

AGILYSYS INC  
Form 10-Q  
February 04, 2013  
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2012

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 0-5734

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

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-0907152  
(I.R.S. Employer  
Identification No.)

425 Walnut Street, Suite 1800,  
Cincinnati, Ohio  
(Address of principal executive offices)

45202  
(ZIP Code)

(770) 810-7800  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer            Accelerated filer       x

Non-accelerated filer            (Do not check if a smaller reporting company)      Smaller reporting company     

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

The number of Common Shares of the registrant outstanding as of February 1, 2013 was 22,136,981.

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Table of Contents

AGILYSYS, INC.

Index

Part I. Financial Information

Item 1	<u>Financial Statements</u>	3
	<u>Condensed Consolidated Balance Sheets (Unaudited) – December 31, 2012 and March 31, 2012</u>	3
	<u>Condensed Consolidated Statements of Operations (Unaudited) – Three and Nine Months Ended December 31, 2012 and 2011</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Loss (Unaudited) – Three and Nine Months Ended December 31, 2012 and 2011</u>	5
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended December 31, 2012 and 2011</u>	6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
Item 2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4	<u>Controls and Procedures</u>	40

Part II. Other Information

Item 1	<u>Legal Proceedings</u>	40
Item 1A	<u>Risk Factors</u>	40
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3	<u>Defaults Upon Senior Securities</u>	41
Item 4	<u>Mine Safety Disclosures</u>	41
Item 5	<u>Other Information</u>	41
Item 6	<u>Exhibits</u>	41

Signatures

Table of Contents

AGILYSYS, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

(In thousands, except share data)	December 31, 2012	March 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$79,838	\$97,587
Accounts receivable, net of allowances of \$759 and \$632, respectively	51,923	32,531
Inventories	18,192	15,710
Prepaid expenses	2,863	2,975
Other current assets	1,538	5,492
Total current assets	154,354	154,295
Property and equipment, net	15,231	16,504
Goodwill	14,259	15,198
Intangible assets, net	15,922	14,135
Other non-current assets	4,005	4,007
Total assets	\$203,771	\$204,139
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$42,298	\$24,938
Deferred revenue	23,717	28,441
Accrued liabilities	13,428	23,983
Capital lease obligations, current	342	647
Total current liabilities	79,785	78,009
Deferred income taxes, non-current	5,186	5,135
Capital lease obligations, non-current	428	347
Other non-current liabilities	5,151	6,210
Commitments and contingencies (see Note 7)		
Shareholders' equity:		
Common shares, without par value, at \$0.30 stated value; 80,000,000 shares authorized; 31,606,831 shares issued; and 22,136,981 and 21,875,850 shares outstanding and December 31, 2012 and March 31, 2012, respectively	9,482	9,482
Treasury shares, 9,469,850 and 9,730,981 at December 31, 2012 and March 31, 2012, respectively	(2,840)	(2,919)
Capital in excess of stated value	(14,919)	(16,032)
Retained earnings	122,248	123,876
Accumulated other comprehensive (loss) income	(750)	31
Total shareholders' equity	113,221	114,438
Total liabilities and shareholders' equity	\$203,771	\$204,139

See accompanying notes to condensed consolidated financial statements.



Table of Contents

AGILYSYS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

(In thousands, except per share data)	Three months ended December 31,		Nine months ended December 31,		
	2012	2011	2012	2011	
Net revenue:					
Products	\$40,210	\$25,725	\$89,262	\$80,387	
Support, maintenance and subscription services	19,405	18,275	57,347	53,704	
Professional services	7,596	7,582	26,494	22,767	
Total net revenue	67,211	51,582	173,103	156,858	
Cost of goods sold:					
Products	32,225	20,128	70,108	63,733	
Support, maintenance and subscription services	6,911	6,223	20,779	19,270	
Professional services	4,626	5,298	16,308	14,835	
Total net cost of goods sold	43,762	31,649	107,195	97,838	
Gross profit	23,449	19,933	65,908	59,020	
	34.9	% 38.6	% 38.1	% 37.6	%
Operating expenses:					
Product development	8,612	7,722	24,241	23,378	
Sales and marketing	5,425	5,408	16,039	16,868	
General and administrative	7,167	7,319	20,596	23,466	
Depreciation of fixed assets	633	1,063	2,024	3,177	
Amortization of intangibles	832	914	2,554	2,782	
Asset impairments and related charges	—	—	208	—	
Restructuring, severance and other charges	(31	) 4,556	1,524	10,590	
Operating income (loss)	811	(7,049	) (1,278	) (21,241	)
Other (income) expenses:					
Interest income	—	(4	) (8	) (54	)
Interest expense	56	60	225	937	
Other expenses, net	220	22	202	293	
Income (loss) before income taxes	535	(7,127	) (1,697	) (22,417	)
Income tax expense (benefit)	19	(1,353	) (69	) (6,209	)
Income (loss) from continuing operations	516	(5,774	) (1,628	) (16,208	)
(Loss) income from discontinued operations, net of taxes	—	(735	) —	10,403	
Net income (loss)	\$516	\$(6,509	) \$(1,628	) \$(5,805	)
Basic weighted average shares outstanding	21,900	22,148	21,873	22,650	
Net income (loss) per share - basic:					
Income (loss) from continuing operations	\$0.02	\$(0.26	) \$(0.07	) \$(0.72	)
(Loss) income from discontinued operations	—	(0.03	) —	0.46	
Net income (loss) per share	\$0.02	\$(0.29	) \$(0.07	) \$(0.26	)
Diluted weighted average shares outstanding	22,088	22,148	21,873	22,650	
Net income (loss) per share - diluted:					
Income (loss) from continuing operations	\$0.02	\$(0.26	) \$(0.07	) \$(0.72	)
(Loss) income from discontinued operations	—	(0.03	) —	0.46	
Net income (loss) per share	\$0.02	\$(0.29	) \$(0.07	) \$(0.26	)

See accompanying notes to condensed consolidated financial statements.

4

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Table of Contents

AGILYSYS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
 (Unaudited)

(In thousands)	Three months ended		Nine months ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Net income (loss)	\$516	\$(6,509)	\$(1,628)	\$(5,805)
Other comprehensive (loss) income, net of tax:				
Unrealized foreign currency translation adjustments	(826)	—	(777)	(27)
Unrealized gain (loss) on sale of securities	—	101	(4)	(153)
Total comprehensive loss	\$(310)	\$(6,408)	\$(2,409)	\$(5,985)

See accompanying notes to condensed consolidated financial statements.



Table of Contents

AGILYSYS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

(In thousands)	Nine months ended	
	December 31, 2012	2011
Operating activities		
Net loss	\$(1,628 )	\$(5,805 )
Less: Income from discontinued operations	—	10,403
Loss from continuing operations	(1,628 )	(16,208 )
Adjustments to reconcile loss from continuing operations to net cash used in operating activities		
Restructuring, severance and other charges	1,524	10,590
Payments for restructuring, severance and other charges	(6,550 )	(3,916 )
Asset impairments and related charges	208	—
Depreciation	2,024	3,177
Amortization	3,304	4,757
Share-based compensation	1,274	2,350
Changes in operating assets and liabilities:		
Accounts receivable	(19,369 )	1,746
Inventories	(2,479 )	(773 )
Accounts payable	16,610	2,771
Deferred revenue	(4,673 )	(10,677 )
Accrued liabilities	(7,071 )	(4,846 )
Income taxes (receivable) payable	(319 )	1,635
Other changes, net	(243 )	(375 )
Net cash used in operating activities from continuing operations	(17,388 )	(9,769 )
Net cash used in operating activities from discontinued operations	—	(27,923 )
Net cash used in operating activities	(17,388 )	(37,692 )
Investing activities		
Proceeds from sale of marketable securities	4,347	5,025
Proceeds from sale of TSG	—	59,470
Additional investments in marketable securities	—	(40,039 )
Capital expenditures	(4,051 )	(3,089 )
Additional (investments in) proceeds from corporate-owned life insurance policies	(85 )	235
Net cash provided by investing activities from continuing operations	211	21,602
Net cash provided by investing activities from discontinued operations	—	—
Net cash provided by investing activities	211	21,602
Financing activities		
Principal payments under long-term obligations	(545 )	(823 )
Exercise of employee stock options	67	210
Repurchase of common shares to satisfy employee tax withholding	(148 )	(1,328 )
Repurchase of common shares	—	(12,127 )
Net cash used in financing activities from continuing operations	(626 )	(14,068 )
Net cash used in financing activities from discontinued operations	—	—
Net cash used in financing activities	(626 )	(14,068 )
Effect of exchange rate changes on cash	54	(135 )
Cash flows used in continuing operations	(17,749 )	(2,370 )

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Cash flows used in discontinued operations	—	(27,923	)	
Net decrease in cash and cash equivalents	(17,749	)	(30,293	)
Cash and cash equivalents at beginning of period	97,587	74,354		
Cash and cash equivalents at end of period	\$79,838	\$44,061		

See accompanying notes to condensed consolidated financial statements.

6

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Table of Contents

AGILYSYS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Table amounts in thousands, except per share data)

1. Nature of Operations and Financial Statement Presentation

Nature of Operations

Agilysys is a leading provider of innovative technology solutions for the hospitality and retail markets. Our intuitive solutions include property and lodging management, inventory and procurement, point-of-sale (“POS”), document management, mobile, wireless and other types of guest-engagement software. We also provide support, maintenance, resold hardware products and software hosting services. Our customers include retailers, casinos, resorts, restaurants and other customer-facing service providers, and a significant portion of our consolidated revenue is derived from contract support, maintenance agreements and professional services.

We operate extensively throughout North America, with additional sales and support offices in the United Kingdom and Asia. We have two operating segments: Hospitality Solutions Group (“HSG”) and Retail Solutions Group (“RSG”).

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include our accounts consolidated with our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Our fiscal year ends on March 31st. References to a particular year refer to the fiscal year ending in March of that year. For example, fiscal 2012 refers to the fiscal year ending March 31, 2012.

Our unaudited interim financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, the instructions to the Quarterly Report on Form 10-Q (“Quarterly Report”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10-01 of Regulation S-X under the Exchange Act. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements.

