdapChain Solutions PVT, LTD (India), and are net of certain customer related liabilities. Acquisition related costs were not material for any period presented in the consolidated financial statements. Based upon the timing of the acquisition subsequent to the end of the Company's first quarter of fiscal 2017, the preliminary accounting for the business combination is incomplete at the time of filing this report. As a result, the Company is unable to provide amounts recognized as of the acquisition date for major classes of assets and liabilities acquired. The Company will include this information in its Quarterly Report on Form 10-Q for the second quarter of fiscal 2017.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING STATEMENTS

This report on Form 10-Q 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, seek, estimate, believe, expect, and similar expressions that convey uncertainty of future events or outcomes. Any forward-looking statements we make herein are pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning future:

results of operations;

liquidity, cash flow and capital expenditures;

demand for and pricing of our products and services;

annual contract value (ACV);

viability and effectiveness of strategic alliances;

industry conditions and market conditions;

acquisition activities and the effect of completed acquisitions; and

general economic conditions.

Although we believe that the goals, plans, expectations, and prospects that our forward-looking statements reflect are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include, but are not limited to, continuing U.S. and global economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, dependence on particular market segments or customers, competitive pressures, delays, product liability and warranty claims and other risks associated with new product development, undetected software errors, market acceptance of our products, technological complexity, the challenges and risks associated with integration of acquired product lines, companies and services, as well as a number of other risk factors that could affect our future performance. All forward-looking statements included in this report on Form 10-Q are based upon information available to us as of the filing date of this report on Form 10-Q. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. We discuss certain factors in greater detail in

Business Overview below. The term fiscal 2017 and fiscal 2016 refers to our fiscal years ending April 30, 2017 and 2016, respectively.

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 and in particular may be affected by conditions in global credit markets.

On July 19, 2016 the International Monetary Fund (IMF) provided an update to the World Economic Outlook (WEO) for the 2016 and 2017 world economic growth forecast. The update noted that, *Taking into account the better-than-expected economic activity so far in 2016 and the likely impact of Brexit under the assumptions just described, the global growth forecasts for 2016 and 2017 were both marked down by 0.1 percentage points relative to the April 2016 WEO, to 3.1 percent and 3.4 percent, respectively. The outlook worsens for advanced economies (down by 0.1 percentage points in 2016 and 0.2 percentage points in 2017) while it remains broadly unchanged for emerging market and developing economies.*

For the remainder of fiscal 2017, we expect the global economy to improve when compared to the prior year, which could result in an improved selling environment. Overall information technology spending continues to be relatively weak as a result of the current global economic environment when compared to the period prior to the last recession. We believe information technology spending will incrementally improve over the long term as increased global competition forces companies to improve productivity by upgrading their technology systems. Although this improvement could slow or regress at any time, due in part to concerns in global capital markets and general economic conditions, we believe that our organizational and financial structure will enable us to take advantage of any sustained economic rebound. Customers continue to take long periods to evaluate discretionary software purchases.

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We believe weak economic conditions may be driving some businesses to focus on achieving more process and efficiency enhancements in their operations and to invest in solutions that improve operating margins, rather than make large infrastructure-type technology purchases. If this trend continues, we believe it may tend to favor solutions such as our Logility supply chain solutions, which are designed to provide a more rapid return on investment and are targeted at some of the largest profit drivers in a customer's business. While the current economic crisis has had a particularly adverse impact on the weaker companies in our target markets, we believe a large percentage of our customers are seeking to make investments to strengthen their operations, and some are taking advantage of current economic conditions to gain market share.

BUSINESS OVERVIEW

American Software was incorporated as a Georgia corporation in 1970. We develop, market and support a portfolio of software and services that deliver enterprise management and collaborative supply chain solutions to the global marketplace. We have designed our software and services to bring business value to enterprises by supporting their operations over intranets, extranets, client/servers or the Internet. References to the Company, our products, our software, our services and similar references include the appropriate business unit actually providing the product or service.

