

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **June 30, 2021**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-5734

**AGILYSYS, INC.**

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of  
incorporation or organization)

1000 Windward Concourse, Suite 250, Alpharetta, Georgia  
(Address of principal executive offices)

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

30005  
(ZIP Code)

(770) 810-7800

(Registrant's telephone number, including area code)

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, without par value	AGYS	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

The number of Common Shares of the registrant outstanding as of July 23, 2021 was 24,577,787.

**AGILYSYS, INC.**

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AGILYSYS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(In thousands, except share data)</i>	<b>June 30, 2021</b>	March 31,
	<b>Unaudited</b>	2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 103,911	\$ 99,180
Accounts receivable, net of allowance for expected credit losses of \$1,002 and \$1,220, respectively	22,812	25,732
Contract assets	2,081	2,364
Inventories	1,186	1,177
Prepaid expenses and other current assets	4,837	4,797
Total current assets	134,827	133,250
Property and equipment, net	7,746	8,789
Operating lease right-of-use assets	11,367	12,210
Goodwill	19,622	19,622
Intangible assets, net	8,400	8,400
Deferred income taxes, non-current	1,885	1,802
Other non-current assets	5,638	5,800
Total assets	\$ 189,485	\$ 189,873
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,388	\$ 6,346
Contract liabilities	34,763	38,394
Accrued liabilities	10,148	11,233
Operating lease liabilities, current	4,705	5,009
Finance lease obligations, current	15	19
Total current liabilities	57,019	61,001
Deferred income taxes, non-current	928	923
Operating lease liabilities, non-current	7,868	8,597
Finance lease obligations, non-current	5	6
Other non-current liabilities	4,178	4,011
Commitments and contingencies (see Note 7)		
Series A convertible preferred stock, no par value	35,000	35,459
Shareholders' equity:		
Common shares, without par value, at \$0.30 stated value; 80,000,000 shares authorized; 31,606,831 shares issued; and 24,568,661 and 24,010,727 shares outstanding at June 30, 2021 and March 31, 2021, respectively	9,482	9,482
Treasury shares, 7,038,170 and 7,596,104 at June 30, 2021 and March 31, 2021, respectively	(2,111)	(2,278)
Capital in excess of stated value	40,190	37,257
Retained earnings	36,889	35,376
Accumulated other comprehensive income	37	39
Total shareholders' equity	84,487	79,876
Total liabilities and shareholders' equity	\$ 189,485	\$ 189,873

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

<i>(In thousands, except share data)</i>	Three Months Ended June 30,	
	2021	2020
<b>Net revenue:</b>		
Products	\$ 8,844	\$ 5,239
Support, maintenance and subscription services	23,207	20,497
Professional services	6,674	4,071
Total net revenue	38,725	29,807
<b>Cost of goods sold:</b>		
Products	4,360	3,015
Support, maintenance and subscription services	4,744	4,306
Professional services	4,754	3,936
Total cost of goods sold	13,858	11,257
<b>Gross profit</b>	24,867	18,550
Gross profit margin	64.2%	62.2%
<b>Operating expenses:</b>		
Product development	11,485	8,266
Sales and marketing	3,052	2,601
General and administrative	7,003	5,719
Depreciation of fixed assets	566	723
Amortization of internal-use software	465	461
Severance and other charges	225	1,203
Legal settlements, net	30	-
Total operating expense	22,826	18,973
<b>Operating income (loss)</b>	2,041	(423)
<b>Other (income) expense:</b>		
Interest income	(22)	(21)
Interest expense	1	1
Other (income) expense, net	(103)	106
<b>Income (loss) before taxes</b>	2,165	(509)
Income tax expense	193	8
<b>Net income (loss)</b>	\$ 1,972	\$ (517)
Series A convertible preferred stock issuance costs	-	(937)
Series A convertible preferred stock dividends	(459)	(199)
<b>Net income (loss) attributable to common shareholders</b>	\$ 1,513	\$ (1,653)
<b>Weighted average shares outstanding - basic</b>	24,014	23,405
<b>Net income (loss) per share - basic:</b>	\$ 0.06	\$ (0.07)
<b>Weighted average shares outstanding - diluted</b>	25,178	23,405
<b>Net income (loss) per share - diluted:</b>	\$ 0.06	\$ (0.07)

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

<i>(In thousands)</i>	Three Months Ended June 30,	
	2021	2020
Net income (loss)	\$ 1,972	\$ (517)
Other comprehensive loss, net of tax:		
Unrealized foreign currency translation adjustments	(2)	(25)
Total comprehensive income (loss)	\$ 1,970	\$ (542)

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

<i>(In thousands)</i>	Three Months Ended June 30,	
	2021	2020
<b>Operating activities</b>		
Net income (loss)	\$ 1,972	\$ (517)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Loss on disposal of property & equipment	123	—
Depreciation	566	723
Amortization of internal-use software	465	461
Deferred income taxes	(108)	(84)
Share-based compensation	3,621	1,426
Changes in operating assets and liabilities	1,356	(6,938)
Net cash provided by (used in) operating activities	7,995	(4,929)
<b>Investing activities</b>		
Capital expenditures	(274)	(243)
Additional investments in corporate-owned life insurance policies	(2)	(2)
Net cash used in investing activities	(276)	(245)
<b>Financing activities</b>		
Repurchase of common shares to satisfy employee tax withholding	(2,070)	(934)
Series A convertible preferred stock issuance proceeds, net of issuance costs	—	34,063
Payment of preferred stock dividends	(918)	—
Principal payments under long-term obligations	(6)	(6)
Net cash (used in) provided by financing activities	(2,994)	33,123
<b>Effect of exchange rate changes on cash</b>	<b>6</b>	<b>2</b>
Net increase in cash and cash equivalents	4,731	27,951
Cash and cash equivalents at beginning of period	99,180	46,653
<b>Cash and cash equivalents at end of period</b>	<b>\$ 103,911</b>	<b>\$ 74,604</b>