The Condensed Consolidated Balance Sheet as of December 31, 2012, as well as the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended December 31, 2012 and 2011, and the Condensed Consolidated Statements of Cash Flow for the nine months ended December 31, 2012 and 2011, have been prepared without audit. However, these financial statements have been prepared on the same basis as those in the audited annual financial statements. In the opinion of management, all adjustments necessary to fairly present the results of operations, financial position, and cash flows have been made. Further, we have evaluated all significant events occurring subsequent to the date of the Condensed Consolidated Financial Statements and through the filing of this Quarterly Report.

These unaudited interim financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2012, filed with the Securities and Exchange Commission (“SEC”) on June 12, 2012.

Unless otherwise stated, current and prior period results in our condensed consolidated financial statements and these notes reflect our results from continuing operations and exclude the effect of discontinued operations (see Note 3).



Table of Contents

## 2. Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2012, included in our Annual Report on Form 10-K. Except as described below, there have been no material changes our significant accounting policies and estimates from those disclosed therein.

**Use of estimates.** Preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

**Reclassifications.** As a result of our reorganization in fiscal 2012, revenue and cost of goods sold are being reported in three categories: Products, Support, maintenance and subscription services and Professional services. In addition, operating expenses are differentiated in the following subcategories: Product development, Sales and marketing and General and administrative. Prior period presentation has been modified to conform to the current presentation.

**Correction of Error.** In the third quarter of fiscal 2012, we identified errors in the manner in which we recognized revenue for certain software license and professional service arrangements in prior periods. We re-assessed our accounting for contracts relating to such arrangements. Upon completion of such evaluation, it was determined that the previous accounting treatment did not take into account all the necessary revenue recognition criteria related to pricing concessions, implied postcontract support, professional services that were essential to the functionality of the software, application of contract accounting and specified enhancements, and certain billing errors. As a result, we determined that certain previously recognized revenue should instead have been deferred and recognized in future periods when the applicable criteria related to the above considerations have been met.

In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality), we assessed the materiality of the errors and concluded that the errors were not material to any of our previously issued financial statements. Correction of the errors was also not material to the fiscal 2012 results. As permitted by the accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), we elected to present revised financial information as of and for the interim periods ended June 30, 2011 and September 30, 2011, and revised our previously issued fiscal year 2012 interim financial statements to correct the effect of these errors for when such financial statements are included in future filings. The adjustments to the quarter ended June 30, 2011 are comprised of (a.) the out of period impact for errors accumulated prior to fiscal 2012 of \$1.0 million of corrections to revenue from continuing operations and \$1.1 million of corrections to the loss from continuing operations and (b.) \$0.3 million to revenue from continuing operations and \$0.3 million to loss from continuing operations to revise the financial statements for revenue recognized in the quarter ended June 30, 2011 that should have been deferred to future periods. The adjustments to the quarter ended September 30, 2011 represent the revision to the financial statements for similar matters arising in the quarter.

The following tables present the effect of this revision on our Condensed Consolidated Statements of Operations for all periods affected:

(In thousands except per share amounts)	Quarter Ended June 30, 2011			Quarter Ended September 30, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Net revenue	\$53,886	\$(1,295 )	\$52,591	\$53,587	\$(902 )	\$52,685
Costs of goods sold	34,359	144	34,503	31,972	(286 )	31,686
Net loss from continued operations	(5,440 )	(1,439 )	(6,879 )	(3,238 )	(316 )	(3,554 )

Loss per share for continuing operations – Basic and diluted (0.24 ) (0.06 ) (0.30 ) (0.14 ) (0.02 ) (0.16 )

The revision did not have an effect on our operating cash flows for the three months ended June 30, 2011 or the six months ended September 30, 2011.

8

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Table of Contents

During the first quarter of fiscal 2013, we recorded out-of-period adjustments to increase revenues, restructuring, severance and other charges and asset impairments and related charges by \$0.3 million, \$0.7 million and \$0.2 million, respectively. The net impact of the adjustments increased our operating loss by \$0.6 million and represents a correction of error. In fiscal 2012, we erroneously omitted certain revenue transactions, the costs associated with certain terminated individuals and certain third party development costs for our previously impaired developed technology. Pre-tax loss in the first quarter of fiscal 2013 increased by \$0.6 million, or \$(0.03) per share, due to these adjustments. Management performed an evaluation under Staff Accounting Bulletin No. 108 and concluded the effect of this adjustment was immaterial to prior year's financial statements as well as the full-year fiscal 2013 financial statements.

**Capitalized Software Development Costs.** The capitalization of software development cost begins when a product's technological feasibility has been established. Capitalization ends when the resulting product is available for general market release. Amortization of the capitalized software is classified within products cost of goods sold in the Condensed Consolidated Statements of Operations. For each capitalized software product, the annual amortization is equal to the greater of: (i) the amount computed using the ratio that the software product's current fiscal year gross revenue bears to the total current fiscal year and anticipated future gross revenues for that product or (ii) the amount computed based on straight-line method over the remaining estimated economic life of the product, which is a range between three and eight years. The amount by which unamortized software costs exceeds the net realizable value, if any, is recognized as a charge to income in the period it is determined. We capitalized approximately \$1.5 million and \$0.4 million during the three months ended December 31, 2012 and 2011, respectively, and \$3.4 million and \$1.4 million during the nine months ended December 31, 2012 and 2011, respectively. Amortization of capitalized software was \$0.2 million and \$0.5 million for the three months ended December 31, 2012 and 2011, respectively, and \$0.7 million and \$1.4 million for the nine months ended December 31, 2012 and 2011, respectively.

**Adopted and Recently Issued Accounting Pronouncements.**

In September 2011, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update, ASU, No. 2011-08, Testing for Goodwill Impairment, which modifies the process of testing goodwill for impairment. The update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines it is more likely than not, based on a qualitative assessment, the fair value of goodwill is less than its carrying amount. The guidance also includes a number of events and circumstances to consider in conducting the qualitative assessment. This guidance is effective for fiscal years beginning on or after December 15, 2011. We adopted this guidance as of April 1, 2012 and it did not have a material impact on our consolidated financial statements or related disclosures.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, which modifies the requirements for presenting net income and other comprehensive income and requires that all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment requires presentation of each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income and a total amount for comprehensive income. In December 2011, the FASB issued amendments to the guidance to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. This guidance is effective for fiscal years and interim periods beginning on or after December 15, 2011. We adopted this guidance as of April 1, 2012 and it did not have an impact on our consolidated financial statements or related disclosures.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other-Testing Indefinite-Lived Intangible Assets for Impairment, to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is then necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not



Table of Contents

required. This guidance is effective for fiscal years beginning after September 15, 2012 and early adoption is permitted. ASU No. 2012-02 is not expected to have a material impact on our consolidated financial statements or related disclosures.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities, which modifies the disclosure requirements for offsetting financial instruments and derivative instruments. The update requires an entity to disclose information about offsetting and related arrangements and the effect of those arrangements on its financial position. This guidance is effective for reporting periods beginning on or after January 1, 2013, and is not expected to have a material impact on our consolidated financial statements or related disclosures.

Management continually evaluates the potential impact, if any, of all recent accounting pronouncements on our consolidated financial statements or related disclosures and, if significant, makes the appropriate disclosures required by such new accounting pronouncements.

### 3. Discontinued Operations

#### Sale of Assets and Operations of TSG – Fiscal 2012

In 2011, we sold our TSG business for an aggregate purchase price of \$62.8 million in cash to OnX Enterprise Solutions Limited and its subsidiary OnX Acquisition LLC (together, “OnX”), a leading IT solutions provider based in Toronto, Canada. In addition to the purchase agreement, we entered into a transition services agreement (“TSA”) with OnX, under which we provided certain transitional administrative and supportive services to OnX through January 31, 2012. In July 2011, our shareholders approved the sale and the transaction closed on August 1, 2011, the date on which certain other contingencies specified in the sale agreement were satisfied. The sale of TSG represented a disposal of a component of an entity. As such, the operating results of TSG have been reported as a component of discontinued operations in the Condensed Consolidated Statements of Operations for the periods presented.

#### Components of Results of Discontinued Operations

For the three and nine months ended December 31, 2011 the income from discontinued operations was comprised of the following:

(In thousands)	December 31, 2011	
	Three months	Nine months
Discontinued operations:		
Net revenue	\$—	\$123,807
Loss from operations of TSG	\$—	\$(1,781)
(Loss) gain on sale of TSG	(1,200)	) 19,486
(Loss) income on sale of TSG	(1,200)	) 17,705
Income tax (benefit) expense	(465)	) 7,302
(Loss) income from discontinued operations	\$(735)	) \$10,403

There was no activity related to Discontinued Operations in the corresponding fiscal 2013 periods.

### 4. Restructuring Charges

We recognize restructuring charges when a plan that materially changes the scope of our business or the manner in which that business is conducted is adopted and communicated to the impacted parties, and the expenses have been incurred or are reasonably estimable. In addition, we assess the property and equipment associated with the related facilities for impairment. The remaining useful lives of property and equipment associated with the related operations are re-evaluated based on the respective restructuring plan, resulting in the acceleration of depreciation and amortization of certain assets.



Table of Contents

## Fiscal 2012 Restructuring Activity

In the first quarter of fiscal 2012, we announced restructuring actions, including the relocation of our corporate services from Solon, Ohio to Alpharetta, Georgia, designed to better align those services with our operating units and reduce costs following the sale of TSG. These restructuring actions were mostly completed by March 31, 2012 and impacted approximately 130 employees. To date, we have recorded \$12.1 million in restructuring charges, of which \$1.2 million was recorded in the first nine months of fiscal 2013, related to the fiscal 2012 restructuring activity. These charges were primarily comprised of severance and related benefits. On a segment basis, these restructuring costs totaled \$2.6 million, \$0.6 million, and \$8.9 million for HSG, RSG and Corporate/Other, respectively. As of December 31, 2012, we had a remaining liability of approximately \$0.6 million recorded for fiscal 2012 restructuring activity. As a result of taking these restructuring actions, we expect to realize between \$14.0 million and \$16.0 million in cost savings, of which approximately half has been recognized in the fiscal 2012 run rate. The remaining savings have been realized during fiscal 2013.

## Fiscal 2009 Restructuring Activity

During fiscal 2009, we took steps to realign our cost and management structure. Since 2009, as previously disclosed, we have incurred charges totaling approximately \$19.0 million related to the fiscal 2009 restructuring activity. As of December 31, 2012, we had a remaining liability of approximately \$0.3 million recorded for fiscal 2009 restructuring activity. We expect to incur minimal additional restructuring charges between fiscal 2013 and fiscal 2014 for ongoing facility obligations.

