

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

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

**For the fiscal year ended March 31, 2019**

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

**For transition period from      to**

**Commission file number 0-5734**

**AGILYSYS, INC.**

(Exact name of registrant as specified in its charter)

|  |                                      |
|--|--------------------------------------|
| Ohio   | 34-0907152                           |
| State or other jurisdiction of incorporation or organization | (I.R.S. Employer Identification No.) |
| 1000 Windward Concourse, Suite 250, Alpharetta, Georgia      | 30005                                |
| (Address of principal executive offices)                     | (Zip Code)                           |

Registrant's telephone number, including area code: (770) 810-7800  
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The aggregate market value of Common Shares held by non-affiliates as of May 21, 2019 was \$441,239,714.

As of May 21, 2019, 23,495,028 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be used in connection with its 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

**AGILYSYS, INC.**  
**Annual Report on Form 10-K**  
**Year Ended March 31, 2019**

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### ***Forward Looking Information***

This Annual Report and other publicly available documents, including the documents incorporated herein and therein by reference, contain, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, our ability to achieve operational efficiencies and meet customer demand for products and services and the risk factors set forth in Item 1A of this Annual Report. Any forward-looking statement made by us in this Annual Report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement made in this Annual Report or any other forward-looking statement that may be made from time to time, whether written or oral, whether as a result of new information, future events, or otherwise.

## **Part I**

### **Item 1. Business.**

#### **Overview**

Agilysys has been a leader in hospitality software for more than 40 years, delivering innovative guest-centric technology solutions for gaming, hotels, resorts and cruise, corporate foodservice management, restaurants, universities, stadia and healthcare. Agilysys offers the most comprehensive solutions in the industry, including point of sale (POS), property management systems (PMS), inventory and procurement, payments, and related applications, to manage the entire guest journey. Agilysys is known for its leadership in hospitality, its broad product offerings and its customer-centric service. Some of the largest hospitality companies around the world use Agilysys solutions to help improve guest loyalty, drive revenue growth and increase operational efficiencies.

Agilysys operates across North America, Europe, Asia-Pacific, and India with headquarters located in Alpharetta, GA. For more information, visit [www.agilysys.com](http://www.agilysys.com).

Our principal executive offices and corporate services are located at 1000 Windward Concourse, Suite 250, Alpharetta, Georgia, 30005.

Reference herein to any particular year or quarter refers to periods within our fiscal year ended March 31. For example, fiscal 2019 refers to the fiscal year ended March 31, 2019.

#### **History and Significant Events**

Organized in 1963 as Pioneer-Standard Electronics, Inc., an Ohio corporation, we began operations as a distributor of electronic components and, later, enterprise computer solutions. Exiting the former in fiscal 2003 with the sale of our Industrial Electronic Division, we used the proceeds to reduce debt and fund growth of our enterprise solutions business. This included acquiring businesses focused on higher-margin and more specialized solutions for the hospitality and retail industries. At the same time, we changed our name to Agilysys, Inc.

In fiscal 2004, we acquired Inter-American Data, Inc., which allowed us to become the leading developer and provider of technology solutions for property and inventory management in the casino and resort industries.

In fiscal 2007, we exited the enterprise computer distribution business. We used the proceeds from that sale to return cash to shareholders and fund a number of acquisitions that broadened our solutions and capabilities portfolios. We acquired InfoGenesis, Inc., Visual One Systems Corp. and Eatec Corporation in fiscal 2008, significantly expanding our specialized offerings to the hospitality industry through enterprise-class POS, PMS and inventory and procurement software solutions tailored for a variety of applications in cruise, golf, spa, gaming, lodging, resort and catering. These offerings feature highly intuitive, secure and robust solutions, easily scalable across multiple departments or property locations.

In fiscal 2012, we sold our IT solutions business and restructured our business model to focus on higher-margin, profitable growth opportunities in the hospitality and retail sectors. We also reduced our real-estate footprint and lowered overhead costs by relocating corporate services from Solon, Ohio to Alpharetta, Georgia, thus moving our senior management team closer to our remaining operating units.

In fiscal 2014, we sold our retail solutions and services business to Kyros Solutions, Inc. (Kyros), an affiliate of Clearlake Capital Group, L.P. Following completion of the transaction, our business focused exclusively on hospitality solutions and the growth opportunities in the hospitality market.

In fiscal 2018, we opened a development center in Chennai, India, to supplement our product development efforts.

Today, we are focused on providing state-of-the-art, end-to-end solutions that enhance guest experiences and allow our customers to promote their respective brands. We help our customers win the guest recruitment battle and, in turn, grow revenue, reduce costs and increase efficiency. This is accomplished by developing and deploying innovative solutions that increase speed and accuracy, integrate with other enterprise systems and create a common infrastructure for managing guest data thereby enabling more effective management, intelligent upselling, reduced shrinkage, improved brand recognition and better control of the guest relationship.

Our strategy is to increase the proportion of revenue we derive from ongoing support and maintenance agreements, subscription services, cloud applications and professional services.

### Products, Support and Professional Services

We are a leading developer and marketer of software enabled solutions and services to the hospitality industry, including: software solutions fully integrated with third party hardware and operating systems; support, maintenance and subscription services; and, professional services. Areas of specialization are point of sale, property management, and a broad range of solutions that support the ecosystem of these core solutions.

We present revenue and costs of goods sold in three categories:

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

Total revenue for these three specific areas is as follows:

| (In thousands)                                 | Year ended March 31, |            |            |
|--|----------------------|------------|------------|
|  | 2019                 | 2018       | 2017       |
| Products                                       | \$ 39,003            | \$ 33,699  | \$ 38,339  |
| Support, maintenance and subscription services | 75,496               | 69,068     | 63,308     |
| Professional services                          | 26,343               | 24,593     | 26,031     |
| Total  | \$ 140,842           | \$ 127,360 | \$ 127,678 |

**Products:** Products revenue is comprised of revenue from the sale of software along with third party hardware and operating systems. Software sales include up front revenue for licensing our solutions on a perpetual basis. Software sales are driven by our solutions' ability to help our customer meet the demands of their guests and improve operating efficiencies. Our software revenue is also driven by the ability of our customers to configure our solutions for their specific needs and the robust catalog of integrations we offer to third party solutions. Our software solutions require varying form factors of third party hardware and operating systems to operate, such as staff facing terminals, kiosk solutions, mobile tablets or servers. Third party hardware and operating system revenue is typically driven by new customer wins and existing customer hardware refresh purchases.

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

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

#### ***Our portfolio of hospitality software solutions:***

The hospitality industry has long been focused on operating end-to-end businesses, but the technology vendors that service the industry have been focused on product-centric solutions that make use of a high number of software modules and operating silos. To resolve this disconnect and more effectively align with the business operations of our customers, we have evolved our approach to be focused on delivering integrated "platform-centric" solutions for Lodging and Food & Beverage including the applications necessary to support this ecosystem.

Our technology platform is aimed at transitioning our product and services offerings to better address the needs of hospitality operators as they focus on building better connections with guests before, during and post-visit. We offer an end-to-end solution that helps our customers improve the guest experience, increase top-line performance and reduce operating costs, which leads to opportunities for higher profitability. Our focus is to help hospitality operators recruit and retain customers into their facilities, increase their wallet share from each guest and improve the overall experience throughout the entire guest journey - from the initial customer touch point through post-visit interactions.

### **Point of Sale (POS) Solutions:**

Agilysys POS solution suite allows our customers to provide their guests with an omni-channel experience within their property. Guests are empowered to create their own experiences through ordering from a mobile device or walking up to a self-service kiosk, but also providing for a more traditional experience with staff by walking to a cashier, bar or having a server come to them. Irrespective of the channel of interaction for the guest, our POS suite provides a single integrated enterprise grade back office management system with robust reporting capabilities. This allows our customers to manage menus, price changes, purchasing trends, inventory management and sales reporting from a single integrated source providing for increased efficiency as well as providing a richer guest profile.



Agilysys InfoGenesis® POS is an award-winning point of sale solution that combines a fast, intuitive and highly customizable terminal application with powerful, flexible reporting and configuration capabilities in the back office management portal. The system is easy to set up, and its scalable architecture enables customers to add workstations without having to build out expensive infrastructure. The system's detailed and high-quality reporting capabilities provide insight into sales data and guest purchasing trends. Engineered for all regions of the world, the Agilysys POS solution suite offers a multinational set of features, including language, currency and fiscal technology, coupled with a robust enterprise management capability enabling the largest global customers to run their business efficiently. With a modern integration platform of APIs, the solution is also capable of integrating with a variety of ancillary applications allowing our customers to keep their entire technology estate. InfoGenesis POS is available as a cloud-based or on-premise solution.



Agilysys InfoGenesis Flex is a mobility solution that offers full point of sale functionality on a Windows tablet in 6, 8, or 10" form factors. It provides a sleek, modern alternative to traditional point of sale installations and can be used as a slim fixed terminal or as a convertible mobile POS simply by removing the tablet from its base.



Agilysys InfoGenesis KDS is a digital kitchen management solution that integrates with InfoGenesis, rGuest Buy® Kiosk and rGuest Buy OnDemand to deliver staff and customer originated orders to the kitchen for preparation. Custom attributes such as guest phone number, name, guest location or packaging instructions can be provided on each incoming order so the order can be fulfilled promptly to guests. Guests can optionally be notified of order completion via an order status monitor (OSM) or via text message.



rGuest Buy Kiosk is an enterprise-class self-service, customer-facing point of sale solution for the hospitality industry. It is ideal for food & beverage venues such as buffets, grab 'n go, corporate cafeterias and food courts. Its flexibility supports a variety of operational workflows, such as "order and pay", "order only", "pay at cashier" and self check-out, and integrates with a variety of property management, casino management and loyalty systems. rGuest Buy Kiosk is currently deployed at more than 121 customer sites across the country, including corporate cafeterias at a top five U.S. bank, a top 40 U.S. law firm, one of the nation's largest technology manufacturers, and at a national financial services firm.

rGuest Buy Kiosk's intuitive guest-facing order and pay experiences transfer the control and convenience to the end user. The self-service components reduce on-site labor needed to manage venue operations, while improving guest throughput, check size, order accuracy, guest experience and satisfaction. The platform-driven and cloud-based solution allows for easy deployments and management at scale resulting in a lowered overall cost of ownership.



rGuest Buy OnDemand provides a visual, interactive F&B ordering experience to any mobile device - phone, tablet, laptop - with a browser-based self-service experience. Using a simple, intuitive interface, guests can easily order and reorder from anywhere across the property, driving order velocity and volume.

### **Property Management Systems (PMS):**

Agilysys offers the most comprehensive suite of property management applications to serve the needs of our integrated resort and hospitality customers. Our platforms enable our customers to provide a seamless experience to their guests while driving operational efficiencies throughout the value chain. Our PMS suite of applications consists of the core property management system, a commission free booking engine, self-service check in and check out solutions, spa, golf, retail, accounting, sales and catering, service request optimization and condo management applications.



Agilysys Lodging Management System® (LMS™) is an on-premise or hosted, web and mobile-enabled, PMS solution targeting the operator with large, complex operations. It runs 24/7 to automate every aspect of hotel operations in properties from 100 to over 7,000 rooms, and has interfaces to a wide array of industry applications including but not limited to all core casino management systems and leading global distribution systems (GDSs). Its foundation expands to incorporate modules for activities scheduling, attraction ticketing and more.



Agilysys Visual One® PMS is installed in hotels and resorts ranging from 50-1,500 rooms. It is a complete hospitality solution expanding beyond traditional PMS solutions enabling the resort to run its end-to-end operations, including front desk, housekeeping, sales & catering, maintenance, accounting, condo owner management, golf, retail POS, and activities. Visual One provides an integrated solution with interfaces to leading GDSs, casino management systems, hospitality automation and our other products.



rGuest® Stay PMS is the company's groundbreaking cloud-based property management system that optimizes operational efficiency, increases revenue and enhances guest service. rGuest Stay is currently generally available for select-service hotels and chains, as well as for limited-service casino hotels. The guest-centric PMS leverages the rGuest standards-based platform on an open architecture with public APIs to enable richly integrated applications delivered from Agilysys, its partners and customers. rGuest Stay offers powerful capabilities for multi-property operations, allowing managers to view guest profiles, history and reservations, as well as room availability and operational reports, seamlessly across multiple properties.

Focused on improving revenue and streamlining operations, rGuest Stay is designed to enable hotels to gather and analyze guest information across properties that can be used to create loyalty-generating offers and increase guest wallet share. In addition, running natively in a browser on both desktop and tablet devices, it delivers real-time operating metrics so that hotels can more accurately forecast demand and scale guest services accordingly.

### Flexible Check-in and Check-out Solutions

Today's hotels cater to guests with high expectations when it comes to technological efficiency. An emerging trend in the hotel industry is the ability for guests to check themselves in or out of their room without the inconvenience of stopping by the front desk. To that end, we offer software modules that enable just this and are fully integrated with our core PMS solutions.



rGuest Express Kiosk simplifies check-in and check-out, optimizes staff productivity and enhances the guest experience by enabling a seamless self-service option for guests to use in the hotel lobby at a kiosk. More properties are turning to kiosks to reduce overhead and offer more self-service options. With rGuest Express Kiosk, it's easy to elevate service levels without adding front-line staff.





rGuest Express Mobile simplifies check-in and check-out even further and at the same time allows operators to offer mobile keys, concurrent dining reservations or room upsells, all on a personal mobile device such as a smart phone or tablet. Properties are turning to mobility at an ever-increasing pace to improve efficiency. With rGuest Express Mobile, it's easy reduce wait times and empower guests by putting the power of choice in the palm of their hand.

#### **Point of Sale and Property Management Ecosystem Offerings:**

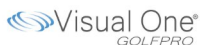
The following solutions integrate with and are complementary to our point of sale or property management systems, or both. These solutions, for the most part, can stand alone and don't require POS or PMS to be functional. However, we lead with our core POS and PMS solutions discussed above and focus on selling these complimentary ecosystem solutions into our customer base.



rGuest® Pay payment processing solution is our innovative payments gateway. rGuest Pay protects guests' financial data and reduces risk by leveraging point-to-point encryption (P2PE) and tokenization with every credit card transaction. rGuest Pay Gateway leverages one of the first payment gateways in the world to receive official PCI-P2PE validation, allowing us to offer PCI cost and scope reduction that other providers cannot. These security benefits are built on top of a full-featured, enterprise-grade gateway that offers broad support for U.S., Canada, and European credit card processors and a wide variety of payment device options for every use-case, including countertop, pay-at-table, EMV, mobile tablet, and signature capture scenarios.



rGuest Spa software covers all aspects of running a spa, from scheduling guests for services to managing staff schedules. With this guest-centric technology, spas have more time to focus on creating personalized experiences in places of quiet tranquility, an increasingly scarce resource. rGuest Spa is a single solution that connects effortlessly to our other software solutions. The solution includes real-time integration, simplifies the appointment booking process, enhances the guest experience, and maximizes the value of the spa as a revenue center.



GolfPro is a module that offers golf property managers complete pro shop management with tee time scheduling, member profile/billing, tournament management and Web and e-mail access bundled into one solution. Customers are given the option of using our robust built in retail POS module or they may choose to leverage the power of InfoGenesis. Staff can easily schedule and personalize reservations for guests which then appear on itineraries, confirmations, and folios.



rGuest Book is a commission-free, easy-to-use reservation system that's designed to move guests effortlessly through the booking process of hotel rooms. The solution allows booking of one or more rooms and is seamlessly connected with our core PMS solutions to provide a flawless experience for guests and hotel operators. The solution also allows operators to capture increased revenue through add-ons and upsells of premium rooms.



rGuest Service is our new integrated service optimization platform that allows our customers to provide an integrated hospitality experience for their guests while driving greater operational efficiency by connecting departments across the hotel - front desk, house-keeping, concierge, maintenance, bell desk, food runners, wait staff, etc. The rGuest service platform provides a unified communication and messaging service for guest and staff interaction as well as internal staff interaction. Apart from providing the functionality for managing back of house operations like house-keeping, engineering and maintenance, the rGuest service platform

proactively tracks events and exceptions that take place in the hotel or resort and drive targeted action to ensure high level of guest satisfaction at all times.