*See accompanying notes to unaudited condensed consolidated financial statements.*

AGILYSYS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Unaudited)

**Three Months Ended June 30, 2021**

<i>(In thousands)</i>	Common Shares				Capital in excess of stated value	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Issued	In Treasury		Stated				
	Shares	Stated value	Shares	value				
<b>Balance at March 31, 2021</b>	<b>31,607</b>	<b>\$ 9,482</b>	<b>(7,596)</b>	<b>\$ (2,278)</b>	<b>\$ 37,257</b>	<b>\$ 35,376</b>	<b>\$ 39</b>	<b>\$ 79,876</b>
Share-based compensation	—	—	—	—	3,726	—	—	3,726
Restricted shares issued, net	—	—	10	3	(3)	—	—	—
Shares issued upon exercise of SSARs	—	—	558	167	(167)	—	—	—
Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares	—	—	(10)	(3)	(623)	—	—	(626)
Net income	—	—	—	—	—	1,972	—	1,972
Series A convertible preferred stock dividends	—	—	—	—	—	(459)	—	(459)
Unrealized translation adjustments	—	—	—	—	—	—	(2)	(2)
<b>Balance at June 30, 2021</b>	<b>31,607</b>	<b>\$ 9,482</b>	<b>(7,038)</b>	<b>\$ (2,111)</b>	<b>\$ 40,190</b>	<b>\$ 36,889</b>	<b>\$ 37</b>	<b>\$ 84,487</b>

**Three Months Ended June 30, 2020**

<i>(In thousands)</i>	Common Shares				Capital in excess of stated value	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Issued	In Treasury		Stated				
	Shares	Stated value	Shares	value				
Balance at March 31, 2020	31,607	\$ 9,482	(7,997)	\$ (2,401)	\$ 5,491	\$ 58,984	\$ 201	\$ 71,757
Share-based compensation	—	—	—	—	1,426	—	—	1,426
Restricted shares issued, net	—	—	(14)	(4)	4	—	—	—
Shares issued upon exercise of SSARs	—	—	25	8	(8)	—	—	—
Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares	—	—	(8)	(2)	(153)	—	—	(155)
Net loss	—	—	—	—	—	(517)	—	(517)
Series A convertible preferred stock issuance costs	—	—	—	—	—	(937)	—	(937)
Series A convertible preferred stock dividends	—	—	—	—	—	(199)	—	(199)
Unrealized translation adjustments	—	—	—	—	—	—	(25)	(25)
<b>Balance at June 30, 2020</b>	<b>31,607</b>	<b>\$ 9,482</b>	<b>(7,994)</b>	<b>\$ (2,399)</b>	<b>\$ 6,760</b>	<b>\$ 57,331</b>	<b>\$ 176</b>	<b>\$ 71,350</b>

*See accompanying notes to unaudited condensed consolidated financial statements.*

AGILYSYS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## 1. Nature of Operations and Financial Statement Presentation

### *Nature of Operations*

Agilysys has been a leader in hospitality software for more than 40 years, delivering innovative cloud-native SaaS and on-premise guest-centric technology solutions for gaming, hotels, resorts and cruise, corporate foodservice management, restaurants, universities, stadia and healthcare. Agilysys offers the most comprehensive software solutions in the industry, including point-of-sale (POS), property management (PMS), inventory and procurement, payments, and related applications, to manage the entire guest journey.

The Company has just one reportable segment serving the global hospitality industry. Agilysys operates across North America, Europe, the Middle East, Asia-Pacific and India with headquarters located in Alpharetta, GA.

### *COVID-19 Pandemic*

The World Health Organization declared COVID-19 a pandemic on March 11, 2020. COVID-19 has had a significant impact on our business since that time. The extent to which COVID-19 will continue impacting our financial condition and results of operations remains uncertain and depends on various factors, including the ongoing or recurring impact on our customers, partners, and vendors and on the operation of the global markets in general. Because an increasing portion of our business is based on a subscription model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

See Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Recent Developments” of this report for more discussion of the impact of COVID-19 on our business.

### *Basis of Presentation*

The accompanying unaudited Condensed Consolidated Financial Statements include our accounts consolidated with our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Our fiscal year ends on March 31st. References to a particular year refer to the fiscal year ending in March of that year. For example, fiscal 2022 refers to the fiscal year ending March 31, 2022.

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

The Condensed Consolidated Balance Sheet as of June 30, 2021, as well as the Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Income (Loss), Condensed Consolidated Statements of Cash Flows, Condensed Consolidated Statements of Shareholders’ Equity for the three months ended June 30, 2021 and 2020, are unaudited. However, these financial statements have been prepared on the same basis as those in the audited annual financial statements, except for the recently adopted accounting pronouncements described below. In the opinion of management, all adjustments of a recurring nature necessary to fairly state the results of operations, financial position, and cash flows have been made.

These unaudited interim financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2021, filed with the Securities and Exchange Commission (SEC) on May 21, 2021.

### *Use of estimates*

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods.

Considering the currently unknown extent and duration of the COVID-19 pandemic, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply to certain of our significant accounting policies. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us



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and the unknown future impacts COVID-19 as of June 30, 2021 and through the date of this report. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

## 2. Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2021, included in our Annual Report on Form 10-K. There have been no other material changes to our significant accounting policies from those disclosed therein.

