AGILYSYS INC
Form 10-K
June 12, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2012

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For transition period from to

Commission file number 0-5734

AGILYSYS, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-0907152
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
425 Walnut Street, Suite 1800, Cincinnati, Ohio	45202
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, without par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 þ	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 Act). Yes ¨ No þ

The aggregate market value of Common Shares held by non-affiliates as of September 30, 2011 (the last business day of the Registrant s most recently completed second fiscal quarter) was $107,364,331 computed on the basis of the last reported sale price per share ($7.13) of such shares on the Nasdaq Stock Market LLC.

As of June 1, 2012, the Registrant had the following number of Common Shares outstanding: 21,935,487 of which 7,518,422 were held by affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement to be used in connection with its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

AGILYSYS, INC.

ANNUAL REPORT ON FORM 10-K

Year Ended March 31, 2012

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Forward Looking Information

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

Part I

Item 1. Business.
Overview

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

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

Reference herein to any particular year or quarter refers to periods within the fiscal year ended March 31. For example, fiscal 2012 refers to the fiscal year ended March 31, 2012.

History and Significant Events

Organized in 1963 as Pioneer-Standard Electronics, Inc., an Ohio corporation, we changed our name to Agilysys, Inc., in 2003. Our principal executive offices are located at 425 Walnut Street, Suite 1800, Cincinnati, Ohio, 45202 and our corporate services are located at 1000 Windward Concourse, Alpharetta, Georgia, 30005. We began operations as a distributor of electronic components and, later, enterprise computer solutions. Exiting the former in fiscal 2003 with the sale of our Industrial Electronic Division, we used the proceeds to reduce debt, fund growth of our enterprise solutions business and acquire businesses focused on higher-margin and more specialized solutions for the hospitality and retail industries. With the fiscal 2004 acquisition of Kyrus Corporation, we became the leading provider of IBM retail solutions and services in the supermarket, chain drug, general-retail and hospitality segments. In that same year, with the acquisition of Inter-American Data, Inc., we became the leading developer and provider of technology solutions for property and inventory management in the casino and resort industries.

In 2007, we divested KeyLink Systems and exited the enterprise computer distribution business. We used the proceeds from that sale to return cash to shareholders and fund a number of acquisitions that broadened our solutions and capabilities portfolios. In calendar 2007, we acquired InfoGenesis and Visual One Systems Corp., significantly expanding our specialized offerings to the hospitality industry through enterprise-class, point-of-sale (POS) and software solutions tailored for a variety of applications in cruise, golf and spa, gaming, lodging, resort and catering. These offerings feature highly intuitive, secure and robust solutions, easily scalable across multiple departments or property locations. In fiscal 2008, we began reporting three primary operating segments: Hospitality Solutions Group (HSG), Retail Solutions Group (RSG) and Technology Solutions Group (TSG).

In fiscal 2012, we sold our TSG segment and restructured the business model to focus on higher-margin opportunities in the hospitality and retail sectors, which also hold greater potential for profitable growth. In that same year, we reduced our real-estate footprint and lowered overhead costs by relocating corporate services from Solon, Ohio to Alpharetta, Georgia, which moved senior management closer to our operating units.

Today, we are focused on providing end-to-end solutions that utilize state-of-the-art technology to enhance guest experiences for our customers wishing to promote their respective brands. We help our customers win the guest recruitment battle and, in turn, grow revenue, reduce costs and increase efficiency. This is accomplished by developing and deploying intuitive solutions that increase speed and accuracy, enabling more effective management, intelligent upselling, reduced shrinkage, improved brand recognition and better control of the customer relationship. Our strategy is to increase the proportion of revenue we derive from ongoing support and maintenance agreements, software as a subscription service, cloud applications and professional services.

Products, Support and Professional Services

We are a leading developer and marketer of end-to-end technology solutions for the hospitality and retail industries, including hardware and software products; support, maintenance and subscription services; and professional services. Areas of specialization are point-of-sale, property management, inventory and procurement, mobile and wireless solutions designed to streamline operations, improve efficiency and enhance the guest experience.

To align with our strategic restructuring in fiscal 2012 and enhance transparency into the business, we commenced presenting revenue and costs of goods sold in three categories:

- Products (hardware and software)
- Support, maintenance and subscription services
- Professional services

Total revenue from continuing operations for these three specific areas of offerings follows:

	For The Year Ended March 31,		
(In thousands)	**2012**	2011	2010
Products	**$ 105,141**	$ 104,769	$ 103,501
Support, maintenance and subscription services	**73,171**	70,729	63,218
Professional services	**30,577**	27,183	26,787
Total	**$ 208,889**	$ 202,681	$ 193,506

Products: Products revenue includes resold hardware and proprietary and remarketed software that are deployed as an integral component of the solutions we provide. Our proprietary product suite is comprised of:

Property Management Systems (PMS)

- Agilysys Lodging Management System® (LMS) is web-enabled and runs 24/7 to automate every aspect of hotel operations in properties of 1,000 rooms or more. Its foundation expands to incorporate modules for sales and catering, activities scheduling, attraction ticketing and more.
- Agilysys Visual One PMS is installed in hotels ranging from 50-1,500 rooms. For complex resorts that require an enterprise-wide system, Visual One provides an integrated solution with interfaces to leading global distribution systems (GDSs) and other Agilysys products.
- Agilysys Guest Express Kiosk module is a self-service kiosk system for both the LMS PMS and the Visual One PMS that expedites front desk check-in and check-out. Using the Guest Express Kiosk module, hotel guests can check in, encode a room key, check out and obtain a receipt all without having to wait in line at the front desk.

Point-of-Sale

- Agilysys InfoGenesis POS is award-winning, enterprise level software primarily for food and beverage products. The software is centralized and designed for 24/7 environments where reliability and availability are critical. The solution is built on an open system platform using industry-standard hardware, operating system and database platforms.
- Agilysys MPOS is a handheld point-of-sale solution that integrates with InfoGenesis POS to enable guest service in any location.
- Agilysys eMenu, an online ordering application, enables our customers to capitalize on the popularity of Web and kiosk ordering while maintaining their existing company brand and workflow.
- Agilysys eCash takes traditional cashless payment and stored value card capabilities and integrates them directly with InfoGenesis POS, increasing customers payment options.

InfoGenesis POS, eMenu and eCash are available through either traditional software licensing or via subscription.

Inventory & Procurement

- Agilysys Stratton Warren System (SWS) integrates with all leading financial and POS software products. The software manages the entire procurement process via e-commerce, from the point of business development to managing enterprise-wide backend systems and daily operations.
- Agilysys Eatec®, along with its core purchasing, inventory, recipe, forecasting, production and sales analysis functions, is unique in offering catering, restaurant, buffet management and nutrition modules in a single web-enabled solution.

