

AGILYSYS INC
Form DEFA14A
June 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

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Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Agilysys, Inc.

(Name of Registrant as Specified In Its Charter)

n/a

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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FOR IMMEDIATE RELEASE

**Agilysys Announces Unaudited Fiscal 2011 Fourth-Quarter
and Full-Year Financial Results**

Consolidated Revenue Advances 5.8% in Fiscal 2011 Fourth Quarter Compared with Fiscal 2010 Fourth Quarter

Fiscal Year 2011 Revenue Grew 6.5% From Fiscal 2010, Led by 23% Increase in Software Sales

Cash on Hand at Fiscal Yearend Increases 13% to \$74.4 Million

Corporate Headquarters to Be Relocated to Alpharetta, Ga., in Fiscal 2012

CLEVELAND June 14, 2011 Agilysys, Inc. (**Nasdaq: AGYS**), a leading provider of innovative IT solutions, today announced unaudited financial results for the fiscal 2011 fourth quarter and full year ended March 31, 2011.

Fourth-Quarter 2011 Unaudited Results of Operations

Fourth-quarter consolidated sales increased 5.8% to \$143.8 million, compared with \$135.8 million in the final quarter of fiscal 2010. Net revenues grew 16.5% and 8.7% in the Company's Hospitality Solutions Group (HSG) and Technology Solutions Group (TSG), respectively, more than offsetting a 13.6% decline in its Retail Solutions Group (RSG).

Gross margin contracted to 25.3% of sales, compared with 26.4% of sales in the fiscal 2010 fourth quarter. Margins were negatively impacted during the quarter due to lower services margins and vendor rebates.

Selling, general and administrative (SG&A) expense was \$44.8 million for the quarter, an increase of \$2.9 million from the prior year, primarily due to higher incentive compensation.

During the quarter, the Company conducted its annual goodwill impairment test and concluded certain goodwill and intangible assets related primarily to its TSG business segment were impaired. As a result, the Company recorded a non-cash impairment charge of \$37.7 million during the fiscal 2011 fourth quarter.

The reported operating loss for the quarter, which included the impairment charge and \$0.8 million in restructuring charges, was \$46.9 million. Adjusted EBITDA (operating loss plus depreciation and amortization), excluding asset impairment and restructuring charges, from continuing operations was a loss of \$5.1 million for the quarter, compared with a loss of \$2.9 million a year ago (see table attached).

The net loss from continuing operations for the quarter was \$45.0 million, or a loss of \$1.97 per diluted share, compared with a net loss from continuing operations of \$0.5 million, or a loss of \$0.02 per diluted share, in the prior-year fourth quarter.

James Dennedy, interim president and chief executive officer, commented: Looking ahead to fiscal 2012, we are optimistic that the decisions and actions taken subsequent to the March fiscal yearend will enhance shareholder value. After the proposed divestiture of the TSG segment is completed, Agilysys will have two industry-leading businesses that will serve as a solid platform for profitable future growth.

A major theme of the ongoing restructuring is to tighten our cost controls and better align corporate functions with our operating businesses. To that end, today we also announced that the Board of Directors has approved a restructuring plan, as well as the relocation of the Company's corporate functions from Solon, Ohio, to Alpharetta, Ga., during fiscal 2012.

Fiscal 2011 Unaudited Results of Operations

Full-year revenue in fiscal 2011 increased 6.5% to \$675.5 million from \$634.3 million in fiscal 2010 due to improvement in customer demand and bundling more remarketed software with hardware purchases. Sales of hardware, software and services increased 4%, 23% and 7%, respectively, compared with the prior year.

Full-year gross profit declined 2.4% to \$157.7 million, versus \$161.5 million in fiscal 2010. Gross margin as a percentage of sales was 23.3% in fiscal 2011, compared with 25.5% last year. Gross margin was negatively impacted by lower vendor rebates and services margins.

SG&A expense increased 3.6% to \$173.2 million, compared with \$167.2 million in the prior fiscal year. The increase was primarily due to higher incentive compensation, Guest360™ development costs that were capitalized in fiscal 2010 and higher costs associated with the Company's ERP implementation in fiscal 2011.