We 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) Enterprise Resource Planning (ERP), (2) Supply Chain Management (SCM) and (3) Information Technology (IT) Consulting. The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry-specific business software to both retailers and manufacturers in the apparel, sewn products and furniture industries. The SCM segment, which consists of Logility, a wholly-owned subsidiary, as well as its subsidiary, Demand Management, Inc. (DMI), provides collaborative supply chain solutions to streamline and optimize the forecasting, inventory, production, supply, allocation, distribution and management of products between trading partners. The IT Consulting segment consists of The Proven Method, an IT staffing and consulting services firm. We also provide support for our software products, such as software enhancements, documentation, updated, customer education, consulting, systems integration services, maintenance and support services.

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, customization services, SaaS, hosting and managed services. We primarily bill under time and materials 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 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, royalties paid to third-party software vendors, and agent commission expenses related to license revenues generated by the indirect channel, primarily from DMI. Costs for maintenance and services include the cost of personnel to conduct implementations and customer support, consulting, other personnel-related expenses, and agent commission expenses related to maintenance revenues generated by the indirect channel, primarily from DMI. We account for the development costs of software intended for sale in accordance with the Intangibles Goodwill and Other topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification. 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.

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

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

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Acquisition Opportunities. There are opportunities for selective 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.

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

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

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

A discussion of a number of additional risk factors associated with our business is included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, which risk factors have been supplemented by the risk factors appearing in Item 1A of Part II of this report on Form 10-Q.

Recent Accounting Pronouncements

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers – Deferral of Effective Date*, which defers the implementation of ASU 2014-09, *Revenue from Contracts with Customers*, for one year from the initial effective date. The initial effective date of ASU No. 2014-09 was for annual reporting periods beginning after December 15, 2016, and early adoption was not permitted. ASU No. 2015-14 extends the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of reporting periods beginning after December 16, 2016, including interim reporting periods within that reporting period. The Company is evaluating the effect that these standards will have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of the deferred income taxes. The ASU requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance does not change the existing requirement that only permits offsetting within a tax-paying component of an entity. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, but may be adopted earlier, and applied either prospectively or retrospectively. The Company adopted this guidance in the fourth quarter of fiscal 2016, reporting on a prospective basis for the annual period ended April 30, 2016.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is

evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, to improve the accounting for employee share-based payments. Under the new guidance, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital. Instead, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement, and additional paid-in capital pools will be eliminated. The guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. It also makes several changes to the accounting for forfeitures and employee tax withholding on share-based compensation. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, but may be adopted earlier. The Company adopted this guidance in the fourth quarter of fiscal 2016 for the annual period ended April 30, 2016.

Table of Contents**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 July 31, 2016 and 2015:

	Three Months Ended July 31,		Pct. Change in Dollars 2016 vs. 2015
	Percentage of Total Revenues		
	2016	2015	
Revenues:			
License	17%	17%	(5)%
Services and other	44	48	(12)
Maintenance	39	35	4
Total revenues	100	100	(5)
Cost of revenues:			
License	7	7	(5)
Services and other	33	33	(4)
Maintenance	10	7	28
Total cost of revenues	50	47	1
Gross margin	50	53	(10)
Research and development	11	10	13
Sales and marketing	20	18	5
General and administrative	13	12	2
Amortization of acquisition-related intangibles			
Total operating expenses	44	40	6
Operating income	6	13	(57)
Other income:			
Interest income	1	1	(4)
Other, net	1		nm
Earnings before income taxes	8	14	(44)
Income tax expense	2	5	(60)
Net earnings	6%	9%	(34)%

nm not meaningful

**COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2016
AND 2015**

REVENUES

	Three Months Ended July 31,				
	2016	2015	% of Total Revenue % Change	2016	2015
	(in thousands)				
License	\$ 4,627	\$ 4,876	(5)%	17%	17%
Services and other	12,221	13,845	(12)	44	48
Maintenance	10,585	10,137	4	39	35
Total revenues	\$ 27,433	\$ 28,858	(5)%	100%	100%

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For the three months ended July 31, 2016, the 5% decrease in revenues over the three months ended July 31, 2015 was attributable primarily to a 12% decrease in services and other revenues and a 5% decrease in license fee revenues during the three months ended July 31, 2016 when compared to the same period last year partially offset by a 4% increase in maintenance revenues. The primary reason for the decrease in services and other revenues in the three months ended July 31, 2016 was a decrease in the level of implementation services at our IT Consulting segment due to decreased demand for IT temporary staff and lower implementation project work our ERP segment, which includes NGC. Our ERP segment had lower license fees partially offset by our SCM business unit.