Agilysys EatecTouch is an optional software applet that operates on any Windows®-based POS terminal, providing users with access to the Eatec application from any terminal location.
Agilysys EatecPocket is a Microsoft® Windows® Mobile compatible application designed to work on a handheld wireless device, enabling users to perform inventory transactions. The software incorporates a barcode scanner for mobile updates of the database.

Eatec and Stratton Warren System solutions are available either through traditional software licensing or via subscription.

Document Management

Agilysys DataMagine provides a U.S.-patented imaging module and archiving solution that allows users to capture and retrieve documents and system-generated information. DataMagine integrates with all Agilysys products, adding functionality and increasing benefit to customers.

Activities

Agilysys GolfPro is a module that offers golf property managers complete pro shop management. Tee time scheduling, member profile/billing, tournament management and Web and e-mail access are bundled into one solution.
Agilysys Spa Management software covers all aspects of running a spa business, from scheduling guests for services to managing staff schedules. The software also integrates with Agilysys PMS solutions.
Agilysys LMS ARTS® interfaces with hotel guest data, allowing reservationists to pre-plan activities when booking a guest s room. The application also places canceled activities back into inventory for resale, resulting in optimum property utilization and profitability.
Agilysys Visual One Activities software streamlines the management of all of the amenities and activities a property has to offer. Staff can easily schedule and personalize reservations for guests; activities then appear on itinerary/confirmations.

Support, Maintenance and Subscription Services: Contracted technical support, maintenance and subscription services are a significant portion of our consolidated revenue. Growth has been driven by a strategic focus on developing and promoting these offerings, which typically generate higher profit margins than products revenue. In addition to our deliberate positioning, market demand for proper maintenance and updates that enhance reliability, as well as the desire for flexibility in purchasing options, are reinforcing this trend. Our commitment to exceptional service has enabled us to become a trusted partner with customers who wish to optimize the level of service they provide to their guests and maximize commerce opportunities both on- and off-premise.

Professional Services: We have industry-leading expertise in designing, implementing, integrating and installing customized solutions into both legacy and newly created platforms. For existing enterprises, we seamlessly integrate new systems; and for start-ups and fast-growing customers, we become a partner that can manage large-scale rollouts and tight construction schedules. Extensive experience ranges from staging equipment to phased rollouts and training staff in a manner that saves time and money for our customers.

Prior to the divestiture of TSG operations, we resold IT products and services from the Hewlett-Packard Company (HP), International Business Machines Corporation (IBM), Oracle Corporation (Oracle) and other original equipment manufacturers (OEMs). Operating results from the former TSG are reported as components of discontinued operations.

We have maintained our strong relationship with IBM Retail Services and intend to continue to be a leading provider of related solutions and services in the supermarket, drug chain, general-retail and other hospitality segments.

Segment Reporting

Subsequent to the sale of our TSG business in fiscal 2012, we were left with two remaining reportable business segments: HSG and RSG. Prior to that, we had been reporting three business segments: HSG, RSG and TSG. See Note 16 to Consolidated Financial Statements titled *Business Segments* for a discussion of our segment reporting.

Hospitality Solutions Group (HSG)

HSG develops, markets and sells property and lodging management, point-of-sale, and inventory and procurement applications to operate hotel, casino, destination resort, cruise line and foodservice management establishments in the hospitality industry. We offer solutions that provide comprehensive control of the customer s property operations from reservations, check in, point-of-sale and other guest-engagement activities to inventory and procurement management and document management.

Retail Solutions Group (RSG)

RSG is one of the largest North American systems integrators of retail point-of-sale, self-service and wireless solutions with proprietary business consulting, implementation and hardware maintenance and support services. Our extensive experience in all phases of wireless infrastructure and integration with legacy systems enables our customers to capture the promise of today s mobile technology. Our mobile solutions extend the customer s operations to portable devices, increasing customer satisfaction and productivity with integrated software that reduces security exposure. We also sell POS and mobile POS (MPOS) solutions to facilitate the check-out process as well as other self-service capabilities.

Our RSG expertise encompasses a suite of support and professional services including consultation, analysis, design, installation and implementation, as well as onsite maintenance and ongoing help-desk support. Our comprehensive portfolio of support services provides total lifecycle management for our customers in-store solutions to help increase their return on investment and lower their total cost of ownership.

Representative Agilysys clients include:

Ameristar Casinos, Inc.	Copper Mountain	Royal Caribbean International
Banner Health	The Cosmopolitan of Las Vegas	Royal Lahaina Resort
Bed Bath & Beyond	CSU Fullerton Auxiliary Services Corporation	Rudy s Country Store & BBQ
Benchmarc Restaurants	Delhaize America	Sandals Emerald Bay
BJ s Wholesale Club	Helzberg Diamonds	Sands Casino Resort Bethlehem
Black Rock Resort	Ho-Chunk Gaming	SAVOR
Boyd Gaming Corporation	The Landmark London Hotel	The Sea Pines Resort
BR Guest Hospitality	Maryland Live! Casino	Sephora
The Breakers Palm Beach	Norwegian Cruise Line	Sugar Factory
The Broadmoor	Oxford Casino	The Venetian Resort Hotel Casino
Cannizaro House	Pinehurst Resort	Vail Resorts
Casino del Sol	Rack Room Shoes	Valley View Casino & Hotel
Charming Charlie	Rosen Hotels & Resorts	Wakefern Food Corp

Industry and Markets

The hospitality and retail industries encompass a wide variety of market sectors and customers. We operate extensively throughout North America, with additional sales and support offices in the United Kingdom, Singapore and Hong Kong. Sales to customers outside of the United States represent less than 10% of our total revenue.

The hospitality industry is made up of a number of defined markets including lodging, casinos, cruise ships, resorts and spas, franchise operators, restaurant chains, stadiums, arenas and other customer-service providers. The industry is highly fragmented. For example, in the lodging segment, no single hotel brand accounts for more than 4% of all hotel rooms in the United States. According to *Smith Travel Research*, the U.S. lodging industry generated $108 billion in room revenue in calendar 2011, with an average of approximately 60% of 4.9 million available rooms occupied. This compares with 57.5% in 2010 and a market-cycle peak occupancy rate of 63.1% in 2006.

The hospitality industry is economically sensitive. Business and destination-resort travel are correlated with the economic conditions in their respective markets. Competition is intense for consumer spending, and hospitality industry participants are seeking ways to enhance the experience of their guests. We are seizing this opportunity by providing guests connectivity and intuitive engagement tools, enabling our customers to enhance their brands and better manage their operations growth and profitability. In addition to product solutions that are designed and customized to meet unique facility or multi-facility needs, we also provide an array of support and subscription options for maintaining systems and professional services for implementation and rollouts.