Following is a reconciliation of the beginning and ending balances of the restructuring liability:

(In thousands)	Balance at March 31, 2012	Provision	Payments	Balance at December 31, 2012
Fiscal 2012 Restructuring Plan:				
Severance and employment costs	\$5,507	\$1,236	\$(6,118)	) \$625
Facilities costs	297	(57	) (240	) —
Fiscal 2009 Restructuring Plan:				
Facilities costs	495	3	(192	) 306
Total restructuring costs	\$6,299	\$1,182	\$(6,550)	) \$931

Approximately \$0.1 million of the remaining severance and other employment costs will be paid in fiscal 2013 and \$0.5 million will be paid in fiscal 2014. Approximately \$0.1 million of the remaining facilities obligations will be paid during fiscal 2013 and \$0.2 million will be paid in fiscal 2014.

Table of Contents

## 5. Additional Balance Sheet Information

Additional information related to the Condensed Consolidated Balance Sheets is as follows:

(In thousands)	December 31, 2012	March 31, 2012
Other non-current assets:		
Corporate owned life insurance policies	\$3,589	\$3,458
Other	416	549
Total	\$4,005	\$4,007
Accrued liabilities:		
Salaries, wages, and related benefits	\$6,732	\$7,397
BEP obligations (1)	—	2,948
SERP obligations (1)	—	3,323
Other taxes payable	3,232	1,976
Restructuring liabilities	931	5,447
Professional fees	718	1,700
Income taxes payable	644	322
Other	1,171	870
Total	\$13,428	\$23,983
Other non-current liabilities:		
Income taxes payable/uncertain tax positions	\$2,456	\$3,135
Deferred rent	2,419	2,013
Restructuring liabilities	—	852
Other	276	210
Total	\$5,151	\$6,210

(1) BEP and SERP obligations were fulfilled in April 2012.

## 6. Income Taxes

The following table compares our income tax expense (benefit) and effective tax rates for the three months and nine months ended December 31, 2012 and 2011:

(Dollars in thousands)	Three months ended		Nine months ended	
	December 31, 2012	2011	December 31, 2012	2011
Income tax expense (benefit)	\$19	\$(1,353)	\$(69)	\$(6,209)
Effective tax rate	3.7	% 19	% 4.1	% 27.7

For the three and nine months ended December 31, 2012, the effective tax rate was different than the statutory rate due primarily to recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. Other items affecting the rate include a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, foreign and state taxes and other U.S. permanent book to tax differences.

For the three and nine months ended December 31, 2011, the effective tax rate was different than the statutory rate due primarily to the intra-period tax allocation rules associated with the discontinued operations. Other items affecting the rate include a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, foreign and state taxes and other U.S. permanent book to tax differences.



Table of Contents

7. Commitments and Contingencies

Agilysys is the subject of various threatened or pending legal actions and contingencies in the normal course of conducting its business. We provide for costs related to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on our future results of operations and liquidity cannot be predicted because any such effect depends on future results of operations and the amount or timing of the resolution of such matters. While it is not possible to predict with certainty, management believes that the ultimate resolution of such individual or aggregated matters will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

On April 6, 2012, Ameranth, Inc. filed a complaint against us for patent infringement in the United States District Court for the Southern District of California. The complaint alleges, among other things, that point-of-sale and property management and other hospitality information technology products, software, components and/or systems sold by us infringe three patents owned by Ameranth purporting to cover generation and synchronization of menus, including restaurant menus, event tickets, and other products across fixed, wireless and/or internet platforms as well as synchronization of hospitality information and hospitality software applications across fixed, wireless and internet platforms. The complaint seeks monetary damages, injunctive relief, costs and attorneys fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

On July 9, 2012, a putative class action lawsuit was filed against us in the United States District Court for the Northern District of California alleging violations of federal and state wage and hour laws, rules and regulations pertaining primarily to pay for missed meals and rest periods and failure to reimburse business expenses. The lawsuit purports to be a class action and seeks substantial damages. At this time, we are not able to predict the outcome of this lawsuit, or any possible monetary exposure associated with the lawsuit. Our management believes that the plaintiffs' allegations are without merit and that their claims are not appropriate for class action treatment. We are vigorously defending these claims.

Table of Contents

## 8. Earnings (Loss) per Share

The following data shows the amounts used in computing (loss) earnings per share and the effect on income and the weighted average number of shares of dilutive potential common shares.

(In thousands, except per share data)	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Numerator:				
Income (loss) from continuing operations - basic and diluted	\$516	\$(5,774 )	\$(1,628 )	\$(16,208 )
(Loss) income from discontinued operations - basic and diluted	—	(735 )	—	10,403
Net income (loss) - basic and diluted	\$516	\$(6,509 )	\$(1,628 )	\$(5,805 )
Denominator:				
Weighted average shares outstanding - basic	21,900	22,148	21,873	22,650
Effect of dilutive securities:				
Stock options and SSARs	108	—	—	—
Unvested restricted shares	80	—	—	—
Weighted average shares outstanding - diluted	22,088	22,148	21,873	22,650
Earnings (loss) per share - basic:				
Income (loss) from continuing operations	\$0.02	\$(0.26 )	\$(0.07 )	\$(0.72 )
(Loss) income from discontinued operations	—	(0.03 )	—	0.46
Net income (loss) per share	\$0.02	\$(0.29 )	\$(0.07 )	\$(0.26 )
Earnings (loss) per share - diluted:				
Income (loss) from continuing operations	\$0.02	\$(0.26 )	\$(0.07 )	\$(0.72 )
(Loss) income from discontinued operations	\$—	\$(0.03 )	\$—	\$0.46
Net income (loss) per share	\$0.02	\$(0.29 )	\$(0.07 )	\$(0.26 )
Anti-dilutive stock options, SSARs, restricted shares and performance shares	1,437	2,078	1,799	2,679

Basic earnings (loss) per share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. The outstanding shares used to calculate the weighted average basic shares excludes 236,919 and 115,969 of restricted shares and performance shares at December 31, 2012 and 2011, respectively, as these shares were issued but were not vested and, therefore, not considered outstanding for purposes of computing basic earnings per share at the balance sheet dates.

Diluted earnings (loss) per share includes the effect of all potentially dilutive securities on earnings per share. We have stock options, stock-settled appreciation rights ("SSARs") and unvested restricted shares that are potentially dilutive securities. When a loss is reported, the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of share-based compensation awards because doing so would be anti-dilutive. In addition, when a loss from continuing operations is reported, adjusting the denominator of diluted earnings per share would also be anti-dilutive to the loss per share, even if the entity has net income after adjusting for a discontinued operation. Therefore, for the three months ended December 31, 2011 and nine months ended December 31, 2012 and 2011, basic weighted-average shares outstanding were used in calculating the diluted net loss per share.





Table of Contents

## 9. Share-based Compensation

We may grant non-qualified stock options, incentive stock options, stock-settled stock appreciation rights, restricted shares, and restricted share units for up to 3.0 million common shares under our 2011 Stock Incentive Plan (“the 2011 Plan”). The maximum number of shares subject to stock options or SSARs that may be granted to an individual in a calendar year is 800,000 shares, and the maximum number of shares subject to restricted shares or restricted share units that may be granted to an individual in a calendar year is 400,000 shares. The maximum aggregate number of restricted shares or restricted share units that may be granted under the 2011 Plan is 1.0 million.

We have a shareholder-approved 2006 Stock Incentive Plan (the “2006 Plan”), as well as, a 2000 Stock Option Plan for Outside Directors and a 2000 Stock Incentive Plan that still have vested awards outstanding. Awards are no longer being granted from these incentive plans.

We may distribute authorized but unissued shares or treasury shares to satisfy share option and appreciation right exercises or restricted share and performance share awards.

We record compensation expense related to stock options, stock-settled stock appreciation rights, restricted shares, and performance shares granted to certain employees and non-employee directors based on the fair value of the awards on the grant date. The fair value of restricted share and performance share awards is based on the closing price of our common shares on the grant date. The fair value of stock option and stock-settled appreciation right awards is estimated on the grant date using the Black-Scholes-Merton option pricing model, which includes assumptions regarding the risk-free interest rate, dividend yield, life of the award, and the volatility of our common shares.

The following table summarizes the share-based compensation expense for options, SSARs, restricted and performance awards included in the Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2012 and 2011:

(In thousands)	Three months ended		Nine months ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Product development	\$ 145	\$ 37	\$ 367	\$ 208
Sales and marketing	44	34	101	194
General and administrative	254	290	806	1,948
Total share-based compensation expense	\$ 443	\$ 361	\$ 1,274	\$ 2,350

Table of Contents

## Stock Options

The following table summarizes the activity during the nine months ended December 31, 2012 for stock options awarded under the 2006 Plan:

	Number of Options	Weighted- Average Exercise Price (per share)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
(In thousands, except share and per share data)				
Outstanding at April 1, 2012	971,001	\$13.52		
Granted	—	—		
Exercised	(66,667 )	2.51		
Cancelled/expired	(134,834 )	14.55		
Outstanding and exercisable at December 31, 2012	769,500	\$14.30	3.2	\$234

A total of 46,519 shares, net of 11,660 shares withheld to cover the applicable exercise price of the award and 8,488 shares withheld to cover the employee's minimum applicable income taxes, were issued from treasury shares to settle stock options exercised during the first nine months of fiscal 2013.

## Stock-Settled Stock Appreciation Rights

Stock-Settled Appreciation Rights (“SSARs”) are rights granted to an employee to receive value equal to the difference in the price of our common shares on the date of the grant and on the date of exercise. This value is settled in common shares of Agilysys.

The following table summarizes the activity during the nine months ended December 31, 2012 for SSARs awarded under the 2011 and the 2006 Plan:

	Number of Rights	Weighted- Average Exercise Price (per right)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
(In thousands, except share and per share data)				
Outstanding at April 1, 2012	606,834	\$6.91		
Granted	318,607	7.52		
Exercised	(138,207 )	6.56		
Forfeited	(66,561 )	7.43		
Outstanding at December 31, 2012	720,673	\$7.20	7.2	\$854
Exercisable at December 31, 2012	305,499	\$6.68	4.4	\$517

As of December 31, 2012, total unrecognized stock based compensation expense related to non-vested SSARs was \$1.2 million, which is expected to be recognized over a weighted-average vesting period of 2.0 years.