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

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

International revenues represented approximately 17% and 21% of total revenues in the three months ended July 31, 2016 and 2015, respectively. Our revenues, in particular our international revenues, may fluctuate substantially from period to period primarily because we derive most of our license fee revenues from a relatively small number of customers in a given period.

License Revenues

	Three Months Ended July 31,		
	2016	2015	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 535	\$ 1,045	(49)%
Supply Chain Management	4,092	3,831	7
Total license revenues	\$ 4,627	\$ 4,876	(5)%

For the three months ended July 31, 2016, license fee revenues decreased 5% when compared to the same period in the prior year. In the three months ended July 31, 2016, license fee revenues from our SCM business unit increased 7% when compared to the corresponding period in the prior year. We believe that the increase in software purchases in the first quarter was due primarily to an improved selling environment as a result of a slight improvement in the US economy. Our SCM business unit constituted 88% and 79% of total license fee revenues for the three months ended July 31, 2016 and 2015, respectively. Our ERP business unit license fee revenues decreased by 49% for the three months ended July 31, 2016 when compared to the same period in the prior year, primarily due to decreased license fee sales to the apparel and retail industries as a result of the current economic difficulties in those verticals and the timing of closing deals.

The direct sales channel provided approximately 82% of license fee revenues for the three months ended July 31, 2016, compared to approximately 68% in the comparable quarter a year ago. The increase in the proportion of sales by our direct sales channel was due to a 46% increase in license fee revenue from Logility's direct sales channel. For the three months ended July 31, 2016 and 2015, our margins after commissions on direct sales were approximately 89%

and 86%, respectively. The margins increased in the current period due to the mix of sales commission rates based on each individual salespersons quotas and related achievement. For the three months ended July 31, 2016 and 2015, our margins after commissions on indirect sales were approximately 35% and 55%, respectively. The indirect channel margins for the current quarter decreased when compared to the same period in the prior year due to the mix of value-added reseller (VAR) commission rates. These margin calculations include only commission expense for comparative purposes and do not include other costs of license fees such as amortization of capitalized software.

Table of Contents**Services and Other Revenues**

	Three Months Ended July 31,		
	2016	2015	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,108	\$ 1,206	(8)%
Supply Chain Management	6,099	5,879	4
IT Consulting	5,014	6,760	(26)
 Total services and other revenues	 \$ 12,221	 \$ 13,845	 (12)%

For the three months ended July 31, 2016, services revenue decreased by 12% due primarily to decreased services revenues from our IT Consulting and ERP segments. This decrease was partially offset by an increase in services revenue from our Supply Chain Management segment. For the three months ended July 31, 2016, our IT Consulting segment's revenues decreased 26% when compared to the prior year period due to less project work when compared to the same period last year because of the completion in that prior period of an IT project from one of our larger customers. For the three months ended July 31, 2016, services and other revenues from our ERP segment decreased by 8% when compared to the same period in the prior year due to decreased project work particularly at NGC. For the three months ended July 31, 2016, our SCM business unit's revenues increased 4% due primarily to increases in services revenue related to our Logility Cloud Services area and an increase in utilization from project implementation services from higher license fees in recent periods. We have observed that there is a tendency for services and other revenues, other than from 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.

For the three months ended July 31, 2016, Cloud Services ACV increased approximately 36% to \$4.0 million compared to \$3.0 million in the same period of the prior year. ACV is comprised of software-as-a-service (SAAS) of \$2.1 million compared to approximately \$1.5 million during the same period last year and other cloud services ACV of \$1.9 million compared to \$1.5 million during the same period last year. ACV is a forward-looking operating measure used by management to better understand cloud services (SaaS and other related cloud services) revenue trends within our business, as it reflects our current estimate of revenue to be generated under existing client contracts in the forward 12-month period.

