

AGILYSYS INC
Form 10-Q
February 09, 2012
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, 2011

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)

28925 Fountain Parkway, Solon, Ohio
(Address of principal executive offices)

34-0907152
(I.R.S. Employer

Identification No.)

44139
(ZIP Code)

(440) 519-8700

(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

Edgar Filing: AGILYSYS INC - Form 10-Q

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 ☐

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 ☒

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 ☒

The number of Common Shares of the registrant outstanding as of January 31, 2012 was 21,887,650.

Table of Contents

AGILYSYS, INC.

Index

Part I.	<u>Financial Information</u>	3
Item 1	<u>Financial Statements</u>	3
	<u>Condensed Consolidated Statements of Operations (Unaudited) Three and Nine Months Ended December 31, 2011 and 2010</u>	3
	<u>Condensed Consolidated Balance Sheets (Unaudited) December 31, 2011 and March 31, 2011</u>	4
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended December 31, 2011 and 2010</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4	<u>Controls and Procedures</u>	42
Part II.	<u>Other Information</u>	42
Item 1	<u>Legal Proceedings</u>	42
Item 1A	<u>Risk Factors</u>	42
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3	<u>Defaults Upon Senior Securities</u>	43
Item 4	<u>[Removed and Reserved]</u>	43
Item 5	<u>Other Information</u>	43
Item 6	<u>Exhibits</u>	43
	<u>Signatures</u>	44

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

AGILYSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except share and per share data)	Three months ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Net sales:				
Products	\$ 25,721	\$ 33,970	\$ 80,371	\$ 81,653
Services	25,861	25,027	76,487	74,072
Total net sales	51,582	58,997	156,858	155,725
Cost of goods sold:				
Products	20,109	26,777	63,536	63,326
Services	11,541	13,079	34,302	36,538
Total cost of goods sold	31,650	39,856	97,838	99,864
Gross margin	19,932	19,141	59,020	55,861
Operating expenses:				
Selling, general, and administrative expenses	23,743	24,401	72,307	71,851
Asset impairment charges				59
Restructuring charges	3,238	3	7,954	406
Operating loss	(7,049)	(5,263)	(21,241)	(16,455)
Other expenses (income):				
Other expenses (income), net	22	(321)	293	(2,281)
Interest income	(4)	(21)	(54)	(61)
Interest expense	60	316	937	880
Loss from continuing operations before income taxes	(7,127)	(5,237)	(22,417)	(14,993)
Income tax (benefit) expense	(1,353)	(2,947)	(6,209)	505
Loss from continuing operations	(5,774)	(2,290)	(16,208)	(15,498)
(Loss) income from discontinued operations, net of taxes	(735)	4,288	10,403	5,030
Net (loss) income	\$ (6,509)	\$ 1,998	\$ (5,805)	\$ (10,468)
(Loss) income per share basic and diluted:				
Loss from continuing operations	\$ (0.26)	\$ (0.10)	\$ (0.72)	\$ (0.68)
(Loss) income from discontinued operations	(0.03)	0.19	0.46	0.22
Net (loss) income	\$ (0.29)	\$ 0.09	\$ (0.26)	\$ (0.46)
Weighted average shares outstanding:				
Basic and diluted	22,147,867	22,752,632	22,650,289	22,751,042

See accompanying notes to condensed consolidated financial statements.

Table of Contents

AGILYSYS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)	December 31, 2011	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,061	\$ 70,559
Short-term investments available for sale	39,994	
Accounts receivable, net of allowances of \$372 and \$661, respectively	30,055	31,926
Inventories, net	11,694	10,921
Deferred income taxes current, net	17	
Prepaid expenses	3,356	2,829
Income taxes receivable	1,460	1,403
Other current assets	8,524	6,344
Assets of discontinued operations current		105,810
Total current assets	139,161	229,792
Goodwill	15,084	15,211
Intangible assets, net of accumulated amortization of \$22,366 and \$20,069, respectively	21,611	22,535
Other non-current assets	3,781	11,709
Assets of discontinued operations non-current		8,296
Property and equipment:		
Furniture and equipment	40,367	40,573
Software	49,720	49,548
Leasehold improvements	10,553	8,841
Project expenditures not yet in use	374	668
	101,014	99,630
Accumulated depreciation and amortization	81,878	74,775
Property and equipment, net	19,136	24,855
Total assets	\$ 198,773	\$ 312,398
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 20,603	\$ 17,852
Deferred revenue	13,318	23,995
Accrued liabilities	20,888	14,594
Income taxes payable	626	265
Deferred income taxes current, net		77
Capital lease obligations current	819	999
Liabilities of discontinued operations current		89,005
Total current liabilities	56,254	146,787
Deferred income taxes non-current, net	4,043	3,894
Capital lease obligations non-current	499	907
Other non-current liabilities	6,133	11,972
Liabilities of discontinued operations non-current		734
Commitments and contingencies (see Note 10)		

Edgar Filing: AGILYSYS INC - Form 10-Q

Shareholders' equity		
Common shares, without par value, at \$0.30 stated value; 80,000,000 shares authorized; 31,606,831 shares issued; and 21,972,661 and 23,022,398 shares outstanding at December 31, 2011 and March 31, 2011, respectively		
	9,482	9,482
Treasury shares (9,634,170 at December 31, 2011 and 8,584,433 at March 31, 2011)	(2,892)	(2,575)
Capital in excess of stated value	(15,378)	(5,421)
Retained earnings	140,854	146,659
Accumulated other comprehensive loss	(222)	(41)
Total shareholders' equity	131,844	148,104
Total liabilities and shareholders' equity	\$ 198,773	\$ 312,398

See accompanying notes to condensed consolidated financial statements.

Table of Contents

AGILYSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended December 31	
(In thousands)	2011	2010
Operating activities		
Net loss	\$ (5,805)	\$ (10,468)
Less: Loss from discontinued operations, net of taxes	(10,403)	(5,030)
Loss from continuing operations	(16,208)	(15,498)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Restructuring charges	7,954	406
Payments for restructuring charges	(3,916)	
Gain on the redemption of Company-owned life insurance policies		(2,065)
Gain on the redemption of investment in The Reserve Fund's Primary Fund		(147)
Asset impairment charges		59
Loss on the sale of securities	163	
Depreciation	5,813	2,508
Amortization	4,757	5,554
Deferred income taxes	54	4,462
Stock based compensation	2,350	2,075
Change in cash surrender value of Company-owned life insurance policies	(83)	247
Changes in operating assets and liabilities:		
Accounts receivable	1,746	(18,670)
Inventories	(773)	(766)
Accounts payable	2,771	6,200
Deferred revenue	(10,677)	2,520
Accrued and other liabilities	(4,846)	(3,260)
Income taxes payable	1,635	31
Other changes, net	(509)	90
Total adjustments	6,439	(756)
Net cash used for operating activities	(9,769)	(16,254)
Investing activities		
Proceeds from the sale of business	59,470	
Proceeds from The Reserve Fund's Primary Fund		147
Proceeds from redemption of/borrowings against Company-owned life insurance policies	347	4,349
Investments in Company-owned life insurance policies	(112)	(1,015)
Proceeds from the sale of marketable securities	5,025	14
Investments in marketable securities	(40,039)	(2,101)
Capital expenditures	(3,089)	(4,728)
Net cash provided by (used for) investing activities	21,602	(3,334)
Financing activities		
Proceeds from borrowings under credit facility		15,325
Principal payments under credit facility		(15,325)
Purchase of treasury stock	(12,127)	

Edgar Filing: AGILYSYS INC - Form 10-Q

Repurchases of shares to satisfy employee tax withholding	(1,118)	
Principal payments under long-term obligations	(823)	(260)
Net cash used for financing activities	(14,068)	(260)
Effect of exchange rate changes on cash	(135)	218
Cash flows used for continuing operations	(2,370)	(19,630)
Cash flows of discontinued operations:		
Operating cash flows, net	(24,128)	(594)
Investing cash flows, net		(869)
Financing cash flows, net		
Net decrease in cash	(26,498)	(21,093)
Cash at beginning of the period	70,559	62,801
Cash at end of the period	\$ 44,061	\$ 41,708

See accompanying notes to condensed consolidated financial statements.

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, Inc. and its subsidiaries (the Company) are leading developers and marketers of proprietary enterprise software, services, and solutions to the hospitality and retail industries. The Company specializes 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. The Company operates extensively in North America with additional sales and support offices in the United Kingdom and in Asia.

Until August 1, 2011, the Company operated in three reportable business segments: Hospitality Solutions Group (HSG), Retail Solutions Group (RSG), and Technology Solutions Group (TSG). On August 1, 2011, the Company completed the sale of TSG. The assets and liabilities, as well as the results of operations and cash flows, of TSG are classified as discontinued operations within the Company's Condensed Consolidated Financial Statements for the periods presented. See Note 3 to Condensed Consolidated Financial Statements for a discussion regarding the disposal of TSG. Additional information regarding the Company's continuing reportable business segments are described in Note 12 to Condensed Consolidated Financial Statements.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the Company's accounts consolidated with its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company's 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.

The unaudited interim financial statements of the Company 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, 2011, as well as the Condensed Consolidated Statements of Operations for the three- and nine-month periods ended December 31, 2011 and 2010, and the Condensed Consolidated Statements of Cash Flows for the nine-month periods ended December 31, 2011 and 2010, have been prepared by the Company 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. Except as discussed below, such adjustments were of a normal recurring nature. Further, the Company has evaluated all significant events occurring subsequent to the date of the Condensed Consolidated Financial Statements and through the filing of this Quarterly Report. Subsequent events are described in Note 14 to Condensed Consolidated Financial Statements.

These unaudited interim financial statements of the Company should be read together with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended March 31, 2011, filed with the Securities and Exchange Commission (SEC) on June 14, 2011.

Table of Contents

The results of operations for the three and nine months ended December 31, 2011 are not necessarily indicative of the operating results for the full fiscal year or any future period.

Use of Estimates

The Company makes certain estimates and assumptions when preparing financial statements according to GAAP that affect the reported amounts of assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the periods presented. These estimates and assumptions involve judgments with respect to many factors that are difficult to predict and are beyond the Company's control. Actual results could be materially different from these estimates. The Company revises the estimates and assumptions as new information becomes available.

Reclassifications

Certain fiscal 2011 product and service revenues and costs of sales were reclassified (with no impact on total gross margin) in order to conform to current period reporting presentations.