### *Adopted and Recently Issued Accounting Pronouncements*

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This new standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. The new standard will be effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. We adopted ASU 2020-06 as of April 1, 2021 with no impact on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which affects general principles within Topic 740, Income Taxes, and is meant to simplify and reduce the cost of accounting for income taxes. The new standard will be effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We adopted ASU 2019-12 as of April 1, 2021 with no material impact on our condensed consolidated financial statements.

## 3. Revenue Recognition

Our customary business practice is to enter into legally enforceable written contracts with our customers. The majority of our contracts are governed by a master agreement between us and the customer, which sets forth the general terms and conditions of any individual contract between the parties, which is then supplemented by a customer purchase order to specify the different goods and services, the associated prices, and any additional terms for an individual contract. Performance obligations specific to each individual contract are defined within the terms of each purchase order. Each performance obligation is identified based on the goods and services that will be transferred to our customer that are both capable of being distinct and are distinct within the context of the contract. The transaction price is determined based on the consideration to which we will be entitled and expect to receive in exchange for transferring goods or services to the customer. Typically, our contracts do not provide our customer with any right of return or refund; we do not constrain the contract price as it is probable that there will not be a significant revenue reversal due to a return or refund.

Typically, our customer contracts contain one or more of the following goods or services which constitute performance obligations.

Our software licenses typically provide for a perpetual right to use our software. Generally, our contracts do not provide significant services of integration, and customization and installation services are not required to be purchased directly from us. The software is delivered before related services are provided and is functional without professional services, updates and technical support. We have concluded that the software license is distinct as the customer can benefit from the software on its own. Software revenue is typically recognized when the software is delivered or made available for download to the customer.

Revenue for hardware sales is recognized when the product is shipped to the customer and when obligations that affect the customer's final acceptance of the arrangement have been fulfilled. Hardware is purchased from suppliers and provided to the end-user customers via drop-ship or from inventory. We are responsible for negotiating price both with the supplier and the customer, payment to the supplier, establishing payment terms and product returns with the customer, and we bear the credit risk if the customer does not pay for the goods. As the principal contact with the customer, we recognize revenue and cost of goods sold when we are notified by the supplier that the product has been shipped. In certain limited instances, as shipping terms dictate, revenue is recognized upon receipt at the point of destination or upon installation at the customer site.

Support and maintenance revenue is derived from providing telephone and on-line technical support services, bug fixes, and unspecified software updates and upgrades to customers on a when-and-if-available basis. These services represent a stand-ready obligation that is concurrently delivered and has the same pattern of transfer to the customer; we account for these support and maintenance services as a single performance obligation recognized over the term of the maintenance agreement.

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Our subscription service revenue is comprised of fees for contracts that provide customers a right to access our software for a subscribed period. We do not provide the customer the contractual right to license the software at any time outside of the subscription period under these contracts. The customer can only benefit from the software and software maintenance when provided the right to access the software. Accordingly, each of the rights to access the software, the maintenance services, and any hosting services is not considered a distinct performance obligation in the context of the contract and should be combined into a single performance obligation to be recognized over the contract period. The Company recognizes subscription revenue over a one-month period based on the typical monthly invoicing and renewal cycle in accordance with our customer agreement terms.

Professional services revenues primarily consist of fees for consulting, installation, integration and training and are generally recognized over time as the customer simultaneously receives and consumes the benefits of the professional services as the services are being performed. Professional services can be provided by internal or external providers, do not significantly affect the customer's ability to access or use other provided goods or services, and provide a measure of benefit beyond that of other promised goods or services in the contract. As a result, professional services are considered distinct in the context of the contract and represent a separate performance obligation. Professional services that are billed on a time and materials basis are recognized over time as the services are performed. For contracts billed on a fixed price basis, revenue is recognized over time using an input method based on labor hours expended to date relative to the total labor hours expected to be required to satisfy the related performance obligation.

We use the market approach to drive standalone selling price ("SSP") by maximizing observable data points (in the form of recently executed customer contracts) to determine the price customers are willing to pay for the goods and services transferred. If the contract contains a single performance obligation, the entire transaction price is allocated to that performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative SSP basis.

Shipping and handling fees billed to customers are recognized as revenue and the related costs are recognized in cost of goods sold. Revenue is recorded net of any applicable taxes collected and remitted to governmental agencies.

### **Disaggregation of Revenue**

We derive and report our revenue from the sale of products (software licenses, third party hardware and operating systems), support, maintenance and subscription services and professional services. Revenue recognized at a point in time (products) totaled \$8.8 million and \$5.2 million, and over time (support, maintenance and subscription services and professional services) totaled \$29.9 million and \$24.6 million for the three months ended June 30, 2021 and 2020, respectively.

### **Contract Balances**

Contract assets are rights to consideration in exchange for goods or services that we have transferred to a customer when that right is conditional on something other than the passage of time. The majority of our contract assets represent unbilled amounts related to professional services. We expect billing and collection of our contract assets to occur within the next twelve months. We receive payments from customers based upon contractual billing schedules and accounts receivable are recorded when the right to consideration becomes unconditional. Contract liabilities represent consideration received or consideration which is unconditionally due from customers prior to transferring goods or services to the customer under the terms of the contract.