We have a significant customer base in the commercial casino and gaming sector. Roughly one-quarter of the U.S. adult population visits a casino at least once a year. Amenities in contemporary casinos extend well beyond gaming to include a variety of entertainment and leisure options as well as modern convention centers and meeting facilities to attract the business market. International gaming markets are growing rapidly both in size and new jurisdictions. Asian gaming markets are reporting robust growth. In 2006, gross gaming revenue in Macau surpassed that of the Las Vegas Strip with a significant number of U.S.-based operators seeking to open new properties in the region. As the market-share leader in providing Property Management Systems (PMS) to casinos on the Las Vegas Strip, we are well positioned to benefit from these strong and long-standing relationships as our customer base expands into international markets. Additionally, as modern facilities evolve toward cashless operations and digital track-and-log of unique guest behavior, we are able to provide the requisite technologies and expertise to satisfy their needs.

We also have expertise in serving the unique needs of Cruise ship operators. According to the *Cruise Industry Overview 2011 State of the Cruise Industry* report, the cruise industry is the fastest growing category in the leisure travel market. In 2011, the industry anticipated a total of 16 million passengers, a 6.6% increase from 2010. In addition, 14 new ships were introduced, featuring such modern amenities as planetariums, golf simulators, water parks, ice-skating rinks and rock-climbing walls. The current order book, which extends through 2014, includes 26 new builds.

Similarly, the modern retail industry is rapidly transitioning to a higher level of engagement with customers. Retailers selling directly to consumers include: purveyors of softlines, such as clothing, accessory/shoe and department stores; and hardlines, such as home improvement, home furnishings and electronics; as well as staples such as groceries. Integrating our innovative technology with marketing is allowing Retail Solutions customers to enjoy the benefits of gift cards and loyalty programs. Other solutions such as mobile POS enable them to reduce wait times, increase accuracy and accelerate management reporting. For rapidly expanding retailers and retailers that are engaged in large store-wide POS technology refreshment, we manage large-scale implementation and roll-out including procurement, staging and installation, post-sale service and maintenance contracts to ensure a reliable and secure environment.

Customers

Our customers include large, medium-sized and boutique companies, and divisions or departments of large corporations in the hospitality and retail industries. We concentrate on serving the needs of customers in a range of customer-focused settings where brand differentiation is important, particularly in the lodging, casino, destination resort, cruise line, foodservice and retail industries where competition for guest recruitment is intense.

Currently, our customer base is highly fragmented, with no single customer representing more than 10% of consolidated revenue from continuing operations.

Seasonality

Prior to the sale of TSG, we traditionally had experienced a seasonal increase in sales during our fiscal third quarter ending December 31. The HSG and RSG operating units have traditionally experienced a seasonal decrease in revenue during our fiscal first quarter ending June 30. Although we are unable to predict whether uneven sales patterns will continue over the long term, we believe this particular pattern is moderating as a result of exiting the TSG business. For example, third-quarter revenue from continuing operations was 25%, 29% and 31% of annual revenue for fiscal years 2012, 2011 and 2010, respectively. In addition, occasionally the timing of large one-time orders such as those associated with substantial retail product rollouts will create volatility in our quarterly results.

Competition

We face a competitive market environment for the solutions we provide. Competition exists with respect to developing and maintaining relationships with customers, pricing for products and solutions, levels of support and customer service. We compete with a number of other solution providers and, occasionally, with some of our own suppliers in the RSG business segment.

Within HSG, we compete with other full-service providers that sell and service bundled POS and PMS solutions comprised of hardware, software, support and services. These companies, some of which are much larger than we are, include MICROS Systems, Inc., NCR, Par Technology, Multi-System, Inc., and Infor. We also compete with software companies like IDeaS Revenue Solutions, POSitouch, Northwind and Xpient Solutions and, to a lesser extent, hardware vendors such as IBM, HP, Dell, Casio, and Toshiba. In addition, we compete with PMS systems that are designed and maintained in-house by large hotel chains.

RSG s competitive market place is highly fragmented and regionalized. We compete primarily with regional integrators, regional and national Value Added Resellers Solution Providers and niche vendors.

Environmental Matters

We believe we are in compliance in all material respects with all applicable environmental laws. Presently, we do not anticipate that such compliance will have a material effect on capital expenditures, earnings or competitive position with respect to any of our operations.

Employees

As of June 1, 2012, we had 751 employees. We are not a party to any collective bargaining agreements, have had no strikes or work stoppages and consider our employee relations to be good.

Access to Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge through our corporate website, http://www.agilysys.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The information posted on our website is not incorporated into this Annual Report on Form 10-K (Annual Report). Reports, proxy and information statements, and other information regarding issuers that file electronically, are maintained on the SEC website, http://www.sec.gov.

Item 1A. Risk Factors.
Risks Relating to Our Business

Continuing challenging global economic conditions could adversely affect our business and financial results.

The continued global economic downturn has significantly adversely affected global economic conditions. Our revenue and profitability depend significantly on general economic conditions and the level of capital available to our customers. Our business trends and revenue growth continue to be affected by the challenging economic climate. These difficult economic conditions and the uncertainty about future economic conditions may adversely affect our customers level of spending, ability to obtain financing for purchases, ability to make timely payments to us and adoption of new technologies, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding, lead to increased price competition and adversely affect our results of operations.

Our future success will depend on our ability to develop new products, product upgrades and services that achieve market acceptance.

Our business is characterized by rapid and continual changes in technology and evolving industry standards. We believe that in order to remain competitive in the future we will need to continue to develop new products, product upgrades and services, requiring the investment of significant financial resources. If we fail to accurately anticipate our customer s needs and technological trends, or are otherwise unable to complete the development of a product or product upgrade on a timely basis, we will be unable to introduce new products or product upgrades into the market on a timely basis, if at all, and our business and operating results would be materially and adversely affected.

The development process for most new products and product upgrades is complicated, involves a significant commitment of time and resources and is subject to a number of risks and challenges including:

- Managing the length of the development cycle for new products and product enhancements, which has frequently been longer than we originally expected;
- Adapting to emerging and evolving industry standards and to technological developments by our competitors and customers; and
- Extending the operation of our products and services to new and evolving platforms, operating systems and hardware products, such as mobile devices.

If we are not successful in managing these risks and challenges, or if our new products, product upgrades, and services are not technologically competitive or do not achieve market acceptance, our business and operating results could be adversely affected.

We face extensive competition in the markets in which we operate, and our failure to compete effectively could result in price reductions and/or decreased demand for our products and services.

Several companies offer products and services similar to ours. The rapid rate of technological change in the hospitality market makes it likely we will face competition from new products designed by companies not currently competing with us. We believe our competitive ability depends on our product offerings, our experience in the hospitality industry, our product development and systems integration capability, and our customer service organization. There is no assurance, however, we will be able to compete effectively in the hospitality technology market in the future.

If we fail to meet our customers performance expectations, our reputation may be harmed, causing us to lose customers or exposing us to legal liability.

Our ability to attract and retain customers depends to a large extent on our relationships with our customers and our reputation for high quality professional services and integrity. As a result, if a customer is not satisfied with our services or solutions, our reputation may be damaged. Moreover, if we fail to meet our clients performance expectations, we may lose clients and be subject to legal liability, particularly if such failure adversely impacts our clients businesses.