Agilysys Eatec® solution provides core purchasing, inventory, recipe, forecasting, production and sales analysis functions and is unique in offering catering, restaurant, buffet management and nutrition modules in a single web-enabled solution. Agilysys EatecTouch is an optional software applet that operates on any MicroSoft® Windows®-based POS terminal, providing users with access to the Eatec application from any terminal location. Agilysys EatecPocket is a Microsoft Windows Mobile compatible application designed to work on a handheld wireless device, enabling users to perform inventory transactions. The software incorporates barcode scanner functionality for mobile updates of the database.



Agilysys Stratton Warren System (SWS) integrates with all leading financial and POS software products. The software manages the entire procurement process via e-commerce, from business development to the management of enterprise-wide backend systems and daily operations. Agilysys SWS Direct is an add-on module for SWS that provides a convenient, efficient and intuitive shopping cart experience to SWS users. SWS Direct streamlines operations, provides enhanced bidding and request for pricing services, and offers supplier registration tools and self-service maintenance capabilities.



Agilysys DataMagine™ document management solution is a U.S.-patented imaging module and archiving solution that allows users to securely capture and retrieve documents and system-generated information. DataMagine integrates with other Agilysys products, adding functionality and providing seamless workflows that cross functional areas. DataMagine helps drive the Go Green initiative at a number of our customer sites by enabling a completely paperless experience through all facets of the customers operations - from signature capture at the front desk to automated routing of PO's and requisition orders for approvals. DataMagine provides robust indexing and archiving features to allows easy contextual based document retrieval.



rGuest® Seat solution is a guest-centric table, reservation and wait list management solution that helps restaurants increase revenue by retaining repeat guests and providing a superior experience. Online dining reservations enable restaurants to increase bookings by allowing diners to reserve a table through the restaurant's website or mobile app. Wait-list management optimizes the restaurant's use of tables and resources, helping staff estimate wait times more accurately and avoiding lost or dissatisfied guests.



rGuest Analyze is a cloud-based data analytic platform focused on the needs of the hospitality industry. It is a full business intelligence solution that collects data from Agilysys point of sale and property management solutions and helps food & beverage and property operators gain critical insight into business operations and performance. Out-of-the-box analysis helps hospitality operators manage costs, minimize loss due to fraud, boost item sales, increase server productivity, occupancy, room revenue, and other profit enhancing capabilities.

**Representative Agilysys clients include:**

|   |  |                                  |
|---|--|----------------------------------|
| 7 Cedars Casino                         | The Cosmopolitan of Las Vegas          | Pinehurst Resort                 |
| AVI Foodsystems, Inc.                   | Crystal Springs Resort                 | Pinnacle Entertainment           |
| Banner Health                           | Drury Hotels                           | Prairie Band Casino & Resort     |
| Boyd Gaming Corporation                 | Ellis Island Hotel, Casino and Brewery | Rosewood Castiglione Del Bosco   |
| The Broadmoor's Ranch at Emerald Valley | Golden Nugget Lake Charles             | Resorts World Bimini             |
| Caesars Entertainment                   | Grand Central Hotel in Belfast         | Rosen Hotels & Resorts           |
| Cal Dining at UC Berkeley               | Grand Sierra Resort and Casino         | Royal Caribbean International    |
| Camelback Lodge & Waterpark             | Hialeah Park                           | Royal Lahaina Resort             |
| Carnival UK                             | Hilton Worldwide                       | Sands Casino Resort Bethlehem    |
| Casa Ybel Resort                        | Ho-Chunk Gaming                        | SAVOR                            |
| Casino del Sol Resort                   | Intercontinental Hotel Group           | Spooky Nook Sports               |
| Catholic Charities                      | Kiawah                                 | SUNY Cobleskill                  |
| Chukchansi Gold Resort & Casino         | Maryland Live! Casino                  | The Venetian Resort Hotel Casino |
| Compass Group North America             | Oxford Casino                          | Vail Resorts                     |
| Comanche Nation of Oklahoma             | Paddle Wheeler Creole Queen            | Valley View Casino & Hotel       |
| Copper Mountain                         | Palm Garden Hotel                      | Yale University                  |

**Industry and Markets**

We are a technology software solutions company exclusively focused on the hospitality industry for more than 4 decades. Our solutions are mission critical to core hospitality operations. Our software solutions are required to run the operations of the hospitality business and designed to drive substantial customer benefits through increased revenue, reduced cost, enhanced guest experience and improved employee morale. Our innovative software solutions include point of sale (POS), property management systems (PMS), payment, business intelligence, guest self-service, inventory and procurement, reservations, table management, activity scheduling, golf and spa management, document management as well as online booking solutions.

Our guest-centric technology solutions have been purpose-built to serve the unique needs of the following hospitality sectors: Casino, Tribal Gaming, Hotels and Resorts, Cruise, Food Service Management, Universities, Stadia, Healthcare and Restaurants. We operate across North America, Europe, Asia-Pacific and India with headquarters located in Alpharetta, GA.

The hotel and resort market sector remains strong and continues to expand with record-setting occupancy for US hotels 3 years in a row according to the 2019 Lodging Technology Study. Occupancy rates increased to 66.4% in 2018 which is up from 65.9% in 2017. Revenue per available room (RevPar) has increased at least 3% eight years in a row and CPA firm PricewaterhouseCoopers predicts RevPar will increase by 2.6% in 2019. Along with the current expansion of the hotel revenue, IT Budgets for Hoteliers increased by 15% in 2018 and are expected to continue to increase by similar amounts in 2019. Overall technology spend has increased on a percentage of revenue basis from 3.5% in 2016 to 4.6% of revenue in 2018. Of the technology spend as a percentage of revenue, our products nearly 40% of these items or about 1.7% of the 2018 hotel revenues.

We have a significant customer base in the commercial casino and gaming sector. According to CPA firm Rubin Brown's Gaming Services Group, U.S. Gaming industry annual revenues grew to nearly \$79 billion in 2018, as compared to approximately \$76 billion in 2017 and \$73 billion in 2016. Amenities in contemporary casinos extend well beyond gaming to include a variety of entertainment and leisure options as well as modern convention centers and meeting facilities to attract the corporate market. International gaming markets are growing rapidly both in size and new jurisdictions. Asian gaming markets continue to generate robust growth. Gross gaming revenue in Macau exceeds that of the Las Vegas Strip, with a number of the current and planned properties in the region operated by U.S.-based companies. As the market share leader in providing POS and PMS to casinos on the Las Vegas Strip, we are well positioned to benefit from these strong and long-standing relationships as our customer base expands into international markets. Additionally, as gaming operators migrate toward cashless operations, optimization of non-gaming spend and digital track-and-log of unique guest behavior, we are able to provide the requisite technologies and expertise to satisfy their needs. Between the hotel and resort sector and the gaming sector we currently serve approximately 271,000 rooms out of a possible market of 17.5 million rooms worldwide.

The food service management (FSM) sector services restaurants in corporate cafes, airports, healthcare facilities, universities, stadiums and arenas. The industry employs around 700,000 individuals and continues to expand. According to the IBIS World Industry Report, labor and wages have reduced in the sector as a percentage of revenue over the past 5 years as operators continue to look for overall labor efficiency improvements. The FSM sector has a focus on faster line time, food cost optimization and reducing costs. IBISWorld expects the FSM industry revenue to increase from nearly \$48 billion to nearly \$53 billion over the next five years. The healthcare division continues to expand with an aging population increasing their need for large cafeterias in their facilities. The Sports and Entertainment (S&E) division has continued to grow over the last five years as sporting event attendance has been on the incline. The S&E sector is very sensitive to customer spending patterns, driven by quality and range of food service. Our technologies position us well in the FSM sector to support their cost and revenue initiatives in these high volume environments.

We also have expertise in serving the unique needs of Cruise ship operators. Guests and potential guests are expecting an experience that reflects their unique tastes, preferences and travel habits, and cruise operators have seen the need to adequately support the increasing level of personalization and detail required to capture the highest level of guest satisfaction. Our products and services are designed to best help them deliver on this critical part of their business. According to the Cruise Lines International Association and *Cruise Market Watch 2018*, cruise lines continued the growth trends of recent years in 2018. The worldwide cruise ship fleet currently stands at 314 ships and the current order book includes 18 new ships to be delivered by 2019. The industry carried an estimated 26.0 million passengers in 2018, up from nearly 25.2 million passengers in 2017.

### **Customers**

Our customers include large, medium-sized and boutique companies, both owned and franchised, as well as divisions or departments of large corporations in the hospitality industry. We concentrate on serving the needs of customers in a range of customer-focused settings where brand differentiation is important, particularly in the lodging, casino, destination resort, cruise line, foodservice industries where competition for guest recruitment is intense. During fiscal 2017, we had one customer representing 10% of consolidated revenue for the year due to a large scale project. Otherwise, our customer base is highly fragmented.

### **Seasonality**

Occasionally, the timing of large one-time orders, such as those associated with significant remarketed product sales around large customer refresh cycles or significant volume rollouts, creates variability in our quarterly results.

### **Competition**

Our solutions face a highly competitive market. Competition exists with respect to developing and maintaining relationships with customers, pricing for products and solutions, and customer support and service.

We compete with other full-service providers that sell and service bundled POS and PMS solutions comprised of hardware, software, support and services. These companies, some of which are much larger than we are, include Oracle Corp., NCR, Constellation Software, Inc., Amadeus IT Group and Infor. We also compete with software companies like POSitouch, Northwind and Appetize Technologies. In addition, we compete with PMS systems that are designed and maintained in-house by large hotel chains.

### **Environmental Matters**

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

### **Employees**

As of March 31, 2019, we had 936 employees. We are not a party to any collective bargaining agreements, have had no strikes or work stoppages and consider our employee relations to be good.

### **Access to Information**

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

**Item 1A. Risk Factors.**

**Risks Relating to Our Business**

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

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

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

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

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

***If we fail to meet our customers' performance expectations, our reputation may be harmed, and we may be exposed to legal liability.***

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

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

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

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

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

***Cloud-based platform and software applications presents increased security risks.***

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

***Our cloud-based solutions present execution and competitive risks.***

Our solutions offered in the cloud accessible via the web present new and difficult technology challenges. These offerings depend on integration of third-party hardware, software and cloud hosting vendors working together with our products. As a result, we may be subject to claims if customers experience service disruptions, breaches or other quality issues related to our cloud-based solutions.

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

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

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

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

***We may incur goodwill, intangible asset and capitalized software development impairment charges that adversely affect our operating results.***

As of March 31, 2019 we had \$19.6 million, \$8.4 million, and \$34.6 million of goodwill, intangible assets, net, and software development costs, net, respectively, on our Consolidated Balance Sheet. We review our goodwill, intangible assets and capitalized software development costs for impairment on at least an annual basis. Our future operating results and the market price of our common stock could be materially adversely affected if we are required to write down the carrying value of goodwill, intangible assets or capitalized software development costs in the future.

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

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

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

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

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

While we do not believe that our products and services infringe any patents or other intellectual property rights, from time to time, we receive claims that we have infringed the intellectual property rights of others. On April 6, 2012, Ameranth, Inc. filed a complaint against us in the U.S. District Court for the 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. This lawsuit remains pending.

This lawsuit and any other such claim, with or without merit, could result in costly litigation and distract management from day-to-day operations. If we are found liable, we could be obligated to pay significant damages or enter into license agreements.

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

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

***We have encountered risks associated with maintaining large cash balances.***

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

***We may have exposure to greater than anticipated tax liabilities.***

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

***We are subject to litigation, which may be costly.***

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

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

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

## **Risks Relating to the Industries We Serve**

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

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

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

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

***Consolidation in the casino and hospitality industry could adversely affect our business.***

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

## **Risks Relating to Our Stock**

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

Our stock price has been volatile, and we expect it will continue to be volatile. For example, during the year ended March 31, 2019, the trading price of our common stock ranged from a high close of \$21.17 to a low close of \$11.78. The market price for our common stock could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control. Factors affecting the trading price of our common stock may include:

- economic news or other events generally affecting the trading markets;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period or failure of securities analysts to publish reports about us or our business;
- announcements by us or our competitors of acquisitions, new offerings or improvements, significant contracts, commercial relationships or capital commitments;
- our ability to market new and enhanced solutions on a timely basis;
- any major change in our board or management; general economic and political conditions such as recessions, interest rates, fuel prices, international currency fluctuations and acts of war or terrorism.

Additionally, our ownership base has been and may continue to be concentrated in a few shareholders, which could increase the volatility of our common share price over time.

### **Item 1B. Unresolved Staff Comments.**

None.

### **Item 2. Properties.**

Our corporate headquarters are located in Alpharetta, Georgia where we lease approximately 33,000 square feet of office space. In addition, we lease approximately 33,000 square feet of office space in Las Vegas, Nevada, 12,000 square feet of office space in Bellevue, Washington, 12,000 square feet of office space in Santa Barbara, California, and 6,000 square feet of warehouse space in Roswell, Georgia. Internationally, we lease approximately 70,000 square feet of office space in Chennai, India and lease several other



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smaller office locations throughout Europe and Asia. Our major leases contain renewal options for periods of up to 10 years. We believe that our current facilities and office space are sufficient to meet our needs and do not anticipate any difficulty securing additional space as needed.

**Item 3. Legal Proceedings.**

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

On April 6, 2012, Ameranth, Inc. filed a complaint against us in the U.S. District Court for the 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 devices. The case against us was consolidated with similar cases brought by Ameranth against more than 30 other defendants. Most of the patents at issue in the case were invalidated by the U.S. Court of Appeals for the Federal Circuit in 2016. Cases against us and our co-defendants remained pending in the District Court with respect to one surviving Ameranth patent. In September 2018, the District Court found that patent invalid, and granted summary judgment in favor of the movant co-defendants. In early 2019, Ameranth appealed the District Court's summary judgment ruling to the U.S. Court of Appeals for the Federal Circuit. We are not a party to the appeal, and it is currently unclear what impact the summary judgment ruling or appeal 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 the remaining claims in the lawsuit, or any possible monetary exposure associated with the lawsuit. However, we dispute the allegations of wrongdoing and are vigorously defending ourselves in this matter.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## Part II

### Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our common shares, without par value, are traded on the NASDAQ Stock Market LLC under the symbol "AGYS". The high and low sales prices for the common shares for each quarter during the past two fiscal years are presented in the table below.

| <b>2019</b>           | <b>High</b>     | <b>Low</b>      |
|-----------------------|-----------------|-----------------|
| <b>Fourth quarter</b> | <b>\$ 21.17</b> | <b>\$ 13.92</b> |
| <b>Third quarter</b>  | <b>\$ 17.02</b> | <b>\$ 13.88</b> |
| <b>Second quarter</b> | <b>\$ 16.72</b> | <b>\$ 14.72</b> |
| <b>First quarter</b>  | <b>\$ 15.55</b> | <b>\$ 11.78</b> |

| <b>2018</b>    | <b>High</b> | <b>Low</b> |
|----------------|-------------|------------|
| Fourth quarter | \$ 13.00    | \$ 10.77   |
| Third quarter  | \$ 12.98    | \$ 11.30   |
| Second quarter | \$ 12.14    | \$ 9.80    |
| First quarter  | \$ 10.30    | \$ 9.08    |

The closing price of the common shares on May 21, 2019, was \$22.51 per share. There were 1,561 active shareholders of record.

We did not pay dividends in fiscal 2019 or 2018 and are unlikely to do so in the foreseeable future. The current policy of the Board of Directors is to retain any available earnings for use in the operations of our business.

## Shareholder Return Performance Presentation

The following chart compares the value of \$100 invested in our common shares, including reinvestment of dividends, with a similar investment in the Russell 2000 Index (the “Russell 2000”) and with the companies listed in the SIC Code 7373-Computer Integrated Systems Design for the period March 31, 2014 through March 31, 2019. The stock price performance in this graph is not necessarily indicative of the future performance of our common shares.