Revenue recognized from amounts included in contract liabilities at the beginning of the period was \$17.4 million and \$17.5 million for the three months ended June 30, 2021 and 2020, respectively. Because the right to the transaction became unconditional, we transferred to accounts receivable from contract assets at the beginning of the period, \$2.2 million and \$1.4 million for the three months ended June 30, 2021 and 2020, respectively.

Our arrangements are for a period of one year or less. As a result, unsatisfied performance obligations as of June 30, 2021 are expected to be satisfied and the allocated transaction price recognized in revenue within a period of 12 months or less.

### **Assets Recognized from Costs to Obtain a Contract**

Sales commission expenses that would not have occurred absent the customer contracts are considered incremental costs to obtain a contract. We have elected to take the practical expedient available to expense the incremental costs to obtain a contract as incurred when the expected benefit and amortization period is one year or less. For subscription contracts that are renewed monthly based on an agreement term, we capitalize commission expenses and amortize as we satisfy the underlying performance obligations, generally based on the contract terms and anticipated renewals. Other sales commission expenses have a period of benefit of one year or less and are therefore expensed as incurred in line with the practical expedient elected.

We had \$2.9 million and \$3.2 million of capitalized sales incentive costs as of June 30, 2021 and 2020, respectively. These balances are included in other non-current assets on our condensed consolidated balance sheets. During the three months ended June 30, 2021 and 2020, we expensed \$0.7 million and \$0.6 million, respectively, of sales commissions, which included amortization of capitalized

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amounts of \$0.3 million and \$0.4 million, respectively. These expenses are included in operating expenses – sales and marketing in our condensed consolidated statement of operations. All other costs to obtain a contract are not considered incremental and therefore are expensed as incurred.

#### 4. Additional Balance Sheet Information

Additional information related to the condensed consolidated balance sheets is as follows:

(In thousands)	June 30, 2021	March 31, 2021
<b>Accrued liabilities:</b>		
Salaries, wages, and related benefits	\$ 7,927	\$ 8,454
Other taxes payable	1,468	1,796
Accrued legal settlements	118	200
Severance liabilities	182	79
Professional fees	100	97
Other	353	607
Total	<u>\$ 10,148</u>	<u>\$ 11,233</u>
<b>Other non-current liabilities:</b>		
Uncertain tax positions	\$ 1,135	\$ 1,129
Deferred rent and asset retirement obligations	170	170
Employee benefit obligations	2,804	2,639
Other	69	73
Total	<u>\$ 4,178</u>	<u>\$ 4,011</u>

#### 5. Supplemental Disclosures of Cash Flow Information

Additional information related to the condensed consolidated statements of cash flows is as follows:

(In thousands)	Three Months Ended June 30,	
	2021	2020
Cash (receipts) for interest, net	\$ (21)	\$ (20)
Cash payments for income taxes, net	192	134
Cash payments for operating leases	969	1,642
Cash payments for finance leases	5	8
Accrued capital expenditures	24	19

#### 6. Income Taxes

The following table compares our income tax expense and effective tax rates for the three months ended June 30, 2021 and 2020:

(Dollars in thousands)	Three Months Ended June 30,	
	2021	2020
Income tax expense	\$ 193	\$ 8
Effective tax rate	8.9%	(1.6)%

For the three months ended June 30, 2021 and 2020, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets in the U.S. and certain foreign jurisdictions, which were offset by increases in the valuation allowance, certain foreign and state tax effects and other U.S. permanent book to tax differences.

Because of our losses in prior periods, we have recorded and maintain a valuation allowance offsetting substantially all of our deferred tax assets in the U.S. and certain foreign jurisdictions, as management believes that it is more likely than not that we will not realize the benefits of these deductible differences. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible.

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On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act provides, among other provisions, for the deferral of the employer-paid portion of social security taxes through the end of 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022.

## 7. Commitments and Contingencies

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

On April 6, 2012, Ameranth, Inc. filed a complaint against us in the U.S. District Court of Southern District of California alleging that certain of our products infringe patents owned by Ameranth directed to configuring and transmitting hospitality menus (e.g. restaurant menus) for display on electronic devices and synchronizing the menu content between the devices. The case against us was consolidated with similar cases brought by Ameranth against more than 30 other defendants. All but one of the patents at issue in the case were invalidated by the U.S. Court of Appeals for the Federal Circuit in 2016. In September 2018, the District Court found the one surviving Ameranth patent invalid and granted summary judgment in favor of the movant co-defendants. In November 2019, the U.S. Court of Appeals for the Federal Circuit affirmed the lower court’s summary judgement with respect to all claims except for two, which were not asserted against Agilysys. Ameranth’s writ of certiorari to the United States Supreme Court was denied in October 2020. Subsequently, Ameranth filed further pleading amendments and discovery requests with the District Court, which were opposed by the defendants.

We were not a party to the appeal, and it is currently unclear what impact the summary judgement ruling may have on our case. Ameranth seeks monetary damages, injunctive relief, costs and attorneys’ fees from us. At this time, we are not able to predict the outcome of this lawsuit. However, we dispute the allegations of wrongdoing and are vigorously defending ourselves in this matter.