Revision of Prior Period Financial Statements

In connection with the preparation of our Condensed Consolidated Financial Statements for the third quarter of 2012, we identified errors in the manner in which we recognized revenue for certain software license and professional service arrangements in prior periods. The Company re-assessed its 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 is also not material to the estimated 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 will revise our previously issued fiscal year 2012 financial statements to correct the effect of these errors 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 Year 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 the Company's Condensed Consolidated Statements of Operations for all periods affected:

	Quarter Ended June 30, 2011			Quarter Ended September 30, 2011		
	As			As		
	Previously Reported	Adjustment	As Revised	Previously Reported	Adjustment	As Revised
(In thousands except per share amounts)						
Net sales	\$ 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)

Table of Contents

The following table presents the effect this revision had on the Condensed Consolidated Balance Sheet at June 30, 2011 and September 31, 2011:

(In thousands)	As of June 30, 2011			As of September 30, 2011		
	As		As	As		As
	Previously Reported	Adjustment		Previously Reported	Adjustment	
Current assets	\$ 117,239	\$ (1,099)	\$ 116,140	\$ 153,052	\$ (1,537)	\$ 151,515
Current liabilities	64,855	340	65,195	58,713	218	58,931
Shareholder's equity	145,079	(1,439)	143,640	145,244	(1,756)	143,488

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

Correction of Error

During the first quarter of fiscal 2011, the Company recorded an adjustment to increase income tax expense by \$3.8 million. The adjustment increased the Company's valuation allowance against its U.S. deferred tax assets and represents a correction of an error. In fiscal 2009, the Company erroneously considered the tax effect of indefinite-lived intangible assets as a source of future taxable income, when it established a significant U.S. valuation allowance against its U.S. deferred tax assets. Income (loss) before income taxes did not change. Net loss increased by \$3.8 million, or \$0.17 per share, due to this adjustment. Management performed an evaluation under SEC Staff Accounting Bulletin (SAB) No. 108 and concluded the effect of this adjustment was immaterial to prior years' financial statements as well as the projected full-year fiscal 2011 financial statements.

Credit Facility

Until July 29, 2011, the Company maintained a \$50.0 million Loan and Security Agreement among the Company, and certain of its subsidiaries, and Bank of America, N.A., as lender, dated May 5, 2009 (Credit Facility). Additional information with respect to the Credit Facility is contained in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011. The Company terminated the Credit Facility on July 29, 2011 in conjunction with the sale of TSG. As a result of the proceeds the Company received from the sale of TSG, the Company determined that it no longer required the liquidity provided by the Credit Facility. As a result of the termination of the Credit Facility, the Company expensed approximately \$0.4 million in unamortized deferred financing fees that related to the Credit Facility during the second quarter of fiscal 2012.

2. Summary of Significant Accounting Policies

A detailed description of the Company's significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2011, included in the Company's Annual Report on Form 10-K. Except as described below, there have been no material changes in the Company's significant accounting policies and estimates from those disclosed therein.

Table of Contents*Change in Accounting Estimate*

The Company previously announced that, after completion of the TSG sale, it would relocate its corporate services from Solon, Ohio to Alpharetta, Georgia to better align those services with the Company's operating units and reduce costs. This relocation is expected to be completed by March 31, 2012. Therefore, the Company changed the useful life of the leasehold improvements and depreciable property and equipment related to the Solon, Ohio facility such that these assets will be fully depreciated by March 31, 2012. As a result, the Company recorded accelerated depreciation expense of \$1.3 million and \$2.7 million classified within Selling, general, and administrative expenses in the Company's Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2011, respectively. This change also impacted the basic and diluted loss per share for each of the three and nine months ended December 31, 2011 by \$0.06 and \$0.12 per share, respectively.

Recently Adopted Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding fair value measurements. This guidance requires additional disclosure within the rollforward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances, and settlements of assets and liabilities within Level 3 of the fair value hierarchy (see Note 12 to Condensed Consolidated Financial Statements for definitions of the fair value hierarchy levels). In addition, this guidance requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosure of purchases, sales, issuances, and settlements of Level 3 measurements, which are effective for fiscal years beginning after December 15, 2010. On April 1, 2010, the Company adopted the required provisions of this guidance (see Note 12 to Condensed Consolidated Financial Statements). On April 1, 2011, the Company adopted the remaining provisions of this authoritative guidance, as required (also see Note 12 to Condensed Consolidated Financial Statements). The adoption of this guidance did not have an impact on the Company's financial position, results of operations, or cash flows.

In October 2009, the FASB issued authoritative guidance on revenue arrangements with multiple deliverable elements (e.g., hardware with services), which was effective for the Company on April 1, 2011 for new revenue arrangements or material modifications to existing arrangements. The guidance amends the criteria for separating consideration in arrangements with multiple deliverable elements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable based on: 1) vendor-specific objective evidence; 2) third-party evidence; or 3) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands the required disclosures related to revenue arrangements with multiple deliverable elements. Entities may elect to adopt the guidance through either prospective application for revenue arrangements entered into, or materially modified, after the effective date, or through retrospective application to all revenue arrangements for all periods presented. The Company adopted the provisions of this guidance on April 1, 2011, as required. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations, cash flows, or related disclosures.

In October 2009, the FASB issued authoritative guidance on revenue arrangements that include software elements, which was effective for the Company on April 1, 2011. The guidance changes revenue recognition for tangible products containing software elements and non-software elements as follows: 1) the tangible product element is always excluded from the software revenue recognition guidance even when sold together with the software element; 2) the software element of the tangible product element is also excluded from the software revenue guidance when the software and non-software elements function together to deliver the product's essential functionality; and 3) undelivered elements in a revenue arrangement related to the non-software element are also excluded from the software revenue recognition guidance. Entities must select the same transition method and same period for the adoption of both this guidance and the guidance on revenue

Table of Contents

arrangements with multiple deliverable elements. The Company adopted the provisions of this guidance on April 1, 2011, as required. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations, cash flows, or related disclosures.

Recently Issued Accounting Standards

In September 2011, the FASB issued authoritative guidance on goodwill impairment that gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test and reduce costs. This authoritative guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If a company concludes that this is the case, it must perform the two-step test. Otherwise, a company can skip the two-step test, which would reduce the cost and complexity of testing goodwill for impairment. The provisions of this authoritative guidance are effective for the Company beginning on April 1, 2012. The Company is currently evaluating the provisions of this guidance, but does not expect this guidance to have a significant impact on the Company's financial position, results of operations, cash flows, or related disclosures.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income in an entity's financial statements, which is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This authoritative guidance supersedes the presentation options currently available under GAAP and facilitates convergence of GAAP and International Financial Reporting Standards (IFRS) by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requiring that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of this authoritative guidance are to be applied retrospectively and are effective for the Company beginning on April 1, 2012. The Company is currently evaluating the provisions of this guidance, but does not expect this guidance to have a significant impact on the Company's financial position, results of operations, cash flows, or related disclosures.

In May 2011, the FASB issued amendments to its authoritative guidance on fair value measurements and disclosures, which represents the converged guidance of the FASB and the International Accounting Standards Board (collectively, the Boards) on fair value measurements. The collective efforts of the Boards and their staffs, reflected in this authoritative guidance, resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this authoritative guidance are required to be applied prospectively, and are effective for the Company beginning April 1, 2012. The Company is currently evaluating the provisions of this guidance, but does not expect this guidance to have a significant impact on the Company's financial position, results of operations, cash flows, or related disclosures.

Management continually evaluates the potential impact, if any, on its financial position, results of operations, and cash flows, of all recent accounting pronouncements and, if significant, makes the appropriate disclosures required by such new accounting pronouncements.

3. Discontinued Operations

On May 28, 2011, the Company entered into a definitive agreement to sell its TSG business for an aggregate purchase price of \$64.0 million in cash, subject to a possible downward adjustment based on final working capital, 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, the Company entered into a transition services agreement (TSA) with OnX, under which the Company provided certain transitional administrative and supportive services to OnX through January 31, 2012. On July 28, 2011, the

Table of Contents

Company's 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, along with the gain on sale, have been reported as a component of discontinued operations in the Company's Condensed Consolidated Statements of Operations for the periods presented. In addition, the assets and liabilities of the TSG business are classified as discontinued operations in the Company's Condensed Consolidated Balance Sheets as of March 31, 2011.

Upon the close of the transaction, the aggregate purchase price of \$64.0 million was reduced by the payment of agreed-upon fees of \$3.3 million for severance costs and \$1.2 million for third-party services in support of the transition, resulting in net proceeds received by the Company of \$59.5 million. During the third quarter of fiscal 2012, the Company entered into a settlement agreement with OnX for a working capital adjustment of \$1.2 million that was paid to OnX in January 2012.

Components of Results of Discontinued Operations

For the three and nine months ended December 31, 2011 and 2010 the income from discontinued operations was comprised of the following:

(In thousands)	Three months ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
Discontinued operations:				
Net sales	\$	\$ 158,325	\$ 123,807	\$ 376,907
Income (loss) from operations of TSG	\$	\$ 7,124	\$ (1,781)	\$ 8,963
(Loss) gain on sale of TSG	(1,200)		19,486	
	(1,200)	7,124	17,705	8,963
Income tax (benefit) expense	(465)	2,836	7,302	3,933
(Loss) income from discontinued operations	\$ (735)	\$ 4,288	\$ 10,403	\$ 5,030

4. Comprehensive (Loss) Income

Comprehensive loss is the total of net income (loss) as currently reported under GAAP plus other comprehensive income (loss). Other comprehensive income (loss) considers the effects of additional transactions and economic events that are not required to be recorded in determining net income, but rather are reported as a separate component of shareholders' equity. Changes in the components of accumulated other comprehensive loss are as follows:

(In thousands)	Three months ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
Net (loss) income	\$ (6,509)	\$ 1,998	\$ (5,805)	\$ (10,468)
Foreign currency translation adjustment		213	(27)	244
Unamortized gains (losses) on securities	101	1	(153)	61
Comprehensive (loss) income	\$ (6,408)	\$ 2,212	\$ (5,985)	\$ (10,163)

Table of Contents

5. Restructuring Charges

The Company recognizes restructuring charges when a plan that materially changes the scope of the Company's 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. Additional information regarding the Company's respective restructuring plans is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2011.

Fiscal 2012 Restructuring Plan

In the first quarter of fiscal 2012, the Company announced restructuring actions, including the relocation of its corporate services from Solon, Ohio to Alpharetta, Georgia, designed to better align those services with the Company's operating units and reduce costs following the sale of TSG. In addition, the Company also announced in the first quarter of fiscal 2012 that its former President and Chief Executive Officer was stepping down. These restructuring actions are expected to be mostly completed by March 31, 2012 and have impacted or will impact approximately 160 employees. The Company recorded \$8.0 million in restructuring charges during the first nine months of fiscal 2012, primarily comprised of severance and related benefits, with \$0.8 million, \$0.4 million, and \$6.8 million related to HSG, RSG and Corporate/Other, respectively. Included in the \$6.8 million restructuring charge for Corporate/Other is a \$2.1 million one-time lease termination fee for the Solon, Ohio facility. The Company expects to incur approximately \$8.0 million in additional restructuring charges for severance and related benefits, and facilities related to these restructuring actions during the remainder of fiscal 2012 and the first quarter of fiscal 2013. As a result of taking these restructuring actions, the Company expects to realize between approximately \$14.0 million and \$16.0 million in cost savings, of which approximately half has been recognized in the third quarter fiscal 2012 run rate. The remaining savings are expected to be primarily realized during fiscal 2013.

Fiscal 2009 Restructuring Plan

The Company recorded \$0.4 million in additional non-cash restructuring charges during the first nine months of fiscal 2011, primarily comprised of settlement costs incurred in the first quarter of fiscal 2011 related to the payment of an obligation to a former executive under the Company's Supplemental Executive Retirement Plan (SERP) and ongoing facility lease obligations. The additional restructuring charges recorded in fiscal 2011 related to the previously disclosed restructuring actions taken in fiscal 2009.