In addition, many of our projects are critical to the operations of our customers businesses. While our contracts typically include provisions designed to limit our exposure to legal claims relating to our products and services, these provisions may not adequately protect us or may not be enforceable in all cases. The general liability insurance coverage that we maintain, including coverage for errors and omissions, is subject to important exclusions and limitations. We cannot be certain that this coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our profitability.

We are subject to pricing pressures for our products and services which could cause us to lose market share and decrease revenue and profitability.

We compete for customers based on several factors, including price. In some cases, we may have to reduce our pricing to obtain business. If we are not able to maintain favorable pricing for our products and services, our gross profit and our profitability could suffer.

Our cloud-based solutions present execution and competitive risks.

Our solutions offered in the cloud accessible via the web without hardware installation or software downloads present new and difficult technology challenges. These offerings depend on integration of third-party hardware, software and cloud hosting vendors working together with our products. As a result, we may be subject to claims if customers experience service disruptions, breaches or other quality issues related to our cloud-based solutions.

Actual or perceived security vulnerabilities in our software products may result in reduced sales or liabilities.

Our software may be used in connection with processing sensitive data (e.g., credit card numbers), and is sometimes used to store such data. It may be possible for the data to be compromised if our customer does not maintain appropriate security procedures. In those instances, the customer may attempt to seek damages from us. While we believe that all of our current software complies with applicable industry security requirements and that we take appropriate security measures to reduce the possibility of breach through our support and other systems, we cannot assure that our customers systems will not be breached, or that all unauthorized access can be prevented. If a customer, or other person, seeks redress from us as a result of a security breach, our business could be adversely affected.

Hosting of software applications presents increased security risks.

As we expand our software hosting capabilities and offer more of our software applications to our customers on a hosted basis, our responsibility for data and system security with respect to data held in our hosting centers increases significantly. While we believe that our current software applications comply with applicable laws and industry security requirements, and while we believe that we use appropriate security measures to reduce the possibility of unauthorized access or misuse of data in the hosting center, we cannot provide absolute assurance that our hosted systems will not be breached, or that all unauthorized access can be prevented. If a security breach were to occur, a customer, regulatory agency, or other person could seek redress from us, which could adversely affect our business.

Additionally, as we expand our software hosting capabilities and offer more of our software applications to our customers on a hosted basis, our potential liability increases significantly. Specifically, an outage in our data centers can affect numerous customers. While we believe that our data centers have been designed and engineered to reduce the likelihood of outages, we cannot provide assurance that our hosted systems will not suffer from unanticipated outages or deficient performance. If an unanticipated outage were to occur, a customer could suffer economic damages and seek redress from us, which could adversely affect our business.

We may not be able to enforce or protect our intellectual property rights.

We rely on a combination of copyright, patent, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology. Any failure to protect our intellectual property rights would diminish or eliminate the competitive advantages that we derive from our proprietary technology.

We may be subject to claims of infringement of third-party intellectual property rights.

While we do not believe that our products and services infringe any patents or other intellectual property rights, from time to time, we receive claims that we have infringed the intellectual property rights of others. Any such claim, with or without merit, could result in costly litigation and distract management from day-to-day operations. If we are found liable, we could be obligated to pay significant damages or enter into license agreements.

We are subject to litigation, which may be costly.

As a company that does business with many customers, employees and suppliers, we are subject to litigation. The results of such litigation are difficult to predict, and we may incur significant legal expenses if any such claim were filed. While we generally take steps to reduce the likelihood that disputes will result in litigation, litigation is very commonplace and could have an adverse effect on our business.

If we acquire new businesses, we may not be able to successfully integrate them or attain the anticipated benefits.

As part of our operating history and growth strategy, we have acquired other businesses. In the future, we may continue to seek acquisitions. We can provide no assurance that we will be able to identify and acquire targeted businesses or obtain financing for such acquisitions on satisfactory terms. The process of integrating acquired businesses into our operations may result in unforeseen difficulties and may require a disproportionate amount of resources and management attention. If integration of our acquired businesses is not successful, we may not realize the potential benefits of an acquisition or suffer other adverse effects.

Our dependence on certain strategic partners makes us vulnerable to the extent we rely on them.

We rely on a concentrated number of vendors for the majority of our hardware and for certain software and related services needs. We do not have long term agreements with many of these vendors. If we can no longer obtain these hardware, software or services needs from our major suppliers due to mergers, acquisitions or consolidation within the marketplace, material changes in their partner programs, their refusal to continue to supply to us on reasonable terms or at all, and we cannot find suitable replacement suppliers, it may have a material adverse impact on our future operating results and gross margins.

If we fail to retain key employees, our business may be harmed.

Our success depends on the skill, experience and dedication of our employees. If we are unable to retain and attract sufficiently experienced and capable personnel, especially in product development, sales and management, our business and financial results may suffer. For example, if we are unable to retain and attract a sufficient number of skilled technical personnel, our ability to develop high quality products and provide high quality customer service may be impaired. Experienced and capable personnel in the technology industry remain in high demand, and there is continual competition for their talents. When talented employees leave, we may have difficulty replacing them, and our business may suffer. There can be no assurance that we will be able to successfully retain and attract the personnel that we need.

Our profitability is partly dependent upon restructuring and executing planned cost savings.

To allow us to operate more efficiently and control costs, we have incurred restructuring charges related to the consolidation and streamlining of various functions of our workforce. As part of our restructuring efforts, we incurred severance costs, lease termination costs and exit costs. We may not realize the expected benefits of these initiatives and may incur additional restructuring costs in the future. In addition, we could experience delays, business disruptions, unanticipated employee turnover and increased litigation-related costs in connection with our restructuring efforts. The complex nature of these restructuring initiatives could cause difficulties or delays in the implementation of any such initiative or the impact of the restructuring initiatives may not be immediately apparent. There can be no assurance that our estimates of the savings achievable by these initiatives will be realized, which could have an adverse impact on our financial condition or results of operations.

If we fail to maintain an effective system of internal controls, we may not be able to detect fraud, which could have a material adverse effect on our business.

While we believe our internal control over financial reporting is effective, a controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that control issues and instances of fraud, if any, within our company have been detected.

We have encountered risks associated with maintaining large cash balances.

While we have attempted to invest our cash balances in investments generally considered to be relatively safe, we nevertheless confront credit and liquidity risks. Bank failures could result in reduced liquidity or the actual loss of money held in deposit accounts in excess of federally insured amounts, if any.

We may incur additional goodwill and intangible asset impairment charges that adversely affect our operating results.

We review our goodwill and other intangible asset balances for impairment on at least an annual basis. During the fourth quarter of fiscal 2012, we concluded that certain software developed technology within HSG was no longer available for sale. As a result we recorded an impairment charge of $9.7 million, which impacted HSG s operations. In fiscal 2011, we recognized non-cash impairment charges for goodwill and intangible assets totaling $1.0 million. Our future operating results and the market price of our common stock could be materially adversely affected if we are required to further write down the carrying value of goodwill and/or other intangible assets associated with any of our reporting units in the future.