Maintenance Revenues

	Three Months Ended July 31,		
	2016	2015	% Change
	(in thousands)		
Enterprise Resource Planning	\$ 1,365	\$ 1,274	7%
Supply Chain Management	9,220	8,863	4
 Total maintenance revenues	 \$ 10,585	 \$ 10,137	 4%

For the three months ended July 31, 2016, maintenance revenues increased 4% when compared to the same period in the prior year, due primarily to increased license fees in recent periods. Logility accounted for 87% of total maintenance revenues for the three months ended July 31, 2016 and 2015. 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 (in thousands) and percentage measures of gross margin:

	Three Months Ended July 31,			
	2016		2015	
Gross margin on license fees:	\$ 2,804	61%	\$ 2,949	60%
Gross margin on services and other:	3,168	26	4,394	32
Gross margin on maintenance:	7,824	74	7,974	79
 Total gross margin:	 \$ 13,796	 50%	 \$ 15,317	 53%

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For the three months ended July 31, 2016, our total gross margin percentage decreased when compared to the same period in the prior year primarily due to our lower margin services and other revenue and maintenance revenue when compared to the same period last year. This was partially offset by higher license fee margin.

Gross Margin on License Fees

License fee gross margin percentage for the three months ended July 31, 2016 increased slightly when compared to the same period in the prior year. License fee gross margin percentage tends to be directly related to the level of license fee revenues due to the relatively fixed cost of computer software amortization expense, amortization of acquired software and the sales mix between our direct and indirect channels.

Gross Margin on Services and Other

For the three months ended July 31, 2016, the gross margin percentage on services and other revenue decreased 6% points when compared to the same period in the prior year primarily because during last year's same quarter our SCM business unit was higher than trend due to deferred services revenue recognized during the quarter based on the customer acceptance of one project (\$794,000). Services and other gross margin is directly related to the level of services and other revenues. The primary component of cost of services and other revenues is services staffing, which is relatively inelastic in the short term.

Gross Margin on Maintenance

Maintenance gross margin percentage for the three months ended July 31, 2016 and 2015 decreased by 5% points due to increased headcount when compared to the same period last year partially offset by an increase in maintenance revenue. The primary component of cost of maintenance revenue is maintenance staffing, which is relatively inelastic in the short term.

EXPENSES

	Three Months Ended July 31,			
			% of Revenue	
	2016	2015	2016	2015
	(in thousands)			
Research and development	\$ 3,100	\$ 2,749	11%	10%
Sales and marketing	5,471	5,233	20	18
General and administrative	3,511	3,447	13	12
Amortization of acquisition-related intangible assets	68	68		
Other income, net	660	303	2	1
Income tax expense	\$ 618	\$ 1,551	2%	5%

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 July 31,		
	2016	2015	% Change
	(in thousands)		
Total capitalized computer software development costs	\$ 636	\$ 817	(22)%
Percentage of gross product research and development costs	17%	23%	
Total research and development expense	3,100	2,749	13
Percentage of total revenues	11%	10%	
Total gross research and development expense and capitalized computer software development costs	\$ 3,736	\$ 3,566	5
Percentage of total revenues	14%	12%	
Total amortization of capitalized computer software development costs *	\$ 990	\$ 973	2%

* Included in cost of license fees

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For the three months ended July 31, 2016, gross product research and development costs increased when compared to the same period in the previous year due increased headcount and related expenses. Capitalized software development costs decreased for the three months ended July 31, 2016 when compared to the same period last year due to timing of capitalizable project work. We expect capitalized product development costs to decrease and we expect capitalized software amortization expense to be relatively stable in coming quarters. Costs included in gross product development are salaries of product development personnel, hardware lease expense, computer software expense, telephone expense and rent.

Sales and Marketing

For the three months ended July 31, 2016, sales and marketing expenses increased 5% when compared to the same period a year ago primarily due an increase in headcount and related costs. We generally include commissions on indirect sales in cost of sales.

General and Administrative

For the three months ended July 31, 2016, general and administrative expenses increased 2% when compared to the same period a year ago primarily due to increased audit and tax fees.

At July 31, 2016, the total number of employees was 440 compared to 410 at July 31, 2015.