Since fiscal 2009, the Company has incurred charges totaling \$18.5 million related to restructuring actions taken in fiscal 2009 and previously disclosed, comprised of \$0.4 million, \$0.8 million, and \$17.3 million in fiscal years 2011, 2010, and 2009, respectively, which related to Corporate/Other. The Company expects to incur minimal additional net restructuring charges related to the fiscal 2009 restructuring actions for the remainder of fiscal 2012 and through fiscal 2014 for non-cash settlement charges related to the expected payment of a SERP obligation to a former executive and for ongoing facility obligations.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances of the Company's restructuring liabilities:

(In thousands)	Balance at March 31 2011	Provision	Payments	Balance at December 31, 2011
Fiscal 2012 Restructuring Plan:				
Severance and employment costs	\$ 289	\$ 5,896	\$ (1,699)	\$ 4,486
Facilities costs		2,123	(2,123)	
Fiscal 2009 Restructuring Plan:				
Severance and employment costs		(43)	43	
Facilities costs	444	(22)	(137)	285
Total restructuring costs	\$ 733	\$ 7,954	\$ (3,916)	\$ 4,771

These liabilities are recorded within Accrued liabilities and Other non-current liabilities in the accompanying Condensed Consolidated Balance Sheets. Of the remaining \$4.8 million liability at December 31, 2011, \$0.5 million of severance and other employment costs are expected to be paid during fiscal 2012, \$3.9 million is expected to be paid during fiscal 2013 and the remaining \$0.3 million is expected to be paid during fiscal 2014. Approximately \$0.1 million is expected to be paid during the remainder of fiscal 2012 for ongoing facility lease obligations. Facility lease obligations for the Company's former corporate headquarters in Boca Raton, Florida are expected to continue through fiscal 2014.

6. Stock Based Compensation

The Company has 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 (collectively, the 2000 Plans), that all have vested awards outstanding. The Company is no longer granting awards under the 2006 Plan and 2000 Plans.

On July 28, 2011, the Company's shareholders approved the 2011 Stock Incentive Plan (the 2011 Plan). Under the 2011 Plan, the Company may grant non-qualified stock options, incentive stock options, stock-settled stock appreciation rights (SSARs), restricted shares, and restricted share units for up to 3.0 million common shares. The maximum aggregate number of restricted shares or restricted share units that may be granted under the 2011 Plan is 1.0 million. 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, and 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.

For stock options and SSARs, the exercise price must be set at least equal to the closing market price of the Company's common shares on the date of grant. The maximum term of stock option and SSAR awards is seven years from the date of grant. Stock option and SSARs awards vest over a period established by the Compensation Committee of the Board of Directors. SSARs may be granted in conjunction with, or independently from, a stock option granted under the 2011 Plan. SSARs granted in connection with a stock option are exercisable only to the extent that the stock option to which it relates is exercisable and the SSARs terminate upon the termination or exercise of the related stock option.

Restricted shares and restricted share units, whether time-vested or performance-based, may be issued at no cost or at a purchase price that may be below their fair market value, but are subject to forfeiture and restrictions on their sale or other transfer. Performance-based awards may be conditioned upon the attainment of specified performance objectives and other conditions, restrictions, and contingencies. Restricted shares and restricted share units have the right to receive dividends, or dividend equivalents in the case of restricted share units, if any, subject to the same forfeiture provisions that apply to the underlying awards. Subject to certain exceptions set forth in the 2011 Plan, for awards to employees, no performance-based restricted shares or restricted share

Table of Contents

units shall be based on a restriction period of less than one year, and any time-based restricted shares or restricted share units shall have a minimum restriction period of three years.

The Company may distribute authorized but unissued shares or treasury shares to satisfy share option and SSARs exercises or restricted shares awarded.

Stock Options

The following table summarizes the activity for the nine months ended December 31, 2011 for stock options awarded by the Company under the 2006 Plan and prior plans:

	Number of Options	Weighted -Average Exercise Price (per share)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at April 1, 2011	1,666,501	\$ 11.43		
Exercised	(335,000)	3.13		
Cancelled/expired	(315,500)	14.89		
Outstanding and exercisable at December 31, 2011	1,016,001	\$ 13.09	4.3	\$ 768

The aggregate intrinsic value in the table above represents the total pre-tax difference between the \$7.95 closing price of the Company's common shares on December 31, 2011 over the exercise price of the stock option, multiplied by the number of stock options outstanding and exercisable. Under GAAP, the aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on changes in the fair market value of the Company's common shares.

The following table presents additional information related to stock option activity during the three and nine months ended December 31, 2011 and 2010:

(In thousands)	Three months ended December 31		Nine months ended December 31,	
	2011	2010	2011	2010
Compensation expense	\$	\$	\$	\$ 96
Total intrinsic value of stock options exercised	\$ 251	\$ 158	\$ 1,876	\$ 158
Total vest-date fair value of stock options vesting	\$	\$	\$	\$ 532

Compensation expense for stock options was recorded within Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations during the nine months ended December 31, 2010. The compensation expense recorded in the first nine months of fiscal 2011 included \$0.2 million for the accelerated vesting of stock option expense due to a change in control provision contained in the original award agreements that was triggered by MAK Capital and its affiliates reaching 20% ownership in the Company during the first quarter of fiscal 2011. As a result, the Company did not have any remaining unrecognized stock based compensation expense related to non-vested stock options as of June 30, 2010.

A total of 219,528 shares, net of 78,956 shares withheld to cover the applicable exercise price of the award and 36,516 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 2012. A total of 17,855 shares, net of 18,762 shares withheld to cover the applicable exercise price of the award and 8,382 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 2011. The shares withheld were returned to treasury shares.

Table of Contents

In fiscal 2012 and fiscal 2011 the Company was in a net operating loss position for U.S. federal income taxes. Therefore, the Company did not recognize and will not recognize an income tax benefit related to stock options exercised until that tax benefit can be realized.

Stock-Settled Stock Appreciation Rights

SSARs are rights granted to an employee to receive value equal to the difference in the price of the Company's common shares on the date of the grant and on the date of exercise. This value is settled in common shares of the Company.

The Company uses a Black-Scholes-Merton option pricing model to estimate the fair value of SSARs. The following table summarizes the principal assumptions utilized in valuing SSARs granted in the first nine months of fiscal 2012 and fiscal 2011:

	Nine months ended December 31	
	2011	2010
Dividend yield	0%	0%
Risk-free interest rate	2.09%	1.94%
Expected life (years)	4.5	4.5
Expected volatility	80.75%	81.92%

The dividend yield reflects the Company's historical dividend yield on the date of the award. On August 5, 2009, the Company's Board of Directors voted to eliminate the payment of cash dividends on the Company's common shares. For awards granted prior to August 5, 2009, the dividend yield reflects the Company's historical dividend yield on the date of award. Awards granted after August 5, 2009 were valued using a zero percent dividend yield, which is the yield expected during the life of the award. The risk-free interest rate is based on the yield of a zero coupon U.S. Treasury bond whose maturity period approximates the expected life of the SSARs. The Company utilizes the simplified method as described by the SEC in SAB No. 110 to calculate the expected life of the SSARs. Under SAB No. 110, the expected life is based on the midpoint between the vesting date and the end of the contractual term of the SSARs award. The Company believes that SSARs awarded in the first nine months of fiscal 2012 and fiscal 2011 meet the criteria established by the SEC for the use of the simplified method. The expected stock price volatility is based on the volatility of the Company's common shares for the most recent historical period equal to the expected life of the SSARs. The Company's ownership base has been and may continue to be concentrated in a few shareholders, which has increased and could continue to increase the volatility of the Company's common share price over time. The estimated fair value of the SSARs granted, less expected forfeitures, is recognized over the vesting period of the awards utilizing the graded vesting method. Under this method, the compensation cost related to unvested amounts begins to be recognized as of the grant date.

Table of Contents

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

	Number of Rights	Weighted -Average Exercise Price (per right)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at April 1, 2011	1,317,684	\$ 6.50		
Granted	321,746	7.56		
Exercised	(712,317)	6.42		
Forfeited	(70,695)	7.80		
Cancelled/expired	(83,733)	6.44		
Outstanding at December 31, 2011	772,685	\$ 6.90	6.0	\$ 855
Exercisable at December 31, 2011	507,634	\$ 6.54	4.1	\$ 743

The aggregate intrinsic value in the table above represents the total pre-tax difference between the \$7.95 closing price of the Company's common shares on December 31, 2011 over the exercise price of the SSARs, multiplied by the number of SSARs outstanding or outstanding and exercisable. Under GAAP, the aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on changes in the fair market value of the Company's common shares.

The following table presents additional information related to SSARs activity during the three and nine months ended December 31, 2011 and 2010:

	Three months ended December 31		Nine months ended December 31	
(in thousands)	2011	2010	2011	2010
Compensation expense	\$ 137	\$ 385	\$ 1,607	\$ 1,339
Total intrinsic value of SSARs exercised	\$ 482	\$	\$ 1,618	\$ 189
Total vest-date fair value of SSARs vesting	\$	\$	\$ 2,807	\$

Compensation expense for SSARs was recorded within Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations during the three and nine months ended December 31, 2011 and 2010. The compensation expense recorded in the first quarter of fiscal 2012 included \$1.4 million for the accelerated vesting of SSARs expense due to a change in control provision contained in the 2006 Plan that was triggered by the announcement of the sale of TSG on May 31, 2011. As of December 31, 2011, total unrecognized stock based compensation expense related to non-vested SSARs was \$0.8 million, which is expected to be recognized over a weighted-average vesting period of 2.3 years.

A total of 100,485 shares, net of 13,598 shares withheld to cover the exercise price on certain incentive stock options exercised and 70,980 shares withheld to cover the employee's minimum applicable income taxes, were issued from treasury shares to settle SSARs exercised during the first nine months of fiscal 2012. A total of 4,935 shares, net of 2,463 shares withheld to cover the employee's minimum applicable income taxes, were issued from treasury shares to settle SSARs exercised during the first nine months of fiscal 2011. The shares withheld were returned to treasury shares.

In fiscal 2012 and fiscal 2011 the Company was in a net operating loss position for U.S. federal income taxes. Therefore, the Company did not recognize and will not recognize an income tax benefit related to SSARs exercised until that tax benefit can be realized.

Table of Contents

Restricted Shares

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

	Number of shares	Weighted -Average Grant-Date Fair Value
Outstanding at April 1, 2011	35,000	\$ 8.18
Granted	173,286	\$ 7.57
Vested	(49,500)	\$ 7.57
Forfeited	(42,817)	\$ 7.87
Outstanding at December 31, 2011	115,969	\$ 7.65

The weighted-average grant date fair value of the restricted shares is determined based upon the closing price of the Company's common shares on the grant date. During the first nine months of fiscal 2012, a total of 10,734 shares were withheld from the vested restricted shares to cover the employee's minimum applicable income taxes. The shares withheld were returned to treasury shares.