## 8. Income (Loss) per Share

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

(In thousands, except per share data)	Three Months Ended June 30,	
	2021	2020
<b>Numerator:</b>		
Net income (loss)	\$ 1,972	\$ (517)
Series A convertible preferred stock issuance costs	—	(937)
Series A convertible preferred stock dividends	(459)	(199)
Net income (loss) attributable to common shareholders	<u>\$ 1,513</u>	<u>\$ (1,653)</u>
<b>Denominator:</b>		
Weighted average shares outstanding - basic	<u>24,014</u>	<u>23,405</u>
Dilutive SSARs	1,115	—
Dilutive unvested restricted shares	49	—
Weighted average shares outstanding - diluted	<u>25,178</u>	<u>23,405</u>
<b>Income (loss) per share - basic:</b>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>
<b>Income (loss) per share - diluted:</b>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>
Anti-dilutive stock options, SSARs, restricted shares, performance shares and preferred shares	4,740	3,560

Basic income (loss) per share is computed as net income (loss) attributable to common shareholders divided by the weighted average basic shares outstanding. The outstanding shares used to calculate the weighted average basic shares excludes 138,736 and 194,587 of restricted shares at June 30, 2021 and 2020, respectively, as these shares were issued but were not vested and therefore, not considered outstanding for purposes of computing basic income (loss) per share at the balance sheet dates.

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Diluted income (loss) per share includes the effect of all potentially dilutive securities on earnings per share. We have stock-settled appreciation rights ("SSARs"), unvested restricted shares, and preferred shares that are potentially dilutive securities. When a loss is reported, the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of share-based compensation grants because doing so would be anti-dilutive.

## 9. Share-based Compensation

We may grant incentive stock options, non-qualified stock options, SSARs, restricted shares, and performance shares under our shareholder-approved 2020 Equity Incentive Plan ("2020 Plan") for up to 2.25 million common shares, plus 868,864 common shares, the number of shares that were remaining for grant under the 2016 Stock Incentive Plan ("2016 Plan") as of the effective date of the 2020 Plan, plus the number of shares remaining for grant under the 2016 Plan that are forfeited, settled in cash, canceled or expired. The aggregate number of shares that may be granted under the 2020 Plan is 3.1 million.

We may distribute authorized but unissued shares or treasury shares to satisfy share option and SSAR exercises or restricted share and performance share grants.

The fair value of restricted share and performance share grants is based on the closing price of our common shares on the grant date. For stock option and SSAR grants subject to a service condition, we estimate the fair value on the grant date using the Black-Scholes-Merton option pricing model with inputs including the closing market price at grant date, exercise price and assumptions regarding the risk-free interest rate, expected volatility of our common shares based on historical volatility, and expected term as estimated using the simplified method. We record compensation expense for restricted shares and SSAR grants subject to a service condition utilizing the graded vesting method. For SSAR grants subject to a market condition, we estimate the fair value on the grant date through a lattice option pricing model that utilizes a Monte Carlo analysis with inputs including the closing market price at grant date, exercise price, share price threshold, remaining contractual term and assumptions regarding the risk-free interest rate, suboptimal exercise factor, and expected volatility of our common shares based on historical volatility. We record compensation expense for SSAR grants subject to a market condition over the derived service period, which is an output of the lattice option pricing model.

The following table summarizes the share-based compensation expense for SSARs, restricted and performance grants included in the condensed consolidated statements of operations:

(In thousands)	Three Months Ended June 30,	
	2021	2020
Product development	\$ 2,065	\$ 172
Sales and marketing	331	36
General and administrative	1,225	1,218
<b>Total share-based compensation expense</b>	<b>\$ 3,621</b>	<b>\$ 1,426</b>

### Stock-Settled Appreciation Rights

SSARs are rights granted to an employee to receive value equal to the difference between the price of our common shares on the date of exercise and the exercise price. The value is settled in common shares of Agilysys, Inc.

The following table summarizes the activity during the three months ended June 30, 2021 for SSARs awarded under the 2020 and 2016 Plans:

	Number of Rights	Weighted-Average Exercise Price (per right)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at April 1, 2021	3,068,253	\$ 20.90		
Exercised	(714,712)	11.78		
Forfeited	(15,818)	20.02		
Expired	(162)	14.22		
<b>Outstanding at June 30, 2021</b>	<b>2,337,561</b>	<b>\$ 23.69</b>	<b>5.4</b>	<b>\$ 77,558</b>
<b>Exercisable at June 30, 2021</b>	<b>1,255,211</b>	<b>\$ 21.99</b>	<b>5.2</b>	<b>\$ 43,788</b>
Vested and expected to vest at June 30, 2021	2,337,561	\$ 23.69	5.4	\$ 77,558

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As of June 30, 2021, total unrecognized share-based compensation expense related to non-vested service condition SSARs was \$12.0 million, which is expected to be recognized over a weighted-average vesting period of 1.7 years.

As of June 30, 2021, there was no unrecognized share-based compensation expense related to non-vested market condition SSARs.

### *Restricted Shares*

We granted shares to certain of our Directors, executives and key employees, the vesting of which is service-based. The following table summarizes the activity during the three months ended June 30, 2021 for restricted shares awarded under the 2020 and 2016 Plans:

	Number of Shares	Weighted-Average Grant-Date Fair Value (per share)
Outstanding at April 1, 2021	132,198	\$ 37.67
Granted	8,610	52.23
Forfeited	(2,072)	24.39
<b>Outstanding at June 30, 2021</b>	<b>138,736</b>	<b>\$ 38.77</b>

The weighted-average grant date fair value of the restricted shares is determined based upon the closing price of our common shares on the grant date. As of June 30, 2021, total unrecognized share-based compensation expense related to unvested restricted stock was \$3.6 million, which is expected to be recognized over a weighted-average vesting period of 1.6 years.

### *Performance Shares*

Upon approval of the Compensation Committee of our Board of Directors, after achieving the performance conditions associated with our annual bonus plan, we granted 3,403 common shares to our Chief Executive Officer during the quarter that vested immediately for a total value of \$0.2 million.