Including the aforementioned asset impairment and restructuring charges, the operating loss for the year was \$54.4 million, compared with the operating loss of \$6.8 million in fiscal 2010. Charges related to restructuring and asset impairment totaled \$38.9 million in fiscal 2011, versus \$1.1 million in the prior year. Adjusted EBITDA from continuing operations, excluding asset impairment and restructuring charges, was a loss of \$1.9 million for fiscal 2011, compared with a positive \$10.1 million a year ago (see table attached).

The fiscal year 2011 net loss from continuing operations was \$55.5 million, or \$2.44 per diluted share. This compares with net income from continuing operations of \$3.6 million, or \$0.15 per diluted share, last year.

Liquidity

Cash on hand grew \$8.8 million during the year, reaching \$74.4 million at the end of fiscal 2011 due to lower investments in working capital. The Company remains debt free, except for certain capital leases.

Business Outlook

Management indicated that, at this time, it is not prepared to provide guidance for fiscal 2012. As soon as practicable after the close of the proposed TSG transaction, the Company intends to provide estimates regarding the cost of restructuring, as well as the expected impact of the restructuring on fiscal 2012's anticipated results.

The Company plans to file its Form 10-K with the SEC later today.

Conference Call Information

A conference call will be held today at 11:00 a.m. ET. A slide deck, which will be the basis for the review, will accompany the conference call. Both the slide deck and the conference call can be accessed via the Investor Relations section of www.agilysys.com. In addition, a replay of the call will be archived on the website.

Additional Information

In connection with the proposed TSG divestiture, the Company will file a proxy statement with the Securities and Exchange Commission (SEC). INVESTORS ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND THE COMPANY. You will be

able to obtain the proxy statement, as well as other filings containing information about the Company, free of charge, at the website maintained by the SEC at www.sec.gov. Copies of the proxy statement and other filings made by the Company with the SEC can also be obtained, free of charge, by directing a request to Agilysys Inc., 28925 Fountain Parkway, Solon, Ohio, 44139, Attention: Treasurer.

Participants in the Solicitation

The Company and its directors and officers may be deemed to be participants in the solicitation of proxies from the Company's shareholders with respect to the special meeting of shareholders that will be held to consider the proposed transaction. Information about the Company's directors and executive officers and their ownership of the Company's common stock is set forth in the proxy statement for the Company's Annual Meeting of shareholders, which was filed with the SEC on June 25, 2010. Shareholders may obtain additional information regarding the interests of the Company and its directors and executive officers in the proposed transaction, which may be different than those of the Company's shareholders generally, by reading the proxy statement and other relevant documents regarding the proposed transaction, when filed with the SEC.

Forward-Looking Language

This release 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 release 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. 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, and unanticipated deterioration in economic and financial conditions in the United States and around the world or the consequences; uncertainties associated with the proposed sale of the Company's TSG business to OnX Enterprise Solutions, including uncertainties related to the anticipated timing of filings and approvals relating to the transaction, the expected timing of completion of the transaction and the ability to complete the transaction. 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.

Other potential risks and uncertainties that may cause actual results to be materially different from those in forward-looking information are described in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC), under Item 1A, Risk Factors. Copies are available from the SEC or the Agilysys website.

Use of Non-GAAP Financial Information

To supplement the unaudited condensed consolidated financial statements presented in accordance with U.S. GAAP in this presentation, certain non-GAAP financial measures as defined by the SEC rules are used. Management believes that such information can enhance investors' understanding of the company's ongoing operations. The non-GAAP measures included in this presentation have been reconciled to the comparable GAAP measures within an accompanying table, shown on the last page of this presentation.