We may have exposure to greater than anticipated tax liabilities.

Some of our products and services may be subject to sales taxes in states where we have not collected and remitted such taxes from our customers. We have reserves for certain state sales tax contingencies based on the likelihood of obligation. These contingencies are included in Accrued liabilities in our Consolidated Balance Sheets. We believe we have appropriately accrued for these contingencies. In the event that actual results differ from these reserves, we may need to make adjustments, which could materially impact our financial condition and results of operations.

Risks Relating to the Industries We Serve

Our business depends to a significant degree on the hospitality and retail industries, and a weakening could adversely affect our business and results of operations.

Because our customer base is concentrated in the hospitality and retail industries, our business is largely dependent on the health of those industries. Our sales are dependent in large part on the health of the hospitality and retail industries, which in turn is dependent on the domestic and international economy. Instabilities or downturns in the hospitality and retail industries could disproportionately impact our revenue, as clients may exit the industry or delay, cancel or reduce planned expenditures for our products. A general downturn in the hospitality and retail industries could disproportionately impact our revenue, as clients may exit the industry or delay, cancel or reduce planned expenditures for our products.

Higher oil and gas prices worldwide could have a material adverse impact on the hospitality industry, and indirectly, on our business.

Material increases in oil and gas prices tend to reduce discretionary spending by consumers, such as on travel and dining, as well as on retail spending generally. Reductions in discretionary spending by consumers adversely affect our customers and, indirectly, our business. Moreover, increases in oil and gas prices also directly adversely affect our customer base in other ways. For example, oil and gas price increases can result in higher ingredient and food costs for our restaurant customers.

Consolidation in the industries that we serve could adversely affect our business.

Customers that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. Many of the industries that we serve have experienced recent consolidations, including the hotel, casino, quick serve restaurant and grocery industries. Although recent consolidations in these industries have not materially adversely affected our business, there is no assurance that future consolidation will not have such affect. For example, if one of our current customers merges or consolidates with a company that relies on another provider s products or services, it could decide to reduce or cease its purchases of products or services from us, which could have an adverse effect our business.

Risks Relating to Our Stock

Our stock has been volatile and we expect that it will continue to be volatile.

Our stock price has been volatile, and we expect it will continue to be volatile. For example, during the year ended March 31, 2012, the trading price of our common stock ranged from a high of $10.00 to a low of $4.43. The volatility of our stock price may be due to factors other than those specific to our business, such as economic news or other events generally affecting the trading markets. Additionally, our ownership base has been and may continue to be concentrated in a few shareholders, which could increase the volatility of our common share price over time.

Our largest shareholder, MAK Capital, currently holds approximately 31% of our common shares, which could impact corporate policy and strategy, and MAK Capital s interests may differ from those of other shareholders.

Pursuant to the approval by shareholders of a control share acquisition proposal, MAK Capital holds approximately 31% of our outstanding common shares. As a significant shareholder whose responses could potentially affect the interests of Agilysys and the other shareholders, our Board may consider MAK Capital s potential response to a particular decision of the Board in considering the range of possible corporate policies and strategies in the future, potentially influencing corporate policy and strategic planning.

MAK entered into a Voting Trust Agreement with Computershare, as trustee, which provides that, for both strategic and other transactions requiring at least two-thirds of the voting power to approve, the trustee will vote a certain percentage of MAK Capital s shares in favor of, against, or abstaining from voting in the same proportion as all other shares voted by shareholders (including MAK Capital s shares not being voted by the trustee). If the Voting Trust Agreement, as amended, that MAK entered into with Computershare were to terminate for any reason, MAK Capital would have a level of control that would highly influence the approval or disapproval of transactions requiring under Ohio law the approval of two-thirds of the outstanding common shares, such as a business combination, or majority share acquisition involving the issuance of common shares entitling the holders to exercise one-sixth or more of the voting power of Agilysys, each of which requires approval by two-thirds of the outstanding common shares. MAK Capital might also be able to initiate or substantially assist any such transaction. Even with the limitations on MAK Capital s voting power imposed by the Voting Trust Agreement, as amended, it would be more difficult for the other shareholders to approve such a transaction if MAK Capital opposed it, and MAK Capital s interests may differ from those of other shareholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Agilysys corporate services are located in Alpharetta, Georgia where we lease approximately 23,000 square feet of office space. In addition, we lease approximately 27,000 square feet of office space in Las Vegas, Nevada and 77,500 square feet of warehouse and office space in Taylors, South Carolina. Our major leases contain renewal options for periods of up to 10 years. We believe that our current facilities and office space are sufficient to meet our needs and do not anticipate any difficulty securing additional space as needed.

Item 3. Legal Proceedings.

We are involved in legal actions that arise in the ordinary course of business. It is the opinion of management that the resolution of any current pending litigation will not have a material adverse effect on our financial position or results of operations.

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

Item 4. Mine Safety Disclosures.

Not applicable.

Part II

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.
Our common shares, without par value, are traded on the NASDAQ Stock Market LLC under the symbol AGYS . The high and low sales prices for the common shares for each quarter during the past two fiscal years are presented in the table below.

Fiscal 2012	**High**	**Low**
Fourth quarter	**$ 9.60**	**$ 6.92**
Third quarter	**$ 9.00**	**$ 6.50**
Second quarter	**$ 10.00**	**$ 6.60**
First quarter	**$ 8.62**	**$ 4.43**

Fiscal 2011	High	Low
Fourth quarter	$ 6.50	$ 4.74
Third quarter	$ 7.45	$ 4.66
Second quarter	$ 8.31	$ 4.30
First quarter	$ 12.50	$ 6.09

The closing price of the common shares on June 1, 2012, was $7.25 per share. There were 1,999 shareholders of record.

We did not pay dividends in fiscal 2012 or fiscal 2011 and are unlikely to do so in the foreseeable future. The current policy of the Board of Directors is to retain any available earnings for use in the operations of our business.

Repurchase of Common Shares

The following table sets forth repurchases during the fourth quarter of fiscal 2012:

	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans
January 1-31	112,957	$ 8.07	112,957	16,087
February 1-29	16,087	$ 8.31	16,087	
March 1-31	5,924	$ 8.99		
Total	134,968	$ 8.14		

(1) The total number of shares includes shares purchased under our share repurchase plan described below and shares surrendered by employees to Agilysys to satisfy tax withholding obligations in connection with the vesting of restricted stock total 5,924 shares in March 2012, which do not count against shares authorized under the share repurchase plan.

(2) In August 2011, we announced that our Board of Directors provided authorization to repurchase up to 1.6 million of our common shares. As of March 31, 2012, we had repurchased all our common shares under this plan. No repurchases of common shares were made by us or on our behalf during fiscal 2011.