### Comparison of 5 Year Cumulative Total Return

| Company Name / Index | INDEXED RETURNS              |           |           |           |           |                  |
|----------------------|------------------------------|-----------|-----------|-----------|-----------|------------------|
|                      | Fiscal Years Ended March 31, |           |           |           |           |                  |
|                      | Base Period<br>2014          | 2015      | 2016      | 2017      | 2018      | 2019             |
| Agilysys, Inc.       | \$ 100.00                    | \$ 73.43  | \$ 76.19  | \$ 70.52  | \$ 88.96  | \$ <b>157.99</b> |
| Russell 2000         | \$ 100.00                    | \$ 108.21 | \$ 97.65  | \$ 123.25 | \$ 137.78 | \$ <b>140.61</b> |
| Peer Group           | \$ 100.00                    | \$ 117.82 | \$ 100.67 | \$ 124.81 | \$ 163.38 | \$ <b>167.38</b> |

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

## Item 6. Selected Financial Data.

The following selected consolidated financial and operating data was derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7 contained in Part II of this Annual Report.

| (In thousands, except per share data)                   | Year ended March 31, |            |             |            |             |
|---|----------------------|------------|-------------|------------|-------------|
|   | 2019                 | 2018       | 2017        | 2016       | 2015        |
| <b>Operating results</b>                                |                      |            |             |            |             |
| Net revenue   | \$ 140,842           | \$ 127,360 | \$ 127,678  | \$ 120,366 | \$ 103,514  |
| Gross profit  | 73,880               | 64,417     | 63,785      | 68,106     | 60,081      |
| Operating loss  | (13,081)             | (12,080)   | (11,408)    | (4,313)    | (12,467)    |
| Operating loss, net of taxes                            | (13,164)             | (8,350)    | (11,721)    | (3,765)    | (11,497)    |
| Net loss  | \$ (13,164)          | \$ (8,350) | \$ (11,721) | \$ (3,765) | \$ (11,497) |
| <b>Per share data (1)</b>                               |                      |            |             |            |             |
| Basic and diluted                                       |                      |            |             |            |             |
| Net loss  | \$ (0.57)            | \$ (0.37)  | \$ (0.52)   | \$ (0.17)  | \$ (0.51)   |
| Weighted-average shares outstanding - basic and diluted | 23,037               | 22,801     | 22,615      | 22,483     | 22,338      |
| <b>Balance sheet data at year end</b>                   |                      |            |             |            |             |
| Cash and cash equivalents                               | \$ 40,771            | \$ 39,943  | \$ 49,255   | \$ 60,608  | \$ 75,067   |
| Working capital   | 20,707               | 19,343     | 27,183      | 41,401     | 54,407      |
| Total assets  | 163,591              | 157,207    | 167,305     | 185,157    | 181,525     |
| Total debt  | 57                   | 177        | 237         | 333        | 189         |
| Total shareholders' equity                              | 100,622              | 108,431    | 113,669     | 123,473    | 124,188     |

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

## Item 7. Managements' Discussion and Analysis of Financial Condition and Results of Operations.

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

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

The MD&A analyzes changes in specific line items in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows and provides information that management believes is important to assessing and understanding our consolidated financial condition and results of operations. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes that appear in Item 8 of this Annual Report titled, "Financial Statements and Supplementary Data." Information provided in the MD&A may include forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to be materially different from those contained in the forward-looking statements. See "Forward-Looking Information" on page 3 of this Annual Report and Item 1A "Risk Factors" in Part I of this Annual Report for additional information concerning these items. Management believes that this information, discussion, and disclosure is important in making decisions about investing in Agilysys.

### Overview

Agilysys has been a leader in hospitality software for more than 40 years, delivering innovative guest-centric technology solutions for gaming, hotels, resorts and cruise, corporate foodservice management, restaurants, universities, stadia and healthcare. Agilysys offers the most comprehensive solutions in the industry, including point of sales (POS), property management (PMS), inventory and procurement, payments, and related applications, to manage the entire guest journey. Agilysys is known for its leadership in hospitality, its broad product offerings and its customer-centric service. Some of the largest hospitality companies around the world use Agilysys solutions to help improve guest loyalty, drive revenue growth and increase operational efficiencies.

Agilysys operates across North America, Europe, Asia-Pacific, and India with headquarters located in Alpharetta, GA. For more information, visit [www.agilysys.com](http://www.agilysys.com).

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
- Accelerating our product development
- Improving organizational efficiency and teamwork
- Developing our employees and leaders
- Growing revenue by improving the breadth and depth of our product set across both our well established products and our newer rGuest platform
- 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 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

### *Fiscal 2019 Compared with Fiscal 2018*

#### *Net Revenue and Operating Loss*

The following table presents our consolidated revenue and operating results for the fiscal years ended March 31, 2019 and 2018:

| (Dollars in thousands)                                    | Year ended March 31, |               | Increase (decrease) |               |
|---|----------------------|---------------|---------------------|---------------|
|   | 2019                 | 2018          | \$                  | %             |
| <b>Net revenue:</b>                                       |                      |               |                     |               |
| Products  | \$ 39,003            | \$ 33,699     | \$ 5,304            | 15.7 %        |
| Support, maintenance and subscription services            | 75,496               | 69,068        | 6,428               | 9.3 %         |
| Professional services                                     | 26,343               | 24,593        | 1,750               | 7.1 %         |
| Total net revenue   | 140,842              | 127,360       | 13,482              | 10.6 %        |
| <b>Cost of goods sold:</b>                                |                      |               |                     |               |
| Products (inclusive of developed technology amortization) | 31,811               | 26,381        | 5,430               | 20.6 %        |
| Support, maintenance and subscription services            | 15,895               | 16,688        | (793)               | (4.8)%        |
| Professional services                                     | 19,256               | 19,874        | (618)               | (3.1)%        |
| Total cost of goods sold                                  | 66,962               | 62,943        | 4,019               | 6.4 %         |
| <b>Gross profit</b>                                       | <b>73,880</b>        | <b>64,417</b> | <b>9,463</b>        | <b>14.7 %</b> |
| <b>Gross profit margin</b>                                | <b>52.5 %</b>        | <b>50.6 %</b> |                     |               |
| <b>Operating expenses:</b>                                |                      |               |                     |               |
| Product development                                       | 37,817               | 27,936        | 9,881               | 35.4 %        |
| Sales and marketing                                       | 19,646               | 18,075        | 1,571               | 8.7 %         |
| General and administrative                                | 23,118               | 24,028        | (910)               | (3.8)%        |
| Depreciation of fixed assets                              | 2,504                | 2,631         | (127)               | (4.8)%        |
| Amortization of intangibles                               | 2,567                | 1,879         | 688                 | 36.6 %        |
| Restructuring, severance and other charges                | 1,168                | 1,798         | (630)               | (35.0)%       |
| Legal settlements   | 141                  | 150           | (9)                 | (6.0)%        |
| Operating loss  | \$ (13,081)          | \$ (12,080)   | \$ (1,001)          | 8.3 %         |
| <i>Operating loss percentage</i>                          | <i>(9.3)%</i>        | <i>(9.5)%</i> |                     |               |

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

|  | Year ended March 31, |             |
|--|----------------------|-------------|
|  | 2019                 | 2018        |
| <b>Net revenue:</b>                                      |                      |             |
| Products   | 27.7 %               | 26.5 %      |
| Support, maintenance and subscription services           | 53.6                 | 54.2        |
| Professional services                                    | 18.7                 | 19.3        |
| Total net revenue  | 100.0                | 100.0       |
| <b>Cost of goods sold:</b>                               |                      |             |
| Products, inclusive of developed technology amortization | 22.6                 | 20.7        |
| Support, maintenance and subscription services           | 11.3                 | 13.1        |
| Professional services                                    | 13.6                 | 15.6        |
| Total net cost of goods sold                             | 47.5                 | 49.4        |
| <b>Gross profit</b>                                      | <b>52.5</b>          | <b>50.6</b> |
| <b>Operating expenses:</b>                               |                      |             |
| Product development                                      | 26.9                 | 21.9        |
| Sales and marketing                                      | 13.9                 | 14.2        |
| General and administrative                               | 16.4                 | 18.9        |
| Depreciation of fixed assets                             | 1.8                  | 2.1         |
| Amortization of intangibles                              | 1.8                  | 1.5         |
| Restructuring, severance and other charges               | 0.8                  | 1.4         |
| Legal settlements  | 0.1                  | 0.1         |
| Operating loss   | (9.3)%               | (9.5)%      |

*Net revenue.* Total revenue increased \$13.5 million, or 10.6%, in fiscal 2019 compared to fiscal 2018. Products revenue increased \$5.3 million, or 15.7%, due to growth in third-party hardware sales and in on premise software sales, which grew more than 20% compared to the prior year. Support, maintenance and subscription services revenue increased \$6.4 million, or 9.3%, driven by growth in customers using our on premise software products that require the payment of support and maintenance along with continued increases in subscription based revenue, which increased 23.5% in fiscal 2019 compared to fiscal 2018. Subscription based revenue comprised 17.7% of total consolidated revenues in 2019 compared to 15.8% in 2018. Professional services revenue increased \$1.8 million, or 7.1%, as a result of growth in our customer base including installations of our traditional on premise and subscription based software solutions and increased responses to customer service requests.

*Gross profit and gross profit margin.* Our total gross profit increased \$9.5 million, or 14.7%, in fiscal 2019 and total gross profit margin increased from 50.6% to 52.5%. Products gross profit decreased \$0.1 million and gross profit margin decreased 3.3% to 18.4% primarily as a result of increased developed technology amortization.

Support, maintenance and subscription services gross profit increased \$7.2 million and gross profit margin increased 310 basis points to 78.9% due to the scalable nature of our infrastructure supporting and hosting customers. Professional services gross profit increased \$2.4 million and gross profit margin increased 7.7% to 26.9% due to increased revenue with lower costs from the restructuring of our professional services workforce during the first quarter of 2018 into a more efficient operating structure with limited use of contract labor.

#### *Operating expenses*

Operating expenses, excluding the charges for legal settlements and restructuring, severance and other charges, increased \$10.5 million, or 13.7%, in fiscal 2019 compared with fiscal 2018. As a percent of total revenue, operating expenses have increased 2.3% in fiscal 2019 compared with fiscal 2018.

*Product development.* Product development includes all expenses associated with research and development. Product development increased \$9.9 million, or 35.4%, during fiscal 2019 as compared to fiscal 2018 primarily due to the reduction of cost capitalization. The products in our rGuest platform for which we had capitalized costs reached general availability by the beginning of the second



quarter of fiscal 2019. These products join our well established products with the application of agile development practices in a more dynamic development process that involves higher frequency releases of product features and functions. We capitalized \$2.0 million of external use software development costs, and \$0.3 million of internal use software development costs during fiscal 2019, with the full balance capitalized in Q1 fiscal 2019. We capitalized approximately \$8.9 million in total development costs during fiscal 2018. Total product development costs, including operating expenses and capitalized amounts, were \$40.1 million during fiscal 2019 compared to \$38.4 million in fiscal 2018. The \$1.7 million increase is mostly due to continued expansion of our R&D teams and increased compensation expense as a result of bonus earnings.

*Sales and marketing.* Sales and marketing increased \$1.6 million, or 8.7%, in fiscal 2019 compared with fiscal 2018. The change is due primarily to an increase of \$1.6 million in incentive compensation related to an increase in sales, revenue and profitability during fiscal 2019.

*General and administrative.* General and administrative decreased \$0.9 million, or 3.8%, in fiscal 2019 compared to fiscal 2018. The change is due primarily to reduced outside professional costs for legal and accounting services.

*Depreciation of fixed assets.* Depreciation of fixed assets decreased \$0.1 million or 5% in fiscal 2019 as compared to fiscal 2018.

*Amortization of intangibles.* Amortization of intangibles increased \$0.7 million, or 36.6%, in fiscal 2019 as compared to fiscal 2018 due to our remaining rGuest suite of products being placed into service on June 30, 2018.

*Restructuring, severance and other charges.* Restructuring, severance, and other charges decreased \$1.8 million due to non-recurring 2018 restructuring activities while charges for non-restructuring severance increased \$1.2 million, resulting in a net decrease of \$0.6 million during fiscal 2019. Our restructuring actions are discussed further in Note 4, *Restructuring Charges*.

*Legal settlements.* Legal settlements consist of settlements of employment and other business-related matters.

*Other (Income) Expenses*

| (Dollars in thousands)                   | Year ended March 31, |                 | (Unfavorable) favorable |           |
|--|----------------------|-----------------|-------------------------|-----------|
|  | 2019                 | 2018            | \$                      | %         |
| <b>Other (income) expense:</b>           |                      |                 |                         |           |
| Interest (income)                        | \$ (339)             | \$ (98)         | \$ 241                  | 245.9%    |
| Interest expense                         | 10                   | 10              | —                       | —%        |
| Other expense (income), net              | 191                  | (391)           | (582)                   | nm        |
| <b>Total other (income) expense, net</b> | <b>\$ (138)</b>      | <b>\$ (479)</b> | <b>\$ (341)</b>         | <b>nm</b> |

nm - not meaningful

*Interest income.* Interest income consists of interest earned on short-term investments in certificates of deposit, commercial paper, corporate bonds and corporate-owned life insurance policies.

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

*Other (income) expense, net.* Other (income) expense, net 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)       | Year ended March 31, |              | (Unfavorable) favorable |    |
|------------------------------|----------------------|--------------|-------------------------|----|
|                              | 2019                 | 2018         | \$                      | %  |
| Income tax expense (benefit) | \$ 221               | \$ (3,251)   | \$ (3,472)              | nm |
| <b>Effective tax rate</b>    | <b>(1.7)%</b>        | <b>28.0%</b> |                         |    |

nm - not meaningful

For fiscal 2019, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, certain foreign and state taxes and other U.S. permanent book to tax differences.

The 2018 tax provision results primarily from a reduction in the deferred rate and the ability to offset indefinite lived deferred tax liabilities with certain deferred tax assets due to the passage of the Tax Cuts and Jobs Act ("Tax Act"). The 2018 effective tax rate was different than the statutory rate due primarily to the impact of the Tax Act, recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, certain foreign and state tax effects including a benefit of \$0.4 million related to a settlement with the California Franchise Tax Board 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 routinely audited; due to the ongoing nature of current examinations in multiple jurisdictions, other changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

Because of our losses in prior periods, we have recorded a valuation allowance offsetting substantially all of our deferred tax assets. 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. Because of our losses in prior periods, management believes that it is more-likely-than-not that we will not realize the benefits of these deductible differences. At March 31, 2019, we had \$210.6 million of a federal net operating loss carryforwards of which \$199.1 million will expire, if unused, in fiscal years 2031 to 2038.