## **10. Preferred Stock**

On May 22, 2020, we completed the sale of 1,735,457 shares of our preferred stock, without par value, designated as “Series A Convertible Preferred Stock” (the “Convertible Preferred Stock”) to MAK Capital Fund L.P. and MAK Capital Distressed Debt Fund I, LP (the “Holders”) each, in its capacity as a designee of MAK Capital One LLC (the “Purchaser”), pursuant to the terms of the Investment Agreement, dated as of May 11, 2020, between the Company and the Purchaser, for an aggregate purchase price of \$35 million. We incurred issuance costs of \$1.0 million. We added all issuance costs that were netted against the proceeds upon issuance of the Convertible Preferred Stock to its redemption value. As disclosed in our Annual Report for the fiscal year ended March 31, 2021, Michael Kaufman, the Chairman of the Company’s Board of Directors, is the Chief Executive Officer of MAK Capital One LLC.

The Holders are entitled to dividends on the Liquidation Preference at the rate of 5.25% per annum, payable semi-annually either (i) 50% in cash and 50% in kind as an increase in the then-current Liquidation Preference or (ii) 100% in cash, at the option of the Company. We pay dividends in the same period as declared by the Company’s Board of Directors.

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

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

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

The MD&A analyzes changes in specific line items in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows and provides information that management believes is important to assessing and understanding our consolidated financial condition and results of operations. This Quarterly Report on Form 10-Q updates information included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2021, filed with the Securities and Exchange Commission (SEC). This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes that appear in Item 1 of this Quarterly Report as well as our Annual Report for the year ended March 31, 2021. 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 22 of this Quarterly Report, Item 1A "Risk Factors" in Part II of this Quarterly Report, and Item 1A "Risk Factors" in Part I of our Annual Report for the fiscal year ended March 31, 2021 for additional information concerning these items. Management believes that this information, discussion, and disclosure is important in making decisions about investing in Agilysys.

### Overview

#### Recent Developments

##### COVID-19 Pandemic

The World Health Organization declared COVID-19 a pandemic on March 11, 2020. COVID-19 has had a significant impact on our business since that time. The extent to which COVID-19 will continue impacting our financial condition and results of operations remains uncertain and depends on various factors, including the ongoing or recurring impact on our customers, partners, and vendors and on the operation of the global markets in general. Because an increasing portion of our business is based on a subscription model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

We have taken actions to mitigate the impact on our business. We continue to conduct business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These modifications may continue to delay or reduce sales and harm productivity and collaboration. The pandemic could have an ongoing adverse impact on demand for our customers' products and services, which in turn could continue to negatively impact the willingness of our customers to enter into or renew contracts with us. The pandemic has impacted our ability to complete certain implementations, negatively impacting our ability to recognize revenue, and could also negatively impact the ongoing collection of accounts receivable from our customers.

While we have eased certain cost reduction measures recently, we may take further actions that alter our business operations as the situation continues to evolve. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity, and financial results cannot be predicted at this time.

### Our Business

Agilysys has been a leader in hospitality software for more than 40 years, delivering innovative cloud-native SaaS and on-premise guest-centric technology solutions for gaming, hotels, resorts and cruise, corporate foodservice management, restaurants, universities, stadia and healthcare. Agilysys offers the most comprehensive software solutions in the hospitality industry, including point-of-sale (POS), property management (PMS), inventory and procurement, payments, and related applications, to manage the entire guest journey. Agilysys is also known for its world class customer-centric service. During recent years, Agilysys has made major investments in R&D and has successfully modernized virtually all its longstanding trusted software solutions. Some of the largest hospitality companies around the world use Agilysys solutions to help improve guest loyalty, drive revenue growth and increase operational efficiencies.

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The Company has just one reportable segment serving the global hospitality industry. Agilysys operates across North America, Europe, the Middle East, Asia-Pacific and India with headquarters located in Alpharetta, Georgia.

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

Our strategic plan specifically focuses on:

- Putting the customer first
- Focusing on product innovation and development
- Improving our liquidity
- Increasing organizational efficiency and teamwork
- Developing our employees and leaders
- Growing revenue by improving the breadth and depth of our product set across both point-of-sale and property management applications
- Growing revenue through international expansion

The primary objective of our ongoing strategic planning process is to create shareholder value by capitalizing on growth opportunities, turning profitable and strengthening our competitive position within the specific technology solutions and end markets we serve. Profitability and industry leading growth will be achieved through tighter management of operating expenses and sharpening the focus of our investments to concentrate on growth opportunities that offer the highest returns.

### **Revenue - Defined**

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

- Revenue - We present revenue net of sales returns and allowances.
- Products revenue – Revenue earned from the sales of software licenses, third party hardware and operating systems.
- Support, maintenance and subscription services revenue – Revenue earned from the sale of proprietary and remarketed ongoing support, maintenance and subscription services.
- Professional services revenue – Revenue earned from the delivery of implementation, integration and installation services for proprietary and remarketed products.