Operating Income/(Loss)

	Three Months Ended July 31,		
	2016	2015	% Change
	(in thousands)		
Enterprise Resource Planning	\$ (1,416)	\$ (962)	(47)%
Collaborative Supply Chain Management	2,852	4,193	(32)
IT Consulting	210	589	(64)
Total Operating Income	\$ 1,646	\$ 3,820	(57)%

Our ERP segment operating loss increased 47% in the three months ended July 31, 2016 compared to the same period in the prior year primarily due to lower revenues.

Our SCM segment s operating income decreased by 32% for the three months ended July 31, 2016 compared to same period last year primarily due to increased headcount and related costs.

Our IT Consulting segment operating income decreased 64% for the three months ended July 31, 2016 when compared to the prior year due to lower revenues.

Other Income

Other income is comprised of net interest and dividend income, rental income, exchange rate gains and losses, and realized and unrealized gains and losses from investments. For the three months ended July 31, 2016, the increase in other income was due primarily to an increase in unrealized gain on investments when compared to the same period

last year. This was partially offset by an increase in exchange rate losses, a decrease in interest income and rental income when compared to the same period last year. We recorded a gain of approximately \$216,000 for the three months ended July 31, 2106 and a loss of approximately \$186,000 for the three months ended July 31, 2015, from our trading securities.

For the three months ended July 31, 2016 and 2015, our investments generated an annualized yield of approximately 1.70% and 1.76%, respectively.

Table of Contents***Income Taxes***

We recognize deferred tax assets and liabilities based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. We measure deferred tax assets and liabilities using statutory tax rates in effect in the year in which we expect the differences to reverse. We establish a deferred tax asset for the expected future benefit of net operating loss and credit carry-forwards. Under the Income Tax Topic of the FASB Accounting Standards Codification, we cannot recognize a deferred tax asset for the future benefit of our net operating losses, tax credits and temporary differences unless we can establish that it is more likely than not that the deferred tax asset would be realized. During the three months ended July 31, 2016, our effective tax rate was 26.8% compared to our effective tax rate of 37.6% in the three months ended July 31, 2015. This was lower than the same period last year because the research and development tax credit was not extended until the third quarter of fiscal 2016, and because of the tax benefit from stock option exercises in the current quarter.

Operating Pattern

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

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 table shows information about our cash flows and liquidity positions during the three months ended July 31, 2016 and 2015. 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, 2016.

	Three Months Ended July 31, (in thousands)	
	2016	2015
Net cash provided by operating activities	\$ 5,030	\$ 5,265
Net cash used in investing activities	(780)	(882)
Net cash used in financing activities	(1,417)	(2,592)
Net change in cash and cash equivalents	\$ 2,833	\$ 1,791

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For the three months ended July 31, 2016, the net decrease in cash provided by operating activities when compared to the same period last year was due primarily to the following: (1) an increase in the relative decrease in accounts payable and other accruals due to timing of payments, (2) a decrease in net earnings, (3) a gain on investments compared to a loss on investments in the same period last year due to improved conditions in financial markets, (4) a decrease in the comparative increase in prepaid expenses when compared to the same period in the prior year due to the timing of purchases, (5) lower tax benefit from stock options exercised, (6) a decrease in stock-based compensation expense and (7) a decrease in depreciation and amortization.

This decrease was partially offset by: (1) higher proceeds from the maturity and sales of trading securities, (2) a decrease in purchases of trading securities, (3) an increase in comparative decrease customer accounts receivables caused by the timing of closing customer sales and related collections, (4) a decrease in deferred income tax, (5) a decrease in the comparative decrease in deferred revenues due to timing of revenue recognition and (6) lower excess tax benefit from stock-based compensation.

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The decrease in cash used in investing activities when compared to the same period in the prior year was due primarily to by lower capitalized computer software development costs partially offset by an increase in purchases of property and equipment.

The decrease in cash used in financing activities compared to the prior year was due primarily to an increase in proceeds from exercise of stock options. This was partially offset by an increase in dividends paid and a decrease in excess tax benefits from stock-based compensation.