### ***Fiscal 2018 Compared to Fiscal 2017***

#### *Net Revenue and Operating Loss*

The following table presents our consolidated revenue and operating results for the fiscal years ended March 31, 2018 and 2017:

| (Dollars in thousands)                                    | Year ended March 31, |             | Increase (decrease) |         |
|---|----------------------|-------------|---------------------|---------|
|   | 2018                 | 2017        | \$                  | %       |
| <b>Net revenue:</b>                                       |                      |             |                     |         |
| Products  | \$ 33,699            | \$ 38,339   | \$ (4,640)          | (12.1)% |
| Support, maintenance and subscription services            | 69,068               | 63,308      | 5,760               | 9.1 %   |
| Professional services                                     | 24,593               | 26,031      | (1,438)             | (5.5)%  |
| Total net revenue   | 127,360              | 127,678     | (318)               | (0.2)%  |
| <b>Cost of goods sold:</b>                                |                      |             |                     |         |
| Products (inclusive of developed technology amortization) | 26,381               | 28,244      | (1,863)             | (6.6)%  |
| Support, maintenance and subscription services            | 16,688               | 16,965      | (277)               | (1.6)%  |
| Professional services                                     | 19,874               | 18,684      | 1,190               | 6.4 %   |
| Total cost of goods sold                                  | 62,943               | 63,893      | (950)               | (1.5)%  |
| <b>Gross profit</b>                                       | 64,417               | 63,785      | 632                 | 1.0 %   |
| <b>Gross profit margin</b>                                | 50.6 %               | 50.0 %      |                     |         |
| <b>Operating expenses:</b>                                |                      |             |                     |         |
| Product development                                       | 27,936               | 29,048      | (1,112)             | (3.8)%  |
| Sales and marketing                                       | 18,075               | 20,823      | (2,748)             | (13.2)% |
| General and administrative                                | 24,028               | 19,875      | 4,153               | 20.9 %  |
| Depreciation of fixed assets                              | 2,631                | 2,409       | 222                 | 9.2 %   |
| Amortization of intangibles                               | 1,879                | 1,392       | 487                 | 35.0 %  |
| Restructuring, severance and other charges                | 1,798                | 1,561       | 237                 | 15.2 %  |
| Legal settlements   | 150                  | 85          | 65                  | 76.5 %  |
| Operating loss  | \$ (12,080)          | \$ (11,408) | \$ (672)            | 5.9 %   |
| Operating loss percentage                                 | (9.5)%               | (8.9)%      |                     |         |

nm - not meaningful

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

|   | Year ended March 31, |        |
|---|----------------------|--------|
|   | 2018                 | 2017   |
| <b>Net revenue:</b>                                       |                      |        |
| Products  | 26.5 %               | 30.0 % |
| Support, maintenance and subscription services            | 54.2                 | 49.6   |
| Professional services                                     | 19.3                 | 20.4   |
| Total net revenue   | 100.0                | 100.0  |
| <b>Cost of goods sold:</b>                                |                      |        |
| Products (inclusive of developed technology amortization) | 20.7                 | 22.1   |
| Support, maintenance and subscription services            | 13.1                 | 13.3   |
| Professional services                                     | 15.6                 | 14.6   |
| Total cost of goods sold                                  | 49.4                 | 50.0   |
| <b>Gross profit</b>                                       | 50.6                 | 50.0   |
| <b>Operating expenses:</b>                                |                      |        |
| Product development                                       | 21.9                 | 22.8   |
| Sales and marketing                                       | 14.2                 | 16.3   |
| General and administrative                                | 18.9                 | 15.6   |
| Depreciation of fixed assets                              | 2.1                  | 1.9    |
| Amortization of intangibles                               | 1.5                  | 1.1    |
| Restructuring, severance and other charges                | 1.4                  | 1.2    |
| Legal settlements   | 0.1                  | 0.1    |
| Operating loss  | (9.5)%               | (8.9)% |

*Net revenue.* Total revenue decreased \$0.3 million, or 0.2% in fiscal 2018 compared to fiscal 2017. Products revenue decreased \$4.6 million or 12.1% while support, maintenance and subscription services revenue increased 5.8 million, or 9.1%, as a result of continued focus on selling hosted perpetual and subscription services which increased 35% year over year. Hosted perpetual and subscription services revenue comprised 16% of total consolidated revenues in 2018 compared to 12% in 2017. Professional services revenue decreased \$1.4 million, or 5.5%, primarily as a result of a decrease in proprietary services of \$1.5 million offset by an increase in remarketed services of \$0.1 million.

*Gross profit and gross profit margin.* Our total gross profit increased \$0.6 million, or 1.0%, in fiscal 2018 and total gross profit margin increased 0.6% to 50.6%. Products gross profit decreased \$2.8 million and gross profit margin decreased 4.6% to 21.7% primarily as a result of lower product revenue coupled with higher amortization of developed technology by \$2.0 million related to the previously announced general availability of the latest version of our rGuest Buy and rGuest Stay software that were placed into service in the first and second quarters of fiscal 2017, and the second quarter of fiscal 2018.

Support, maintenance and subscription services gross profit increased \$6.0 million and gross profit margin increased 260 basis points to 75.8% due to the scalable nature of our infrastructure supporting and hosting customers. Professional services gross profit decreased \$2.6 million and gross profit margin decreased 9.0% to 19.2% due to lower professional services revenues on higher cost structure following a recent alignment toward enabling the Company to provide more customer-centric services going forward.

*Operating expenses*

Operating expenses, excluding legal settlements and restructuring, severance and other charges, increased \$1.0 million, or 1.4%, in fiscal 2018 compared with fiscal 2017. As a percent of total revenue, operating expenses have increased 0.9% in fiscal 2018 compared with fiscal 2017.

*Product development.* Product development includes all expenses associated with research and development. Product development decreased \$1.1 million, or 3.8%, during fiscal 2018 as compared to fiscal 2017. This decrease is primarily driven by our shift from contract labor to internal resources resulting in a decrease in contract labor of \$5.9 million and an increase in payroll related expenses of \$4.7 million.

*Sales and marketing.* Sales and marketing decreased \$2.7 million, or 13.2%, in fiscal 2018 compared with fiscal 2017. The change is due primarily to a decrease of \$2.2 million in incentive commissions related to revision of our commission plan from total contract value to annual contract value coupled with lower sales in fiscal 2018.

*General and administrative.* General and administrative increased \$4.2 million, or 20.9%, in fiscal 2018 compared to fiscal 2017. The change is due primarily to increases of \$2.5 million in stock compensation expense related to executive stock grants and the impact of removing forfeiture rates as a result of adopting ASU No. 2016-09, coupled with forfeitures in the prior year due to the departure of former executives. In addition, there was an increase of \$1.6 million in payroll related expenses as a result of additional headcount including new hires throughout our operating locations.

*Depreciation of fixed assets.* Depreciation of fixed assets increased \$0.2 million or 9.2% in fiscal 2018 as compared to fiscal 2017.

*Amortization of intangibles.* Amortization of intangibles increased \$0.5 million, or 35.0%, in fiscal 2018 as compared to fiscal 2017 due to our latest version of rGuest Pay being placed into service on March 31, 2017.

*Restructuring, severance and other charges.* Restructuring, severance, and other charges increased \$0.2 million during fiscal 2018 compared to fiscal 2017 related to our ongoing efforts to create more efficient teams across the business, which included certain executive changes during the year.

Our restructuring actions are discussed further in Note 4, *Restructuring Charges*.

*Legal settlements.* During fiscal 2018 and 2017, we recorded \$0.2 million and \$0.1 million, respectively, in legal settlements for employment and other business-related matters.

*Other (Income) Expenses*

| (Dollars in thousands)            | Year ended March 31, |          | (Unfavorable) favorable |         |
|-----------------------------------|----------------------|----------|-------------------------|---------|
|                                   | 2018                 | 2017     | \$                      | %       |
| Other (income) expenses           |                      |          |                         |         |
| Interest (income)                 | \$ (98)              | \$ (162) | \$ (64)                 | (39.5)% |
| Interest expense                  | 10                   | 15       | 5                       | 33.3 %  |
| Other (income) expense, net       | (391)                | 224      | 615                     | nm      |
| Total other (income) expense, net | \$ (479)             | \$ 77    | \$ 556                  | nm      |

nm - not meaningful

*Interest income.* Interest income decreased \$64,000 during fiscal 2018 as compared to fiscal 2017.

*Interest expense.* Interest expense consists of costs associated with capital leases and loans on corporate-owned life insurance policies.

*Other (income) expense, net.* Other (income) expense, net 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)       | Year ended March 31, |        | (Unfavorable) favorable |    |
|------------------------------|----------------------|--------|-------------------------|----|
|                              | 2018                 | 2017   | \$                      | %  |
| Income tax (benefit) expense | \$ (3,251)           | \$ 236 | \$ 3,487                | nm |
| Effective tax rate           | (28.0)%              | (2.1)% |                         |    |

nm - not meaningful

For fiscal 2018, the effective tax rate was different than the statutory rate due primarily to the impact of the Tax Act reform. The Company recorded a benefit of approximately \$3.3 million resulting from the effect of a reduction in the deferred rate and the ability to offset indefinite lived deferred tax liabilities with certain deferred tax assets, recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, certain foreign and state tax effects including a benefit of \$0.4 million related to a settlement with the California Franchise Tax Board and other U.S. permanent book to tax differences. At March 31, 2018, we had \$198.7 million of a federal net operating loss carryforward that expires, if unused, in fiscal years 2031 to 2038.

For fiscal 2017, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, state taxes and other U.S. permanent book to tax differences.

Although the timing and outcome of tax settlements are uncertain, it is reasonably possible that during the next 12 months a reduction in unrecognized tax benefits may occur in the range of zero to \$0.1 million of tax and zero to \$0.2 million of interest based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. We are routinely audited; due to the ongoing nature of current examinations in multiple jurisdictions, other changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

Because of our losses in prior periods, we have recorded a valuation allowance offsetting substantially all of our deferred tax assets. The ultimate realization of deferred tax assets generated prior to Tax Act reform depends on the generation of future taxable income during the periods in which those temporary differences are deductible. Because of our losses in prior periods, management believes that it is more-likely-than-not that we will not realize the benefits of these deductible differences.

## Liquidity and Capital Resources

### Overview

Our operating cash requirements consist primarily of working capital needs, operating expenses, capital expenditures, and payments of principal and interest on indebtedness outstanding, which primarily consists of lease and rental obligations at March 31, 2019. We believe that cash flow from operating activities, cash on hand of \$40.8 million as of March 31, 2019, and access to capital markets will provide adequate funds to meet our short-and long-term liquidity requirements.

As of March 31, 2019 and March 31, 2018, our total debt was approximately \$0.1 million and \$0.2 million, respectively, comprised of capital lease obligations in both periods.

At March 31, 2019, 100% of our cash and cash equivalents, of which 94% is located in the United States, were deposited in bank accounts or invested in highly liquid investments with original maturity from date of acquisition of three months or less, including investments in commercial paper. Therefore, we believe that credit risk is limited with respect to our cash and cash equivalents balances.

### Cash Flow

| (In thousands)                              | Year ended March 31, |            |             |
|---|----------------------|------------|-------------|
|   | 2019                 | 2018       | 2017        |
| Net cash provided by (used in):             |                      |            |             |
| Operating activities                        | \$ 7,241             | \$ 6,874   | \$ 3,433    |
| Investing activities                        | (5,534)              | (15,085)   | (13,865)    |
| Financing activities                        | (767)                | (1,295)    | (847)       |
| Effect of exchange rate changes on cash     | (112)                | 194        | (74)        |
| Cash flows provided by (used in) operations | \$ 828               | \$ (9,312) | \$ (11,353) |

*Cash flow provided by operating activities.* Cash flows provided by operating activities were \$7.2 million in fiscal 2019. The provision of cash was due primarily to our operating loss of \$13.2 million adjusted for \$22.4 million in non-cash expense including depreciation, amortization, and share based compensation and an increase of approximately \$2 million in net operating assets and liabilities.

Cash flows provided by operating activities were \$6.9 million in fiscal 2018. The provision of cash was due primarily to our operating loss of \$12.1 million adjusted for \$19.2 million in non-cash expense including depreciation, amortization, and share based compensation.

Cash flows provided by operating activities were \$3.4 million in fiscal 2017. The provision of cash included \$6.4 million in increased collections on accounts receivable.

*Cash flow used in investing activities.* Cash flows used in investing activities in fiscal 2019 were \$5.5 million. This is primarily attributed to \$2.2 million in development of proprietary software and \$3.3 million for purchase of property and equipment, including internal use software.

Cash flows used in investing activities in fiscal 2018 were \$15.1 million. This is primarily attributed to \$8.9 million in development of proprietary software and \$6.1 million for purchase of property and equipment, including internal use software.

Cash flows used in investing activities in fiscal 2017 were \$13.9 million. This is primarily attributed to \$11.9 million in development of proprietary software and \$4.2 million for purchase of property and equipment, including internal use software offset by \$2.2 million in proceeds from corporate owned life insurance policies.

*Cash flow used in financing activities.* Respectively, in fiscal 2019, 2018, and 2017, the \$0.8 million, \$1.3 million, and \$0.8 million cash flows used in financing activities were primarily comprised of the repurchase of shares to satisfy employee tax withholding and to cover the exercise price of the options, and payments on capital lease obligations.

## Investments

### *Investments in Corporate-Owned Life Insurance Policies*

Agilysys invests in corporate-owned life insurance policies for certain former executives, for which some are endorsement split-dollar life insurance arrangements. We entered into non-cancelable agreements with each of the former executives, whereby we must maintain the life insurance policy for a specified amount and split a portion of the policy benefits with their designated beneficiary. Our investment in these corporate-owned life insurance policies were recorded at their cash surrender value, which approximates fair value at the balance sheet date. In the Consolidated Balance Sheets at the balance sheet date, the cash surrender value of \$0.9 million for the remaining policies were held in "Other non-current assets," and the present value of future proceeds owed to those executives' designated beneficiary of \$0.1 million, which approximates fair value, were recorded within "Other non-current liabilities" in the Consolidated Balance Sheets at the balance sheet date.

## 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.

## Contractual Obligations

The following table provides aggregate information regarding our contractual obligations as of March 31, 2019.

| (In thousands)                    | Total     | 2020     | 2021-2022 | 2023-2024 | Thereafter |
|-----------------------------------|-----------|----------|-----------|-----------|------------|
| Operating leases (1)              | \$ 19,437 | \$ 4,143 | \$ 7,111  | \$ 3,686  | \$ 4,497   |
| Capital leases                    | 65        | 27       | 38        | —         | —          |
| Asset retirement obligation       | 400       | —        | 150       | 250       | —          |
| Total contractual obligations (2) | \$ 19,902 | \$ 4,170 | \$ 7,299  | \$ 3,936  | \$ 4,497   |

- (1) Operating lease obligations are presented net of contractually binding sub-lease arrangements. Additional information regarding our operating lease obligations is contained in Note 12, *Commitments and Contingencies*.
- (2) At March 31, 2019, we had a \$1.1 million liability reserve for unrecognized income tax positions which is not reflected in the table above. The timing of potential cash outflows related to the unrecognized tax positions is not reasonably determinable and therefore, is not scheduled. Substantially all of this reserve is included in Other non-current liabilities. Additional information regarding unrecognized tax positions is provided in Note 10, *Income Taxes*.

We believe that cash on hand, funds from operations, and access to capital markets will provide adequate funds to finance capital spending and working capital needs and to service our obligations and other commitments arising during the foreseeable future.

## Critical Accounting Policies

MD&A is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses and related disclosure of contingent assets and liabilities. We regularly evaluate our estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Our most significant accounting policies relate to the sale, purchase, and promotion of our products and services. The policies discussed below are considered by management to be critical to an understanding of our Consolidated Financial Statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs.

For all of these policies, management cautions that future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment.

*Revenue recognition.* On April 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), using the modified retrospective method applied to those contracts that were not completed as of the adoption date. Results for reporting periods beginning after the adoption date are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under prior guidance.

### *Revenue recognition under Topic 606*

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 service 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. A majority of our hardware sales involve shipment directly from its suppliers to the end-user customers. In these transactions, we are the primary obligor as 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. Each of these performance obligations provide benefit to the customer on a standalone basis and are distinct in the context of the contract. Each of these distinct performance obligations represent a stand ready obligation to provide service to a customer, which is concurrently delivered and has the same

pattern of transfer to the customer, which is why we account for these support services as a single performance obligation, recognized over the term of the maintenance agreement.

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. Typically, we invoice fees monthly.

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 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 estimate standalone selling price ("SSP") based on the price at which the performance obligations are sold by considering certain specific factors related to our company together with customer information. 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.

*Allowance for Doubtful Accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. These allowances are based on both recent trends of certain customers estimated to be a greater credit risk, as well as historic trends of the entire customer pool. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To mitigate this credit risk we perform periodic credit evaluations of our customers.