About Agilysys

Agilysys is a leading developer and marketer 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 & procurement, and mobile & wireless solutions that are designed to streamline

operations, improve efficiency and enhance the consumer's experience. Agilysys serves casinos, resorts, hotels, foodservice venues, stadiums, cruise lines, grocery stores, convenience stores, general & specialty retail businesses, and partners. Headquartered in Cleveland, Agilysys operates extensively throughout North America, with additional sales and support offices in the United Kingdom, Singapore and Hong Kong. For more information, visit www.agilysys.com

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AGILYSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)	Three Months Ended March 31,		Year Ended March 31,	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010
Net sales:				
Products	\$ 111,806	\$ 103,709	\$ 545,348	\$ 512,459
Services	31,971	32,139	130,122	121,861
Total net sales	143,777	135,848	675,470	634,320
Cost of goods sold:				
Products	93,917	87,787	460,969	421,431
Services	13,535	12,234	56,810	51,362
Total cost of goods sold	107,452	100,021	517,779	472,793
Gross margin	36,325	35,827	157,691	161,527
Selling, general and administrative expenses	44,823	41,907	173,211	167,248
Asset impairment charges	37,662	55	37,721	293
Restructuring charges	789	78	1,195	823
Operating loss	(46,949)	(6,213)	(54,436)	(6,837)
Other (income) expenses:				
Other income, net	(43)	(213)	(2,320)	(6,176)
Interest income	(69)	(4)	(130)	(31)
Interest expense	421	282	1,301	970
Loss before income taxes	(47,258)	(6,278)	(53,287)	(1,600)
Income tax (benefit) expense	(2,251)	(5,769)	2,188	(5,176)
(Loss) income from continuing operations	(45,007)	(509)	(55,475)	3,576
Income (loss) from discontinued operations, net of taxes		9		(29)
Net (loss) income	\$ (45,007)	\$ (500)	\$ (55,475)	\$ 3,547
Earnings per share basic:				
(Loss) income from continuing operations	\$ (1.97)	\$ (0.02)	\$ (2.44)	\$ 0.16
Net (loss) income	\$ (1.97)	\$ (0.02)	\$ (2.44)	\$ 0.16
Earnings per share diluted:				
(Loss) income from continuing operations	\$ (1.97)	\$ (0.02)	\$ (2.44)	\$ 0.15
Net (loss) income	\$ (1.97)	\$ (0.02)	\$ (2.44)	\$ 0.15
Weighted average shares outstanding				
Basic	22,805,434	22,628,788	22,785,192	22,626,586
Diluted	22,805,434	22,628,788	22,785,192	23,087,742
Cash dividends per share	\$	\$	\$	\$ 0.06

AGILYSYS, INC.

BUSINESS SEGMENT INFORMATION

<i>(In thousands)</i>	Three Months Ended March 31, 2011 (Unaudited)					Year Ended March 31, 2011 (Unaudited)				
	Reportable Segments			Corporate/	Consolidated	Reportable Segments			Corporate/	Consolidated
	HSG	RSG	TSG	Other		HSG	RSG	TSG	Other	
Total revenue	\$ 24,814	\$ 22,015	\$ 97,145	\$	\$ 143,974	\$ 92,839	\$ 109,147	\$ 474,052	\$	\$ 676,038
Elimination of intersegment revenue	(26)	(171)			(197)	(92)	(476)			(568)
Revenue from external customers	\$ 24,788	\$ 21,844	\$ 97,145	\$	\$ 143,777	\$ 92,747	\$ 108,671	\$ 474,052	\$	\$ 675,470
Gross margin	\$ 15,821	\$ 3,958	\$ 16,546	\$	\$ 36,325	\$ 54,669	\$ 20,970	\$ 82,052	\$	\$ 157,691
<i>Gross margin percentage</i>	<i>63.8%</i>	<i>18.1%</i>	<i>17.0%</i>		<i>25.3%</i>	<i>58.9%</i>	<i>19.3%</i>	<i>17.3%</i>		<i>23.3%</i>
Operating income (loss)	\$ 1,622	\$ (520)	\$ (41,288)	\$ (6,763)	\$ (46,949)	\$ 6,030	\$ 3,369	\$ (31,736)	\$ (32,099)	\$ (54,436)
Other income, net				(43)	(43)				(2,320)	(2,320)
Interest expense, net				352	352				1,171	1,171
Income (loss) from continuing operations before income taxes	\$ 1,622	\$ (520)	\$ (41,288)	\$ (7,072)	\$ (47,258)	\$ 6,030	\$ 3,369	\$ (31,736)	\$ (30,950)	\$ (53,287)
Other information:										
Capital expenditures	\$ 1,249	\$ 1	\$ 45	\$ 26	\$ 1,321	\$ 3,760	\$ 623	\$ 914	\$ 1,694	\$ 6,991
Other charges:										
Depreciation and amortization - non-cash (1)	\$ 1,091	\$ 203	\$ 329	\$ 1,771	\$ 3,394	\$ 4,297	\$ 449	\$ 2,881	\$ 5,987	\$ 13,614
Asset impairment charges - non-cash	900		36,762		37,662	959		36,762		37,721
Restructuring charges - cash			790		790			790		790
Restructuring charges (credits) - non-cash				(1)	(1)				405	405
Total	\$ 1,991	\$ 203	\$ 37,881	\$ 1,770	\$ 41,845	\$ 5,256	\$ 449	\$ 40,433	\$ 6,392	\$ 52,530