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 July 31, (in thousands)	
	2016	2015
Cash and cash equivalents	\$ 51,837	\$ 46,446
Short and long-term investments	26,125	30,302
Total cash and short and long-term investments	\$ 77,962	\$ 76,748
Net increase in total cash and investments (three months ended July 31)	\$ 77	\$ 1,353

Our total activities used more cash and investments during the three months ended July 31, 2016, when compared to the prior year period, due primarily to a decrease in operating results and changes in operating assets and liabilities as noted above.

Days Sales Outstanding in accounts receivable were 60 days as of July 31, 2016, compared to 54 days as of July 31, 2015. This increase is primarily due to timing of cash collections. Our current ratio on July 31, 2016 was 2.6 to 1 and on July 31, 2015 was 2.4 to 1.

Our business in recent periods has generated substantial positive cash flow from operations, excluding purchases and proceeds of sale of trading securities. For this reason, and because we had \$78.0 million in cash and investments with no debt as of July 31, 2016, we believe that our sources of liquidity and capital resources will be sufficient to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. However, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. We do not currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

On August 19, 2002, our Board of Directors approved a resolution authorizing the repurchase of up to 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. During the first quarter of fiscal 2017, we did not repurchase any shares of our common stock. For this repurchase plan, through July 31, 2016, we have repurchased 1,053,679 shares of common stock at a cost of approximately \$6.2 million leaving 946,321 shares remaining to purchase. As of September 1, 2016 under all repurchase plans previously authorized, including this most

recent plan, we have repurchased 4,588,632 shares of common stock at a cost of approximately \$25.6 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have based the following discussion and analysis of financial condition and results of operations on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, describes the significant accounting policies that we have used in preparing our financial statements. On an ongoing basis, we evaluate our estimates, including, but not limited to those related to vendor specific objective evidence (VSOE), bad debts, capitalized software costs, goodwill, intangible asset impairment, 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.

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

Revenue Recognition. We recognize revenue in accordance with the Software Revenue Recognition Topic of the FASB's Accounting Standards Codification. We recognize license revenues in connection with license agreements for standard proprietary software upon delivery of the software, provided we deem collection to be probable, the fee is fixed or determinable, there is evidence of an arrangement, and VSOE exists with respect to any undelivered elements of the arrangement. We generally bill maintenance fees annually in advance and recognize the resulting revenues ratably over the term of the maintenance agreement. We derive revenues from services which primarily include consulting, implementation, and training. We bill for these services primarily under time and materials arrangements and recognize fees as we perform the services. Deferred revenues represent advance payments or billings for software licenses, services, and maintenance billed in advance of the time we recognize revenues. We record revenues from sales of third-party products in accordance with Principal Agent Considerations within the Revenue Recognition Topic of the FASB's Accounting Standards Codification. Furthermore, we evaluate sales through our indirect channel on a case-by-case basis to determine whether the transaction should be recorded gross or net, including but not limited to assessing whether or not we: (1) act as principal in the transaction, (2) take title to the products, (3) have risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and (4) act as an agent or broker with compensation on a commission or fee basis. In most cases, we record our sales through the DMI channel on a gross basis.

Generally, our software products do not require significant modification or customization. Installation of the products is routine and is not essential to their functionality. Our sales frequently include maintenance contracts and professional services with the sale of our software licenses. We have established VSOE for our maintenance contracts and professional services. We determine fair value based upon the prices we charge to customers when we sell these elements separately. We defer maintenance revenues, including those sold with the initial license fee, based on VSOE, and recognize the revenue ratably over the maintenance contract period. We recognize consulting and training service revenues, including those sold with license fees, as we perform the services based on their established VSOE. We determine the amount of revenue we allocate to the licenses sold with services or maintenance using the residual method of accounting. Under the residual method, we allocate the total value of the arrangement first to the undelivered elements based on their VSOE and allocate the remainder to license fees.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of these customers were to deteriorate, resulting in an impairment of their ability to make payments, we may require additional allowances or we may defer revenue until we determine that collectability is probable. We specifically analyze accounts receivable and historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when we evaluate the adequacy of the allowance for doubtful accounts.