*Inventories.* Our inventories are comprised of finished goods. Inventories are stated at the lower of cost or market, net of related reserves. The cost of inventory is computed using a weighted-average method. Our inventory is monitored to ensure appropriate valuation. Adjustments of inventories to the lower of cost or market, if necessary, are based upon contractual provisions such as turnover and assumptions about future demand and market conditions. If assumptions about future demand change and/or actual market conditions are less favorable than those projected by management, additional adjustments to inventory valuations may be required. We provide a reserve for obsolescence, which is calculated based on several factors including an analysis of historical sales of products and the age of the inventory. Actual amounts could be different from those estimated.

*Income Taxes.* Income tax expense includes U.S. and foreign income taxes and is based on reported income before income taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are anticipated to be settled or realized.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies.

We recorded a valuation allowance of \$57.9 million as of March 31, 2019 and \$54.3 million as of March 31, 2018, related to substantially all of our deferred income tax assets in jurisdictions where there is uncertainty as to the ultimate realization of a benefit from those assets. In the event that we determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the tax valuation allowance would decrease tax expense in the period such determination was made.

We recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from uncertain tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. No tax benefits are recognized for positions that do not meet this threshold. Interest related to uncertain tax positions is recognized as part of the provision for income taxes and is accrued beginning in the period that such interest would be applicable



under relevant tax law until such time that the related tax benefits are recognized. Our income taxes are described further in Note 10, *Income Taxes*.

*Goodwill and Other Indefinite-Lived Intangible Assets.* Goodwill represents the excess purchase price paid over the fair value of the net assets of acquired companies. Goodwill is tested for impairment on an annual basis, or in interim periods if indicators of potential impairment exist. The Company is also required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts at least annually, or when current events and circumstances require an interim assessment. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized.

During the fourth quarter of fiscal 2015, certain restructuring activities incurred to better align product development, sales and marketing and general and administrative functions impacted the expected remaining useful life of the products under the Eatec® trade name. The trade name was determined to have a finite life and subsequently written down to its fair value to be amortized over five years. The remaining indefinite-lived intangible asset is not amortized; rather, it is tested for impairment at least annually by comparing the carrying amount of the asset with the fair value. An impairment loss is recognized if the carrying amount is greater than fair value. Additional information regarding our intangible assets is provided in Note 6, *Intangible Assets and Software Development Costs*.

*Restructuring Charges.* We recognize restructuring charges when a plan that materially changes the scope of our business, or the manner in which that business is conducted, is adopted and communicated to the impacted parties, and the expenses have been incurred or are reasonably estimable. Our restructuring reserves principally include estimates related to employee separation costs and the consolidation and impairment of facilities that will no longer be used in continuing operations. Actual amounts could be different from those estimated. Facility reserves are calculated using a present value of future minimum lease payments, offset by an estimate for future sublease income provided by external brokers. Present value is calculated using a credit-adjusted risk-free rate with a maturity equivalent to the lease term. Our restructuring charges are described further in Note 4, *Restructuring Charges*.

*Share-Based Compensation.* We have a stock incentive plan under which we may grant non-qualified stock options, incentive stock options, stock-settled stock appreciation rights, time-vested restricted shares, restricted share units, performance-vested restricted shares, and performance shares. Shares issued pursuant to awards under this plan may be made out of treasury or authorized but unissued shares.

We record compensation expense related to stock options, stock-settled stock appreciation rights, restricted shares, and performance shares granted to certain employees and non-employee directors based on the fair value of the awards on the grant date. The fair value of restricted share and performance share awards is based on the closing price of our common shares on the grant date. The fair value of stock option and stock-settled appreciation right awards is estimated on the grant date using the Black-Scholes-Merton option pricing model, which includes assumptions regarding the risk-free interest rate, dividend yield, life of the award, and the volatility of our common shares. Forfeitures of awards are recognized as they occur. Additional information regarding the assumptions used to value share-based compensation awards is provided in Note 14, *Share-Based Compensation*.

*Capitalized Software Development Costs.* The capitalization of software development cost for external use begins when a product's technological feasibility has been established. Capitalization ends when the resulting product is available for general market release. Amortization of the capitalized software is classified within products cost of goods sold in the Consolidated Statements of Operations. For each capitalized software product, the annual amortization is equal to the greater of: (i) the amount computed using the ratio that the software product's current fiscal year gross revenue bears to the total current fiscal year and anticipated future gross revenues for that product or (ii) the amount computed based on straight-line method over the remaining estimated economic life of the product, which is a range between three and eight years. The amount by which unamortized software costs exceeds the net realizable value, if any, is recognized as a charge to income in the period it is determined. We capitalized approximately \$2.0 million, \$8.2 million and \$11.9 million during fiscal 2019, 2018 and 2017, respectively. Amortization of developed capitalized software was \$12.6 million, \$10.0 million and \$8.0 million during fiscal 2019, 2018 and 2017, respectively.

#### *Adopted and Recently Issued Accounting Pronouncements*

In April 2019, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU 2019-04 provides corrections, updates and clarifications to the previously issued updates ASU 2016-13, ASU 2017-12 and ASU 2016-01. Various areas of the codification were impacted from the update. The standard follows the effective dates of the previously issued ASUs, unless an entity has already early adopted the previous ASUs, in which case the effective date will vary according to each specific ASU adoption. Consistent with the documentation below, we are still assessing the impact of the adoption of ASU 2016-13, and the other two ASUs affected by ASU 2019-04 are not applicable to us. We are currently reviewing this standard to assess the impact on our future consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 addresses the treatment of implementation costs incurred in a hosting arrangement that is a service contract. The update does not impact the accounting for the service element of a hosting arrangement that is a service contract. The update is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption (including early adoption in any interim period) permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 addresses the required disclosures around fair value measurement. The disclosure requirements of the reasons for transfers between Level 1 and Level 2, the policy for timing transfers between levels, and the valuation process for Level 3 measurements have been removed. Certain modifications were made to required disclosures and additional requirements were established. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 addresses the effect of the change in the U.S. federal corporate tax rate on items within accumulated other comprehensive income or loss due to the enactment of the Tax Act on December 22, 2017. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, and ASU No. 2017-04, *Intangibles- Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment*. ASU No. 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. We have adopted this standard as of April 1, 2018; the adoption had no impact on our consolidated financial statements. ASU No. 2017-04 eliminates Step 2 of the goodwill impairment test and requires goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. While we are still assessing the impact of this standard, we do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new guidance is effective for annual reporting periods beginning after December 15, 2017. The new standard must be adopted using a modified retrospective transition method, with the cumulative effect recognized as of the date of initial adoption. We have adopted this standard as of April 1, 2018; the adoption had no impact to our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance with the intent of reducing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. We have adopted this standard as of April 1, 2018 the adoption had no impact to our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. This new standard changes the impairment model for most financial assets and certain other instruments. Entities will be required to use a model that will result in the earlier recognition of allowances for losses for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. We are currently reviewing this standard to assess the impact on our future consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to recognize assets and liabilities for leases with lease terms of more than 12 months. Subsequent to this release, the FASB also released ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2019-01, *Leases (Topic 842): Codification Improvements* to provide clarifying guidance. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a capital (finance) or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on

the balance sheet, the new guidance will require both types of leases to be recognized on the balance sheet. The most prominent change for lessees is the requirement to recognize both Right of Use (ROU) assets and lease liabilities for leases classified as operating leases under current U.S. GAAP. We have elected to use the transition method of adoption, with certain practical expedients available, to recognize and measure leases existing at, or entered into after, the adoption date of April 1, 2019.

Topic 842 is effective for us beginning April 1, 2019. We have elected to adopt as of the effective date and have elected certain practical expedients as a part of our implementation process. During the preparation for implementation, we have reviewed our current control environment for necessary changes. The standard will have a material impact to our Consolidated Balance Sheets, however will not have a material impact on our Consolidated Income Statements or Statements of Cash Flow. The accounting for our capital leases remains the same while our accounting for operating leases will change significantly as a result of the recognition of ROU assets and lease liabilities. We expect the impact of the recognition of ROU assets to be approximately \$15 million and approximately \$17 million of lease liabilities on our Consolidated Balance Sheets as of April 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted ASU 2014-09 as of April 1, 2018 using the modified retrospective transition method. Please refer to Note 2, *Summary of Significant Accounting Policies* and Note 3, *Revenue Recognition* for further details.

Management continually evaluates the potential impact, if any, of all recent accounting pronouncements on our consolidated financial statements or related disclosures and, if significant, makes the appropriate disclosures required by such new accounting pronouncements.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We have assets, liabilities, and cash flows in foreign currencies creating foreign exchange risk. We sell products and services internationally and enter into transactions denominated in foreign currencies. As a result, we are subject to the variability that arises from exchange rate movements. For the fiscal years 2019, 2018 and 2017, revenue from international operations was 9%, 8% and 6%, respectively of total revenue. The effects of foreign currency on operating results did not have a material impact on our results of operations for the 2019, 2018 and 2017 fiscal years. Fluctuations in the value of other currencies, particularly the Indian Rupee, could materially impact our revenue, expenses, operating profit and net income.

We believe inflation has had a nominal effect on our results of operations in fiscal years 2019, 2018 and 2017 and do not expect inflation to be a significant factor in fiscal 2020.

**Item 8. Financial Statements and Supplementary Data.**

Agilysys, Inc. and Subsidiaries

**ANNUAL REPORT ON FORM 10-K**

**Year Ended March 31, 2019**

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
Agilysys, Inc.

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Agilysys, Inc. (an Ohio corporation) and subsidiaries (the “Company”) as of March 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in shareholders’ equity, and cash flows for each of the three years in the period ended March 31, 2019, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of March 31, 2019, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated May 24, 2019 expressed an unqualified opinion.

### Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2016.

Atlanta, Georgia  
May 24, 2019

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
Agilysys, Inc.

### **Opinion on internal control over financial reporting**

We have audited the internal control over financial reporting of Agilysys, Inc. (an Ohio corporation) and subsidiaries (the “Company”) as of March 31, 2019, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended March 31, 2019, and our report dated May 24, 2019 expressed an unqualified opinion on those financial statements.

### **Basis for opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and limitations of internal control over financial reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Atlanta, Georgia  
May 24, 2019

AGILYSYS, INC.  
CONSOLIDATED BALANCE SHEETS

| (In thousands, except share data)   | As of March 31, |            |
|---|-----------------|------------|
|   | 2019            | 2018       |
| <b>ASSETS</b>   |                 |            |
| Current assets:   |                 |            |
| Cash and cash equivalents   | \$ 40,771       | \$ 39,943  |
| Accounts receivable, net of allowance for doubtful accounts of \$788 and \$900, respectively  | 27,000          | 16,389     |
| Contract assets   | 2,921           | —          |
| Inventories   | 2,044           | 1,999      |
| Prepaid expenses and other current assets   | 6,272           | 5,593      |
| Total current assets  | 79,008          | 63,924     |
| Property and equipment, net   | 15,838          | 17,512     |
| Goodwill  | 19,622          | 19,622     |
| Intangible assets, net  | 8,438           | 8,484      |
| Software development costs, net   | 34,567          | 45,181     |
| Other non-current assets  | 6,118           | 2,484      |
| Total assets  | \$ 163,591      | \$ 157,207 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                 |            |
| Current liabilities:  |                 |            |
| Accounts payable  | \$ 4,718        | \$ 8,400   |
| Contract liabilities  | 38,669          | 26,820     |
| Accrued liabilities   | 14,892          | 9,241      |
| Capital lease obligations, current  | 22              | 120        |
| Total current liabilities   | 58,301          | 44,581     |
| Deferred income taxes, non-current  | 861             | 227        |
| Capital lease obligations, non-current  | 35              | 57         |
| Other non-current liabilities   | 3,772           | 3,911      |
| Commitments and contingencies (see Note 12)   |                 |            |
| Shareholders' equity:   |                 |            |
| Common shares, without par value, at \$0.30 stated value; 80,000,000 shares authorized; 31,606,831 shares issued; and 23,501,193 and 23,324,679 shares outstanding at March 31, 2019 and March 31, 2018, respectively | 9,482           | 9,482      |
| Treasury shares, 8,105,638 and 8,282,152 at March 31, 2019 and March 31, 2018, respectively   | (2,433)         | (2,486)    |
| Capital in excess of stated value   | 781             | (1,911)    |
| Retained earnings   | 93,051          | 103,601    |
| Accumulated other comprehensive loss  | (259)           | (255)      |
| Total shareholders' equity  | 100,622         | 108,431    |
| Total liabilities and shareholders' equity  | \$ 163,591      | \$ 157,207 |

*See accompanying notes to consolidated financial statements.*

AGILYSYS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

| (In thousands, except per share data)                          | Year ended March 31, |                   |                    |
|--|----------------------|-------------------|--------------------|
|  | 2019                 | 2018              | 2017               |
| <b>Net revenue:</b>  |                      |                   |                    |
| Products   | \$ 39,003            | \$ 33,699         | \$ 38,339          |
| Support, maintenance and subscription services                 | 75,496               | 69,068            | 63,308             |
| Professional services  | 26,343               | 24,593            | 26,031             |
| Total net revenue  | 140,842              | 127,360           | 127,678            |
| <b>Cost of goods sold:</b>                                     |                      |                   |                    |
| Products (inclusive of developed technology amortization)      | 31,811               | 26,381            | 28,244             |
| Support, maintenance and subscription services                 | 15,895               | 16,688            | 16,965             |
| Professional services  | 19,256               | 19,874            | 18,684             |
| Total cost of goods sold                                       | 66,962               | 62,943            | 63,893             |
| <b>Gross profit</b>  | <b>73,880</b>        | <b>64,417</b>     | <b>63,785</b>      |
| Gross profit margin  | 52.5%                | 50.6%             | 50.0%              |
| <b>Operating expenses:</b>                                     |                      |                   |                    |
| Product development  | 37,817               | 27,936            | 29,048             |
| Sales and marketing  | 19,646               | 18,075            | 20,823             |
| General and administrative                                     | 23,118               | 24,028            | 19,875             |
| Depreciation of fixed assets                                   | 2,504                | 2,631             | 2,409              |
| Amortization of intangibles                                    | 2,567                | 1,879             | 1,392              |
| Restructuring, severance and other charges                     | 1,168                | 1,798             | 1,561              |
| Legal settlements  | 141                  | 150               | 85                 |
| Total operating expense  | 86,961               | 76,497            | 75,193             |
| <b>Operating loss</b>  | <b>(13,081)</b>      | <b>(12,080)</b>   | <b>(11,408)</b>    |
| <b>Other (income) expense:</b>                                 |                      |                   |                    |
| Interest (income)  | (339)                | (98)              | (162)              |
| Interest expense   | 10                   | 10                | 15                 |
| Other expense (income), net                                    | 191                  | (391)             | 224                |
| <b>Loss before taxes</b>                                       | <b>(12,943)</b>      | <b>(11,601)</b>   | <b>(11,485)</b>    |
| Income tax expense (benefit)                                   | 221                  | (3,251)           | 236                |
| <b>Net loss</b>  | <b>\$ (13,164)</b>   | <b>\$ (8,350)</b> | <b>\$ (11,721)</b> |
| <b>Weighted average shares outstanding - basic and diluted</b> | <b>23,037</b>        | <b>22,801</b>     | <b>22,615</b>      |
| <b>Net loss per share-basic and diluted</b>                    | <b>\$ (0.57)</b>     | <b>\$ (0.37)</b>  | <b>\$ (0.52)</b>   |

*See accompanying notes to consolidated financial statements.*



AGILYSYS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| (In thousands)                                      | Year ended March 31, |            |             |
|---|----------------------|------------|-------------|
|   | 2019                 | 2018       | 2017        |
| Net loss  | \$ (13,164)          | \$ (8,350) | \$ (11,721) |
| Other comprehensive loss, net of tax:               |                      |            |             |
| Unrealized foreign currency translation adjustments | (4)                  | (51)       | (27)        |
| Total comprehensive loss                            | \$ (13,168)          | \$ (8,401) | \$ (11,748) |