A total of 19,035 shares, net of 9,236 shares withheld to cover the employee’s minimum applicable income taxes, were issued from treasury shares to settle SSARs exercised during the nine months ended December 31, 2012. The shares withheld were returned to treasury shares.

Table of Contents

## Restricted Shares

We granted shares to certain of our Directors, executives and key employees under the 2011 Plan, the vesting of which is service-based. The following table summarizes the activity during the nine months ended December 31, 2012 for restricted shares awarded under the 2011 Plan:

	Number of Shares	Weighted- Average Grant- Date Fair Value (per share)
Outstanding at April 1, 2012	48,558	\$7.80
Granted	190,376	7.80
Vested	(7,000)	) 7.42
Forfeited	(12,743)	) 7.42
Outstanding at December 31, 2012	219,191	\$7.84

The weighted-average grant date fair value of the restricted shares is determined based upon the closing price of our common shares on the grant date. Compensation expense related to restricted share awards is recognized ratably over the restriction period based upon the closing market price of our common shares on the grant date. As of December 31, 2012, total unrecognized stock based compensation expense related to non-vested restricted stock was \$1.0 million, which is expected to be recognized over a weighted-average vesting period of 1.9 years. We do not include restricted stock in the calculation of earnings per share until the shares are vested.

## Performance Shares

In the first nine months of fiscal 2013, we granted shares to certain of our key employees under the 2011 Plan, the vesting of which is contingent upon meeting various company-wide performance goals within a two-year period.

The following table summarizes the activity during the nine months ended December 31, 2012 for performance shares awarded under the 2011 Plan:

	Number of Shares	Weighted- Average Grant- Date Fair Value (per share)
Outstanding at April 1, 2012	\$—	\$—
Granted	17,728	8.64
Outstanding at December 31, 2012	\$17,728	\$8.64

The weighted-average grant date fair value of the performance shares is determined based upon the closing price of our common shares on the grant date and assumed that performance goals would be met at target. Compensation expense related to performance share awards is recognized ratably over the vesting period based upon the closing market price of our common shares on the grant date. As of December 31, 2012, total unrecognized stock based compensation expense related to non-vested performance shares was \$0.1 million, which is expected to be recognized over a weighted-average vesting period of 1.4 years.



Table of Contents

## 10. Fair Value Measurements

We estimate the fair value of financial instruments using available market information and generally accepted valuation methodologies. We assess the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which pricing inputs used in measuring fair value are observable in the market. Level 1 inputs include unadjusted quoted prices for identical assets or liabilities and are the most observable. Level 2 inputs include unadjusted quoted prices for similar assets and liabilities that are either directly or indirectly observable, or other observable inputs such as interest rates, foreign currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable in the market and include our own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the tables below.

There were no significant transfers between Levels 1, 2, and 3 during the nine months ended December 31, 2012.

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair value measurement used			
	Recorded value as of	Active markets for identical assets or liabilities	Quoted prices in similar instruments and observable inputs	Active markets for unobservable inputs
(In thousands)	December 31, 2012	(Level 1)	(Level 2)	(Level 3)
Assets:				
Corporate-owned life insurance — non-current	\$3,589	\$—	\$—	\$3,589

	Fair value measurement used			
	Recorded value as of	Active markets for identical assets or liabilities	Quoted prices in similar instruments and observable inputs	Active markets for unobservable inputs
(In thousands)	March 31, 2012	(Level 1)	(Level 2)	(Level 3)
Assets:				
Available for sale restricted marketable securities — current	\$4,408	\$4,408	\$—	\$—
Corporate-owned life insurance — non-current	3,458	—	—	3,458
Liabilities:				
BEP — current	2,948	—	2,948	—

We maintained an investment in available for sale marketable securities, in a Rabbi Trust recorded in “Other current assets”, in which cost approximated fair value. The recorded value of our investment in available for sale marketable securities is based on quoted prices in active markets and, therefore, is classified within Level 1 of the fair value hierarchy. The Rabbi Trust was used to fund the BEP and SERP obligations, which were fulfilled in April 2012. The Rabbi Trust was subsequently closed.

The recorded value of the corporate-owned life insurance policies is adjusted to the cash surrender value of the policies obtained from the third party life insurance providers, which are not observable in the market, and therefore, are

18

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Table of Contents

classified within Level 3 of the fair value hierarchy. Changes in the cash surrender value of these policies are recorded within “Other expenses (income), net” in the Condensed Consolidated Statements of Operations.

The recorded value of the BEP obligation is measured as employee deferral contributions and our matching contributions less distributions made from the plan, and adjusted for the returns on the hypothetical investments selected by the participants, which are indirectly observable and therefore, classified within Level 2 of the fair value hierarchy. The BEP obligation was fulfilled in April 2012 with funds held in the Rabbi Trust.

The following table presents a summary of changes in the fair value of the Level 3 assets and liabilities for the nine months ended December 31, 2012 and 2011:

(In thousands)	Level 3 assets and liabilities	
	2012	2011
Corporate-owned life insurance:		
Balance on April 1	\$3,458	\$3,323
Unrealized gain relating to instruments held at reporting date	46	83
Purchases, sales, issuances and settlements, net	85	(235)
Balance on December 31	\$3,589	\$3,171

The following tables present information about our financial and nonfinancial assets and liabilities measured at fair value on a nonrecurring basis and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value:

(In thousands)	Fair value measurement used			
	Recorded value as of	Active markets for identical assets or liabilities	Quoted prices in similar instruments and observable inputs	Active markets for unobservable inputs
	December 31, 2012	(Level 1)	(Level 2)	(Level 3)
Assets:				
Goodwill	\$14,259	\$—	\$—	\$14,259
Intangible assets	15,922	—	—	15,922
Liabilities:				
Restructuring liabilities — current	\$931	\$—	\$—	\$931
Other employee benefit plan obligations — non-current	196	—	—	196

Table of Contents

	Fair value measurement used			
	Recorded value as of	Active markets for identical assets or liabilities	Quoted prices in similar instruments and observable inputs	Active markets for unobservable inputs
(In thousands)	March 31, 2012	(Level 1)	(Level 2)	(Level 3)
Assets:				
Goodwill	\$ 15,198	\$—	\$—	\$ 15,198
Intangible assets	14,135	—	—	14,135
Liabilities:				
SERP obligations — current	\$ 3,323	\$—	\$—	\$ 3,323
Restructuring liabilities — current	5,447	—	—	5,447
Other employee benefit plans obligations — non-current	196	—	—	196
Restructuring liabilities — non-current	852	—	—	852

Intangible assets are valued at their estimated fair value at time of acquisition. We evaluate the fair value of our definite-lived and indefinite-lived intangible assets on an annual basis, or in interim periods if indicators of potential impairment exist. The income approach using “the relief from royalty method” was used to value indefinite-lived intangible assets.

The recorded value of SERP and other benefit plans obligations is based on estimates developed by management by evaluating actuarial information and includes assumptions such as discount rates, future compensation increases, expected retirement dates, payment forms, and mortality. The recorded value of these obligations is measured on an annual basis, or upon the occurrence of a plan curtailment or settlement. The SERP obligation was fulfilled in April 2012 with funds held in the Rabbi Trust.

Restructuring liabilities primarily consist of one-time termination benefits to former employees and ongoing costs related to long-term operating lease obligations. The recorded value of the termination benefits to employees is adjusted to the expected remaining obligation each period based on the arrangements made with the former employees. The recorded value of the ongoing lease obligations is based on the remaining lease term and payment amount, net of sublease income plus interest, discounted to present value. Changes in subsequent periods resulting from revisions to either the timing or amount of estimated cash flows over the remaining future periods are measured using the credit-adjusted, risk-free rate that was used to measure the restructuring liabilities initially.

The inputs used to value our goodwill, intangible assets, employee benefit plan obligations, and restructuring liabilities are not observable in the market and therefore, these amounts are classified within Level 3 in the fair value hierarchy.



Table of Contents

The following table presents a summary of changes in the fair value of the Level 3 assets and liabilities for the nine months ended December 31, 2012 and 2011:

(In thousands)	Level 3 assets and liabilities Nine months ended December 31, 2012				
	Goodwill	Intangible assets	SERP obligations	Other employee benefit plans obligations	Restructuring liabilities
Balance at April 1, 2012	\$15,198	\$14,135	\$3,323	\$196	\$6,299
Foreign currency translation adjustments	(939 )	—	—	—	—
Amortization	—	(1,621 )	—	—	—
Purchases	—	—	—	—	1,182
Provisions, payments and other charges (net)	—	3,408	(3,323 )	—	(6,550 )
Balance at December 31, 2012	\$14,259	\$15,922	\$—	\$196	\$931

(In thousands)	Level 3 assets and liabilities Nine months ended December 31, 2011				
	Goodwill	Intangible assets	SERP obligations	Other employee benefit plans obligations	Restructuring liabilities
Balance at April 1, 2011	\$15,211	\$22,535	\$5,791	\$305	\$733
Foreign currency translation adjustments	(107 )	—	—	—	—
Amortization	—	(1,532 )	—	—	—
Purchases	—	—	—	—	4,716
Provisions, payments and other charges (net)	—	959	61	—	(998 )
Balance at December 31, 2011	\$15,104	\$21,962	\$5,852	\$305	\$4,451

Unrealized losses related to goodwill represent fluctuations due to the movement of foreign currencies relative to the U.S. dollar and are recorded within "Accumulated other comprehensive (loss) income" in the Condensed Consolidated Balance Sheets.

Table of Contents

11. Business Segments

Description of Business Segments

Agilysys has two reportable business segments: HSG and RSG. The reportable segments are each managed separately and are supported by various practices as well as company-wide functional departments. These functional support departments include general accounting and finance, accounts payable, tax, information technology, legal, payroll, and benefits and a portion of these costs are reported in Corporate/Other. Corporate/Other is not a reportable business segment as defined by GAAP. As a result of the sale of the TSG business during fiscal 2012, and the TSA with OnX, Corporate/Other costs have been adjusted for the period presented to remove the portion of the functional support department costs that were transferred to OnX.

Measurement of Segment Operating Results and Segment Assets

We evaluate performance and allocate resources to our reportable segments based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies elsewhere in the footnotes to the consolidated financial statements. Intersegment sales are recorded at pre-determined amounts to allow for intercompany profit to be included in the operating results of the individual reportable segments. Such intercompany profit is eliminated for consolidated financial reporting purposes.