The following table presents additional information related to restricted stock activity during the three and nine months ended December 31, 2011 and 2010:

(In thousands)	Three months ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Compensation expense	\$ 223	\$ 236	\$ 640	\$ 510
Total vest-date fair value of restricted stock vesting	\$ 86	\$	\$ 376	\$

Compensation expense related to restricted stock awards is recognized ratably over the restriction period based upon the closing market price of the Company's common shares on the grant date. Compensation expense for restricted stock was recorded within Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations during the three and nine months ended December 31, 2011 and 2010. The fiscal 2012 compensation expense included \$0.1 million for the accelerated vesting of restricted stock expense due to a change in control provision contained in the 2006 Plan that was triggered by the announcement of the sale of TSG on May 31, 2011. As of December 31, 2011, total unrecognized stock based compensation expense related to non-vested restricted stock was \$0.5 million, which is expected to be recognized over a weighted-average vesting period of 1.6 years. The Company will not include restricted stock in the calculation of earnings per share until the shares are vested.

Performance Shares

The Company granted shares to certain of its executives under the 2006 Plan, the vesting of which is contingent upon meeting various Company-wide performance goals as of March 31, 2010. The earned performance shares vest over three years. The weighted-average grant date fair value of the performance share grants was determined based on the closing market price of the Company's common shares on the grant date and assumed that performance goals would be met at target.

Table of Contents

The following table summarizes the activity during the nine months ended December 31, 2011 for performance shares awarded by the Company under the 2006 Plan:

	Number of shares	Weighted -Average Grant-Date Fair Value (per share)
Outstanding at April 1, 2011	49,438	\$ 6.83
Vested	(49,438)	6.83
Outstanding at December 31, 2011		\$

The weighted-average grant date fair value of the performance shares is determined based upon the closing price of the Company's common shares on the grant date. During the nine months of fiscal 2012, a total of 18,529 shares were withheld from the vested performance shares to cover the employee's minimum applicable income taxes. The shares withheld were returned to treasury shares.

The following table presents additional information related to performance share activity during the three and nine months ended December 31, 2011 and 2010:

	Three months ended December 31		Nine months ended December 31	
(In thousands)	2011	2010	2011	2010
Compensation expense	\$	\$ 16	\$ 103	\$ 130
Total vest-date fair value of performance shares vesting	\$	\$	\$ 337	\$ 539

Once attainment of the performance goals becomes probable, compensation expense related to performance share awards is recognized ratably over the vesting period based upon the closing market price of the Company's common shares on the grant date. The compensation expense for performance shares was recorded within Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations during the three and nine months ended December 31, 2011 and 2010. The fiscal 2012 compensation expense included \$0.2 million for the accelerated vesting of performance share expense due to a change in control provision contained in the 2006 Plan that was triggered by the announcement of the sale of TSG on May 31, 2011. As a result, subsequent to May 31, 2011, there was no remaining unrecognized stock based compensation expense related to non-vested performance shares.

7. Repurchases of Common Shares

On August 1, 2011, the Company announced that its Board of Directors provided authorization to repurchase up to 1.6 million of the Company's common shares. Under this authorization, the Company may purchase shares from time to time through open market purchases, including transactions pursuant to Rule 10b5-1 plans, or privately negotiated transactions. Unless renewed, the share repurchase program will expire on March 31, 2012.

During the first nine months of fiscal 2012, the Company repurchased 1,470,956 of its common shares for an aggregate of \$12.1 million, representing an average purchase price of \$8.24 per common share.

As of December 31, 2011, 129,044 common shares remained authorized for repurchase and 9.6 million common shares were held in treasury.

Table of Contents**8. Income Taxes**

The effective tax rates from continuing operations for the three and nine months ended December 31, 2011 and 2010 were as follows:

	Three months ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Effective income tax rate	19.0%	56.3%	27.7%	(3.4)%

Income tax expense is based on the Company's estimate of the effective tax rate expected to be applicable for the respective full year. For the third quarter and 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 and recognition of net operating losses as deferred tax assets, which were partially offset by increases in the valuation allowance. Other items effecting the rate in the current year quarter include foreign and state taxes and a discrete item related to a decrease in unrecognized tax benefits. For the third quarter and first nine months of fiscal 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 and recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. In addition, an increase in the valuation allowance was recorded due to the correction of an error, as more fully described in Note 1 to Condensed Consolidated Financial Statements. Other items effecting the rate include foreign and state taxes and a discrete item related to a net increase to unrecognized tax benefits.

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 \$0.5 million based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. The Company is routinely audited and is currently under examination by the Internal Revenue Service (IRS) for the tax year ended March 31, 2010. 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.

9. Earnings (Loss) Per Share

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

	Three months ended December 31		Nine months ended December 31	
(In thousands, except per share amounts)	2011	2010	2011	2010
Numerator:				
Loss from continuing operations - basic and diluted	\$ (5,774)	\$ (2,290)	\$ (16,208)	\$ (15,498)
(Loss) income for discontinued operations - basic and diluted	(735)	4,288	10,403	5,030
Net (loss) income - basic and diluted	\$ (6,509)	\$ 1,998	\$ (5,805)	\$ (10,468)
Denominator:				
Weighted average shares outstanding - basic	22,148	22,753	22,650	22,751
Effect of dilutive securities:				
Share-based compensation awards				
Weighted average shares outstanding - diluted	22,148	22,753	22,650	22,751
(Loss) income per share - basic and diluted:				
Loss from continuing operations	\$ (0.26)	\$ (0.10)	\$ (0.72)	\$ (0.68)
(Loss) income from discontinued operations	(0.03)	0.19	0.46	0.22
Net (loss) income	\$ (0.29)	\$ 0.09	\$ (0.26)	\$ (0.46)

Edgar Filing: AGILYSYS INC - Form 10-Q

Basic earnings (loss) per share is computed as net income (loss) available to common shareholders divided by the weighted average basic shares outstanding. The outstanding shares used to calculate the weighted average basic shares excludes 115,969 of restricted shares at December 31, 2011 and 246,391 of restricted shares and

Table of Contents

performance shares (including reinvested dividends) at December 31, 2010, 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. 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 to the loss per share. 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 an entity has net income after adjusting for a discontinued operation. Therefore, for each of the three and nine months ended December 31, 2011 and 2010, basic weighted-average shares outstanding were used in calculating the diluted net loss per share.

For each of the three and nine months ended December 31, 2011, stock options and SSARs on 2.0 million common shares were not included in computing diluted earnings per share because their effects were anti-dilutive. For each of the three and nine months ended December 31, 2010, stock options and SSARs on 2.8 million common shares were not included in computing diluted earnings per share because their effects were anti-dilutive.

10. Commitments and Contingencies

The Company is the subject of various threatened or pending legal actions and contingencies in the normal course of conducting its business. The Company provides for costs related to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of certain of these matters on the Company's 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 the consolidated financial position, results of operations, or cash flows of the Company.

As of December 31, 2011, the Company has reached its minimum purchase commitments from a vendor of \$20.0 million per year through fiscal 2012. The total commitment to this vendor was \$330.0 million as disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2011. The majority of this obligation was assumed by OnX upon the completion of the TSG divestiture.

In September 2011, the Company entered into a 74-month lease for a new corporate facility located in Alpharetta, Georgia. The lease term commenced in January 2012 upon the completion of certain agreed-upon improvements. In October 2011, the Company entered into an agreement to terminate the lease on its previous corporate facility located in Solon, Ohio effective March 31, 2012 in consideration of a one-time termination payment of \$2.0 million plus associated brokerage fees of approximately \$0.1 million.

Table of Contents**11. Additional Balance Sheet Information**

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

	December 31, 2011	March 31, 2011
Other current assets:		
Marketable securities restricted in Rabbi Trust	\$ 8,447	\$ 5,791
Other	77	553
Total	\$ 8,524	\$ 6,344
Other non-current assets:		
Corporate-owned life insurance policies	\$ 3,171	\$ 3,323
Marketable securities restricted in Rabbi Trust		7,950
Other	610	436
Total	\$ 3,781	\$ 11,709
Accrued liabilities:		
Salaries, wages, and related benefits	\$ 4,468	\$ 4,943
SERP obligations	3,212	5,675
BEP obligations	3,343	
Restructuring liabilities	4,075	475
Accrued income tax provision	2,460	
Other taxes payable	1,866	1,226
Other	1,464	2,275
Total	\$ 20,888	\$ 14,594
Other non-current liabilities:		
BEP obligations	\$	\$ 5,629
Other employee benefit obligations	184	305
Income taxes payable/Uncertain tax positions	2,834	4,337
Deferred rent	1,445	712
Restructuring liabilities	696	258
Other	974	731
Total	\$ 6,133	\$ 11,972

The marketable securities included in the table above within Other current assets and Other non-current assets are maintained in a Rabbi Trust to informally fund the Company's obligations with respect to employee benefit plan obligations under the SERP and Benefits Equalization Plan (BEP), which are included within Accrued liabilities and Other non-current liabilities.

The corporate-owned life insurance policies included in the table above within Other non-current assets represent split-dollar endorsement life insurance policies for which the related benefit obligation is included within Other non-current liabilities. The Company presents these contracts at their cash surrender value (which is considered fair value), net of policy loans. The Company adjusts the carrying value of these contracts to the cash surrender value at the end of each reporting period. Such periodic adjustments are included in Other expenses (income), net within the accompanying Condensed Consolidated Statements of Operations.

Additional information with respect to the Company's marketable securities, corporate-owned life insurance policies, and employee benefit plans obligations is provided in the Company's Annual Report on Form 10-K for the year ended March 31, 2011.

Edgar Filing: AGILYSYS INC - Form 10-Q

The accrued income tax provision in the table above reflects the tax effect on the gain on the sale of TSG, which was computed in accordance with the FASB's authoritative guidance on income tax accounting and recorded in the third quarter of fiscal 2012.

Table of Contents

12. Business Segments

Description of Business Segments

The Company 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, tax, and information technology 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 Company's TSG business, and the TSA with OnX, which is disclosed in Note 3, Corporate/Other costs have been adjusted for all prior periods presented to remove the portion of the functional support department costs that were transferred to OnX.

HSG is a leading technology provider of software, hardware and services to the hospitality industry, offering industry leading enterprise solutions for property management, point of sale, inventory and procurement, document management, and mobility-enabled guest engagement. HSG solutions allow customers in the gaming, hotel and resort, cruise line, foodservice management, higher education, and sports and entertainment markets to enhance guest services, increase revenue opportunities, and reduce operational expenses.

RSG is a leader in designing solutions that help make retailers more productive and provide their customers with an enhanced shopping experience. RSG solutions help improve operational efficiency, technology utilization, customer satisfaction, and in-store profitability, including mobility and wireless, customized pricing, inventory, and customer relationship management systems. The group also provides implementation plans and supplies the complete package of hardware needed to operate the systems, including servers, receipt printers, point-of-sale terminals, and wireless devices for in-store use by the retailer's store associates.

Measurement of Segment Operating Results and Segment Assets

The Company's President and Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), evaluates performance and allocates resources to its 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 found in the Company's Annual Report on Form 10-K for the year ended March 31, 2011. Intersegment sales are recorded at pre-determined amounts to allow for inter-company profit to be included in the operating results of the individual reportable segments. Such inter-company profit is eliminated for consolidated financial reporting purposes.

The CODM does not evaluate a measurement of segment assets when evaluating the performance of the Company's reportable segments. As such, financial information relating to segment assets is not provided in the table below.

The following table presents segment profit and related information for each of the Company's reportable segments and Corporate/Other. Please refer to Note 5 to Condensed Consolidated Financial Statements for further information on the fiscal 2012 and fiscal 2011 restructuring charges.