*See accompanying notes to consolidated financial statements.*

AGILYSYS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | Year ended March 31, |                  |                  |
|---|----------------------|------------------|------------------|
|   | 2019                 | 2018             | 2017             |
| <b>Operating activities</b>   |                      |                  |                  |
| Net loss  | \$ (13,164)          | \$ (8,350)       | \$ (11,721)      |
| Adjustments to reconcile loss to net cash provided by operating activities:       |                      |                  |                  |
| Net restructuring, severance and other charges                                    | (156)                | 227              | (224)            |
| Net legal settlements   | 15                   | —                | (100)            |
| Loss on disposal of property & equipment  | 17                   | —                | 70               |
| Depreciation  | 2,504                | 2,631            | 2,409            |
| Amortization  | 2,567                | 1,879            | 1,392            |
| Amortization of developed technology  | 12,602               | 10,016           | 8,012            |
| Deferred income taxes   | 309                  | (3,085)          | 142              |
| Share-based compensation  | 4,376                | 4,688            | 2,427            |
| Change in cash surrender value of company owned life insurance policies           | (15)                 | (17)             | (18)             |
| Accounts receivable   | (7,536)              | (719)            | 6,372            |
| Contract assets   | 1,662                | —                | —                |
| Inventories   | (50)                 | 229              | 476              |
| Prepaid expense and other current assets  | (1,158)              | 1,485            | 1,946            |
| Accounts payable  | (3,512)              | 130              | 554              |
| Contract liabilities  | 4,845                | (2,448)          | (4,034)          |
| Accrued liabilities   | 5,029                | 653              | (4,250)          |
| Income taxes payable, net   | (564)                | (19)             | 45               |
| Other changes, net  | (530)                | (426)            | (65)             |
| Net cash provided by operating activities   | 7,241                | 6,874            | 3,433            |
| <b>Investing activities</b>   |                      |                  |                  |
| Capital expenditures  | (3,318)              | (6,140)          | (4,158)          |
| Capitalized software development costs  | (2,189)              | (8,918)          | (11,888)         |
| Additional (investments in) proceeds from corporate-owned life insurance policies | (27)                 | (27)             | 2,181            |
| Net cash used in investing activities   | (5,534)              | (15,085)         | (13,865)         |
| <b>Financing activities</b>   |                      |                  |                  |
| Payments to settle contingent consideration arising from business acquisitions    | —                    | —                | (197)            |
| Principal payments under long-term obligations                                    | (120)                | (124)            | (117)            |
| Repurchase of common shares to satisfy employee tax withholding                   | (647)                | (1,171)          | (533)            |
| Net cash used in financing activities   | (767)                | (1,295)          | (847)            |
| <b>Effect of exchange rate changes on cash</b>                                    | <b>(112)</b>         | <b>194</b>       | <b>(74)</b>      |
| Net increase (decrease) in cash and cash equivalents                              | 828                  | (9,312)          | (11,353)         |
| Cash and cash equivalents at beginning of period                                  | 39,943               | 49,255           | 60,608           |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 40,771</b>     | <b>\$ 39,943</b> | <b>\$ 49,255</b> |

*See accompanying notes to consolidated financial statements.*

AGILYSYS, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (In thousands, except share data)   | Common Shares |                 |                |                   | Capital in | Retained         | Accumulated     | Total             |
|---|---------------|-----------------|----------------|-------------------|------------|------------------|-----------------|-------------------|
|   | Issued        |                 | In Treasury    |                   | excess of  | earnings         | other           |                   |
|   | Shares        | Stated value    | Shares         | Stated value      | value      |                  | loss            |                   |
| Balance at March 31, 2016   | 31,607        | \$ 9,482        | (8,664)        | \$ (2,600)        | (7,645)    | \$ 124,413       | \$ (177)        | \$ 123,473        |
| Stock based compensation - equity-classified awards   | —             | —               | —              | —                 | 2,427      | —                | —               | 2,427             |
| Restricted shares issued, net   | —             | —               | 277            | 83                | (83)       | —                | —               | —                 |
| Shares issued upon exercise of stock options and SSARs  | —             | —               | 33             | 10                | (10)       | —                | —               | —                 |
| Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares | —             | —               | (43)           | (12)              | (471)      | —                | —               | (483)             |
| Net loss  | —             | —               | —              | —                 | —          | (11,721)         | —               | (11,721)          |
| Unrealized translation adjustment   | —             | —               | —              | —                 | —          | —                | (27)            | (27)              |
| Balance at March 31, 2017   | 31,607        | \$ 9,482        | (8,397)        | \$ (2,519)        | (5,782)    | \$ 112,692       | \$ (204)        | \$ 113,669        |
| Cumulative effect of change in accounting policy  | —             | —               | —              | —                 | 741        | (741)            | —               | —                 |
| Stock based compensation - equity-classified awards   | —             | —               | —              | —                 | 4,463      | —                | —               | 4,463             |
| Restricted shares issued, net   | —             | —               | 213            | 64                | (64)       | —                | —               | —                 |
| Shares issued upon exercise of stock options and SSARs  | —             | —               | 8              | 2                 | (2)        | —                | —               | —                 |
| Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares | —             | —               | (107)          | (33)              | (1,267)    | —                | —               | (1,300)           |
| Net loss  | —             | —               | —              | —                 | —          | (8,350)          | —               | (8,350)           |
| Unrealized translation adjustments  | —             | —               | —              | —                 | —          | —                | (51)            | (51)              |
| Balance at March 31, 2018   | 31,607        | \$ 9,482        | (8,283)        | \$ (2,486)        | (1,911)    | \$ 103,601       | \$ (255)        | \$ 108,431        |
| Cumulative effect of change in accounting policy  | —             | —               | —              | —                 | —          | 2,614            | —               | 2,614             |
| Stock based compensation - equity-classified awards   | —             | —               | —              | —                 | 3,971      | —                | —               | 3,971             |
| Restricted shares issued, net   | —             | —               | 180            | 54                | (54)       | —                | —               | —                 |
| Shares issued upon exercise of stock options and SSARs  | —             | —               | 60             | 18                | (18)       | —                | —               | —                 |
| Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares | —             | —               | (62)           | (19)              | (1,207)    | —                | —               | (1,226)           |
| Net loss  | —             | —               | —              | —                 | —          | (13,164)         | —               | (13,164)          |
| Unrealized translation adjustments  | —             | —               | —              | —                 | —          | —                | (4)             | (4)               |
| <b>Balance at March 31, 2019</b>  | <b>31,607</b> | <b>\$ 9,482</b> | <b>(8,105)</b> | <b>\$ (2,433)</b> | <b>781</b> | <b>\$ 93,051</b> | <b>\$ (259)</b> | <b>\$ 100,622</b> |

*See accompanying notes to consolidated financial statements.*

Agilysys, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

(Table amounts in thousands, except per share data)

### 1. Nature of Operations

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

Agilysys operates across North America, Europe, Asia-Pacific, and India with headquarters located in Alpharetta, GA. For more information, visit [www.agilysys.com](http://www.agilysys.com).

Reference herein to any particular year or quarter refers to periods within the fiscal year ended March 31. For example, fiscal 2019 refers to the fiscal year ended March 31, 2019.

### 2. Summary of Significant Accounting Policies

*Principles of consolidation.* The consolidated financial statements include the accounts of Agilysys, Inc. and subsidiaries. Investments in affiliated companies are accounted for by the equity or cost method, as appropriate. All inter-company accounts have been eliminated.

*Use of estimates.* Preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions 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. Actual results could differ from those estimates.

*Cash and cash equivalents.* We consider all highly liquid investments purchased with an original maturity from date of acquisition of three months or less to be cash equivalents. Other highly liquid investments considered cash equivalents with no established maturity date are fully redeemable on demand (without penalty) with settlement of principal and accrued interest on the following business day after instruction to redeem. Such investments are readily convertible to cash with no penalty and can include certificates of deposit, commercial paper, treasury bills, money market funds and other investments.

*Allowance for doubtful accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. These allowances are based on both recent trends of certain customers estimated to be a greater credit risk as well as historic trends of the entire customer pool. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To mitigate this credit risk we perform periodic credit evaluations of our customers.

*Inventories.* Our inventories are comprised of finished goods. Inventories are stated at the lower of cost or net realizable value, net of related reserves. The cost of inventory is computed using a weighted-average method. Our inventory is monitored to ensure appropriate valuation. Adjustments of inventories to the lower of cost or net realizable value, if necessary, are based upon contractual provisions such as turnover and assumptions about future demand and market conditions. If assumptions about future demand change and/or actual market conditions are less favorable than those projected by management, additional adjustments to inventory valuations may be required. We provide a reserve for obsolescence, which is calculated based on several factors, including an analysis of historical sales of products and the age of the inventory. Actual amounts could be different from those estimated.

*Goodwill and Other Indefinite-Lived Intangible Assets.* Goodwill represents the excess purchase price paid over the fair value of the net assets of acquired companies. The carrying amount of goodwill was \$19.6 million as of March 31, 2019 and 2018. Goodwill is tested for impairment on an annual basis, or in interim periods if indicators of potential impairment exist. The Company evaluates whether goodwill is impaired by comparing its market capitalization based on its closing stock price (Level 1 input) to the book value of its equity on the annual evaluation date. Based on testing performed, the Company concluded that no impairment of its goodwill has occurred for the years ended March 31, 2019, 2018 and 2017.

The Company is also required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts at least annually, or when current events and circumstances require an interim assessment. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized.

*Intangible assets.* Purchased intangible assets with finite lives are primarily amortized using the straight-line method over the estimated economic lives of the assets. Our finite-lived intangible assets are amortized over periods between two and eight years. Customer relationships are amortized over estimated useful lives between two and seven years; non-competition agreements are amortized over estimated useful lives between two and eight years; developed technology is amortized over estimated useful lives between three and eight years; supplier relationships are amortized over estimated useful lives between two and eight years.

*Long-lived assets.* Property and equipment are recorded at cost. Major renewals and improvements are capitalized. Minor replacements, maintenance, repairs, and reengineering costs are expensed as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is recognized.

Depreciation and amortization are provided in amounts sufficient to amortize the cost of the assets, including assets recorded under capital leases, which make up less than one percent of total assets, over their estimated useful lives using the straight-line method. The estimated useful lives for depreciation and amortization are as follows: buildings and building improvements - 7 to 30 years; furniture - 7 to 10 years; equipment - 3 to 10 years; software - 3 to 10 years; and leasehold improvements over the shorter of the economic life or the lease term. Internal use software costs are expensed or capitalized depending on the project stage. Amounts capitalized are amortized over the estimated useful lives of the software, ranging from 3 to 10 years, beginning with the project's completion. Depreciation for capitalized project expenditures does not begin until the underlying project is completed.

We evaluate the recoverability of our long-lived assets whenever changes in circumstances or events may indicate that the carrying amounts may not be recoverable. An impairment loss is recognized in the event the carrying value of the assets exceeds the future undiscounted cash flows attributable to such assets.

*Foreign currency translation.* The financial statements of our foreign operations are translated into U.S. dollars for financial reporting purposes. The assets and liabilities of foreign operations whose functional currencies are not in U.S. dollars are translated at the period-end exchange rates, while revenue and expenses are translated at weighted-average exchange rates during the fiscal year. The cumulative translation effects are reflected as a component of "Accumulated other comprehensive loss" within shareholders' equity in the Consolidated Balance Sheets. Gains and losses on monetary transactions denominated in other than the functional currency of an operation are reflected within "Other (income) expenses, net" in the Consolidated Statements of Operations. Foreign currency gains and losses from changes in exchange rates have not been material to our consolidated operating results.

*Revenue recognition.* We derive revenue from the sale of products (i.e., software, third party hardware and operating systems), support, maintenance and subscription services and professional services. For the fiscal years 2019, 2018 and 2017, revenue from international operations was 9%, 8% and 6%, respectively of total revenue. During fiscal 2017 we had one customer representing 10% of consolidated revenue for the year due to a large scale project. Otherwise, our customer base is highly fragmented.

On April 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), using the modified retrospective method applied to those contracts that were not completed as of the adoption date. Results for reporting periods beginning after the adoption date are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under prior guidance.

#### *Revenue recognition under Topic 606*

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 service 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. A majority of our hardware sales involve shipment directly from its suppliers to the end-user customers. In these transactions, we are the primary obligor as 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. Each of these performance obligations provide benefit to the customer on a standalone basis and are distinct in the context of the contract. Each of these distinct performance obligations represent a stand ready obligation to provide service to a customer, which is concurrently delivered and has the same pattern of transfer to the customer, which is why we account for these support services as a single performance obligation, recognized over the term of the maintenance agreement.

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. Typically, we invoice fees monthly and either party has the ability to cancel the agreement at each invoiced period. As a result, the contractual period for revenue recognition purposes is considered to be one month with monthly renewals for the term of the customer agreement.

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. These contracts are reviewed quarterly for loss contract accounting treatment.

We use the market estimate 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.

*Comprehensive (loss) income.* Comprehensive (loss) income is the total of net (loss) income, as currently reported under GAAP, plus other comprehensive (loss) income. Other comprehensive (loss) income considers the effects of additional transactions and economic events that are not required to be recorded in determining net (loss) income, but rather are reported as a separate statement of comprehensive (loss) income.

*Fair value measurements.* We measure the fair value of financial assets and liabilities on a recurring or non-recurring basis. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. In determining fair value of financial assets and liabilities, we use various valuation techniques. Additional information regarding fair value measurements is provided in Note 15, *Fair Value Measurements*.

*Investments in corporate-owned life insurance policies.* Agilysys invests in corporate-owned life insurance policies, for which some are endorsement split-dollar life insurance arrangements. We entered into non-cancelable agreements with each of the former executives, whereby we must maintain the life insurance policy for a specified amount and split a portion of the policy benefits with

their designated beneficiary. Our investment in these corporate-owned life insurance policies were recorded at their cash surrender value, which approximates fair value at the balance sheet date. During fiscal 2017, we received \$2.2 million related to the death benefit due to us on redemption of two of these policies. In the Consolidated Balance Sheets at the balance sheet date, the cash surrender value of \$0.9 million for the remaining policies were held in "Other non-current assets," and the present value of future proceeds owed to those executives' designated beneficiary of \$0.1 million, which approximates fair value, were recorded within "Other non-current liabilities." Additional information regarding the investments in corporate-owned life insurance policies is provided in Note 11, *Employee Benefit Plans*.

*Income Taxes.* Income tax expense includes U.S. and foreign income taxes and is based on reported income before income taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are anticipated to be settled or realized.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies.

We recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from uncertain tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. No tax benefits are recognized for positions that do not meet this threshold. Interest related to uncertain tax positions is recognized as part of the provision for income taxes and is accrued beginning in the period that such interest would be applicable under relevant tax law until such time that the related tax benefits are recognized. Our income taxes are described further in Note 10, *Income Taxes*.

*Capitalized Software Development Costs.* The capitalization of software development cost for external use begins when a product's technological feasibility has been established. Capitalization ends when the resulting product is available for general market release. Amortization of the capitalized software is classified within products cost of goods sold in the Consolidated Statements of Operations. For each capitalized software product, the annual amortization is equal to the greater of: (i) the amount computed using the ratio that the software product's current fiscal year gross revenue bears to the total current fiscal year and anticipated future gross revenues for that product or (ii) the amount computed based on straight-line method over the remaining estimated economic life of the product, which is a range between three and eight years. The amount by which unamortized software costs exceeds the net realizable value, if any, is recognized as a charge to income in the period it is determined.

*Advertising and Promotion Expense.* We expense advertising and promotion expense as incurred. Advertising and promotion expense was \$2.0 million, \$2.7 million and \$2.6 million in fiscal 2019, 2018 and 2017, respectively.