For the three and nine months ended December 31, 2012, revenue from one RSG customer represented 20.9% and 11.3% of consolidated net revenue, respectively.

Our Chief Executive Officer, who is the Chief Operating Decision Maker, does not evaluate a measurement of segment assets when evaluating the performance of our reportable segments. As such, information relating to segment assets is not provided in the financial information below.

The following tables present segment profit and related information for each of our reportable segments for the three and nine months ended December 31, 2012 and 2011.

Table of Contents

(In thousands)	Reportable Segments		Corporate/ Other	Consolidated	
	HSG	RSG			
Three months ended December 31, 2012					
Total revenue:					
Products	\$12,251	\$27,959	\$—	\$40,210	
Support, maintenance and subscription services	12,461	7,171	—	19,632	
Professional services	3,478	4,128	—	7,606	
Elimination of intersegment revenue	—	(237	) —	(237 )	
Revenue from external customers	\$28,190	\$39,021	—	\$67,211	
Gross profit	\$16,168	\$7,281	\$—	\$23,449	
Gross profit margin	57.4	% 18.7	%	34.9 %	
Operating income (loss)	\$3,998	\$3,020	\$(6,207	) \$811	
Interest expense, net	—	—	56	56	
Other expenses, net	—	—	220	220	
Income (loss) before income taxes	\$3,998	\$3,020	\$(6,483	) \$535	
Other charges:					
Depreciation of fixed assets and amortization of intangibles	\$665	\$150	\$650	\$1,465	
Restructuring, severance and other charges	\$6	\$—	\$(37	) \$(31 )	
Three Months Ended December 31, 2011					
Total revenue:					
Products	\$6,618	\$19,107	\$—	\$25,725	
Support, maintenance and subscription services	12,243	6,257	—	18,500	
Professional services	2,819	4,763	—	7,582	
Elimination of intersegment revenue	—	(225	) —	(225 )	
Revenue from external customers	\$21,680	\$29,902	—	\$51,582	
Gross profit	\$13,957	\$5,976	\$—	\$19,933	
Gross profit margin	64.4	% 20.0	%	38.6 %	
Operating income (loss)	\$1,864	\$1,439	\$(10,352	) \$(7,049 )	
Interest expense, net	—	—	56	56	
Other expenses, net	—	—	22	22	
Income (loss) before income taxes	\$1,864	\$1,439	\$(10,430	) \$(7,127 )	
Other charges:					
Depreciation of fixed assets and amortization of intangibles	\$693	\$153	\$1,131	\$1,977	
Restructuring, severance and other charges	\$11	\$16	\$4,529	\$4,556	

Table of Contents

(In thousands)	Reportable Segments		Corporate/ Other	Consolidated	
	HSG	RSG			
Nine Months Ended December 31, 2012					
Total revenue:					
Products	\$26,087	\$63,175	\$—	\$89,262	
Support, maintenance and subscription services	37,817	20,237	—	58,054	
Professional services	10,907	15,622	—	26,529	
Elimination of intersegment revenue	(30	) (712	) —	(742	
Revenue from external customers	\$74,781	\$98,322	\$—	\$173,103	
Gross profit	\$46,690	\$19,218	\$—	\$65,908	
Gross profit margin	62.4	% 19.5	%	38.1	
Operating income (loss)	\$10,254	\$6,862	\$(18,394	) \$(1,278	
Interest expense, net	—	—	217	217	
Other expenses, net	—	—	202	202	
Income (loss) before income taxes	\$10,254	\$6,862	\$(18,813	) \$(1,697	
Other charges:					
Depreciation of fixed assets and amortization of intangibles	\$1,989	\$461	\$2,128	\$4,578	
Asset impairments and related charges	\$208	—	—	\$208	
Restructuring, severance and other charges	\$921	—	\$603	\$1,524	
Nine Months Ended December 31, 2011					
Total revenue:					
Products	\$18,399	\$61,988	\$—	\$80,387	
Support, maintenance and subscription services	35,291	19,033	—	54,324	
Professional services	9,800	12,967	—	22,767	
Elimination of intersegment revenue	—	(620	) —	(620	
Revenue from external customers	\$63,490	\$93,368	\$—	\$156,858	
Gross profit	\$40,187	\$18,833	\$—	\$59,020	
Gross profit margin	63.3	% 20.2	%	37.6	
Operating income (loss)	\$2,075	\$5,169	\$(28,485	) \$(21,241	
Interest expense, net	—	—	883	883	
Other expenses, net	—	—	293	293	
Income (loss) before income taxes	\$2,075	\$5,169	\$(29,661	) \$(22,417	
Other charges:					
Depreciation of fixed assets and amortization of intangibles	\$1,931	\$457	\$3,571	\$5,959	
Restructuring, severance and other charges	\$817	\$381	\$9,392	\$10,590	



## Table of Contents

### Item 2. Managements' Discussion and Analysis of Financial Condition and Results of Operations

In "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), management explains the general financial condition and results of operations for Agilysys and subsidiaries including:

- what factors affect our business;
- what our earnings and costs were;
- why those earnings and costs were different from the year before;
- where the earnings came from;
- how our financial condition was affected; and
- where the cash will come from to fund future operations.

The MD&A analyzes changes in specific line items in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows and provides information that management believes is important to assessing and understanding our consolidated financial condition and results of operations. This Quarterly Report on Form 10-Q updates information included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012, filed with the Securities and Exchange Commission ("SEC"). This discussion should read in conjunction with the Condensed Consolidated Financial Statements and related Notes that appear in Item 1 of this Quarterly Report as well as our Annual Report for the year ended March 31, 2012. Information provided in the MD&A may include forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to be materially different from those contained in the forward-looking statements. See "Forward-Looking Information" on page 40 of this Quarterly Report and Item 1A "Risk Factors" in Part I of our Annual Report for the fiscal year ended March 31, 2012 for additional information concerning these items. Management believes that this information, discussion, and disclosure is important in making decisions about investing in Agilysys.

#### Overview

Agilysys is a leading developer and marketer of proprietary enterprise software, services and solutions to the hospitality and retail industries. We specialize in market-leading point-of-sale, property management, inventory and procurement, and mobile and wireless solutions that are designed to streamline operations, improve efficiency and enhance the consumer's experience. Our customers include casinos, resorts, hotels, foodservice venues, stadiums, cruise lines, grocery stores, convenience stores, general and specialty retail businesses and partners. A significant portion of our consolidated revenue is derived from contract support, maintenance agreements and professional services.

We operate extensively throughout North America, with additional sales and support offices in the United Kingdom, Singapore and Hong Kong. We have two operating segments: Hospitality Solutions Group ("HSG") and Retail Solutions Group ("RSG").

Our top priority is increasing shareholder value by improving operating and financial performance and profitability growing the business through superior products and services. To that end, we expect to invest a certain portion of our cash on hand to develop and market new software products, to fund enhancements to existing software products, to expand our customer breadth, both geographically and vertically, and to make select acquisitions.

The primary objective of our ongoing strategic planning process is to create shareholder value by exploiting growth opportunities and strengthening our competitive position within the specific technology solutions and in the end markets we service. The plan builds on our existing strengths and targets industry leading growth and peer beating financial and operating results driven by new technology trends and market opportunities. Industry leading growth and peer beating financial and operational results will be achieved through tighter coupling and management of operating expenses of the business and sharpening the focus of our investments to concentrate on growth opportunities with the highest return by seeking the highest margin revenue opportunities in the markets in which we compete.

Our strategic plan specifically focuses on:

- Strong customer focus, with clear and realistic service commitments.

25

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## Table of Contents

• Growing sales of our proprietary offerings: products, support, maintenance and subscription services and professional services.

- Diversifying our customer base across geographies and industries.
- Capitalizing on our intellectual property and emerging technology trends.

### Revenue - Defined

As required by the SEC, we separately present revenue earned as products revenue, support, maintenance and subscription services revenue or professional services revenue in our Condensed Consolidated Statements of Operations. In addition to the SEC requirements, we may, at times, also refer to revenue as defined below. The terminology, definitions, and applications of terms we use to describe our revenue may be different from those used by other companies and caution should be used when comparing these financial measures to those of other companies. We use the following terms to describe revenue:

- Revenue – We present revenue net of sales returns and allowances.

• Products revenue – Revenue earned from the sales of hardware equipment and proprietary and remarketed software.

• Support, maintenance and subscription services revenue – Revenue earned from the sale of proprietary and remarketed ongoing support, maintenance and subscription or hosting services.

• Professional services revenue – Revenue earned from the delivery of implementation, integration and installation services for proprietary and remarketed products.

### Matters Affecting Comparability

On August 1, 2011, we completed the sale of our Technology Solutions Group (“TSG”) business to OnX Enterprise Solutions Limited and its subsidiary OnX Acquisition LLC (together “OnX”). For financial reporting purposes, TSG’s operating results for fiscal 2012 through the completion of the sale were classified within discontinued operations. Accordingly, the discussion and analysis presented below, reflects the continuing business of Agilysys.



Table of Contents

## Results of Operations

## Third Fiscal Quarter 2013 Compared to Third Fiscal Quarter 2012

## Net Revenue and Operating Loss

The following table presents our consolidated revenue and operating results for the three months ended December 31, 2012 and 2011:

(Dollars in thousands)	Three months ended		Increase (decrease)		
	December 31, 2012	2011	\$	%	
Net revenue:					
Products	\$40,210	\$25,725	\$14,485	56.3	%
Support, maintenance and subscription services	19,405	18,275	1,130	6.2	%
Professional services	7,596	7,582	14	0.2	%
Total net revenue	67,211	51,582	15,629	30.3	%
Cost of goods sold:					
Products	32,225	20,128	12,097	60.1	%
Support, maintenance and subscription services	6,911	6,223	688	11.1	%
Professional services	4,626	5,298	(672)	(12.7)	%
Total net cost of goods sold	43,762	31,649	12,113	38.3	%
Gross profit	23,449	19,933	3,516	17.6	%
Gross profit margin	34.9	% 38.6	%		
Operating expenses:					
Product development	8,612	7,722	890	11.5	%
Sales and marketing	5,425	5,408	17	0.3	%
General and administrative	7,167	7,319	(152)	(2.1)	%
Depreciation of fixed assets	633	1,063	(430)	(40.5)	%
Amortization of intangibles	832	914	(82)	(9.0)	%
Restructuring, severance and other charges	(31)	) 4,556	(4,587)	(100.7)	%
Operating income (loss)	\$811	\$(7,049)	) \$7,860	(111.5)	%
Operating income (loss) percentage	1.2	% (13.7)	)%		

Table of Contents

The following table presents the percentage relationship of our Condensed Consolidated Statement of Operations line items to our consolidated net revenues for the periods presented:

	Three months ended			
	December 31,			
	2012	2011		
Net revenue:				
Products	59.8	% 49.9		%
Support, maintenance and subscription services	28.9	35.4		
Professional services	11.3	14.7		
Total	100.0	100.0		
Cost of goods sold:				
Products	47.9	39.0		
Support, maintenance and subscription services	10.3	12.1		
Professional services	6.9	10.3		
Total	65.1	61.4		
Gross profit	34.9	38.6		
Operating expenses:				
Product development	12.8	15.0		
Sales and marketing	8.1	10.5		
General and administrative	10.7	14.2		
Depreciation of fixed assets	0.9	2.1		
Amortization of intangibles	1.2	1.8		
Restructuring, severance and other charges	nm	8.8		
Operating income (loss)	1.2	% (13.7		)%

nm - not meaningful.