Table of Contents

	Reportable segments HSG	RSG	Corporate/ Other	Consolidated
<u>Three months ended December 31, 2011</u>				
Total sales	\$ 21,680	\$ 30,127	\$	\$ 51,807
Elimination of intersegment sales		(225)		(225)
Sales from external customers	\$ 21,680	\$ 29,902	\$	\$ 51,582
Gross margin	\$ 13,956	\$ 5,976	\$	\$ 19,932
Gross margin percentage	64.4%	20.0%		38.6%
Operating income (loss)	\$ 1,680	\$ 1,323	\$ (10,052)	\$ (7,049)
Other expenses, net			(22)	(22)
Interest expense, net			(56)	(56)
Income (loss) from continuing operations before income taxes	\$ 1,680	\$ 1,323	\$ (10,130)	\$ (7,127)
<u>Three months ended December 31, 2010</u>				
Total sales	\$ 24,666	\$ 34,458	\$	\$ 59,124
Elimination of intersegment sales	(3)	(124)		(127)
Sales from external customers	\$ 24,663	\$ 34,334	\$	\$ 58,997
Gross margin	\$ 13,346	\$ 5,795	\$	\$ 19,141
Gross margin percentage	54.1%	16.9%		32.4%
Operating income (loss)	\$ 1,955	\$ 1,042	\$ (8,260)	\$ (5,263)
Other income, net			321	321
Interest expense, net			(295)	(295)
Income (loss) from continuing operations before income taxes	\$ 1,955	\$ 1,042	\$ (8,234)	\$ (5,237)

Table of Contents

	Reportable segments HSG	RSG	Corporate/ Other	Consolidated
<i><u>Nine months ended December 31, 2011</u></i>				
Total sales	\$ 63,491	\$ 93,987	\$	\$ 157,478
Elimination of intersegment sales		(620)		(620)
Sales from external customers	\$ 63,491	\$ 93,367	\$	\$ 156,858
Gross margin	\$ 40,187	\$ 18,833	\$	\$ 59,020
Gross margin percentage	63.3%	20.2%		37.6%
Operating income (loss)	\$ 2,036	\$ 5,090	\$ (28,367)	\$ (21,241)
Other expenses, net			(293)	(293)
Interest expense, net			(883)	(883)
Income (loss) from continuing operations before income taxes	\$ 2,036	\$ 5,090	\$ (29,543)	\$ (22,417)
<i><u>Nine months ended December 31, 2010</u></i>				
Total sales	\$ 68,964	\$ 87,132	\$	\$ 156,096
Elimination of intersegment sales	(66)	(305)		(371)
Sales from external customers	\$ 68,898	\$ 86,827	\$	\$ 155,725
Gross margin	\$ 38,848	\$ 17,013	\$	\$ 55,861
Gross margin percentage	56.4%	19.6%		35.9%
Operating income (loss)	\$ 4,408	\$ 3,889	\$ (24,752)	\$ (16,455)
Other income, net			2,281	2,281
Interest expense, net			(819)	(819)
Income (loss) from continuing operations before income taxes	\$ 4,408	\$ 3,889	\$ (23,290)	\$ (14,993)

13. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value of financial assets and liabilities are measured on a recurring or non-recurring basis. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. In determining fair value of financial assets and liabilities, the Company uses various valuation techniques. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment. The availability of pricing inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction.

The Company estimates the fair value of financial instruments using available market information and generally accepted valuation methodologies. The Company assesses 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

Table of Contents

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 the Company's 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.

Additional information with respect to the Company's fair value measurements is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2011.

There were no transfers between Levels 1, 2, and 3 during the three- and nine-month periods ended December 31, 2011 and 2010.

The following tables present information about the Company's 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:

	Recorded value as of December 31, 2011	Active markets for identical assets or liabilities (Level 1)	Fair value measurement used Quoted prices in similar instruments and observable inputs (Level 2)	Active markets for unobservable inputs (Level 3)
Assets:				
Available for sale restricted marketable securities current	\$ 8,447	\$ 8,447	\$	\$
Available for sale unrestricted marketable securities current	\$ 39,994	\$ 39,994	\$	\$
Corporate-owned life insurance non-current	3,171			3,171
Liabilities:				
BEP current	\$ 3,343	\$	\$ 3,343	\$

	Recorded value as of March 31, 2011	Active markets for identical assets or liabilities (Level 1)	Fair value measurement used Quoted prices in similar instruments and observable inputs (Level 2)	Active markets for unobservable inputs (Level 3)
Assets:				
Available for sale restricted marketable securities current	\$ 5,791	\$ 5,791	\$	\$
Available for sale restricted marketable securities non-current	7,950	7,950		
Corporate-owned life insurance non-current	3,323			3,323
Liabilities:				
BEP non-current	\$ 5,629	\$	\$ 5,629	\$

The Company maintains an investment in available for sale marketable securities in which cost approximates fair value. The recorded value of the Company's 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. As of December 31, 2011, the Company has approximately \$0.1 million of unrealized losses related to this investment, which is recorded within Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets.

The recorded value of the Corporate-owned life insurance policies is adjusted to the cash surrender value of the policies which are not observable in the market, and therefore, are 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. Although corporate-owned life insurance policies are exempt from such disclosure requirements, management believes the disclosures are useful to financial statement users.

Edgar Filing: AGILYSYS INC - Form 10-Q

The recorded value of the BEP obligation is measured as employee deferral contributions and Company matching contributions less distributions made from the plan, and adjusted for the returns on the hypothetical

Table of Contents

investments selected by the participants, which are indirectly observable and therefore, classified within Level 2 of the fair value hierarchy.

The following table presents a summary of changes in the fair value of the Level 3 assets and liabilities related to the Company's continuing operations for the nine months ended December 31, 2011 and 2010:

	Nine months ended December 31	
	2011	2010
Corporate-owned life insurance:		
Balance on April 1	\$ 3,323	\$ 16,095
Realized gains		2,065
Unrealized gain (loss)	83	(247)
Purchases and settlements, net	(235)	(3,141)
Balance on December 31	\$ 3,171	\$ 14,772

Realized gains recorded during the first nine months of fiscal 2012 represent the amounts recognized for the increase in the cash surrender value of Corporate-owned life insurance policies and are recorded within Other expenses (income), net in the accompanying Condensed Consolidated Statements of Operations. Realized gains recorded during the first nine months of fiscal 2011 represent the amounts recognized on the redemption of certain Corporate-owned life insurance policies, net of amounts recognized for the decrease in the cash surrender value of these policies, and are recorded within Other expenses (income), net in the accompanying Condensed Consolidated Statements of Operations.

The following tables present information about the Company's 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:

	00000	00000	00000	00000
	Fair value measurement used			
	Recorded value as of December 31, 2011	Active markets for identical assets or liabilities (Level 1)	Quoted prices in similar instruments and observable inputs (Level 2)	Active markets for unobservable inputs (Level 3)
Assets:				
Goodwill	\$ 15,084	\$	\$	\$ 15,084
Intangible assets	21,611			21,611
Liabilities:				
SERP obligations current	\$ 3,212	\$	\$	\$ 3,212
Other employee benefit plans obligations current	116			116
BEP current	3,343			3,343
Restructuring liabilities current	4,075			4,075
Restructuring liabilities non-current	696			696
Other employee benefit plans obligations non-current	184			184
	Recorded value as of March 31, 2011	Active markets for identical assets or liabilities (Level 1)	Quoted prices in similar instruments and observable inputs (Level 2)	Active markets for unobservable inputs (Level 3)
Assets:				
Goodwill	\$ 15,211	\$	\$	\$ 15,211
Intangible assets	22,535			22,535
Liabilities:				

Edgar Filing: AGILYSYS INC - Form 10-Q

SERP obligations	current	\$	5,675	\$		\$	5,675
Other employee benefit plans obligations	current		116				116
Restructuring liabilities	current		475				475
Restructuring liabilities	non-current		258				258
Other employee benefit plans obligations	non-current		305				305

Goodwill of the Company's reporting units is measured for impairment on an annual basis, or in interim periods if indicators of potential impairment exist, using a combination of an income approach and a market approach.

Table of Contents

The Company's intangible assets are valued at their estimated fair value at time of acquisition. The Company evaluates the fair value of its finite-lived intangible assets when impairment indicators are present and its indefinite-lived intangible assets on an annual basis, or in interim periods if indicators of potential impairment exist. The same approach described above for the goodwill valuation is also used to value indefinite-lived intangible assets.

The recorded value of the Company's 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 Company's 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 for 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 a revision to either the timing or the amount of estimated cash flows over the future period are measured using the credit-adjusted, risk-free rate that was used to measure the restructuring liabilities initially.

The inputs used to value the Company's goodwill, intangible assets, SERP obligations, other employee benefit plans obligations, and restructuring liabilities are not observable in the market and therefore, these amounts are classified within Level 3 in the fair value hierarchy.

The following table presents a summary of changes in the fair value of the Level 3 assets and liabilities related to the Company's continuing operations for the nine months ended December 31, 2011 and 2010:

	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	\$ 5,675	\$ 421	\$ 733
Unrealized losses relating to instruments still held at the reporting date	(127)				
Purchases		1,373	92		7,954
Settlements			(2,555)	(121)	(3,916)
Amortization		(2,297)			
Balance at December 31, 2011	\$ 15,084	\$ 21,611	\$ 3,212	\$ 300	\$ 4,771

	Nine months ended December 31, 2010				
	Goodwill	Intangible assets	SERP obligations	Other employee benefit plans obligations	Restructuring liabilities
Balance at April 1, 2010	\$ 15,010	\$ 23,755	\$ 8,412	\$ 454	\$ 1,938
Realized losses		(59)	383		
Unrealized gains relating to instruments still held at the reporting date	82		(596)		
Purchases		2,015	890		403
Settlements			(2,504)	(35)	(1,240)
Amortization		(2,139)			
Balance at December 31, 2010	\$ 15,092	\$ 23,572	\$ 6,585	\$ 419	\$ 1,101

Realized losses on the Company's SERP obligation were primarily comprised of the actuarial losses recognized due to the settlement of a SERP obligation to a former executive and are recorded within Restructuring

Table of Contents

charges in the accompanying Condensed Consolidated Statements of Operations. Additional information regarding the Company's restructuring actions is included in Note 5 to Condensed Consolidated Financial Statements.

Unrealized gains related to goodwill represent fluctuations due to the movement of foreign currencies relative to the U.S. dollar. Cumulative currency translation adjustments are recorded within Accumulated other comprehensive loss in the accompanying Condensed Consolidated Balance Sheets. Unrealized losses related to the Company's SERP obligation represent the unamortized actuarial losses, net of taxes, and are recorded within Accumulated other comprehensive loss in the accompanying Condensed Consolidated Balance Sheets.

14. Subsequent Events

In January 2012, the Company made a payment of \$1.2 million to OnX for a working capital adjustment as part of the sale, which is described in Note 3 to Condensed Consolidated Financial Statements.

Subsequent to December 31, 2011 and through February 3, 2012, the Company made additional repurchases of 129,044 of its common shares for an aggregate of \$1.0 million, representing an average purchase price of \$8.10 per common share. This completes the repurchase of shares authorized under the current common share repurchase authorization, which is described in Note 7 to Condensed Consolidated Financial Statements.

