

AGILYSYS INC
Form 8-K
April 05, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K**

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Date of Report: March 31, 2007

(Date of earliest event reported)

AGILYSYS, INC.

(Exact name of registrant as specified in its charter)

Ohio

000-5734

34-0907152

(State or other jurisdiction of
incorporation)

(Commission File Number)

(IRS Employer Identification No.)

2255 Glades Road, Suite 301E, Boca Raton, Florida

33431

(Address of principal executive offices)

(ZIP Code)

Registrant's telephone number, including area code: (561) 999-8700

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.01. Completion of Acquisition or Disposal of Assets.

On March 31, 2007 Agilysys, Inc. and its wholly-owned subsidiary, Agilysys Canada Inc., (together, Agilysys or Company) completed the previously announced sale of the assets and operations of its KeyLink Systems Distribution Business (KeyLink Systems) to Arrow Electronics, Inc. and its wholly-owned subsidiaries, Arrow Electronics Canada Ltd. and Support Net, Inc., (together, Arrow) pursuant to an Asset Purchase Agreement dated January 2, 2007 by and among Agilysys as the seller and Arrow as the buyer. The Asset Purchase Agreement was filed with the Securities and Exchange Commission on Form 8-K dated January 5, 2007. The sale price was \$485 million in cash and is subject to a working capital adjustment to be determined shortly after close.

Item 9.01. Financial Statements and Exhibits.

(b) Pro forma financial information

The following unaudited pro forma consolidated financial statements are based on the historical consolidated financial statements of Agilysys after giving effect to the sale of KeyLink Systems to Arrow, the receipt of net proceeds from the sale, and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated balance sheet as of December 31, 2006 gives effect to the transaction and adjustments as if they had occurred on the date of the balance sheet. The unaudited pro forma consolidated statements of operations for the nine months ended December 31, 2006 and the fiscal years ended March 31, 2006, 2005, and 2004 give effect to the transaction and adjustments as if they had occurred on April 1, 2003 and carried forward through the latest interim period presented.

The unaudited pro forma consolidated financial statements should be read in conjunction with the historical audited consolidated financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended March 31, 2006.

The unaudited pro forma consolidated financial statements, including the notes thereto, are not necessarily indicative of what the actual financial results would have been had the transaction taken place on the dates indicated and do not purport to indicate the results of future operations.

The pro forma adjustments are described in the accompanying notes and are based upon information and assumptions available at the time of filing this Form 8-K.

The unaudited pro forma consolidated financial statements are prepared in accordance with Article 11 of Regulation S-X.

Agilysys, Inc.
Unaudited Condensed Consolidated Pro Forma Balance Sheet
December 31, 2006
(In Thousands)

| | As Reported | Sale of KeyLink Systems Distribution Business | Pro Forma Adjustments | Pro Forma |
|--|-------------------|---|--------------------------|-------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 101,010 | | \$ 473,700 (b) | \$ 574,710 |
| Accounts receivable, net | 455,866 | (303,264) (a) | | 152,602 |
| Inventories, net | 62,547 | (52,641) (a) | | 9,906 |
| Deferred income taxes | 8,243 | | | 8,243 |
| Prepaid expenses and other current assets | 6,126 | (2,513) (a) | | 3,613 |
| Assets of discontinued operations | 431 | | | 431 |
| Total current assets | 634,223 | (358,418) | | 749,505 |
| Goodwill | 191,374 | | (109,274) (c) | 82,100 |
| Intangible assets, net | 9,447 | | | 9,447 |
| Investments in affiliated companies | 16,352 | | | 16,352 |
| Other non-current assets | 30,760 | (2,024) (a) | | 28,736 |
| Property and equipment, net | 25,554 | (10,663) (a) | | 14,891 |
| Total assets | \$ 907,710 | \$ (371,105) | | \$ 901,031 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 402,083 | \$ (334,201) (a) | | \$ 67,882 |
| Accrued liabilities | 48,675 | (1,904) (a) | | 46,771 |
| | | | \$ 142,800 (d) | 142,800 |
| | | | 2,000 (c) | 2,000 |
| Current portion of long-term debt | 157 | | | 157 |
| Liabilities of discontinued operations | 672 | | | 672 |
| Total current liabilities | 451,587 | (336,105) | | 260,282 |
| Deferred income taxes | 15,764 | | | 15,764 |
| Other non-current liabilities | 22,457 | | | 22,457 |
| Shareholders equity | 417,902 | | 295,900 (d) | 713,802 |
| | | | (111,274) (c) | (111,274) |
| Total liabilities and shareholders equity | \$ 907,710 | \$ (336,105) | | \$ 901,031 |