Shareholder Return Performance Presentation

The following chart compares the value of $100 invested in our common shares, including reinvestment of dividends, with a similar investment in the Russell 2000 Index (the Russell 2000) and with the companies listed in the SIC Code 5045-Computer and Computer Peripheral Equipment and Software for the period March 31, 2007 through March 31, 2012. The stock price performance in this graph is not necessarily indicative of the future performance of our common shares.

Comparison of 5 Year Cumulative Total Return

INDEXED RETURNS

		Fiscal Years Ended March 31,				
Company Name / Index	Base Period 2007	2008	2009	2010	2011	2012
Agilysys, Inc.	$ 100.00	$ 51.97	$ 19.68	$ 51.69	$ 26.57	$ 41.61
Russell 2000	$ 100.00	$ 87.01	$ 54.38	$ 88.51	$ 111.34	$ 111.13
Peer Group	$ 100.00	$ 80.67	$ 60.08	$ 87.11	$ 107.02	$ 95.98

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference into any of our filings under the Securities Act of 1933, as amended, of the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 6. Selected Financial Data.

The following selected consolidated financial and operating data was derived from our audited consolidated financial statements and the current and prior period operating results of TSG have been classified within discontinued operations for all periods presented as discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7 contained in Part II of this Annual Report.

	For the year ended March 31,				
(In thousands, except per share data)	**2012**	2011	2010	2009	2008
Operating results					
Net revenue	**$ 208,889**	$ 202,681	$ 193,506	$ 220,888	$ 214,601
Gross profit	**79,836**	75,639	74,008	86,099	75,690
Operating loss	**(41,190)**	(21,625)	(14,880)	(184,371)	(29,777)
Loss from continuing operations, net of taxes	**(34,239)**	(22,975)	(7,630)	(178,644)	(13,331)
Income (loss) from discontinued operations, net of taxes	**11,456**	(32,500)	11,177	(105,490)	16,990
Net (loss) income	**$ (22,783)**	$ (55,475)	$ 3,547	$ (284,134)	$ 3,659
Per share data (1)					
Basic and diluted					
Loss from continuing operations	**$ (1.53)**	$ (1.01)	$ (0.34)	$ (7.91)	$ (0.47)
Income (loss) from discontinued operations	**0.51**	(1.43)	0.49	(4.67)	0.60
Net (loss) income	**$ (1.02)**	$ (2.44)	$ 0.15	$ (12.58)	$ 0.13
Weighted-average shares outstanding Basic and diluted	**22,432**	22,785	22,627	22,587	28,252
Balance sheet data at year end					
Cash and cash equivalents	**$ 97,587**	$ 74,354	$ 65,535	$ 36,451	$ 70,596
Working capital	**76,286**	83,005	88,978	72,150	90,536
Total assets (2)	**204,139**	312,398	330,449	374,436	695,871
Total debt	**994**	1,906	819	623	987
Total shareholders equity	**114,438**	148,104	198,924	192,717	479,465

(1) When a loss is reported, the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of share-based compensation awards because doing so would be anti-dilutive. In addition, when a loss from continuing operations is reported, adjusting the denominator of diluted earnings per share would also be anti-dilutive to the loss per share, even if the entity has net income after adjusting for a discontinued operation. Therefore, for the fiscal years ended March 31, 2012, 2011 and 2010, basic weighted-average shares outstanding were used in calculating the diluted net loss per share.

(2) The decrease in assets from fiscal 2008 to 2009 is primarily due to a goodwill impairment charge of $246.3 million and a finite intangible impairment charge of $3.8 million. The decrease in assets from fiscal 2011 to 2012 is due to the sale of TSG.

Item 7. 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 and subsidiaries including:

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

The MD&A analyzes changes in specific line items in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows and provides information that management believes is important to assessing and understanding our consolidated financial condition and results of operations. The discussion should be read in conjunction with the Consolidated Financial Statements and related Notes that appear in Item 15 of this Annual Report titled, Financial Statements and Supplementary Data. Information provided in the MD&A may include forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to be materially different from those contained in the forward-looking statements. See Forward-Looking Information on page 3 and Item 1A Risk Factors in Part I of this Annual Report for additional information concerning these items. Management believes that this information, discussion, and disclosure is important in making decisions about investing in Agilysys.

Overview

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

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

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

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

Our strategic plan specifically focuses on:

- Strong customer focus, with clear and realistic service commitments.
- Growing sales of our proprietary offerings: products, support, maintenance and subscription services and professional services.
- Diversifying our customer base across geographies and industries.
- Capitalizing on our intellectual property and emerging technology trends.

Revenue Defined

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

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

Products revenue Revenue earned from the sales of hardware equipment and proprietary and remarketed software.
Support, maintenance and subscription services revenue Revenue earned from the sale of proprietary and remarketed ongoing support, maintenance and subscription or hosting services.
Professional services revenue Revenue earned from the delivery of implementation, integration and installation services for proprietary and remarketed products.

Matters Affecting Comparability

On August 1, 2011, we completed the sale of our Technology Solutions Group (TSG) business to OnX Enterprise Solutions Limited and its subsidiary OnX Acquisition LLC (together OnX). For financial reporting purposes, TSG s operating results for fiscal 2012 through the completion of the sale and for the fiscal 2011 and fiscal 2010 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.

Results of Operations

Fiscal 2012 Compared with Fiscal 2011

Net Revenue and Operating Loss

The following table presents our consolidated revenue and operating results for the fiscal years ended March 31, 2012 and 2011:

	Year ended March 31,		Increase (decrease)	
(Dollars in thousands)	**2012**	2011	$	%
Net revenue:				
Products	**$ 105,141**	$ 104,769	$ 372	0.4%
Support, maintenance and subscription services	**73,171**	70,729	2,442	3.5%
Professional services	**30,577**	27,183	3,394	12.5%
Total	**208,889**	202,681	6,208	3.1%
Cost of goods sold:				
Products	**83,550**	80,090	3,460	4.3%
Support, maintenance and subscription services	**25,706**	25,507	199	0.8%
Professional services	**19,797**	21,445	(1,648)	(7.7)%
Total	**129,053**	127,042	2,011	1.6%
Gross profit	**79,836**	75,639	4,197	5.5%
Gross profit margin	***38.2%***	*37.3%*		
Operating expenses:				
Product development	**30,309**	27,531	2,778	10.1%
Sales and marketing	**24,006**	22,212	1,794	8.1%
General and administrative	**32,889**	37,121	(4,232)	(11.4)%
Depreciation of fixed assets	**4,602**	3,914	688	17.6%
Amortization of intangibles	**3,686**	5,122	(1,436)	(28.0)%
Asset impairments and related charges	**9,681**	959	8,722	nm
Restructuring and related charges	**15,853**	405	15,448	nm
Operating loss	**$ (41,190)**	$ (21,625)	$ (19,565)	90.5%
Operating loss percentage	***(19.7)%***	*(10.7)%*		

nm not meaningful.