Table of Contents

The following table presents our revenue and operating results by business segment for the three months ended December 31, 2012 and 2011:

(Dollars in thousands)	Three months ended		Increase (decrease)		
	December 31, 2012	2011	\$	%	
<b>Hospitality (HSG)</b>					
Revenue from external customers:					
Products	\$12,251	\$6,618	\$5,633	85.1	%
Support, maintenance and subscription services	12,461	12,243	218	1.8	%
Professional services	3,478	2,819	659	23.4	%
Total revenue from external customers	28,190	21,680	6,510	30.0	%
Gross profit	\$16,168	\$13,957	\$2,211	15.8	%
Gross profit margin	57.4	% 64.4	%		
Operating income	\$3,998	\$1,864	\$2,134	114.5	%
<b>Retail (RSG)</b>					
Revenue from external customers:					
Products	\$27,959	\$19,107	\$8,852	46.3	%
Support, maintenance and subscription services	6,944	6,032	912	15.1	%
Professional services	4,118	4,763	(645)	(13.5)	)%
Total revenue from external customers	39,021	29,902	9,119	30.5	%
Gross profit	\$7,281	\$5,976	\$1,305	21.8	%
Gross profit margin	18.7	% 20.0	%		
Operating income	\$3,020	\$1,439	\$1,581	109.9	%
<b>Total reportable business segments</b>					
Total revenue from external customers	\$67,211	\$51,582	\$15,629	30.3	%
Gross profit	\$23,449	\$19,933	\$3,516	17.6	%
Gross profit margin	34.9	% 38.6	%		
Operating income	\$7,018	\$3,303	\$3,715	112.5	%
<b>Corporate/Other</b>					
Operating loss	\$(6,207)	\$(10,352)	\$4,145	(40.0)	)%
<b>Total Company</b>					
Total revenue from external customers	\$67,211	\$51,582	\$15,629	30.3	%
Gross profit	\$23,449	\$19,933	\$3,516	17.6	%
Gross profit margin	34.9	% 38.6	%		
Operating loss	\$811	\$(7,049)	\$7,860	(111.5)	)%

Net revenue. Total net revenue increased \$15.6 million, or 30.3%, during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. Products revenue increased \$14.5 million, or 56.3%, support and maintenance and subscription services revenue increased \$1.1 million, or 6.2%, and professional services revenue was flat at \$7.6 million in each period.

HSG's revenue increased \$6.5 million, or 30.0%, in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. The \$5.6 million, or 85.1%, increase in products revenue was primarily the result of a couple of large remarketed product sales as well as organic growth in our proprietary software licenses. The \$0.2 million, or 1.8%, increase in support, maintenance and subscription services was the result of continued focus on selling subscription based services revenue which is typically recognized over a five year period, and ongoing support from proprietary

products. The \$0.7 million, or 23.4%, increase in professional services is due to the growth in services consistent with growth in our proprietary software licenses.

Table of Contents

RSG's revenue increased \$9.1 million, or 30.5%, in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. The \$8.8 million, or 46.3%, increase in products revenue was primarily the result of significant hardware sales to a large customer. The increase in support, maintenance and subscription services revenue of \$0.9 million, or 15.1%, is the result of additional multi-year support contracts. Professional services revenue declined \$0.6 million, or 13.6%, due to a development project in fiscal 2012 that did not repeat in the current period.

Gross profit and gross profit margin. Our total gross profit increased \$3.5 million, or 17.6%, for third quarter of fiscal 2013 while total gross profit margin decreased 370 basis points to 34.9%. Products gross profit increased \$2.4 million while gross profit margin decreased 190 basis points to 19.9%. Support, maintenance and subscription services gross profit increased \$0.4 million while gross margin decreased 160 basis points to 64.4%. Professional services gross margin increased \$0.7 million and gross profit margin increased 900 basis points to 39.1%.

HSG's gross profit increased \$2.2 million, or 15.8%, for third quarter of fiscal 2013 while gross profit margin decreased 700 basis points to 57.3% in the third quarter of fiscal 2013 from 64.4% in third quarter of fiscal 2012. Products gross profit margin decreased 1,320 basis points mainly as a result of a couple of large lower-margin remarketed products sales in the quarter. Support, maintenance and subscription services gross profit margins increased 100 basis points as less labor resources were needed for maintenance of our products. Professional services gross profit margin increased 1,870 basis points as a result of efficient management of project labor within implementation services.

RSG's gross profit increased \$1.3 million, or 21.8%, for third quarter of fiscal 2013 while gross profit margin decreased 130 basis points to 18.7% in third quarter of fiscal 2013 compared with 20.0% in third quarter of fiscal 2012. Products gross profit margin increased 70 basis points with incentives from vendors for over-achievements of our quarterly goals offsetting a lower margin large hardware sale during the quarter. The support gross profit margins decreased approximately 280 basis points due to the mix within remarketed and proprietary product support in the quarter. Professional services gross margin had a decrease of 90 basis points due to the mix and seasonality within our offerings.

Operating expenses

Operating expenses, excluding the charges for asset impairments and related charges and restructuring, severance and other charges, increased \$0.2 million, or 1.1%, in the third quarter of fiscal 2013 compared with the third quarter of fiscal 2012. On a segment basis, HSG remained flat, RSG decreased \$0.2 million and Corporate increased \$0.4 million.

Product development. Product development includes all costs associated with research and development. Product development increased \$0.9 million, or 11.5% in the third quarter of fiscal 2013 compared with the third quarter of fiscal 2012. Product development expenses increased \$0.5 million in HSG and \$0.4 million in RSG in third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. This increase in HSG is driven by the continued investment in internal resources to enhance the existing products and the early stage development of our future platforms. The increase in RSG is mainly driven by headcount and related costs.

Sales and marketing. Sales and marketing remained flat in the third quarter of fiscal 2013 compared with the third quarter of fiscal 2012. Sales and marketing expenses increased \$0.2 million in HSG, offset by a decrease of \$0.2 million in RSG in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. The increase in HSG is due to investment in domestic sales resources and the decrease RSG is associated with the savings realized from the fiscal 2012 restructuring.

General and administrative. General and administrative decreased \$0.1 million, or 2.1%, in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. This is a result of lower employee related costs created by efficiencies in back-office processes generated through the fiscal 2012 restructuring, offset by an increase in operating expenses associated with investments in resources to improve operational efficiencies.

Depreciation of fixed assets. Depreciation of fixed assets decreased \$0.4 million on a consolidated basis driven by our Corporate Services facility relocating from Solon, Ohio to Alpharetta, Georgia as well as the closures of Emeryville, California and Frederick, Maryland in the fourth quarter of fiscal 2012.

Table of Contents

Amortization of intangibles. Amortization of intangibles decreased \$0.1 million in the third quarter of fiscal 2013. This decrease is due to certain internal use software reaching their useful lives during fiscal 2012.

Restructuring, severance and other charges. In the third quarter of fiscal 2012, we recorded \$3.2 million in restructuring charges, primarily comprised of severance and related benefits and \$1.3 million in accelerated depreciation related to closing the Solon, Ohio location. In the third quarter of fiscal 2013, we recorded a small adjustment in restructuring charges associated with the remaining severance and related benefits of the fiscal 2012 restructuring charge. Our restructuring actions are discussed further in Note 4, Restructuring Charges.

## Other (Income) Expenses

(Dollars in thousands)	Three months ended		(Unfavorable) favorable	
	December 31, 2012	2011	\$	%
Other (income) expenses:				
Interest income	\$—	\$(4	) \$(4	) (100.0 )%
Interest expense	56	60	4	6.7 %
Other expenses, net	220	22	(198	) nm
Total other (income) expenses, net	\$276	\$78	\$(198	) nm

nm - not meaningful

Interest income. Interest income decreased during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 as a result of higher interest earned in the 2012 from our interest bearing cash accounts.

Interest expense. Interest expense consists of costs associated with capital leases and loans on corporate-owned life insurance policies. Interest expense decreased slightly in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012.

Other expenses, net. In the third quarter of fiscal 2013 compared to the third quarter of 2012, the \$0.2 million increase of other expenses primarily consists of losses recognized as a result of movements in foreign currencies relative to the U.S. dollar.

## Income Taxes

(Dollars in thousands)	Three months ended		(Unfavorable) favorable	
	June 30, 2012	2011	\$	%
Income tax expense (benefit)	\$19	\$(1,353	) \$(1,372	) nm
Effective tax rate	3.7	% 19	%	

nm - not meaningful

For the third quarter of fiscal 2013, the effective tax rate was different than the statutory rate due primarily to recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. Other items affecting the rate include a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, foreign and state taxes and other U.S. permanent book to tax differences.

For the third quarter of fiscal 2012, the effective tax rate was different than the statutory rate due primarily to the intra-period tax allocation rules associated with the discontinued operations. Other items affecting the rate include a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, foreign and state taxes and other U.S. permanent book to tax differences.