Agilysys, Inc.
Unaudited Condensed Consolidated Pro Forma Statement of Operations
Nine Months Ended December 31, 2006
(In Thousands, Except Share and Per Share Data)

| | As Reported | Sale of KeyLink Systems Distribution Business | Pro Forma Adjustments | Pro Forma |
|---|--------------|---|--------------------------|------------|
| Net sales | \$ 1,358,788 | \$ (1,002,436)(e) | | \$ 356,352 |
| Cost of goods sold | 1,173,911 | (907,071)(e) | | 266,840 |
| Gross margin | 184,877 | (95,365)(e) | | 89,512 |
| Operating expenses | | | | |
| Selling, general, and administrative expenses | 131,054 | (51,460)(e) | 18,293(f) | 97,887 |
| Restructuring charges | 45 | | | 45 |
| Operating income | 53,778 | (43,905)(e) | | (8,420) |
| Other (income) expense | | | | |
| Other expense, net | 1,135 | 85(e) | | 1,220 |
| Interest income, net | (1,929) | 1,264(e) | | (665) |
| Income before income taxes | 54,572 | (45,254)(e) | | (8,975) |
| Income tax provision | 22,347 | (17,527)(g) | (7,085)(g) | (2,265) |
| Income from continuing operations | \$ 32,225 | \$ (27,727)(e) | | \$ (6,710) |
| Earnings per share from continuing operations | | | | |
| Basic | \$ 1.05 | | | \$ (0.22) |
| Diluted | \$ 1.04 | | | \$ (0.22) |
| Weighted average shares outstanding | | | | |
| Basic | 30,560,827 | | | 30,560,827 |
| Diluted | 30,988,004 | | | 30,988,004 |

Agilysys, Inc.
Unaudited Condensed Consolidated Pro Forma Statement of Operations
For the Fiscal Year Ended March 31, 2006
(In Thousands, Except Share and Per Share Data)

| | As Reported | Sale of KeyLink Systems Distribution Business | Pro Forma Adjustments | Pro Forma |
|--|--------------|---|--------------------------|-------------|
| Net sales | \$ 1,742,460 | \$ (1,273,476)(e) | | \$ 468,984 |
| Cost of goods sold | 1,513,481 | (1,151,466)(e) | | 362,015 |
| Gross margin | 228,979 | (122,010)(e) | | 106,969 |
| Operating expenses | | | | |
| Selling, general, and administrative expenses | 167,779 | (65,928)(e) | 24,033(f) | 125,884 |
| Restructuring charges | 5,337 | | | 5,337 |
| Operating income | 55,863 | (56,082)(e) | | (24,252) |
| Other (income) expense | | | | |
| Other income, net | (1,389) | 295(e) | | (1,094) |
| Interest expense, net | 1,748 | (1,332)(e) | | 416 |
| Loss on redemption of mandatorily redeemable convertible trust preferred securities | 4,811 | | | 4,811 |
| Income before income taxes | 50,693 | (55,045)(e) | | (28,385) |
| Income tax provision | 21,158 | (22,183)(g) | (9,685)(g) | (10,710) |
| Distributions on mandatorily redeemable convertible trust preferred securities, net of taxes | 900 | | | 900 |
| Income from continuing operations | \$ 28,635 | \$ (32,862)(e) | | \$ (18,575) |
| Earnings per share from continuing operations | | | | |
| Basic | \$ 0.96 | | | \$ (0.62) |
| Diluted | \$ 0.91 | | | \$ (0.62) |
| Weighted average shares outstanding | | | | |
| Basic | 29,935,200 | | | 29,935,200 |
| Diluted | 32,480,576 | | | 32,480,576 |

Agilysys, Inc.
Unaudited Condensed Consolidated Pro Forma Statement of Operations
For the Fiscal Year Ended March 31, 2005
(In Thousands, Except Share and Per Share Data)

| | As Reported | Sale of KeyLink Systems Distribution Business | Pro Forma Adjustments | Pro Forma |
|--|--------------|---|--------------------------|-------------|
| Net sales | \$ 1,622,925 | \$ (1,245,896)(e) | | \$ 377,029 |
| Cost of goods sold | 1,415,477 | (1,126,902)(e) | | 288,575 |
| Gross margin | 207,448 | (118,994)(e) | | 88,454 |
| Operating expenses | | | | |
| Selling, general, and administrative expenses | 164,470 | (72,875)(e) | 22,699(f) | 114,294 |
| Restructuring charges | 515 | | | 515 |
| Operating income | 42,463 | (46,119)(e) | | (26,355) |
| Other (income) expense | | | | |
| Other income, net | (1,984) | (28)(e) | | (2,012) |
| Interest expense, net | 3,207 | (2,341)(e) | | 866 |
| Income before income taxes | 41,240 | (43,750)(e) | | (25,209) |
| Income tax provision | 15,725 | (17,631)(g) | (9,148)(g) | (11,054) |
| Distributions on mandatorily redeemable convertible trust preferred securities, net of taxes | 5,153 | | | 5,153 |
| Income from continuing operations | \$ 20,362 | \$ (26,119)(e) | | \$ (19,308) |
| Earnings per share from continuing operations | | | | |
| Basic | \$ 0.72 | | | \$ (0.69) |
| Diluted | \$ 0.69 | | | \$ (0.69) |
| Weighted average shares outstanding | | | | |
| Basic | 28,100,612 | | | 28,100,612 |
| Diluted | 36,989,981 | | | 36,989,981 |