Valuation of Long-Lived and Intangible Assets. In accordance with the Intangibles-Goodwill and Other Topic of the FASB's Accounting Standards Codification, we do not amortize goodwill and other intangible assets with indefinite lives. Our goodwill is subject to annual impairment tests, which require us to estimate the fair value of our business compared to the carrying value. The impairment reviews require an analysis of future projections and assumptions about our operating performance. Should such review indicate the assets are impaired, we would record an expense for the impaired assets.

In accordance with the Property, Plant, and Equipment Topic of the FASB's Accounting Standards Codification, long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability

would be measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, we recognize an impairment charge in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The determination of estimated future cash flows, however, requires management to make estimates. Future events and changes in circumstances may require us to record a significant impairment charge in the period in which such events or changes occur. Impairment testing requires considerable analysis and judgment in determining results. If other assumptions and estimates were used in our evaluations, the results could differ significantly.

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill and intangible assets had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill or intangible assets that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At July 31, 2016, our goodwill balance was \$18.7 million and our intangible assets with definite lives balance was approximately \$1.6 million, net of accumulated amortization.

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Valuation of Capitalized Software Assets. We capitalize certain computer software development costs in accordance with the Intangibles-Goodwill and Other Topic of the FASB's Accounting Standards Codification. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, we capitalize all software development costs and report those costs at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers. We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the amount by which the unamortized software development costs exceed net realizable value. We amortize capitalized computer software development costs ratably based on the projected revenues associated with the related software or on a straight-line basis over three years, whichever method results in a higher level of amortization. Amortization of capitalized computer software development costs is included in the cost of license revenues in the condensed consolidated statements of operations.

Stock-Based Compensation. We estimate the value of options granted on the date of grant using the Black-Scholes option pricing model. Management's judgments and assumptions related to volatility, the expected term and the forfeiture rate are made in connection with the calculation of stock compensation expense. We periodically review all assumptions used in our stock option pricing model. Changes in these assumptions could have a significant impact on the amount of stock compensation expense.

Income Taxes. We provide for the effect of income taxes on our financial position and results of operations in accordance with the Income Tax Topic of the FASB's Accounting Standards Codification. Under this accounting guidance, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, and projected tax credits. Changes in tax law or our interpretation of tax laws could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our deferred tax assets take into account our expectations of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years, which could significantly increase tax expense, could render inaccurate our current assumptions, judgments and estimates of recoverable net deferred taxes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. In the three months ended July 31, 2016, we generated approximately 17% of our revenues outside the United States. We typically make international sales through our foreign branches or our Logility branch and denominate those sales typically in U.S. dollars, British pounds sterling or euros. However, expenses incurred in connection with these sales are typically denominated in the local currencies. We recorded exchange rate losses of approximately \$107,000 and \$93,000 for the three months ended July 31, 2016 and 2015, respectively. We estimate that a 10% movement in foreign currency rates would have had the effect of creating up to a \$252,000 exchange gain or loss for the three months ended July 31, 2016. We have not engaged in any hedging activities.

Interest Rates and Other Market Risks. We have no debt, and therefore limit our discussion of interest rate risk to risk associated with our investment profile. We manage our interest rate risk by maintaining an investment portfolio of trading investments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, money-market instruments, bank time deposits, and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities, and national, state, and local government agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. dollars. The fair market value of these instruments as of July 31, 2016 was approximately \$74.4 million compared to \$74.0 million as of July 31, 2015.

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

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

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

Item 4. Controls and Procedures Management's Report on Internal Control Over Financial Reporting

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

Our chief executive officer and chief financial officer, with the assistance of our Disclosure Committee, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, except as noted below:

Our international operations and sales subject us to risks associated with unexpected activities outside of the United States.

The global reach of our business could cause us to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in locations within the United States. As we grow our international operations, we may need to recruit and hire new consulting, product development, sales and marketing and support personnel in the countries in which we have or will establish offices. Entry into new international markets typically requires the establishment of new marketing and distribution channels, as well as the development and subsequent support of localized versions of our software. International introductions of our products often require a significant investment in advance of anticipated future revenues. In addition, the opening of a new office typically results in initial recruiting and training expenses and reduced labor efficiencies associated with the introduction of products to a new market. If we are less successful in a new market than we expect, we may not be able to realize an adequate return on our initial investment and our operating results could suffer. We cannot guarantee that the countries in which we operate will have a sufficient pool of qualified personnel from which to hire, that we will be successful at hiring, training or retaining such personnel or that we can expand or contract our international operations in a timely, cost-effective manner. If we have to downsize certain international operations, particularly in Europe, the costs to do so are typically much higher than downsizing costs in the United States. The following factors, among others, could have an adverse impact on our business and earnings:

failure to properly comply with foreign laws and regulations applicable to our foreign activities including, without limitation, software localization requirements;

failure to properly comply with U.S. laws and regulations relating to the export of our products and services;