#### *Adopted and Recently Issued Accounting Pronouncements*

In April 2019, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU 2019-04 provides corrections, updates and clarifications to the previously issued updates ASU 2016-13, ASU 2017-12 and ASU 2016-01. Various areas of the codification were impacted from the update. The standard follows the effective dates of the previously issued ASUs, unless an entity has already early adopted the previous ASUs, in which case the effective date will vary according to each specific ASU adoption. Consistent with the documentation below, we are still assessing the impact of the adoption of ASU 2016-13, and the other two ASUs affected by ASU 2019-04 are not applicable to us. We are currently reviewing this standard to assess the impact on our future consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 addresses the treatment of implementation costs incurred in a hosting arrangement that is a service contract. The update does not impact the accounting for the service element of a hosting arrangement that is a service contract. The update is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption (including early adoption in any interim period) permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 addresses the required disclosures around fair value

measurement. The disclosure requirements of the reasons for transfers between Level 1 and Level 2, the policy for timing transfers between levels, and the valuation process for Level 3 measurements have been removed. Certain modifications were made to required disclosures and additional requirements were established. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 addresses the effect of the change in the U.S. federal corporate tax rate on items within accumulated other comprehensive income or loss due to the enactment of the Tax Act on December 22, 2017. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, and ASU No. 2017-04, *Intangibles- Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment*. ASU No. 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. We have adopted this standard as of April 1, 2018; the adoption had no impact on our consolidated financial statements. ASU No. 2017-04 eliminates Step 2 of the goodwill impairment test and requires goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. While we are still assessing the impact of this standard, we do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new guidance is effective for annual reporting periods beginning after December 15, 2017. The new standard must be adopted using a modified retrospective transition method, with the cumulative effect recognized as of the date of initial adoption. We have adopted this standard as of April 1, 2018; the adoption had no impact to our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance with the intent of reducing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. We have adopted this standard as of April 1, 2018 the adoption had no impact to our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. This new standard changes the impairment model for most financial assets and certain other instruments. Entities will be required to use a model that will result in the earlier recognition of allowances for losses for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. We are currently reviewing this standard to assess the impact on our future consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to recognize assets and liabilities for leases with lease terms of more than 12 months. Subsequent to this release, the FASB also released ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2019-01, *Leases (Topic 842): Codification Improvements* to provide clarifying guidance. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a capital (finance) or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new guidance will require both types of leases to be recognized on the balance sheet. The most prominent change for lessees is the requirement to recognize both Right of Use (ROU) assets and lease liabilities for leases classified as operating leases under current U.S. GAAP. We have elected to use the transition method of adoption, with certain practical expedients available, to recognize and measure leases existing at, or entered into after, the adoption date of April 1, 2019.

Topic 842 is effective for us beginning April 1, 2019. We have elected to adopt as of the effective date and have elected certain practical expedients as a part of our implementation process. During the preparation for implementation, we have reviewed our current control environment for necessary changes. The standard will have a material impact to our Consolidated Balance Sheets, however will not have a material impact on our Consolidated Income Statements or Statements of Cash Flow. The accounting for our capital leases remains the same while our accounting for operating leases will change significantly as a result of the recognition of ROU



assets and lease liabilities. We expect the impact of the recognition of ROU assets to be approximately \$15 million and approximately \$17 million of lease liabilities on our Consolidated Balance Sheets as of April 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted ASU 2014-09 as of April 1, 2018 using the modified retrospective transition method. Please refer to Note 3, *Revenue Recognition* for further details.

Management continually evaluates the potential impact, if any, of all recent accounting pronouncements on our consolidated financial statements or related disclosures and, if significant, makes the appropriate disclosures required by such new accounting pronouncements.

### **3. Revenue Recognition**

On April 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts that were not completed as of the adoption date. Results for reporting periods beginning after the adoption date are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under prior guidance. For in depth discussion regarding our revenue recognition procedures for our revenue streams, see Note 2, *Summary of Significant Accounting Policies*.

#### **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 \$39.0 million and over time (support, maintenance and subscription services and professional services) totaled \$101.8 million for the fiscal period 2019.

#### **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 during the fiscal year ending March 31, 2019 from amounts included in contract liabilities at the beginning of the period was \$33.1 million. During the fiscal period ending March 31, 2019, we transferred \$4.6 million to accounts receivable from contract assets recognized at April 1, 2018 because the right to the transaction consideration became unconditional.

Our arrangements are for a period of one year or less. As a result, unsatisfied performance obligations as of March 31, 2019 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 would not have occurred absent the customer contract and are therefore considered incremental. 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 have capitalized \$1.9 million of sales incentive costs in prior periods as part of our opening retained earnings adjustment on April 1, 2018. As of March 31, 2019, we had \$3.3 million of capitalized sales incentive costs. These balances are included in other non-current assets on our Consolidated Balance Sheet. During the fiscal period ending March 31, 2019, we expensed \$4.5 million of sales commissions, including amortization of capitalized amounts of \$1.1 million which is included in operating expenses - sales and marketing in our Consolidated Statement of Operations. All other costs to obtain a contract are not considered incremental and therefore are expensed as incurred.

## Financial Statement Impact of Adoption on Previously Reported Results

We adopted Topic 606 using the modified retrospective method. The cumulative impact of applying the new guidance to all contracts with customers that were not completed as of April 1, 2018 was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt the new standard, the following adjustments were made to noted accounts on the Consolidated Balance Sheet as of April 1, 2018:

| (In thousands)                            | March 31, 2018 | Adjustment from<br>Topic 606 | April 1, 2018 |
|---|----------------|------------------------------|---------------|
| <b>Assets:</b>                            |                |                              |               |
| Accounts receivable, net                  | 16,389         | 3,124                        | 19,513        |
| Contract assets                           | —              | 4,583                        | 4,583         |
| Prepaid expenses and other current assets | 5,593          | (496)                        | 5,097         |
| Other non-current assets                  | 2,484          | 2,409                        | 4,893         |
| <b>Liabilities:</b>                       |                |                              |               |
| Contract liabilities                      | 26,820         | 7,006                        | 33,826        |
| <b>Shareholders' equity:</b>              |                |                              |               |
| Retained earnings                         | 103,601        | 2,614                        | 106,215       |

The acceleration of revenue that was deferred under prior guidance as of the adoption date was primarily attributable to the requirement of Topic 606 to allocate the transaction price to the performance obligations in the contract on a relative basis using SSP rather than allocating under the residual method, which allocates the entire arrangement discount to the delivered performance obligations.

Due to the Company's full valuation allowance as of the adoption date, there is no tax impact associated with the adoption of Topic 606.

We made certain presentation changes to our Consolidated Balance Sheet on April 1, 2018 to comply with Topic 606. Prior to adoption of the new standard, we offset accounts receivable and contract liabilities (previously presented as deferred revenue on our Consolidated Balance Sheet) for unpaid deferred performance obligations included in contract liabilities. Under the new standard, we record accounts receivable and related contract liabilities for non-cancelable contracts with customers when the right to consideration is unconditional. Upon adoption, the right to consideration in exchange for goods or services that have been transferred to a customer when that right is conditional on something other than the passage of time were reclassified from accounts receivable to contract assets.

### Impact of Topic 606 on Financial Statement Line Items

The impact of adoption of Topic 606 on our Consolidated Balance Sheet as of March 31, 2019 and on our Consolidated Statement of Operations for the fiscal period ending March 31, 2019 was as follows:

| (In thousands)                            | March 31, 2019 |                                       |                                 |
|---|----------------|---------------------------------------|---------------------------------|
|   | As reported    | Balance without adoption of Topic 606 | Effect of Change Higher (Lower) |
| <b>Assets:</b>                            |                |                                       |                                 |
| Accounts receivable, net                  | 27,000         | 23,046                                | 3,954                           |
| Contract assets                           | 2,921          | —                                     | 2,921                           |
| Prepaid expenses and other current assets | 6,272          | 6,665                                 | (393)                           |
| Other non-current assets                  | 6,118          | 3,152                                 | 2,966                           |
| <b>Liabilities:</b>                       |                |                                       |                                 |
| Contract liabilities                      | 38,669         | 32,343                                | 6,326                           |
| <b>Shareholders' equity:</b>              |                |                                       |                                 |
| Retained earnings                         | 93,051         | 89,929                                | 3,122                           |

| (In thousands)                                 | March 31, 2019  |                                       |                                 |
|--|-----------------|---------------------------------------|---------------------------------|
|  | As reported     | Balance without adoption of Topic 606 | Effect of Change Higher (Lower) |
| <b>Net revenue:</b>                            |                 |                                       |                                 |
| Products                                       | 39,003          | 37,466                                | 1,537                           |
| Support, maintenance and subscription services | 75,496          | 76,330                                | (834)                           |
| Professional services                          | 26,343          | 27,201                                | (858)                           |
| Total net revenue:                             | 140,842         | 140,997                               | (155)                           |
| <b>Operating expenses:</b>                     |                 |                                       |                                 |
| Sales and marketing                            | 19,646          | 20,309                                | (663)                           |
| <b>Net Loss</b>                                | <b>(13,164)</b> | <b>(13,672)</b>                       | <b>(508)</b>                    |

The adoption of Topic 606 had no material impact to cash used in operating, investing or financing activities on our Consolidated Statement of Cash Flows.

#### 4. Restructuring Charges

We recognize restructuring charges when a plan that materially changes the scope of our business or the manner in which that business is conducted is adopted and communicated to the impacted parties, and the expenses have been incurred or are reasonably estimable. In addition, we assess the property and equipment associated with the related facilities for impairment. The remaining useful lives of property and equipment associated with the related operations are re-evaluated based on the respective restructuring plan, resulting in the acceleration of depreciation and amortization of certain assets.

##### *Fiscal 2018 Restructuring Plan*

During fiscal 2018, we continued our ongoing efforts to create more efficient teams across the business, which included certain executive changes during the year. To date, we have recorded \$1.6 million in restructuring charges related to the fiscal 2018 restructuring plan, comprised of severance and other employee related benefits. There was no remaining liability for the fiscal 2018 restructuring plan as of March 31, 2019.

Following is a reconciliation of the beginning and ending balances of the restructuring liability:

| (In thousands)                         | Balance at<br>March 31,<br>2018 | Provision | Payments | <b>Balance at<br/>March 31,<br/>2019</b> |
|--|---------------------------------|-----------|----------|--|
| <i>Fiscal 2018 Restructuring Plan:</i> |                                 |           |          |  |
| Severance and employment costs         | \$ 198                          | \$ —      | \$ (198) | \$ —                                     |
| Total restructuring costs              | 198                             | —         | (198)    | —  |

| (In thousands)                         | Balance at<br>March 31,<br>2017 | Provision | Payments   | Balance at<br>March 31,<br>2018 |
|--|---------------------------------|-----------|------------|---------------------------------|
| <i>Fiscal 2018 Restructuring Plan:</i> |                                 |           |            |                                 |
| Severance and employment costs         | \$ —                            | \$ 1,639  | \$ (1,441) | \$ 198                          |
| Total restructuring costs              | —                               | 1,639     | (1,441)    | 198                             |

## 5. Property and Equipment, Net

Property and equipment at March 31, 2019 and 2018 is as follows:

| (In thousands)                            | Year ended March 31, |                  |
|---|----------------------|------------------|
|   | 2019                 | 2018             |
| Furniture and equipment                   | \$ 11,604            | \$ 10,671        |
| Software                                  | 16,427               | 11,885           |
| Leasehold improvements                    | 6,981                | 6,819            |
| Project expenditures not yet in use       | 1,014                | 4,187            |
|   | <b>36,026</b>        | <b>33,562</b>    |
| Accumulated depreciation and amortization | <b>(20,188)</b>      | <b>(16,050)</b>  |
| Property and equipment, net               | <b>\$ 15,838</b>     | <b>\$ 17,512</b> |

Total depreciation expense on property and equipment was \$2.5 million, \$2.6 million, and \$2.4 million during fiscal 2019, 2018 and 2017, respectively.

The Company capitalizes internal-use software, including software used exclusively in providing services or that is only made available to customers as a software service, as property and equipment under ASC 350-40, Internal-Use Software. Total amortization expense on capitalized internal-use software was \$2.5 million, \$1.8 million and \$1.4 million during fiscal 2019, 2018, and 2017, respectively.

Assets under capital leases are included in property and equipment categories above. Total assets under capital leases at March 31, 2019 and 2018 are as follows:

| (In thousands)                  | Year ended March 31, |               |
|---------------------------------|----------------------|---------------|
|                                 | 2019                 | 2018          |
| Capital leases                  | \$ 679               | \$ 679        |
| Less accumulated depreciation   | <b>(625)</b>         | <b>(509)</b>  |
| Assets under capital lease, net | <b>\$ 54</b>         | <b>\$ 170</b> |

## 6. Intangible Assets and Software Development Costs

The following table summarizes our intangible assets and software development costs at March 31, 2019, and 2018:

| (In thousands)                          | 2019                  |                          |                     | 2018                  |                          |                     |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|   | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets:            |                       |                          |                     |                       |                          |                     |
| Customer relationships                  | \$ 10,775             | \$ (10,775)              | \$ —                | \$ 10,775             | \$ (10,775)              | \$ —                |
| Non-competition agreements              | 2,700                 | (2,700)                  | —                   | 2,700                 | (2,700)                  | —                   |
| Developed technology                    | 10,398                | (10,398)                 | —                   | 10,398                | (10,398)                 | —                   |
| Trade names                             | 230                   | (192)                    | 38                  | 230                   | (146)                    | 84                  |
| Patented technology                     | 80                    | (80)                     | —                   | 80                    | (80)                     | —                   |
|   | 24,183                | (24,145)                 | 38                  | 24,183                | (24,099)                 | 84                  |
| Trade names                             | 8,400                 | N/A                      | 8,400               | 8,400                 | N/A                      | 8,400               |
| <b>Total intangible assets</b>          | <b>\$ 32,583</b>      | <b>\$ (24,145)</b>       | <b>\$ 8,438</b>     | <b>\$ 32,583</b>      | <b>\$ (24,099)</b>       | <b>\$ 8,484</b>     |
| Software development costs              | \$ 67,541             | \$ (32,974)              | \$ 34,567           | \$ 53,368             | \$ (20,372)              | \$ 32,996           |
| Project expenditures not yet in use     | —                     | —                        | —                   | 12,185                | —                        | 12,185              |
| <b>Total software development costs</b> | <b>\$ 67,541</b>      | <b>\$ (32,974)</b>       | <b>\$ 34,567</b>    | <b>\$ 65,553</b>      | <b>\$ (20,372)</b>       | <b>\$ 45,181</b>    |

Indefinite-lived intangible assets, comprised of our purchased trade name InfoGenesis™ as of March 31, 2019 and 2018 are tested for impairment upon identification of impairment indicators or at least annually. An impairment loss is recognized if the carrying amount is greater than fair value. The InfoGenesis™ indefinite-lived purchased trade name impairment testing resulted in a fair value exceeding the carrying amount for the years ending March 31, 2019, 2018 and 2017.

At each balance sheet date, the unamortized capitalized software development costs for external use is compared to the net realizable value of that product by analyzing critical inputs such as costs necessary to bring the software to market, life of the software, and market capacity. The amount by which unamortized software costs exceeds the net realizable value, if any, is recognized as a charge to income in the period it is determined.

The following table summarizes our remaining estimated amortization expense relating to in service intangible assets and software development costs.

| (In thousands)               | Estimated Amortization Expense |
|------------------------------|--------------------------------|
| Fiscal year ending March 31, |                                |
| 2020                         | \$ 12,599                      |
| 2021                         | 12,515                         |
| 2022                         | 5,403                          |
| 2023                         | 3,399                          |
| 2024                         | 689                            |
| <b>Total</b>                 | <b>\$ 34,605</b>               |

Amortization expense related to software development costs related to assets to be sold, leased, or otherwise marketed was \$12.6 million, \$10.0 million and \$8.0 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively. These charges are included as Products cost of goods sold within the Consolidated Statements of Operations. Amortization expense relating to other definite-lived intangible assets was \$46,000 for the fiscal years ended March 31, 2019, 2018 and 2017. These charges are classified as operating expenses within the Consolidated Statements of Operations.