Table of Contents

Although the timing and outcome of tax settlements are uncertain, it is reasonably possible that during the next 12 months a reduction in unrecognized tax benefits may occur in the range of zero to \$0.4 million of tax and zero to \$0.2 million of interest based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. We are routinely audited; due to the ongoing nature of current examinations in multiple jurisdictions, other changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

## First Nine Months of Fiscal 2013 Compared to First Nine Months of Fiscal 2012

## Net Revenue and Operating Loss

The following table presents our consolidated revenue and operating results for the nine months ended December 31, 2012 and 2011:

(Dollars in thousands)	Nine months ended		Increase (decrease)		
	December 31, 2012	2011	\$	%	
Net revenue:					
Products	\$89,262	\$80,387	\$8,875	11.0	%
Support, maintenance and subscription services	57,347	53,704	3,643	6.8	%
Professional services	26,494	22,767	3,727	16.4	%
Total	173,103	156,858	16,245	10.4	%
Cost of goods sold:					
Products	70,108	63,733	6,375	10.0	%
Support, maintenance and subscription services	20,779	19,270	1,509	7.8	%
Professional services	16,308	14,835	1,473	9.9	%
Total	107,195	97,838	9,357	9.6	%
Gross profit	65,908	59,020	6,888	11.7	%
Gross profit margin	38.1	% 37.6	%		
Operating expenses:					
Product development	24,241	23,378	863	3.7	%
Sales and marketing	16,039	16,868	(829)	(4.9)	)%
General and administrative	20,596	23,466	(2,870)	(12.2)	)%
Depreciation of fixed assets	2,024	3,177	(1,153)	(36.3)	)%
Amortization of intangibles	2,554	2,782	(228)	(8.2)	)%
Asset impairments and related charges	208	—	208	nm	
Restructuring, severance and other charges	1,524	10,590	(9,066)	(85.6)	)%
Operating loss	\$(1,278)	\$(21,241)	\$19,963	(94.0)	)%
Operating loss percentage	(0.7)	)% (13.5)	)%		

nm - not meaningful.

The following table presents the percentage relationship of our Condensed Consolidated Statement of Operations line items to our consolidated net revenues for the periods presented:

Table of Contents

	Nine months ended December 31,			
	2012	2011		
Net revenue:				
Products	51.6	51.2	%	%
Support, maintenance and subscription services	33.1	34.2		
Professional services	15.3	14.5		
Total	100.0	100.0		
Cost of goods sold:				
Products	40.5	40.6		
Support, maintenance and subscription services	12.0	12.3		
Professional services	9.4	9.5		
Total	61.9	62.4		
Gross profit	38.1	37.6		
Operating expenses:				
Product development	14.0	14.9		
Sales and marketing	9.3	10.8		
General and administrative	11.9	15.0		
Depreciation of fixed assets	1.2	2.0		
Amortization of intangibles	1.5	1.8		
Asset impairments and related charges	0.1	—		
Restructuring, severance and other charges	0.9	6.8		
Operating loss	(0.7	(13.5	)%	)%

Table of Contents

The following table presents our revenue and operating results by business segment for the nine months ended December 31, 2012 and 2011:

(Dollars in thousands)	Nine months ended		Increase (decrease)		
	December 31 2012	2011	\$	%	
Hospitality (HSG)					
Revenue from external customers:					
Products	\$26,087	\$18,399	\$7,688	41.8	%
Support, maintenance and subscription services	37,812	35,291	2,521	7.1	%
Professional services	10,882	9,800	1,082	11.0	%
Total revenue from external customers	74,781	63,490	11,291	17.8	%
Gross profit	\$46,690	\$40,187	\$6,503	16.2	%
Gross profit margin	62.4	% 63.3	%		
Operating income (loss)	\$10,254	\$2,075	\$8,179	394.2	%
Retail (RSG)					
Revenue from external customers:					
Products	\$63,175	\$61,988	\$1,187	1.9	%
Support, maintenance and subscription services	19,535	18,413	1,122	6.1	%
Professional services	15,612	12,967	2,645	20.4	%
Total revenue from external customers	98,322	93,368	4,954	5.3	%
Gross profit	\$19,218	\$18,833	\$385	2.0	%
Gross profit margin	19.5	% 20.2	%		
Operating income	\$6,862	\$5,169	\$1,693	32.8	%
Total reportable business segments					
Total revenue from external customers	\$173,103	\$156,858	\$16,245	10.4	%
Gross profit	\$65,908	\$59,020	\$6,888	11.7	%
Gross profit margin	38.1	% 37.6	%		
Operating income	\$17,116	\$7,244	\$9,872	136.3	%
Corporate/Other					
Operating loss	\$(18,394 )	\$(28,485 )	\$10,091	(35.4 )	%
Total Company					
Total revenue from external customers	\$173,103	\$156,858	\$16,245	10.4	%
Gross profit	\$65,908	\$59,020	\$6,888	11.7	%
Gross profit margin	38.1	% 37.6	%		
Operating loss	\$(1,278 )	\$(21,241 )	\$19,963	(94.0 )	%

Net revenue. Total net revenue increased \$16.2 million, or 10.4%, during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Products revenue increased \$8.9 million, or 11.0%, support and maintenance and subscription services revenue increased \$3.6 million, or 6.8%, and professional services revenue increased \$3.7 million, or 16.4%.

HSG's revenue increased \$11.3 million, or 17.8%, in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. The \$7.7 million, or 41.8%, increase in products revenue was the result a couple of large remarketed product sales, continued organic growth in our proprietary software licenses and the negative impact in the first nine months of fiscal 2012 of certain errors identified in the manner in which we recognized revenue for certain software license and professional services arrangements in prior periods. The out of period impact for errors accumulated in the first nine months of fiscal 2012 was approximately \$1.2 million (see Note 2, Summary of Significant Accounting Policies). The \$2.5 million, or 7.1%, increase in support, maintenance and subscription

services was the result of continued focus on selling subscription based services revenue which is typically recognized over a five year period, and ongoing support from proprietary products. Professional services increased \$1.1 million, or 11.1% due to growth in services consistent with growth in our proprietary software licenses.

Table of Contents

RSG's revenue increased \$4.9 million, or 5.3%, in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Products revenue increased \$1.2 million, or 1.9%, as a result of increased hardware sales. The \$1.1 million, or 6.1%, increase in support, maintenance and subscription services was due to additional multi-year support contracts. Professional services revenue increased \$2.6 million, or 20.4%, and is the result of the implementations related to several multi-location, multi-year contracts for certain of our service offerings.

Gross profit and gross profit margin. Our total gross profit increased \$6.9 million or 11.7% for first nine months of fiscal 2013 and total gross profit margin increased 40 basis points to 38.1%. Products gross profit increased \$2.5 million and gross profit margin increased 70 basis points to 21.5%. Support, maintenance and subscription services gross profit increased \$2.1 million while gross profit margin declined 40 basis points to 63.8%. Professional services gross margin increased \$2.3 million and gross profit margin increased 360 basis points to 38.4%.

HSG's gross profit increased \$6.5 million or 16.2% for first nine months of fiscal 2013 while gross profit margin decreased 90 basis points to 62.4% in the first nine months of fiscal 2013 from 63.3% in first nine months of fiscal 2012. Products gross profit margin declined 250 basis points as a result of the lower-margin remarketed products sales that occurred in the third quarter. Support, maintenance and subscription services gross profit margins increased 140 basis points as less labor resources were needed for maintenance of our products. Professional services gross profit margin increased 770 basis points as a result of efficient management of project labor within implementation services.

RSG's gross profit increased \$0.4 million or 2.0% for first nine months of fiscal 2013 while gross profit margin decreased 70 basis points to 19.5% in first nine months of fiscal 2013 compared with 20.2% in first nine months of fiscal 2012. Products gross profit margin declined 50 basis points consistent with price compression associated with remarketed products in the overall market. The support gross profit margins decreased 410 basis points due to a shift in the revenue mix within support contracts in fiscal 2013 compared with fiscal 2012. This is partially offset by professional service margins yielding an improvement of 130 basis points as a result of improved labor efficiencies and the mix of service offerings.

Operating expenses

Operating expenses, excluding the charges for asset impairments and related charges and restructuring, severance and other charges, decreased \$4.2 million, or 6.1%, in the first nine months of fiscal 2013 compared with the first nine months of fiscal 2012. On a segment basis, HSG decreased \$2.0 million, RSG decreased \$0.9 million and Corporate decreased \$1.3 million.

Product development. Product development includes all costs associated with research and development. Product development increased \$0.9 million, or 3.7%, in the first nine months of fiscal 2013 compared with the first nine months of fiscal 2012. Product development expenses increased \$0.2 million in HSG, and \$0.7 million in RSG in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. The increase in HSG is driven by the early stage development costs of our future platforms. RSG is mainly driven by salaries and related costs.

Sales and marketing. Sales and marketing decreased \$0.8 million, or 4.9%, in the first nine months of fiscal 2013 compared with the first nine months of fiscal 2012. Sales and marketing expenses were the same in HSG and decreased \$0.8 million in RSG in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. HSG remained relatively flat with continued investments in domestic and international sales resources, offsetting fiscal 2012 restructuring initiatives. The decrease in RSG is associated with the savings realized from the fiscal 2012 restructuring.

General and administrative. General and administrative decreased \$2.9 million or 12.2% in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. General and administrative expenses decreased \$2.3 million in HSG and \$0.7 million in RSG and increased \$0.1 million in Corporate. HSG and RSG expenses decreased as a result of lower employee related costs,, which is offset slightly by investments in resources in Corporate to improve operational efficiencies.

Table of Contents

Depreciation of fixed assets. Depreciation of fixed assets decreased \$1.2 million on a consolidated basis driven by our Corporate Services facility relocating from Solon, Ohio to Alpharetta, Georgia, and the closures of Emeryville, California and Frederick, Maryland in the fourth quarter of fiscal 2012.

Amortization of intangibles. Amortization of intangibles decreased \$0.2 million in the first nine months of fiscal 2013. This decrease is due to certain internal use software reaching their useful lives during fiscal 2012.

Asset impairments and related charges. During the fourth quarter of 2012, it was determined that certain developed technologies would no longer be offered for sale. As a result during fiscal 2012, we impaired the entire remaining assets of \$8.6 million, and accrued the costs associated with a transition plan for all of the existing customers off of this platform of \$1.1 million. In the first nine months of fiscal 2013, we recorded in an additional \$0.2 million related to the costs associated with this asset impairment.