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

	Year ended March 31,	
	2012	2011
Net revenue:		
Products	**50.3%**	51.7%
Support, maintenance and subscription services	**35.0**	34.9
Professional services	**14.7**	13.4
Total net revenue	**100.0**	100.0
Cost of goods sold:		
Products	**40.0**	39.5
Support, maintenance and subscription services	**12.3**	12.6
Professional services	**9.5**	10.6
Total cost of goods sold	**61.8**	62.7
Gross profit	**38.2**	37.3
Operating expenses:		
Product development	**14.5**	13.6
Sales and marketing	**11.5**	11.0
General and administrative	**15.7**	18.3
Depreciation of fixed assets	**2.2**	1.9
Amortization of intangibles	**1.8**	2.5
Asset impairments and related charges	**4.6**	0.5
Restructuring and related charges	**7.6**	0.2
Operating loss	**(19.7)**	(10.7)

The following table presents our revenue and operating results by business segment for the fiscal years ended March 31, 2012 and 2011:

	Year ended March 31,		Increase (decrease)	
(Dollars in thousands)	**2012**	2011	$	%
Hospitality (HSG)				
Revenue from external customers:				
Products	**$ 25,148**	$ 35,306	$ (10,158)	(28.8)%
Support, maintenance and subscription services	**48,072**	45,053	3,019	6.7%
Professional services	**13,155**	13,650	(495)	(3.6)%
Total revenue from external customers	**86,375**	94,009	(7,634)	(8.1)%
Gross profit	**$ 55,354**	$ 54,669	$ 685	1.3%
Gross profit margin	***64.1%***	*58.2%*		
Operating (loss) income	**$ (6,552)**	$ 5,836	$ (12,388)	(212.3)%
Retail (RSG)				
Revenue from external customers:				
Products	**$ 79,993**	$ 69,463	$ 10,530	15.2%
Support, maintenance and subscription services	**25,099**	25,676	(577)	(2.2)%
Professional services	**17,422**	13,533	3,889	28.7%
Total revenue from external customers	**122,514**	108,672	13,842	12.7%
Gross profit	**$ 24,482**	$ 20,970	$ 3,512	16.7%
Gross profit margin	***20.0%***	*19.3%*		
Operating income	**$ 5,481**	$ 3,164	$ 2,317	73.2%
Total reportable business segments				
Total revenue from external customers	**$ 208,889**	$ 202,681	$ 6,208	3.1%
Gross profit	**$ 79,836**	$ 75,639	$ 4,197	5.5%
Gross profit margin	***38.2%***	*37.3%*		
Operating (loss) income	**$ (1,071)**	$ 9,000	$ (10,071)	(111.9)%
Corporate/Other				
Gross profit	**$**	$	$	
Operating loss	**$ (40,119)**	$ (30,625)	$ (9,494)	(31.0)%
Total Company				
Total revenue from external customers	**$ 208,889**	$ 202,681	$ 6,208	3.1%
Gross profit	**$ 79,836**	$ 75,639	$ 4,197	5.5%
Gross profit margin	***38.2%***	*37.3%*		
Operating loss	**$ (41,190)**	$ (21,625)	$ (19,565)	90.5%

nm not meaningful

Net revenue. Total net revenue increased $6.2 million or 3.1% during fiscal 2012 compared to fiscal 2011. Products revenue, support, maintenance and subscription services revenue and professional services revenue increased $0.4 million, $2.4 million and $3.4 million, respectively.

HSG s revenue decreased $7.6 million or 8.1% in fiscal 2012 compared to fiscal 2011. The decrease in products revenue of approximately $10.1 million was driven by lower volumes in our remarketed products as well as a decline in perpetual software licenses with a shift in strategy to focus on selling subscription based services revenue which is typically recognized over a five year period. In addition, products revenue was negatively impacted by the errors identified in the manner in which we recognized revenue for certain software license and professional services arrangements in prior periods. The out of period impact for errors accumulated prior to fiscal 2012 was approximately $1.0 million (see Note 2, *Summary of Significant Accounting Policies,* in the Consolidated Financial Statements). The $3.0 million or 6.7% increase in support, maintenance and subscription services in fiscal 2012 was the result of growth in both subscription based revenue and ongoing support from traditional proprietary products.

RSG s revenue increased $13.8 million or 12.7 % in fiscal 2012 compared to fiscal 2011. The increase in products and professional services revenue of approximately $10.5 million or 15.2 % and $3.9 million or 28.7%, respectively, are the result of higher volumes associated with several multi-location, multi-year contracts for remarketed products. We experienced a decline in support, maintenance and subscription services revenue of approximately $0.6 million or 2.2 % as a result of not renewing certain support contracts that were less accretive to gross profit than desired.

Gross profit and gross profit margin. Our total gross profit increased $4.2 million or 5.5% for fiscal 2012 and total gross profit margin increased 90 basis points. Products gross profit decreased $3.1 million and gross profit margin decreased 300 basis points. Support, maintenance and subscription services gross profit increased $2.2 million and gross margin percentage increased 90 basis points. Professional services gross margin increased $5.0 million and gross profit margin increased 1,410 basis points.

HSG s gross profit increased $0.7 million or 1.3% for fiscal 2012 and gross profit margin improved 590 basis points to 64.1% in fiscal 2012 from 58.2% in fiscal 2011. This is primarily due to professional services gross profit margin improvement of 2,070 basis points as a result of efficient management of project labor within implementation services. In addition, products gross profit margin improved 80 basis points as a result of selling higher margin opportunities. The support, maintenance and subscription services gross profit margin declined less than 100 basis points as a result of additional labor resources being dedicated to product enhancement.

RSG s gross profit increased $3.5 million or 16.7% for fiscal 2012 and gross profit margin increased 70 basis points to 20.0% in fiscal 2012 compared with 19.3% in fiscal 2011. This is primarily due to higher professional service margins yielding an improvement of 1,040 basis points as a result of improved labor efficiencies. The support gross profit margins increased approximately 130 basis points in line with our continued strategic initiatives focused on more profitable revenue streams. Products gross profit margin declined less than 100 basis points consistent with price compression associated with remarketed products in the market.

Operating expenses

Operating expenses, excluding the one-time charges for asset impairments and related charges and restructuring and related charges, decreased $0.4 million or 0.4% in fiscal 2012 compared with fiscal 2011. On a segment basis, HSG and RSG increased $2.1 million and $0.6 million, respectively, and Corporate decreased $3.1 million.

Product development. Product development includes all costs associated with research and development. Product development increased $2.8 million or 10.1% in fiscal 2012 compared with fiscal 2011. Product development expenses increased $2.0 million in HSG and $0.8 million in RSG in fiscal 2012 compared to fiscal 2011. This increase at both segments is driven by the continued investment in internal resources to enhance the existing products and develop our future platforms as well as at RSG by the incremental costs associated with employee incentives due to over-achievement of operating unit targets.