Table of Contents

Item 2. Management's 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, Inc. and its subsidiaries (Agilysys or the Company) including:

what factors affect the Company's business;

what the Company's earnings and costs were;

why those earnings and costs were different from the year before;

where the earnings came from;

how the Company's 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 the Company's consolidated financial condition and results of operations. This Quarterly Report on Form 10-Q (Quarterly Report) updates information included in the Company's Annual Report on Form 10-K (Annual Report) for the fiscal year ended March 31, 2011, filed with the Securities and Exchange Commission (SEC). This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes that appear in Item 1 of this Quarterly Report as well as the Company's Annual Report for the year ended March 31, 2011. 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. Additional information concerning forward-looking statements is contained in Forward-Looking Information below and in Risk Factors included in Part I, Item 1A of the Company's Annual Report for the fiscal year ended March 31, 2011. Management believes that this information, discussion, and disclosure is important in making decisions about investing in the Company. Table amounts are in thousands.

Introduction

Agilysys is a leading developer and marketer of proprietary enterprise software, services, and solutions to the hospitality and retail industries. The Company develops technology solutions including hardware, software, and services to help customers resolve their most complicated hospitality and retail business systems needs. Agilysys' hospitality and retail business systems solutions include: property management systems, inventory and procurement solutions, point-of-sale solutions, and document management software. Proprietary services include expertise in mobility and wireless solutions for retailers, and resold hardware, software, and services. A significant portion of the point-of-sale related revenue is recurring from software support and hardware maintenance agreements. Agilysys' corporate facilities are located in Alpharetta, Georgia. Agilysys also operates extensively throughout North America, with additional sales and support offices in the United Kingdom and Asia. Agilysys has two reportable segments: Hospitality Solutions Group (HSG) and Retail Solutions Group (RSG). See Note 12 to Condensed Consolidated Financial Statements titled, *Business Segments*, which is included in Item 1, for additional information.

The primary objective of the Company's ongoing strategic planning process is to create shareholder value by exploiting growth opportunities and strengthening its competitive position within the specific technology solutions and in the end markets its services. The plan builds on the Company's existing strengths and targets industry leading growth and peer beating financial and operating results driven by new technology trends and market opportunities. The Company's strategic plan specifically focuses on:

Growing sales of its proprietary offerings, both software and services.

Diversifying its customer base across geographies and industries.

Capitalizing on the Company's intellectual property and emerging technology trends.

Optimizing the Company's facilities footprint and corporate expense while locating corporate services closer to the operating businesses.

Table of Contents

The Company's top priorities include improving operating performance and financial results, profitably growing the business, and returning capital to shareholders. To that end, the Company will use its cash, including the proceeds from the recent TSG sale, to fund working capital needs, make select investments in the businesses, and return excess cash to shareholders as prudently as possible. The Company intends to achieve its objectives through a tighter coupling and management of the operating expenses of the businesses 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 it competes.

Revenues - Defined

As required by the SEC, the Company separately presents revenues earned as either product revenues or services revenues in its Condensed Consolidated Statements of Operations. In addition to the SEC requirements, the Company may, at times, also refer to revenues as defined below. The terminology, definitions, and applications of terms the Company uses to describe its revenues may be different from those used by other companies and caution should be used when comparing these financial measures to those of other companies. The Company uses the following terms to describe revenues:

Revenues The Company presents revenues net of sales returns and allowances.

Product revenues The Company defines product revenues as revenues earned from the sales of hardware equipment and proprietary and remarketed software.

Services revenues The Company defines services revenues as revenues earned from the sales of proprietary and remarketed services and support.

General Company Overview

Total net sales rose \$1.1 million or 0.7% in the nine months ended December 31, 2011 compared with the nine months ended December 31, 2010. Gross margin as a percentage of sales increased 170 basis points to 37.6% for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011.

While the Company's revenues and gross margin have improved in the first nine months of fiscal 2012 compared with the same prior year period, market conditions still reflect uncertainty regarding the overall business environment and demand for technology products and services. The Company continues to believe that it is well-positioned to capitalize on future growth in technology-related spending across its customer base in the global hospitality and general and specialty retail markets, which will allow for the further leveraging of its business model and earnings growth.

Matters Affecting Comparability

On August 1, 2011, the Company completed the previously announced sale of its 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 and for the fiscal 2011 periods presented were classified within discontinued operations. Accordingly, the discussion and analysis presented below, including comparisons to prior year periods, reflects the continuing business of Agilysys.

Table of Contents**Results of Operations Third Fiscal 2012 Quarter Compared to Third Fiscal 2011 Quarter***Net Sales and Operating (Loss) Income*

The following table presents the Company's consolidated revenues and results from continuing operations for the three months ended December 31, 2011 and 2010:

(Dollars in thousands)	Three months ended December 31		Increase (decrease)	
	2011	2010	\$	%
Net Sales:				
Products	\$ 25,721	\$ 33,970	\$ (8,249)	(24.3)%
Services	25,861	25,027	834	3.3%
Total	51,582	58,997	(7,415)	(12.6)%
Cost of goods sold:				
Products	20,109	26,777	(6,668)	(24.9)%
Services	11,541	13,079	(1,538)	(11.8)%
Total	31,650	39,856	(8,206)	(20.6)%
Gross margin:				
Products	5,612	7,193	(1,581)	(22.0)%
Services	14,320	11,948	2,372	19.9%
Total	19,932	19,141	791	4.1%
Gross margin percentage:				
Products	21.8%	21.2%		
Services	55.4%	47.7%		
Total	38.6%	32.4%		
Operating expenses:				
Selling, general, and administrative expenses	23,743	24,401	(658)	(2.7)%
Restructuring charges	3,238	3	3,235	nm
Total	26,981	24,404	2,577	10.6%
Operating loss from continuing operations:				
Operating loss	\$ (7,049)	\$ (5,263)	\$ (1,786)	(33.9)%
Operating loss percentage	(13.7)%	(8.9)%		

nm - not meaningful

Table of Contents

The following table presents the Company's results from continuing operations by business segment for the three months ended December 31, 2011 and 2010:

(Dollars in thousands)	Three months ended December 31		Increase (decrease)	
	2011	2010	\$	%
Hospitality				
Total sales from external customers	\$ 21,680	\$ 24,663	\$ (2,983)	(12.1)%
Gross margin	\$ 13,956	\$ 13,346	\$ 610	4.6%
	64.4%	54.1%		
Operating income	\$ 1,680	\$ 1,955	\$ (275)	(14.1)%
Retail				
Total sales from external customers	\$ 29,902	\$ 34,334	\$ (4,432)	(12.9)%
Gross margin	\$ 5,976	\$ 5,795	\$ 181	3.1%
	20.0%	16.9%		
Operating income	\$ 1,323	\$ 1,042	\$ 281	27.0%
Corporate and Other				
Operating loss	\$ (10,052)	\$ (8,260)	\$ (1,792)	(21.7)%
Consolidated				
Total sales from external customers	\$ 51,582	\$ 58,997	\$ (7,415)	(12.6)%
Gross margin	\$ 19,932	\$ 19,141	\$ 791	4.1%
	38.6%	32.4%		
Operating loss	\$ (7,049)	\$ (5,263)	\$ (1,786)	(33.9)%

Net sales. Total sales decreased \$7.4 million or 12.6% for the three months ended December 31, 2011. Product sales decreased \$8.2 million while services sales increased \$0.8 million for the comparable periods.

HSG's sales decreased \$3.0 million in the third quarter of fiscal 2012 compared to the same prior year period. These decreases were seen throughout the Company's product and service lines due to the increased concentration in selling higher quality product offerings in fiscal 2012 as compared to prior year and lower volumes period over period. RSG's sales decreased \$4.4 million due mainly to a decrease in hardware sales, which was partially offset by an increase in service sales and in software sales. The prior year quarter for RSG included some hardware sales that did not repeat in the current quarter.

Gross margin. The Company's total gross margin increased \$0.8 million or 4.1% and total gross margin percentage increased 620 basis points for the three months ended December 31, 2011 compared to the same period in 2010. Products gross margin decreased \$1.6 million although the gross margin percentage increased 60 basis points and services gross margin increased \$2.4 million and the gross margin percentage increased 770 basis points for the comparable periods. RSG services sales comprised 36.1% of the sales in the current quarter, an increase of 7.8% over third quarter 2011.

From a business segment perspective, HSG's gross margins increased 1,030 basis points, primarily due to the mix in overall revenue shifting to higher margin services sales comprising 69.5% of overall revenue in the current quarter compared to 62.1% in the same period last year. Additionally, improved services gross margins were due to more efficient use of labor in our services projects. RSG's gross margins increased 310 basis points, primarily attributable to the change in mix of products and services sold during the current year period.

Table of Contents

Selling, general and administrative expenses. The Company's selling, general and administrative (SG&A) expenses decreased by \$0.7 million, or 2.7%, during the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011.

SG&A expenses increased \$0.9 million in HSG, decreased \$0.1 million in RSG and decreased \$1.4 million in Corporate/Other SG&A in the third quarter of the current year compared with the third quarter of the prior year. The increase in HSG's expenses was primarily driven by a shift in headcount focusing on support and maintenance to research and development activities. The decrease in Corporate/Other expenses was primarily due to lower outside service costs with significant spend in the prior period associated with the implementation of Oracle Enterprise Resource Planning (ERP) software that did not repeat in fiscal 2012 and the decrease in Solon, Ohio staff prior to the buildup of the new corporate support team in Alpharetta, Georgia. The decrease is partially offset by approximately \$1.3 million of additional depreciation expense related to the accelerated depreciation of property and equipment located at the Company's previous corporate office in Solon, Ohio. Due to relocating the corporate services, the Company changed its useful life estimate for the property and equipment located at its Alpharetta, Georgia location.

Restructuring charges. Under the fiscal 2012 restructuring plan, the Company recorded \$3.2 million in restructuring charges, primarily comprised of lease termination of \$2.1 million and severance and related benefits of \$1.0 million in Corporate/Other. The Company expects to incur approximately \$8.0 million in additional restructuring charges for severance and related benefits and facilities related to these restructuring actions during the remainder of fiscal 2012 and the first quarter of fiscal 2013. As a result of taking these restructuring actions, the Company expects to realize between approximately \$14.0 million and \$16.0 million in cost savings, of which approximately half has been recognized in the third quarter fiscal 2012 run rate. The remaining savings are expected to be primarily realized during fiscal 2013.

During the third quarter of fiscal 2011, the Company recorded insignificant additional restructuring charges primarily associated with ongoing lease obligations for the Company's former corporate headquarters in Boca Raton, Florida, which was part of the previously disclosed restructuring actions taken in fiscal 2009. Additional information regarding the Company's respective restructuring plans is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2011.

Other Expenses (Income)

(Dollars in thousands)	Three months ended December 31		(Unfavorable) favorable	
	2011	2010	\$	%
Other expenses (income):				
Other expenses (income), net	\$ 22	\$ (321)	\$ (343)	(106.9)%
Interest income	(4)	(21)	(17)	
Interest expense	60	316	256	81.0%
Total other expenses (income), net	\$ 78	\$ (26)	\$ (104)	(400.0)%

Other expenses (income), net. The \$22,000 of other expense in the third quarter of fiscal 2012 primarily consists of losses recognized as a result of movements in foreign currencies relative to the U.S. dollar.