**Results of Operations**

***First Fiscal Quarter 2022 Compared to First Fiscal Quarter 2021***

*Net Revenue and Operating Income (Loss)*

The following table presents our consolidated revenue and operating results for the three months ended June 30, 2021 and 2020:

<i>(Dollars in thousands)</i>	Three months ended		Increase (decrease)	
	2021	June 30, 2020	\$	%
<b>Net revenue:</b>				
Products	\$ 8,844	\$ 5,239	\$ 3,605	68.8%
Support, maintenance and subscription services	23,207	20,497	2,710	13.2
Professional services	6,674	4,071	2,603	63.9
Total net revenue	38,725	29,807	8,918	29.9
<b>Cost of goods sold:</b>				
Products	4,360	3,015	1,345	44.6
Support, maintenance and subscription services	4,744	4,306	438	10.2
Professional services	4,754	3,936	818	20.8
Total cost of goods sold	13,858	11,257	2,601	23.1
<b>Gross profit</b>	\$ 24,867	\$ 18,550	\$ 6,317	34.1%
<b>Gross profit margin</b>	64.2%	62.2%		
<b>Operating expenses:</b>				
Product development	\$ 11,485	\$ 8,266	\$ 3,219	38.9%
Sales and marketing	3,052	2,601	451	17.3
General and administrative	7,003	5,719	1,284	22.5
Depreciation of fixed assets	566	723	(157)	(21.7)
Amortization of internal-use software	465	461	4	0.9
Severance and other charges	225	1,203	(978)	nm
Legal settlements, net	30	-	30	nm
Operating income (loss)	\$ 2,041	\$ (423)	\$ 2,464	582.5%
Operating income (loss) percentage	5.3%	(1.4)%		

nm - not meaningful

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The following table presents the percentage relationship of our condensed consolidated statement of operations line items to our consolidated net revenues for the periods presented:

	Three months ended	
	June 30,	
	2021	2020
<b>Net revenue:</b>		
Products	22.8%	17.6%
Support, maintenance and subscription services	59.9	68.8
Professional services	17.3	13.6
Total net revenue	100.0%	100.0%
<b>Cost of goods sold:</b>		
Products	11.3%	10.1%
Support, maintenance and subscription services	12.3	14.4
Professional services	12.2	13.3
Total cost of goods sold	35.8%	37.8%
<b>Gross profit</b>	<b>64.2%</b>	<b>62.2%</b>
<b>Operating expenses:</b>		
Product development	29.7%	27.7%
Sales and marketing	7.9	8.7
General and administrative	18.1	19.2
Depreciation of fixed assets	1.5	2.5
Amortization of internal-use software	1.2	1.5
Severance and other charges	0.6	4.0
Legal settlements, net	0.1	nm
Operating income (loss)	5.3%	(1.4)%

nm - not meaningful

*Net revenue.* Total net revenue increased \$8.9 million, or 29.9%, during the first quarter of fiscal 2022 compared to the first quarter of fiscal 2021. Products revenue increased \$3.6 million, or 68.8%, due to higher sales and deliveries as our customers re-open their locations for business. Support, maintenance and subscription services revenue increased \$2.7 million, or 13.2%, compared to the first quarter of fiscal 2021 driven by continued growth in subscription-based service revenue. The increase in subscription revenue is due to the re-opening of customer sites and increased sales and implementations of our newer add-on modules. Professional services revenue increased \$2.6 million, or 63.9%, due to higher sales and service activity as our customers re-open their locations for business.

*Gross profit and gross profit margin.* Our total gross profit increased \$6.3 million, or 34.1%, for the first quarter of fiscal 2022 and total gross profit margin increased from 62.2% to 64.2% driven by changes in the composition of revenue by category. Products gross profit increased \$2.3 million, or 101.6%, compared to the first quarter of fiscal 2021 and products gross profit margin increased from 42.5% to 50.7% due to a higher proportion of proprietary software sales over third party products. Support, maintenance and subscription services gross profit increased \$2.3 million and gross profit margin increased 57 basis points to 79.6% due to increased revenue on a relatively flat cost base. Professional services gross profit increased \$1.8 million due to the increase in professional service projects as customers to re-open their locations. Professional services gross profit margin increased from 3.3% to 28.8% due to improved utilization rates.

*Operating expenses*

Operating expenses, excluding legal settlements, severance and other charges, increased \$4.8 million, or 27.0%, during the first quarter of fiscal 2022 compared with the first quarter of fiscal 2021.

*Product development.* Product development increased \$3.2 million, or 38.9%, in the first quarter of fiscal 2022 due to restored base pay and employee benefits as well as higher cash-based incentive pay and share-based compensation.

*Sales and marketing.* Sales and marketing increased \$0.5 million, or 17.3%, in the first quarter of fiscal 2022 compared with the first quarter of fiscal 2021 due to restored base pay and employee benefits as well as increased commission expense due to higher sales levels and increased share-based compensation.

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*General and administrative.* General and administrative increased by \$1.3 million, or 22.5%, in the first quarter of fiscal 2022 compared with the first quarter of fiscal 2021 due to restored base pay and employee benefits as well as higher cash-based incentive pay and internal system subscription costs.

*Severance and other charges.* Severance, and other charges decreased \$1.0 million in the first quarter of fiscal 2022 compared with the first quarter of fiscal 2021 due to significant layoffs and other employee terminations during the first quarter of fiscal 2021 at the beginning of the COVID-19 pandemic.

### *Other (Income) Expenses*

(Dollars in thousands)	Three Months Ended		(Unfavorable) favorable	
	June 30,			
	2021	2020	\$	%
<b>Other (income) expense:</b>				
Interest income	\$ (22)	\$ (21)	\$ 1	4.8%
Interest expense	1	1	0	nm
Other (income) expense, net	(103)	106	209	nm
Total other (income) expense, net	<u>\$ (124)</u>	<u>\$ 86</u>	<u>\$ 210</u>	<u>nm</u>

nm - not meaningful

*Interest income.* Interest income consists of interest earned through interest-bearing bank accounts and on cash equivalents including short-term investments in commercial paper, treasury bills and money market funds.

*Interest expense.* Interest expense consists of costs associated with finance leases.