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compliance with multiple and potentially conflicting regulations in Europe, Asia and North America, including export requirements, tariffs, import duties and other trade barriers, as well as health and safety requirements;

difficulties in managing foreign operations and appropriate levels of staffing;

longer collection cycles;

tariffs and other trade barriers;

seasonal reductions in business activities, particularly throughout Europe;

reduced protection for intellectual property rights in some countries;

proper compliance with local tax laws which can be complex and may result in unintended adverse tax consequences;

anti-American sentiment due to conflicts in the Middle East and other American policies that may be unpopular in certain countries;

increasing political instability, adverse economic conditions and the potential for war or other hostilities in many of these countries;

difficulties in enforcing agreements through foreign legal systems;

fluctuations in exchange rates that may affect product demand and may adversely affect the profitability in U.S. dollars of products and services provided by us in foreign markets where payment for our products and services is made in the local currency, including any fluctuations caused by uncertainties relating to the June 2016 referendum vote by the United Kingdom to exit the European Union (Brexit);

changes in general economic and political conditions in countries where we operate;

the impact of Brexit on the United Kingdom's access to the European Union Single Market, the related regulatory environment, the global economy and the resulting impact on our business, including the delay of execution of contracts by our customers;

potential labor strikes, lockouts, work slowdowns and work stoppages; and

restrictions on downsizing operations in Europe and expenses and delays associated with any such activities.

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

None

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- Exhibit 3.1 Amended and Restated Articles of Incorporation, and amendments thereto. (1)
- Exhibit 3.2 Amended and Restated By-Laws dated May 18, 2009. (2)
- Exhibit 10.1 Retention Agreement, dated as of July 11, 2016, by and between American Software, Inc. and James C. Edenfield. (3)
- Exhibit 10.2 Retention Agreement, dated as of July 11, 2016, by and between American Software, Inc. and J. Michael Edenfield. (4)
- Exhibit 10.3 Retention Agreement, dated as of July 11, 2016, by and between American Software, Inc. and Vincent C. Klinges. (5)
- Exhibit 10.4 Retention Agreement, dated as of July 11, 2016, by and between American Software, Inc. and James R. McGuone. (6)

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Exhibits 31.1-31.2.	Rule 13a-14(a)/15d-14(a) Certifications
Exhibit 32.1.	Section 906 Certifications
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

- (1) Incorporated by reference herein. Filed by the Company as an exhibit to its Quarterly Report filed on Form 10-Q for the quarter ended October 31, 1990.
- (2) Incorporated by reference herein. Filed by the Company as an exhibit to its Quarterly Report filed on Form 10-Q for the quarter ended January 31, 2010.
- (3) Incorporated by reference herein. Filed by the Company as Exhibit 10.1 to its Current Report on Form 8-K filed on July 15, 2016.
- (4) Incorporated by reference herein. Filed by the Company as Exhibit 10.1 to its Current Report on Form 8-K filed on July 15, 2016.
- (5) Incorporated by reference herein. Filed by the Company as Exhibit 10.1 to its Current Report on Form 8-K filed on July 15, 2016.
- (6) Incorporated by reference herein. Filed by the Company as Exhibit 10.1 to its Current Report on Form 8-K filed on July 15, 2016.

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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: September 8, 2016

By: /s/ J. Michael Edenfield
J. Michael Edenfield
President, Chief Executive Officer, Director and
Chief Operating Officer

Date: September 8, 2016

By: /s/ Vincent C. Klinges
Vincent C. Klinges
Chief Financial Officer

Date: September 8, 2016

By: /s/ Bryan L. Sell
Bryan L. Sell
Controller and Principal Accounting Officer