Agilysys, Inc.
Unaudited Condensed Consolidated Pro Forma Statement of Operations
For the Fiscal Year Ended March 31, 2004
(In Thousands, Except Share and Per Share Data)

| | As Reported | Sale of KeyLink Systems Distribution Business | Pro Forma Adjustments | Pro Forma |
|--|--------------|---|--------------------------|-------------|
| Net sales | \$ 1,403,216 | \$ (1,060,755)(e) | | \$ 342,461 |
| Cost of goods sold | 1,222,314 | (952,382)(e) | | 269,932 |
| Gross margin | 180,902 | (108,373)(e) | | 72,529 |
| Operating expenses | | | | |
| Selling, general, and administrative expenses | 142,436 | (69,847)(e) | 20,142(f) | 92,731 |
| Restructuring charges | 2,516 | | | 2,516 |
| Operating income | 35,950 | (38,526)(e) | | (22,718) |
| Other (income) expense | | | | |
| Other income, net | (6,687) | 86(e) | | (6,601) |
| Interest expense, net | 8,068 | (6,939)(e) | | 1,129 |
| Loss on retirement of Senior Notes | 8,595 | | | 8,595 |
| Gain on redemption of mandatorily redeemable convertible trust preferred securities | (734) | | | (734) |
| Income before income taxes | 26,708 | (31,673)(e) | | (25,107) |
| Income tax provision | 9,684 | (12,764)(g) | (8,117)(g) | (11,197) |
| Distributions on mandatorily redeemable convertible trust preferred securities, net of taxes | 5,500 | | | 5,500 |
| Income from continuing operations | \$ 11,524 | \$ (18,909)(e) | | \$ (19,410) |
| Earnings per share from continuing operations | | | | |
| Basic | \$ 0.42 | | | \$ (0.70) |
| Diluted | \$ 0.41 | | | \$ (0.70) |
| Weighted average shares outstanding | | | | |
| Basic | 27,743,769 | | | 27,743,769 |
| Diluted | 27,955,865 | | | 27,955,865 |

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
PRO FORMA FINANCIAL STATEMENTS**

The unaudited pro forma condensed consolidated balance sheet as of December 31, 2006 reflects the following adjustments:

- (a) Assets sold and liabilities assumed by Arrow under the asset purchase agreement. These unaudited amounts represent KeyLink Systems assets and liabilities which will be sold to buyer as if the transaction had occurred on December 31, 2006.
- (b) Reflects estimated proceeds to be received at the closing of sale of KeyLink Systems. The sale price of \$485.0 million was reduced by \$11.3 million of expenses for estimated transaction-related costs. The unaudited condensed consolidated pro forma statements of operations do not reflect the recognition of these expenses as they are non-recurring in nature; however, these expenses will be reflected in the company's historical financial statements when the transaction is consummated. Additionally, there is potential for a working capital adjustment. Pursuant to the asset purchase agreement, if the net working capital balance at the time of closing exceeds the target net working capital, as defined in the agreement, then the purchase price will be adjusted upwards in the amount equal to the excess, and if the net working capital balance at the time of closing is less than the target net working capital, as defined in the agreement, then the purchase price will be adjusted downward in an amount equal to the deficiency.
- (c) Reflects the anticipated \$2.0 million restructuring charge and \$109.3 million asset impairment charge for the write-off of goodwill, both directly related to the sale of KeyLink Systems, which will be reflected in the company's historical financial statements when the transaction is consummated to determine the gain on sale of net assets of KeyLink Systems. The unaudited condensed consolidated pro forma statements of income do not reflect the recognition of these expenses as they are non-recurring in nature.
- (d) Reflects the excess of the estimated proceeds identified under (b) over the following:
 - (i) The net book value of KeyLink Systems net assets sold of \$35.0 million.
 - (ii) Estimated taxes of \$142.8 million.

The unaudited pro forma condensed consolidated statements of operations for the nine months ended December 31, 2006 and the fiscal years ended March 31, 2006, 2005 and 2004 reflect the following adjustments:

- (e) Elimination of operating results of KeyLink Systems. These amounts represent the unaudited statements of operations for KeyLink Systems for the nine months ended December 31, 2006 and the fiscal years ended March 31, 2006, 2005 and 2004.
- (f) Reflects corporate overhead allocations originally charged to KeyLink Systems in the operating results identified under (e) that would be recorded as an expense of the retained business.
- (g) Reflects the tax effect of the sale of KeyLink Systems and pro forma adjustments calculated at the statutory rates of 38.7% for the nine months ended December 31, 2006 and 40.3% for the fiscal years ended March 31, 2006, 2005 and 2004.

SIGNATURES

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

AGILYSYS, INC.

By: /s/ Martin F. Ellis
Martin F. Ellis
Executive Vice President, Treasurer and
Chief Financial Officer

Date: April 5, 2007

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