*Other (income) expense.* Other (income) expense consists mainly of the impact of foreign currency due to movement of European and Asian currencies against the US dollar.

### *Income Taxes*

(Dollars in thousands)	Three Months Ended		(Unfavorable) favorable	
	June 30,			
	2021	2020	\$	%
Income tax expense	\$ 193	\$ 8	\$ (185)	nm
Effective tax rate	8.9%	(1.6)%		

nm - not meaningful

For the three months ended June 30, 2021 and 2020, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets in the U.S. and certain foreign jurisdictions, which were offset by increases in the valuation allowance, certain foreign and state tax effects 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 an immaterial reduction in unrecognized tax benefits may occur based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. We are consistently subject to tax audits; due to the nature of examinations in multiple jurisdictions, changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

Because of our losses in prior periods, we have recorded a valuation allowance offsetting substantially all of our deferred tax assets in the U.S. and certain foreign jurisdictions, as management believes that it is more likely than not that we will not realize the benefits of these deductible differences. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible.

## Liquidity and Capital Resources

### Overview

Our operating cash requirements consist primarily of working capital needs, operating expenses, capital expenditures, payments on indebtedness outstanding, which primarily consists of lease obligations and preferred stock dividends.

At June 30, 2021, 100% of our cash and cash equivalents, of which 95% were located in the United States, were deposited in bank accounts. We believe credit risk is limited with respect to our cash and cash equivalents balances.

As of June 30, 2021, and March 31, 2021, our total debt was approximately \$0.1 million, comprised of finance lease obligations in both periods.

We believe that cash flow from operating activities, cash on hand of \$103.9 million as of June 30, 2021 and access to capital markets will provide adequate funds to meet our short- and long-term liquidity requirements.

### Cash Flow

(In thousands)	Three Months Ended June 30,	
	2021	2020
Net cash provided by (used in):		
Operating activities	\$ 7,995	\$ (4,929)
Investing activities	(276)	(245)
Financing activities	(2,994)	33,123
Effect of exchange rate changes on cash	6	2
Net increase in cash and cash equivalents	<u>\$ 4,731</u>	<u>\$ 27,951</u>

*Cash flow provided by operating activities.* Cash flow provided by operating activities was \$8.0 million in the first three months of fiscal 2022. The provision of cash was due to cash-based earnings of \$6.6 million, adjusted for non-cash expenses of \$4.7 million including loss on disposal of property & equipment, depreciation, amortization, and share-based compensation, and an increase of \$1.4 million in net operating assets and liabilities.

*Cash flow used in investing activities.* Consists primarily of property and equipment purchases.

*Cash flow (used in) provided by financing activities.* During the first three months of fiscal 2022, the \$3.0 million used in financing activities consisted of \$2.1 million related to the repurchase of shares to satisfy employee tax withholding on share-based compensation and \$0.9 million in preferred stock dividends. During the first three months of fiscal 2021, the \$33.1 million provided by financing activities consisted primarily of \$34.1 million in preferred stock issuance proceeds from the MAK Capital investment, net of issuance costs, offset by \$0.9 million related to the repurchase of shares to satisfy employee tax withholding on share-based compensation.

### Contractual Obligations

As of June 30, 2021, there were no significant changes to our contractual obligations as presented in our Annual Report for the year ended March 31, 2021.

### Off-Balance Sheet Arrangements

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

### Critical Accounting Policies

A detailed description of our significant accounting policies is included in our Annual Report for the year ended March 31, 2021. Other than as described in Note 2 to the condensed consolidated financial statements, there have been no material changes in our significant accounting policies and estimates since March 31, 2021.

## **Forward-Looking Information**

This Quarterly Report and other publicly available documents, including the documents incorporated herein and therein by reference, contain, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions, or beliefs and are subject to a number of factors, assumptions, and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A in Part II of this Quarterly Report and Item 1A of our Annual Report for the fiscal year ended March 31, 2021. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events, or otherwise.

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

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," contained in our Annual Report for the fiscal year ended March 31, 2021. There have been no material changes in our market risk exposures since March 31, 2021.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

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

#### *Changes in Internal Control over Financial Reporting*

There were no changes to our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the three months ended June 30, 2021, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Due to the COVID-19 pandemic, a significant number of our employees are now working from home. The design of our financial reporting processes, systems, and controls allows for remote execution with accessibility to secure data.

#### *Inherent Limitations on Effectiveness of Controls*

Our management, including our Chief Executive Officer, Chief Financial Officer and Corporate Controller and Treasurer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be achieved. Further, the design of a control system must reflect the impact of resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the possibility that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors. Additionally, controls can be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all possible future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 1A. Risk Factors**

Other than as described below, there have been no material changes in the risk factors included in our Annual Report for the fiscal year ended March 31, 2021 that may materially affect our business, results of operations, or financial condition.

*The full extent to which the COVID-19 pandemic will adversely affect our business and results of operations cannot be predicted at this time.* See Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Recent Developments” of this report for a more detailed discussion of the impact of COVID-19 on our business.

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

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**Item 6. Exhibits**

- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Executive Officer.](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Financial Officer.](#)
- 31.3 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Corporate Controller and Treasurer.](#)
- 32 [Certification of Chief Executive Officer, Chief Financial Officer and Corporate Controller and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.](#)
- 101.INS Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)
- \* Denotes a management contract or compensatory plan or arrangement.

SIGNATURE

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

AGILYSYS, INC.

Date: July 29, 2021

\_\_\_\_\_  
/s/ William David Wood III  
William David Wood III  
Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)