Sales and marketing. Sales and marketing increased $1.8 million or 8.1% in fiscal 2012 compared with fiscal 2011. Sales and marketing expenses increased $1.1 million in HSG and $0.7 million in RSG in fiscal 2012 compared to fiscal 2011. This increase in HSG is a result of investment in domestic and international sales resources as well, as a one-time specific bad debt expense of $0.4 million. The increase in RSG is associated with employee incentives due to over-achievement of operating unit targets.

General and administrative. General and administrative decreased $4.2 million or 11.4% in fiscal 2012 compared to fiscal 2011. General and administrative expenses decreased $1.1 million in HSG, $1.2 million in RSG and $1.9 million in Corporate. HSG and RSG expenses decreased as a result of lower employee related costs created by efficiencies in back-office processes. The Corporate savings are a result of the restructuring and moving the corporate services from Solon, Ohio to Alpharetta, Georgia as well as certain one-time professional fees incurred in 2011 that did not repeat in fiscal 2012 associated with the post-implementation efforts of the Oracle ERP system.

Depreciation of fixed assets. Depreciation of fixed assets increased $0.7 million on a consolidated basis driven by the $0.3 million for leasehold improvements at our new corporate services offices in Alpharetta, Georgia and $0.3 million for additional depreciation related to the asset retirement obligation.

Amortization of intangibles. Amortization of intangibles decreased $1.4 million or 28.0% in fiscal 2012. This decrease is due to certain internal use software reaching their useful lives in fiscal 2011.

Asset impairments and related charges. We recorded asset impairments and related charges of $9.7 million and $1.0 million in fiscal 2012 and fiscal 2011, respectively. During the fourth quarter of 2012, it was determined that certain developed technologies would no longer be offered for sale. As a result, we have impaired the entire remaining assets of $8.6 million, and the accrued estimated costs associated with a transition plan for all of the existing customers off of this platform of $1.1 million. In fiscal 2011, we concluded that certain internally developed software within HSG was no longer being sold. As a result, we recorded an impairment charge of $0.1 million. Also in fiscal 2011, we concluded that we were no longer using certain indefinite-lived intangible assets related to HSG trade names. Accordingly, we recorded an impairment charge of $0.9 million.

Restructuring and related charges. We recorded restructuring and related charges of $15.9 million and $0.4 million during fiscal 2012 and 2011, respectively. Under the fiscal 2012 restructuring plan we recorded restructuring charges comprised of primarily $3.5 million of lease termination and related facility closing costs and $8.0 million of severance and related benefits in each segment. In addition, we incurred accelerated depreciation of $4.4 million of property and equipment that was due to the relocation of our previous corporate services in Solon, Ohio to Alpharetta, Georgia, and closing our facilities in Emeryville, California and Frederick, Maryland in the fourth quarter of fiscal 2012. Our restructuring actions are discussed further in the subsection of this MD&A titled, *Restructuring and Related Charges* and in Note 4 to the Consolidated Financial Statements titled, *Restructuring and Related Charges*.

The restructuring charges recorded in fiscal 2011 consist of settlement costs of $0.4 million related to the payment of an obligation under Agilysys nonqualified executive retirement defined benefit pension plan for an executive officer (the SERP) who was part of the fiscal 2009 restructuring actions.

Other (Income) Expenses

	Year ended March 31,		(Unfavorable) favorable	
(Dollars in thousands)	**2012**	2011	$	%
Other (income) expenses				
Interest income	**$ (103)**	$ (73)	$ 30	41.1%
Interest expense	**978**	1,297	319	24.6%
Other expense (income), net	**181**	(2,294)	(2,475)	(107.9)%
Total other expenses (income), net	**$ 1,056**	$ (1,070)	$ (2,126)	(198.7)%

Interest income. Interest income increased slightly during fiscal 2012 compared to fiscal 2011 as a result of interest earned from the investment in treasury notes with the cash proceeds from the sale of TSG during the third quarter of fiscal 2012.

Interest expense. Interest expense consists of costs associated with our Credit Facility, the amortization of deferred financing fees, loans on corporate-owned life insurance policies, and capital leases. Interest expense decreased $0.3 million in fiscal 2012 compared to fiscal 2011 due to the termination of the Credit Facility. We terminated the Credit Facility in July 2011 and immediately expensed approximately $0.4 million in unamortized deferred financing fees related to the former Credit Facility.

Other (income) expenses, net. In fiscal 2012, the $0.2 million of other expense primarily consists of losses recognized as a result of movements in foreign currencies relative to the U.S. dollar. In fiscal 2011, the $2.3 million in other income primarily included a gain of $2.1 million recorded on the $2.2 million in proceeds received as a death benefit from certain corporate-owned life insurance policies.

Income Taxes

The following table compares our income tax (benefit) expense and effective tax rates for the fiscal years ended March 31, 2012 and 2011:

	Year ended March 31,		(Unfavorable) favorable	
(Dollars in thousands)	**2012**	2011	$	%
Income tax (benefit) expense	**$ (8,007)**	$ 2,420	$ 10,427	nm
Effective tax rate	**(19.0)%**	(11.8)%		

nm not meaningful

We recorded an effective tax rate benefit from continuing operations of 19.0% in fiscal 2012 compared with an effective tax rate expense of 11.8% in fiscal 2011.

For the years ended March 31, 2012 and 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 in the fiscal 2012 include foreign and state taxes, a decrease in unrecognized tax benefits attributable to expiration of statute of limitations, and other U.S. permanent book to tax differences. In fiscal 2011, an increase in the valuation allowance was recorded due to the correction of an error, as more fully described in Note 2 to the Consolidated Financial Statements titled, *Summary of Significant Accounting Policies*. Other items effecting the rate in fiscal 2011 include non-taxable life insurance proceeds, a decrease in unrecognized tax benefits attributable to the expiration of statute of limitations, and other U.S. permanent book to tax differences.

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

Fiscal 2011 Compared with Fiscal 2010

Net Revenue and Operating Loss

The following table presents our consolidated revenue and operating results for the fiscal years ended March 31, 2011 and 2010:

	Year ended March 31,		(Decrease) increase	
(Dollars in thousands)	**2011**	2010	$	%
Net revenue:				
Products	**$ 104,769**	$ 103,501	$ 1,268	1.2%
Support, maintenance and subscription services	**70,729**	63,218	7,511	11.9%
Professional services	**27,183**	26,787	396	1.5%
Total	**202,681**	193,506	9,175	4.7%
Cost of goods sold:				
Products	**80,090**	80,825	(735)	(0.9)%
Support, maintenance and subscription services	**25,507**	23,148	2,359	10.2%
Professional services	**21,445**	15,525	5,920	38.1%
Total	**127,042**	119,498	7,544	6.3%
Gross profit	**75,639**	74,008	1,631	2.2%
Gross profit margin	**37.3%**	38.2%		
Operating expenses:				
Product development	**27,531**	28,241	(710)	(2.5)%
Sales and marketing	**22,212**	20,334	1,878	9.2%
General and administrative	**37,121**	31,116	6,005	19.3%
Depreciation of fixed assets	**3,914**	3,260	654	