Restructuring, severance and other charges. Restructuring, severance and other charges decreased \$9.1 million in the first nine months of fiscal 2013, compared to the first nine months of fiscal 2012. In the first nine months of fiscal 2012, we announced restructuring actions, and recorded \$10.6 million in restructuring charges, primarily comprised of severance and related benefits. In the first nine months of fiscal 2013, we recorded an additional \$1.2 million in restructuring charges associated with the remaining severance and related benefits of the fiscal 2012 restructuring charge. In addition, we recorded \$0.3 million in severance costs during the second quarter. Our restructuring actions are discussed further in Note 4, Restructuring Charges.

## Other (Income) Expenses

(Dollars in thousands)	Nine months ended		(Unfavorable) favorable		
	December 31, 2012	2011	\$	%	
Other (income) expenses					
Interest income	\$ (8	) \$ (54	) \$ (46	) (85.2	) %
Interest expense	225	937	712	76.0	%
Other expenses, net	202	293	91	31.1	%
Total other (income) expenses, net	\$ 419	\$ 1,176	\$ 757	64.4	%

Interest income. Interest income decreased during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 as a result of higher interest earned in fiscal 2012 from our interest bearing cash accounts.

Interest expense. Interest expense consists of costs associated with capital leases, loans on corporate-owned life insurance policies and the amortization of deferred financing fees. Interest expense decreased \$0.7 million in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 primarily driven by the credit facility we terminated in July 2011 which resulted in immediate expense of approximately \$0.4 million in unamortized deferred financing fees related to the credit facility.

Other expenses, net. In the first nine months of fiscal 2013 compared to the first nine months of 2012, the decrease of other expenses primarily consists of losses recognized in connection with our marketable securities (Rabbi Trust), partially offset by movements in foreign currencies relative to the U.S. dollar and gains related to change in surrender value of company-owned life insurance policies.

Table of Contents

## Income Taxes

(Dollars in thousands)	Nine months ended		(Unfavorable) favorable	
	December 31,	2011	\$	%
Income tax benefit	\$ (69 )	\$ (6,209 )	\$ 6,140	nm
Effective tax rate	4.1	% 27.7	%	

nm - not meaningful

For the first nine months of fiscal 2013, the effective tax rate was different than the statutory rate due primarily to recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. Other items affecting the rate include a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, foreign and state taxes and other U.S. permanent book to tax differences.

For the first nine months of fiscal 2012, the effective tax rate was different than the statutory rate due primarily to the intra-period tax allocation rules associated with the discontinued operations. Other items affecting the rate include a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, foreign and state taxes and other U.S. permanent book to tax differences.

Although the timing and outcome of tax settlements are uncertain, it is reasonably possible that during the next 12 months a reduction in unrecognized tax benefits may occur in the range of zero to \$0.4 million of tax and zero to \$0.2 million of interest based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. We are routinely audited; due to the ongoing nature of current examinations in multiple jurisdictions, other changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

## Discontinued Operations

In 2011, Agilysys entered into a definitive agreement to sell the TSG business for an aggregate purchase price of \$62.8 million in cash, net of the final working capital adjustment, to OnX Enterprise Solutions Limited and its subsidiary OnX Acquisition LLC (together, "OnX"), a leading IT solutions provider based in Toronto, Canada. As such, the operating results of TSG, along with the gain on sale, have been reported as a component of discontinued operations in our Condensed Consolidated Statements of Operations for the periods presented.

For the three and nine months ended December 31, 2011 the income from discontinued operations was comprised of the following:

(In thousands)	December 31, 2011	
	Three months	Nine months
Discontinued operations:		
Net revenue	\$—	\$ 123,807
Loss from operations of TSG	\$—	\$ (1,781 )
(Loss) gain on sale of TSG	(1,200 )	19,486
(Loss) income on sale of TSG	(1,200 )	17,705
Income tax (benefit) expense	(465 )	7,302



(Loss) income from discontinued operations      \$(735      )      \$10,403

There was no activity related to Discontinued Operations in the corresponding fiscal 2013 periods.

## Liquidity and Capital Resources

## Overview

Our operating cash requirements consist primarily of working capital needs, operating expenses, capital expenditures, and payments of principal and interest on indebtedness outstanding, which primarily consists of lease and rental obligations at December 31, 2012. We believe that cash flow from operating activities, cash on hand of \$79.8 million as of December 31, 2012 and access to capital markets will provide adequate funds to meet our short-and long-term liquidity requirements.

As of December 31, 2012 and March 31, 2012, our total debt was approximately \$0.8 million and \$1.0 million, respectively, comprised of capital lease obligations in both periods.

At December 31, 2012, 100% of our cash and cash equivalents were deposited in bank accounts. Therefore, we believe that credit risk is limited with respect to our cash and cash equivalents balances.

## Cash Flow

(In thousands)	Nine months ended	
	December 31,	
	2012	2011
Net cash (used in) provided by continuing operations:		
Operating activities	\$(17,388 )	\$(9,769 )
Investing activities	211	21,602
Financing activities	(626 )	(14,068 )
Effect of exchange rate changes on cash	54	(135 )
Cash flows used in continuing operations	(17,749 )	(2,370 )
Operating cash flows used in discontinued operations	—	(27,923 )
Net decrease in cash and cash equivalents	\$(17,749 )	\$(30,293 )

Cash flow used in operating activities from continuing operations. Cash flows used in operating activities were \$17.4 million in the first nine months of fiscal 2013. The use of cash included \$12.8 million of non-recurring payments; \$6.3 million for BEP and SERP payments and \$6.5 million in restructuring payments. Also contributing to the use of cash is the increase in accounts receivable due to the timing of annual support billings and large remarketed sales, offset by the increase in accounts payable related to the purchase of products to support the large remarketed product sales.

The \$9.8 million of cash used in operating activities in the first nine months of fiscal 2012 included a decrease \$10.7 million in deferred revenues as we recognized amounts for services performed during the period and \$3.9 million in restructuring payments. This is offset by a \$4.8 million reduction in accrued liabilities.

Cash flow provided by investing activities from continuing operations. In fiscal 2013, the \$0.2 million in cash provided by investing activities was primarily comprised of the \$4.3 million in funds from the marketable securities (Rabbi Trust), offset by \$4.1 million used for the purchase of property and equipment and the development of proprietary software. The funds from the Rabbi Trust were used to settle employee benefit obligations. The \$4.1 million in capital expenditures was primarily capitalized product development technology, leasehold improvements and computer equipment.

In the first nine months of fiscal 2012, the \$21.6 million in cash provided by investing activities was primarily comprised of the \$19.5 million in proceeds received from the sale of TSG and \$5.0 million in proceeds from the Rabbi Trust, which were used to settle employee benefit obligations. This was partially offset by \$40.0 million for funds

invested in Treasury notes \$3.1 million used for the purchase of software, property and equipment.

Cash flow used in financing activities from continuing operations. During the first nine months of fiscal 2013, the \$0.6 million used in financing activities was primarily comprised of payments on capital lease obligations.

## Table of Contents

The \$14.1 million in cash used in financing activities in the first nine months of fiscal 2012 represented \$12.1 million for repurchase of our common shares, \$1.1 million related to shares withheld for income taxes on the vesting or exercise of stock compensation awards and \$0.8 million in principal payments on capital lease obligations.

### Contractual Obligations

In August 2012, we entered into a 65-month lease for approximately 5,500 square feet of office facilities located in Bellevue, Washington. The lease term commenced November 2012, upon the completion of certain agreed-upon leasehold improvements. We expect this to result in an increase to our contractual obligations of approximately \$0.2 million per year in rental payments between fiscal 2014 and 2018.

In October 2012, we entered into a 36-month lease for approximately 2,400 square feet of office facilities located in Singapore. The lease term commenced January 2013. We expect this to result in an increase to our contractual obligations approximately \$0.1 million per year between fiscal 2014 and 2016.

As of December 31, 2012, there were no other significant changes to our contractual obligations as presented in our Annual Report for the year ended March 31, 2012.

### Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have had or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Critical Accounting Policies

A detailed description of our significant accounting policies is included in our Annual Report for the year ended March 31, 2012. There have been no material changes in our significant accounting policies and estimates since March 31, 2012 except as discussed below.

**Capitalized Software Development Costs.** We capitalize certain costs related to the development of computer software. Capitalization of these costs begins when a detail program design or working model has been produced as evidenced by the completion of design, planning, coding and testing, such that the product meets its design specifications and has thereby established technological feasibility. Capitalization of these costs ends when the resulting product is available for general release to the public. Amortization of the capitalized software is classified within products cost of goods sold in the Condensed Consolidated Statements of Operations. For each capitalized software product, the annual amortization is equal to the greater of: (i) the amount computed using the ratio that the software product's current fiscal year gross revenue bears to the total current fiscal year and anticipated future gross revenues for that product or (ii) the amount computed based on straight-line method over the remaining estimated economic life of the product, which is a range between three and eight years. The amount by which unamortized software costs exceeds the net realizable value, if any, is recognized as a charge to income in the period it is determined. We capitalized approximately \$1.5 million and \$0.4 million during the three months ended December 31, 2012 and 2011, respectively and \$3.4 million and \$1.4 million during the nine months ended December 31, 2012 and 2011, respectively. Amortization of capitalized software was \$0.2 million and \$0.5 million for the three months ended December 31, 2012 and 2011, respectively, and \$0.7 million and \$1.4 million for the nine months ended December 31, 2012 and 2011.



#### Forward-Looking Information

This Quarterly Report and other publicly available documents, including the documents incorporated herein and therein by reference, contain, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions, or beliefs and are subject to a number of factors, assumptions, and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of our Annual Report for the fiscal year ended March 31, 2012. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events, or otherwise.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," contained in our Annual Report for the fiscal year ended March 31, 2012. There have been no material changes in our market risk exposures since March 31, 2012.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report. Based on that evaluation, the CEO and CFO concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

##### Change in Internal Control over Financial Reporting

None.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

None.

#### Item 1A. Risk Factors

There have been no material changes in the risk factors included in our Annual Report for the fiscal year ended March 31, 2012 that may materially affect our business, results of operations, or financial condition.

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

None.



Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

The following materials from our quarterly report on Form 10-Q for the quarter ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2012 and March 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2012 and 2011, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2012 and 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2012 and 2011, and (v) Notes to Condensed Consolidated Financial Statements for the three and nine months ended December 31, 2012.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.



SIGNATURE

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

AGILYSYS, INC.

Date: February 4, 2013

/s/ Janine K. Seebeck  
Janine K. Seebeck  
Vice President Controller  
(Principal Accounting Officer and Duly Authorized Officer)