	Three Months Ended March 31, 2010 (Unaudited)					Year Ended March 31, 2010				
	Reportable Segments			Corporate/	Consolidated	Reportable Segments			Corporate/	Consolidated
	HSG	RSG	TSG	Other		HSG	RSG	TSG	Other	
Total revenue	\$ 21,313	\$ 25,373	\$ 89,295	\$	\$ 135,981	\$ 83,361	\$ 110,506	\$ 440,887	\$	\$ 634,754
Elimination of intersegment revenue	(33)	(91)	(9)		(133)	(206)	(155)	(73)		(434)
Revenue from external customers	\$ 21,280	\$ 25,282	\$ 89,286	\$	\$ 135,848	\$ 83,155	\$ 110,351	\$ 440,814	\$	\$ 634,320
Gross margin	\$ 13,374	\$ 5,840	\$ 16,613	\$	\$ 35,827	\$ 51,463	\$ 23,326	\$ 87,501	\$ (763)	\$ 161,527
<i>Gross margin percentage</i>	<i>62.8%</i>	<i>23.1%</i>	<i>18.6%</i>		<i>26.4%</i>	<i>61.9%</i>	<i>21.1%</i>	<i>19.8%</i>		<i>25.5%</i>
Operating income (loss)	\$ 2,220	\$ 737	\$ (1,531)	\$ (7,639)	\$ (6,213)	\$ 7,666	\$ 5,759	\$ 9,407	\$ (29,669)	\$ (6,837)

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Other income, net				(213)	(213)				(6,176)	(6,176)
Interest expense, net				278	278				939	939
Income (loss) from continuing operations before income taxes	\$ 2,220	\$ 737	\$ (1,531)	\$ (7,704)	\$ (6,278)	\$ 7,666	\$ 5,759	\$ 9,407	\$ (24,432)	\$ (1,600)
Other information:										
Capital expenditures	\$ 1,041	\$	\$ 41	\$ 2,552	\$ 3,634	\$ 4,694	\$ 31	\$ 103	\$ 8,478	\$ 13,306
Non-cash charges:										
Depreciation and amortization (1)	\$ 1,029	\$ 55	\$ 839	\$ 1,266	\$ 3,189	\$ 4,337	\$ 198	\$ 6,418	\$ 4,876	\$ 15,829
Asset impairment charges			55		55	90		55	148	293
Restructuring charges				78	78				823	823
Total	\$ 1,029	\$ 55	\$ 894	\$ 1,344	\$ 3,322	\$ 4,427	\$ 198	\$ 6,473	\$ 5,847	\$ 16,945

(1) Does not include the amortization of deferred financing fees totaling \$131 and \$139 for the three months ended March 31, 2011 and 2010, respectively, and \$524 and \$485 for the year ended March 31, 2011 and 2010, respectively.

AGILYSYS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(In thousands, except share and per share data)</i>	March 31, 2011 (Unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 74,354	\$ 65,535
Accounts receivable, net	123,666	104,808
Inventories, net	20,632	14,446
Deferred income taxes - current, net		144
Prepaid expenses	3,063	4,399
Other current assets	6,494	726
Income taxes receivable	1,583	10,394
 Total current assets	 229,792	