The \$0.3 million of other income in the third quarter of fiscal 2011 primarily represents increases in the cash surrender value of BEP and SERP of \$0.2 million, gains recognized as a result of movements in foreign currencies relative to the U.S. dollar of \$0.1 million.

Interest income. Interest income decreased during the quarter ended December 31, 2011 compared to the same prior year quarter. In fiscal 2009, management changed to a more conservative investment strategy and continued to maintain this strategy through fiscal 2012.

Table of Contents

Interest expense. Interest expense consists of costs associated with the interest expense on borrowings against certain Company-owned life insurance policies and capital leases, and in prior year includes costs associated with the Company's Credit Facility and the amortization of deferred financing fee. Interest expense decreased \$0.3 million during the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011. The Company terminated its existing Credit Facility on July 29, 2011.

Income Taxes

	Three Months Ended December 31	
	2011	2010
Effective income tax rate	19.0%	56.3%

Income tax expense is based on the Company's estimate of the effective tax rate expected to be applicable for the respective full year. 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 and recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. Other items effecting the rate in the current year quarter include foreign and state taxes and a discrete item related to a decrease in unrecognized tax benefits. For the third quarter of fiscal 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 and recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. Other items effecting the rate include foreign and state taxes and a discrete item related to unrecognized tax benefits.

Table of Contents

Results of Operations First Nine Months of Fiscal 2012 Compared to First Nine Months of Fiscal 2011

Net Sales and Operating Income (Loss)

The following table presents the Company's consolidated revenues and operating results from continuing operations for the nine months ended December 31, 2011 and 2010:

(Dollars in thousands)	Nine months ended December 31		Increase (decrease)	
	2011	2010	\$	%
Net Sales:				
Products	\$ 80,371	\$ 81,653	\$ (1,282)	(1.6)%
Services	76,487	74,072	2,415	3.3%
Total	156,858	155,725	1,133	0.7%
Cost of goods sold:				
Products	63,536	63,326	210	0.3%
Services	34,302	36,538	(2,236)	(6.1)%
Total	97,838	99,864	(2,026)	(2.0)%
Gross margin:				
Products	16,835	18,327	(1,492)	(8.1)%
Services	42,185	37,534	4,651	12.4%
Total	59,020	55,861	3,159	5.7%
Gross margin percentage:				
Products	20.9%	22.4%		
Services	55.2%	50.7%		
Total	37.6%	35.9%		
Operating expenses:				
Selling, general, and administrative expenses	72,307	71,851	456	0.6%
Asset impairment charges		59	(59)	nm
Restructuring charges	7,954	406	7,548	nm
Total	80,261	72,316	7,945	11.0%
Operating loss from continuing operations:				
Operating loss	\$ (21,241)	\$ (16,455)	\$ (4,786)	(29.1)%
Operating loss percentage	(13.5)%	(10.6)%		
nm - not meaningful				

Table of Contents

The following table presents the Company's operating results from continuing operations by business segment for the nine months ended December 31, 2011 and 2010:

(Dollars in thousands)	Nine months ended December 31		(Decrease) increase	
	2011	2010	\$	%
Hospitality				
Total sales from external customers	\$ 63,491	\$ 68,898	\$ (5,407)	(7.8)%
Gross margin	\$ 40,187	\$ 38,848	\$ 1,339	3.4%
	63.3%	56.4%		
Operating income	\$ 2,036	\$ 4,408	\$ (2,372)	(53.8)%
Retail				
Total sales from external customers	\$ 93,367	\$ 86,827	\$ 6,540	7.5%
Gross margin	\$ 18,833	\$ 17,013	\$ 1,820	10.7%
	20.2%	19.6%		
Operating income	\$ 5,090	\$ 3,889	\$ 1,201	30.9%
Corporate and Other				
Operating loss	\$ (28,367)	\$ (24,752)	\$ (3,615)	(14.6)%
Consolidated				
Total sales from external customers	\$ 156,858	\$ 155,725	\$ 1,133	0.7%
Gross margin	\$ 59,020	\$ 55,861	\$ 3,159	5.7%
	37.6%	35.9%		
Operating loss	\$ (21,241)	\$ (16,455)	\$ (4,786)	(29.1)%

Net sales. Total sales increased \$1.1 million or 0.7% for the nine months ended December 31, 2011. Product sales decreased \$1.3 million while services sales increased \$2.4 million for the comparable periods.

HSG's sales decreased \$5.4 million in the first nine months of fiscal 2012 compared to the same prior year period primarily due a decrease in product sales of \$6.2 million, partially offset by an increase in services sales of \$0.8 million. In the prior year period, HSG recognized a large hardware sale that did not repeat in the current year period. In addition, the revisions to our prior period financial statements as discussed in Note 2 to the Condensed Consolidated Financial Statements, which is included in Item 1 of this Quarterly Report on Form 10-Q, resulted in a reduction in the HSG revenues of approximately \$1.8 million.

RSG sales increased \$6.5 million due to increases in both product and services offerings of \$4.9 million and \$1.6 million, respectively. The increases in RSG's revenues in the first nine months of the current year compared to the first nine months of the prior year were attributable to higher volumes and improving pricing on hardware in the first nine months of the current year compared to the prior year. This increase was partially offset by the impact of the revisions to our prior period financial statements of approximately \$0.4 million.

Gross margin. The Company's total gross margin increased \$3.2 million or 5.7% and total gross margin percentage increased 170 basis points for the nine months ended December 31, 2011. This overall improvement is primarily the result of the shift to more profitable services from product sales. Products gross margin decreased \$1.5 million and the gross margin percentage decreased 150 basis points while services gross margin increased \$4.7 million and the gross margin percentage increased 450 basis points for the comparable period.

HSG's gross margins increased 690 basis points, which was primarily attributable to product mix and more efficient use of labor in our services projects. RSG's gross margin percentage for the nine months ended

Table of Contents

December 31, 2011 increased slightly by 60 basis points compared to the same prior year period.

Selling, general and administrative expenses. The Company's selling, general and administrative (SG&A) expenses increased \$0.5 million, or 0.6%, during the first nine months of fiscal 2012 compared with the first nine of fiscal 2011.

SG&A expenses increased \$3.0 million and \$0.2 million in HSG and RSG, respectively while Corporate/Other SG&A expenses decreased \$2.7 million in the first nine months of the current year compared to the first nine months of the prior year. The increase in HSG's SG&A expense was primarily driven by the shift in focus of existing headcount to work on research and development projects from support and maintenance initiatives and the acceleration of stock compensation expense as a result of the announcement of the TSG sale. The increase in RSG's SG&A costs were driven by increased incentive costs as well as the accelerated stock compensation expense. The decrease in Corporate/Other SG&A expense was primarily due to higher outside service costs incurred in the first nine months of fiscal 2011 associated with the implementation of the Oracle ERP software for its North American operations that did not occur in fiscal 2012. This benefit was offset by the additional depreciation and amortization expense of \$2.7 million recorded during the current period for the accelerated depreciation of property and equipment located at the Company's previous corporate offices in Solon, Ohio.

Asset impairment charges. The Company tests its goodwill and long-lived assets for impairment upon identification of impairment indicators, or at least annually. The asset impairment charges recorded during the first nine months of fiscal 2011 related to certain capitalized intangible software assets that management determined were no longer being sold by the business.

Restructuring charges. Under the fiscal 2012 restructuring plan, the Company recorded a total of \$8.0 million in restructuring charges during the first nine months of fiscal 2012, primarily comprised of severance and related benefits, with \$0.8 million, \$0.4 million, and \$6.8 million related to HSG and RSG, and Corporate/Other, respectively. Included in the \$6.8 million restructuring charge for Corporate/Other is a \$2.1 million one-time lease termination fee for the Solon, Ohio facility. The Company expects to incur approximately \$8.0 million in additional restructuring charges for severance and related benefits, relocation, and facilities related to these restructuring actions during the remainder of fiscal 2012 and the first quarter of fiscal 2013. As a result of taking these restructuring actions, the Company expects to realize between approximately \$14.0 million and \$16.0 million in cost savings, of which approximately half has been recognized in the third quarter fiscal 2012 run rate. The remaining savings are expected to be primarily realized during fiscal 2013.

The Company recorded a total of \$0.4 million in additional restructuring charges during the first nine months of fiscal 2011, primarily comprised of non-cash settlement costs related to the payment of an obligation to a former executive under the Company's SERP and other ongoing lease obligations. The additional restructuring charges recorded in fiscal 2011 related to the previously disclosed restructuring actions taken in fiscal 2009. Additional information regarding the Company's respective restructuring plans is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2011.

Other Expenses (Income)

(Dollars in thousands)	Nine months ended		(Unfavorable) favorable	
	December 31 2011	2010	\$	%
Other expenses (income):				
Other expenses (income), net	\$ 294	\$ (2,281)	\$ (2,575)	(112.9)%
Interest income	(54)	(61)	(7)	(11.5)%
Interest expense	937	880	(57)	(6.5)%
Total other expenses (income), net	\$ 1,177	\$ (1,462)	\$ (2,639)	(180.5)%

Other expenses (income), net. The \$0.3 million of other expense in the first nine months of fiscal 2012 primarily consists of losses recognized as a result of movements in foreign currencies relative to the U.S. dollar.

Table of Contents

The \$2.3 million of other income in the first nine months of fiscal 2011 primarily represents a gain of \$2.1 million recorded on the \$2.2 million in proceeds received as a death benefit from certain Company-owned life insurance policies, gains recognized as a result of the movement of foreign currencies relative to the U.S. dollar of \$0.3 million, and a gain of \$0.1 million recorded for the proceeds received as a distribution of The Reserve Fund investment. These proceeds were partially offset by decreases in the cash surrender value of Company-owned life insurance policies, BEP and SERP of \$0.2 million.

Interest income. Interest income decreased slightly during the nine months ended December 31, 2011 compared to the same prior year period. In fiscal 2009, management changed to a more conservative investment strategy and maintained this strategy through fiscal 2012.

Interest expense. Interest expense consists of costs associated with the Company's Credit Facility, the amortization of deferred financing fees, interest expense on borrowings against certain Company-owned life insurance policies, and capital leases. Interest expense increased \$57,000 during the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011. The Company terminated its Credit Facility on July 29, 2011 and immediately expensed approximately \$0.4 million in unamortized deferred financing fees related to the former Credit Facility.

Income Taxes

	Nine months ended December 31	
	2011	2010
Effective income tax rate	27.7%	(3.4)%

Income tax expense is based on the Company's estimate of the effective tax rate expected to be applicable for the respective full year. 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 and recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. For the first nine months of fiscal 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 and recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance. In addition, an increase in the valuation allowance was recorded due to the correction of an error, as more fully described in Note 1 to the Condensed Consolidated Financial Statements.

Discontinued Operations

On May 28, 2011, the Company entered into a definitive agreement to sell its TSG business for an aggregate purchase price of \$64.0 million in cash, subject to a possible downward adjustment based on final working capital, to OnX. On July 28, 2011, the Company's shareholders approved this sale and the transaction closed on August 1, 2011, the date on which certain other contingencies specified in the agreement were satisfied. Upon the close of the transaction, the aggregate purchase price of \$64.0 million was reduced by the payment of agreed-upon fees of \$3.3 million for severance costs and \$1.2 million for third-party services in support of the transition, resulting in net proceeds received by the Company of \$59.5 million. In December 2011, the Company entered into a settlement agreement with OnX for a working capital adjustment of \$1.2 million that was paid to OnX in January 2012.

Table of Contents*Components of Results of Discontinued Operations*

For the three and nine months ended December 31, 2011 and 2010 the income from discontinued operations was comprised of the following:

(In thousands)	Three months ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
Discontinued operations:				
Net sales	\$	\$ 158,325	\$ 123,807	\$ 376,907
Income (loss) from operations of TSG	\$	\$ 7,124	\$ (1,781)	\$ 8,963
(Loss) gain on sale of TSG	(1,200)		19,486	
	(1,200)	7,124	17,705	8,963
Income tax (benefit) expense	(465)	2,836	7,302	3,933
(Loss) income from discontinued operations	\$ (735)	\$ 4,288	\$ 10,403	\$ 5,030

Recently Adopted and Recently Issued Accounting Standards

A description of recently adopted and recently issued accounting pronouncements is included in Note 2 to Condensed Consolidated Financial Statements, which is included in Item 1 of this Quarterly Report on Form 10-Q. Management continually evaluates the potential impact, if any, on its financial position, results of operations, and cash flows, of all recent accounting pronouncements and, if significant, makes the appropriate disclosures. During the nine months ended December 31, 2011, no material changes resulted from the adoption of recent accounting pronouncements.

Liquidity and Capital Resources*Overview*

The Company's operating cash requirements consist primarily of working capital needs, operating expenses, capital expenditures, and payments of principal and interest on indebtedness outstanding, which were comprised of lease and rental obligations at December 31, 2011. The Company believes that cash flow from operating activities, cash on hand, and access to capital markets will provide adequate funds to meet its short-term and long-term liquidity requirements.

Prior to July 29, 2011, the Company maintained a \$50.0 million asset-based revolving Credit Facility with Bank of America, N.A., as lender, which had the ability to be increased to \$75.0 million by a \$25.0 million accordion feature for borrowings and letters of credit, that was due to mature on May 5, 2012. The Company's obligations under the Credit Facility were secured by significantly all of the Company's assets. The Credit Facility contained mandatory repayment provisions, representations, warranties, and covenants customary for a secured credit facility of its type. The Company terminated the Credit Facility on July 29, 2011 in conjunction with the sale of TSG. Additional information with respect to the Credit Facility is contained in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

We will use the proceeds of the TSG Sale to fund our working capital needs, make select investments in the HSG and RSG Businesses, and return excess cash as prudently as possible to our shareholders. We will be able to focus more acutely on the growth of our HSG and RSG Businesses in the higher-margin and higher-growth hospitality and retail markets. We will also investigate possibilities for enhancing our HSG and RSG Businesses that may have been less available to us, due to competitive factors, resource issues, or otherwise, when we operated both the TSG Business and our HSG and RSG Businesses together. We may use a portion of the net cash proceeds from the TSG Sale for future acquisitions complementary to our HSG and RSG Businesses. However, at this time, no specific acquisition targets have been identified.

Table of Contents

As of December 31, 2011 and March 31, 2011, the Company's total debt was approximately \$1.3 million and \$1.9 million, respectively, comprised of capital lease obligations in both periods.

Additional information regarding the Company's financing arrangements is included in its Annual Report for the fiscal year ended March 31, 2011.

As of December 31, 2011, 100% of the Company's cash and cash equivalents were deposited in bank accounts. Short-term investments are deposited in Treasury notes. Therefore, the Company believes that credit risk is limited with respect to its cash and cash equivalents and short-term investment balances.

Cash Flow

(Dollars in thousands)	Nine months ended December 31		Increase (decrease)
	2011	2010	\$
Net cash (used for) provided by continuing operations:			
Operating activities	\$ (9,769)	\$ (16,254)	\$ 6,485
Investing activities	21,602	(3,334)	24,936
Financing activities	(14,068)	(260)	(13,808)
Effect of foreign currency fluctuations on cash	(135)	218	(353)
Cash flows used for continuing operations	(2,370)	(19,630)	17,260
Net operating, investing, and financing cash flows used for discontinued operations	(24,128)	(1,463)	(22,665)
Net decrease in cash and cash equivalents	\$ (26,498)	\$ (21,093)	\$ (5,405)

Cash flow used for operating activities. The \$9.8 million in cash used for operating activities during the first nine months of fiscal 2012 consisted of a net loss from continuing operations of \$16.2 million, \$17.1 million in non-cash adjustments to the net loss from continuing operations, and a negative \$10.7 million of changes in operating assets and liabilities. Significant changes in operating assets and liabilities included a \$10.7 million decrease in deferred revenue due to the Company recognizing amounts for services performed during the nine months ended December 31, 2011. The \$16.3 million in cash used for operating activities during the nine months ended December 31, 2010 consisted of a \$15.5 million loss from continuing operations, \$13.1 million in non-cash adjustments to the loss from continuing operations, and a negative \$13.9 million of changes in operating assets and liabilities. Significant changes in operating assets and liabilities included a \$18.7 million increase in accounts receivable, a \$0.8 million increase in inventories, and a \$3.3 million decrease in accrued liabilities, offset by a \$6.2 million increase in accounts payable and a \$2.5 million increase in deferred revenue. The change in accounts receivable is reflective of an increase in the volume of sales that occurred in December 2010 (i.e., the last month of the fiscal quarter) compared to March 2010. The increases in accounts payable and in inventories were a result of the higher sales volume in December 2010 compared to March 2010.

Cash flow provided by (used for) investing activities. The \$21.6 million in cash provided by investing activities during the nine months ended December 31, 2011 was primarily driven by the \$59.5 million in net proceeds received from the sale of the TSG business and \$5.0 million in proceeds from the Company's investments in marketable securities, which were used to settle employee benefit plan obligations, offset by \$40.0 million for funds invested in Treasury notes and \$3.1 million used for the purchase of software, property, and equipment. The \$3.3 million in cash used for investing activities during the nine months ended December 31, 2010 resulted from the receipt of \$4.3 million in proceeds as a redemption of certain Company-owned life insurance policies and \$0.1 million in proceeds received as a partial distribution of the Company's previously disclosed claim on its investment in the Primary Fund, partially offset by \$2.1 million used for additional investments in Company-owned life insurance policies and \$4.7 million used for the purchase of software, property, and equipment.

Cash flow used for financing activities. During the nine months ended December 31, 2011, the Company used \$14.1 million for financing activities, which was comprised of \$12.1 million for repurchases of the Company's common shares, \$1.1 million for repurchases of the Company's common shares to satisfy employee tax withholding on the vesting or exercise of stock based compensation awards, and \$0.8 million for payments on

Table of Contents

capital lease obligations. During the nine months ended December 31, 2010, the Company used \$0.3 million in cash for financing activities. This amount was comprised of \$0.3 million for payments on capital lease obligations.

Contractual Obligations

As of December 31, 2011, the Company has reached its minimum purchase commitments from a vendor of \$20.0 million per year through fiscal 2012. The total commitment to this vendor was \$330.0 million as disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2011. The majority of this obligation was assumed by OnX upon the completion of the TSG divestiture.

In September 2011, the Company entered into a 74-month lease for a new corporate facility located in Alpharetta, Georgia. The lease term commenced in January 2012 upon the completion of certain agreed-upon improvements. In October 2011, the Company entered into an agreement to terminate the lease on its previous corporate facility located in Solon, Ohio effective March 31, 2012 in consideration of a one-time termination payment of \$2.0 million plus associated brokerage fees of approximately \$0.1 million. The Company expects these actions to result in a net reduction of the operating lease obligations disclosed as contractual obligations in its Annual Report for the fiscal year ended March 31, 2011 of approximately \$0.6 million per year in rental payments between fiscal 2013 and fiscal 2017.

As of December 31, 2011, there were no other significant changes to the Company's contractual obligations as presented in its Annual Report for the year ended March 31, 2011.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements that have had or are reasonably likely to have a current or future effect on the Company's 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 the Company's significant accounting policies is included in the Company's Annual Report for the year ended March 31, 2011. There have been no material changes in the Company's significant accounting policies and estimates since March 31, 2011.

Forward-Looking Information

This Quarterly Report contains certain management expectations, which may constitute forward-looking information within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities and Exchange Act of 1934, and the Private Securities Reform Act of 1995. Forward-looking information speaks only as to the date of this Quarterly Report and may be identified by use of words such as "may," "will," "believes," "anticipates," "plans," "expects," "estimates," "projects," "targets," "forecasts," "continues," "seeks," or the negative of those terms or similar expressions. Many important factors could cause actual results to be materially different from those in forward-looking information including, without limitation, competitive factors, disruption of supplies, changes in market conditions, pending or future claims or litigation, or technology advances. No assurances can be provided as to the outcome of cost reductions, expected benefits and outcomes from our recent ERP implementation, business strategies, future financial results, unanticipated downturns to our relationships with customers and macroeconomic demand for IT products and services, unanticipated difficulties integrating acquisitions, new laws and government regulations, interest rate changes, consequences related to the concentrated ownership of our outstanding shares by MAK Capital, unanticipated deterioration in economic and financial conditions in the United States and around the world, consequences associated with the sale of the Company's TSG business, and uncertainties regarding restructuring actions and/or the relocation of the Company's corporate facilities. The Company does not undertake to update or revise any forward-looking information even if events make it clear that any projected results, actions, or impact, express or implied, will not be realized.

Table of Contents

Other potential risks and uncertainties that may cause actual results to be materially different from those in forward-looking information are described in Risk Factors, which is included in Part I, Item 1A of the Company's Annual Report for the fiscal year ended March 31, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, contained in the Company's Annual Report for the fiscal year ended March 31, 2011. There have been no material changes in the Company's market risk exposures since March 31, 2011.

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, 2011 that may materially affect the Company's business, results of operations, or financial condition.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans
August 1-31	397,061	\$ 7.97	397,061	1,202,939
September 1-30	402,939	\$ 8.57	800,000	800,000
October 1-31	294,000	\$ 8.32	1,094,000	506,000
November 1-30	241,461	\$ 8.26	1,335,461	264,539
December 1-31	135,495	\$ 7.89	1,470,956	129,044
Total	1,470,956	\$ 8.24	1,470,956	129,044

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]**Item 5. Other Information**

- (b) Reference is made to the Form 8-K filed by the Company on January 31, 2012 disclosing advance notice procedures under Article II, Section I of the Company's Amended Code of Regulations that shareholders must comply with when nominating a Director candidate.

Item 6. Exhibits

- 3(ii) Amended Code of Regulations of Agilysys, Inc., which is incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on January 31, 2012 (File No. 000-05734).
- 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 Vice President Controller pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2011 and 2010, (ii) Condensed Consolidated Balance Sheets at December 31, 2011 and March 31, 2011, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2011 and 2010, and (iv) Notes to Condensed Consolidated Financial Statements for the nine months ended December 31, 2011 tagged as blocks of text.

Edgar Filing: AGILYSYS INC - Form 10-Q

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.

Table of Contents

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 9, 2012

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