Capitalized software development costs are carried on our balance sheets at net realizable value, net of accumulated amortization. We capitalized approximately \$2.0 million, \$8.2 million and \$11.9 million during fiscal 2019, 2018 and 2017, respectively.

## 7. Financing Arrangements

The following is a summary of long-term obligations at March 31, 2019, and 2018:

| (In thousands)                       | 2019  | 2018   |
|--------------------------------------|-------|--------|
| Capital lease obligations            | \$ 57 | \$ 177 |
| Less: current maturities             | (22)  | (120)  |
| Long -term capital lease obligations | \$ 35 | \$ 57  |

### Capital Leases

Agilysys leases certain equipment under capital leases expiring in various years through fiscal 2022. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the shorter of their related lease terms or their estimated productive lives. Assets recorded under capital leases were \$0.7 million as of March 31, 2019 and 2018. Accumulated depreciation related to assets recorded under capital leases was \$0.6 million and \$0.5 million as of March 31, 2019 and 2018, respectively. Depreciation of assets under capital leases is included in depreciation expense.

Minimum future lease payments under capital leases as of March 31, 2019, are as follows:

| (In thousands)                          | Amount |
|---|--------|
| Fiscal year ending March 31,            |        |
| 2020                                    | \$ 27  |
| 2021                                    | 23     |
| 2022                                    | 15     |
| Total minimum lease payments            | \$ 65  |
| Less: amount representing interest      | (8)    |
| Present value of minimum lease payments | \$ 57  |

Interest rates on capitalized leases of 4.5% are imputed based on the lower of our incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

## 8. Supplemental Disclosures of Cash Flow Information

Additional information related to the Consolidated Statements of Cash Flows is as follows:

| (In thousands)  | Year ended March 31, |       |       |
|---|----------------------|-------|-------|
|   | 2019                 | 2018  | 2017  |
| Cash (receipts) for interest, net                                 | (329)                | (88)  | (147) |
| Cash payments (receipts) for income tax, net                      | 409                  | (227) | 19    |
| Acquisition of property and equipment under lease obligations     | —                    | 64    | 21    |
| Accrued capital expenditures                                      | 56                   | 83    | 411   |
| Accrued capitalized software development costs                    | —                    | 201   | 922   |
| Leasehold improvements acquired under operating lease arrangement | 62                   | 95    | 35    |

## 9. Additional Balance Sheet Information

Additional information related to the Consolidated Balance Sheets is as follows:

| (In thousands)                        | Year ended March 31, |                 |
|---------------------------------------|----------------------|-----------------|
|                                       | 2019                 | 2018            |
| <b>Accrued liabilities:</b>           |                      |                 |
| Salaries, wages, and related benefits | \$ 12,929            | \$ 6,793        |
| Other taxes payable                   | 1,041                | 769             |
| Accrued legal settlements             | 15                   | —               |
| Restructuring liabilities             | —                    | 198             |
| Severance liabilities                 | 46                   | —               |
| Professional fees                     | 67                   | 288             |
| Deferred rent                         | 273                  | 407             |
| Other                                 | 521                  | 786             |
| <b>Total</b>                          | <b>\$ 14,892</b>     | <b>\$ 9,241</b> |
| <b>Other non-current liabilities:</b> |                      |                 |
| Uncertain tax positions               | \$ 1,083             | \$ 1,519        |
| Deferred rent                         | 2,613                | 2,313           |
| Other                                 | 76                   | 79              |
| <b>Total</b>                          | <b>\$ 3,772</b>      | <b>\$ 3,911</b> |

## 10. Income Taxes

For the year ended March 31, loss before income taxes consisted of the following:

| (In thousands)                        | 2019               | 2018               | 2017               |
|---------------------------------------|--------------------|--------------------|--------------------|
| (Loss) income before income taxes     |                    |                    |                    |
| United States                         | \$ (13,621)        | \$ (11,926)        | \$ (10,967)        |
| Foreign                               | 678                | 325                | (518)              |
| <b>Total loss before income taxes</b> | <b>\$ (12,943)</b> | <b>\$ (11,601)</b> | <b>\$ (11,485)</b> |

For the year ended March 31, income tax expense (benefit) consisted of the following:

| (In thousands)                     | 2019   | 2018       | 2017   |
|------------------------------------|--------|------------|--------|
| Income tax expense (benefit)       |        |            |        |
| Current:                           |        |            |        |
| Federal                            | \$ 54  | \$ 66      | \$ 10  |
| State and local                    | (383)  | (446)      | 5      |
| Foreign                            | 514    | 73         | 107    |
| Deferred:                          |        |            |        |
| Federal                            | 79     | (2,985)    | 96     |
| State and local                    | 277    | 41         | 10     |
| Foreign                            | (320)  | —          | 8      |
| Total income tax expense (benefit) | \$ 221 | \$ (3,251) | \$ 236 |

The following table presents the principal components of the difference between the effective tax rate to the U.S. federal statutory income tax rate for the years ended March 31:

| (In thousands)                                      | 2019       | 2018       | 2017       |
|---|------------|------------|------------|
| Income tax benefit at the US Federal statutory rate | \$ (2,718) | \$ (3,654) | \$ (4,019) |
| Benefit for state taxes                             | (304)      | (642)      | (142)      |
| Impact of foreign operations                        | (310)      | 38         | 158        |
| Indefinite life assets                              | 130        | 335        | 102        |
| Officer life insurance                              | 3          | (5)        | (6)        |
| Change in valuation allowance                       | 3,302      | 3,328      | 4,007      |
| Change in liability for unrecognized tax benefits   | (400)      | 40         | 9          |
| Impact of Tax Act, net                              | 226        | (3,287)    | —          |
| Meals and entertainment                             | 60         | 81         | 163        |
| Equity  | 2          | 476        | —          |
| Global intangible low-taxed income                  | 94         | —          | —          |
| Other   | 136        | 39         | (36)       |
| Total income tax expense (benefit)                  | \$ 221     | \$ (3,251) | \$ 236     |

During fiscal 2018, we recorded a provisional tax benefit of approximately \$3.3 million as a result of the enactment of the Tax Cuts and Jobs Act ("Tax Act") on December 22, 2017.

We completed the accounting for the Tax Act during Q3 fiscal 2019 and recorded an adjustment on December 31, 2018 of \$0.2 million to increase our deferred tax liability associated with certain indefinite lived intangibles. We have elected to account for global intangible low-taxed income (GILTI) inclusions in the period in which they are incurred.

Our tax provision includes a provision for income taxes in certain foreign jurisdictions where subsidiaries are profitable, but only a minimal benefit is reflected related to U.S. and certain foreign tax losses due to the uncertainty of the ultimate realization of future benefits from these losses. The 2019 tax provision results primarily from foreign tax expense, the reversal of reserves for uncertain tax positions and the completion of our accounting for the Tax Act. The 2019 tax provision differs from the statutory rate primarily due to the recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, state taxes and other U.S. permanent book to tax differences.

The 2018 tax provision primarily results from a reduction in the deferred rate and the ability to offset indefinite lived deferred tax liabilities with certain deferred tax assets due to passage of the Tax Act. The 2018 effective rate differs from the statutory rate primarily due to the impact of the Tax Act, recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, certain foreign and state tax effects including a benefit of \$0.4 million related to a settlement with the California Franchise Tax Board and other U.S. permanent book to tax differences.



The 2017 tax provision primarily results from state taxes, taxes withheld in foreign jurisdictions and foreign tax expense. The 2017 tax provision differs from the statutory rate primarily due to the recognition of net operating losses as deferred tax assets, which were offset by increases in the valuation allowance, state taxes and other U.S. permanent book to tax differences.

Deferred tax assets and liabilities as of March 31, are as follows:

| (In thousands)                                 | 2019            | 2018            |
|--|-----------------|-----------------|
| <b>Deferred tax assets:</b>                    |                 |                 |
| Accrued liabilities                            | \$ 3,944        | \$ 2,720        |
| Allowance for doubtful accounts                | 120             | 143             |
| Inventory valuation reserve                    | 41              | 20              |
| Federal losses and credit carryforwards        | 45,227          | 42,713          |
| Foreign net operating losses                   | 730             | 623             |
| State losses and credit carryforwards          | 9,886           | 9,592           |
| Deferred revenue                               | 488             | 652             |
| Goodwill and other intangible assets           | —               | 286             |
| Other  | 65              | 96              |
|  | <b>60,501</b>   | <b>56,845</b>   |
| Less: valuation allowance                      | <b>(57,852)</b> | <b>(54,260)</b> |
| <b>Total</b>                                   | <b>2,649</b>    | <b>2,585</b>    |
| <b>Deferred tax liabilities:</b>               |                 |                 |
| Property and equipment & software amortization | <b>(361)</b>    | (412)           |
| Goodwill and other intangible assets           | <b>(2,706)</b>  | (2,277)         |
| <b>Total</b>                                   | <b>(3,067)</b>  | (2,689)         |
| <b>Total deferred tax liabilities</b>          | <b>\$ (418)</b> | <b>\$ (104)</b> |

At March 31, 2019, we had \$199.1 million of a federal net operating loss carryforwards that expire, if unused, in fiscal years 2031 to 2038, and \$11.5 million of federal net operating loss carryforwards that can be carried forward indefinitely. Our Hong Kong, Malaysia, and Singapore subsidiaries have \$0.4 million, \$0.1 million, and \$0.2 million of net operating loss carryforwards respectively. The losses for Hong Kong, Malaysia and Singapore can be carried forward indefinitely. At March 31, 2019 our India subsidiary had \$0.4 million of minimum alternative tax credits reported as other noncurrent assets on our Consolidated Balance Sheet. Our India subsidiary operates in a “Special Economic Zone (“SEZ”)”. One of the benefits associated with the SEZ is that the India subsidiary is not subject to regular India income taxes during its first 5 years of operations. The aggregate value of the benefit of the SEZ during the current fiscal year is \$0.5 million.

At March 31, 2019 we also had \$127.5 million of state net operating loss carryforwards that expire, if unused, in fiscal years 2020 through 2039.

We recorded valuation allowances related to certain deferred income tax assets due to the uncertainty of the ultimate realization of the future benefits from those assets. At March 31, 2019, the total valuation allowance against deferred tax assets of \$57.9 million was comprised of \$57.0 million for federal and state deferred tax assets, and \$0.9 million associated with deferred tax assets in Hong Kong, Malaysia, Singapore and the Philippines. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some or all of the deferred tax assets will not be realized. We have recorded a valuation allowance offsetting substantially all of our deferred tax assets. 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. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax assets, we will need to generate future taxable income before the expiration of the deferred tax assets governed by the tax code. Because of our losses in current and prior periods, management believes that it is more-likely-than-not that we will not realize the benefits of these deductible differences. The amount of the valuation allowance, however, could be reduced in the near term. The exact timing will be based on the level of profitability that we are able to achieve and our visibility into future results. Our recorded tax rate may increase in subsequent periods following a valuation release. Any valuation allowance release will not affect the amount of cash paid for income taxes.

The undistributed earnings of our foreign subsidiaries are not subject to U.S. federal and state income taxes unless such earnings are distributed in the form of dividends or otherwise to the extent of current and accumulated earnings and profits. The undistributed earnings of foreign subsidiaries are permanently reinvested and totaled \$3.1 million and \$1.7 million as of March 31, 2019 and 2018, respectively. We made the determination of permanent reinvestment on the basis of sufficient evidence that demonstrates we will invest the undistributed earnings overseas indefinitely for use in working capital, as well as foreign acquisitions and expansion. The determination of the amount of the unrecognized deferred U.S. income tax liability related to the undistributed earnings is not practicable.

Prior to the adoption of ASU 2016-09 in the first quarter of fiscal 2018, we used the with-and-without approach for ordering tax benefits derived from the share-based payment awards. Using the with-and-without approach, actual income taxes payable for the period were compared to the amount of tax payable that would have been incurred absent the deduction for employee share-based payments in excess of the amount of compensation cost recognized for financial reporting. As a result of this approach, tax net operating loss carryforwards not generated from share-based payments in excess of cost recognized for financial reporting were considered utilized before the current period's share-based deduction.

We recorded a liability for unrecognized tax positions. The aggregate changes in the balance of our gross unrecognized tax benefits were as follows for the years ended March 31:

| (In thousands)                                | 2019   | 2018   | 2017     |
|---|--------|--------|----------|
| Balance at April 1                            | \$ 687 | \$ 988 | \$ 1,617 |
| Reductions:                                   |        |        |          |
| Relating to positions taken during prior year | —      | (300)  | (604)    |
| Relating to lapse in statute                  | (107)  | (1)    | (25)     |
| Balance at March 31                           | \$ 580 | \$ 687 | \$ 988   |

As of March 31, 2019, we had a liability of \$0.6 million related to uncertain tax positions, the recognition of which would affect our effective income tax rate.

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 as a result of the expiration of various statutes of limitations. We are routinely audited and the outcome of tax examinations could also result in a reduction in unrecognized tax benefits. Other changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

We recognize interest accrued on any unrecognized tax benefits as a component of income tax expense. Penalties are recognized as a component of general and administrative expenses. We recognized interest and penalty expense of less than \$0.1 million for the years ended March 31, 2019, 2018 and 2017. As of March 31, 2019 and 2018, we had approximately \$0.5 million and \$0.8 million of interest and penalties accrued.

In the U.S. we file consolidated federal and state income tax returns where statutes of limitations generally range from three to five years. Although we have resolved examinations with the IRS through tax year ended March 31, 2010, U.S. federal tax years are open from 2006 forward due to attribute carryforwards. The statute of limitations is open from fiscal year 2012 forward in certain state jurisdictions. We also file income tax returns in international jurisdictions where statutes of limitations generally range from three to seven years. Years beginning after 2008 are open for examination by certain foreign taxing authorities.

## 11. Employee Benefit Plans

### *401(k) Plan*

We maintain 401(k) plans for employees meeting certain service requirements. Generally, the plans allow eligible employees to contribute a portion of their compensation, and we match 100% of the first 1% of the employee's pre-tax contributions and 50% of the next 5% of the employee's pre-tax contributions. We may also make discretionary contributions each year for the benefit of all eligible employees under the plans. Agilysys matching contributions were \$1.6 million, \$1.7 million, and \$1.4 million in fiscal 2019, 2018, and 2017, respectively.

### *Endorsement Split-Dollar Life Insurance*

Agilysys provides certain former executives with life insurance benefits through endorsement split-dollar life insurance arrangements. We entered into non-cancelable agreements with each of the former executives, whereby we must maintain the life insurance policy

for a specified amount and split a portion of the policy benefits with their designated beneficiary. During fiscal 2017, we received \$2.2 million related to the death benefit due to us on redemption of two of these policies.

Our investment in these corporate-owned life insurance policies were recorded at their cash surrender value, which approximates fair value at the balance sheet date. In the consolidated balance sheets as of March 31, 2019 and 2018, the cash surrender value of \$0.9 million for the remaining policies were held in "Other non-current assets," and the present value of future proceeds owed to those executives' designated beneficiaries of \$0.1 million, which approximates fair value, were recorded within "Other non-current liabilities."

Changes in the cash surrender value of these policies related to gains and losses incurred on these investments are classified within "Other (income) expenses, net" in the accompanying Consolidated Statements of Operations. We recorded a gain of \$15,000 dollars in fiscal 2019, a gain of \$17,000 in fiscal 2018 and a gain of \$18,000 in fiscal 2017 related to the corporate-owned life insurance policies.

## 12. Commitments and Contingencies

### *Operating Leases*

We lease certain facilities and equipment under non-cancelable operating leases which expire at various dates through fiscal 2024 and require us to pay a portion of the related operating expenses such as maintenance, property taxes, and insurance. Certain facilities and equipment leases contain renewal options for periods up to ten years. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Certain facilities leases have free or escalating rent payment provisions. Rent expense under such leases is recognized on a straight-line basis over the lease term.

The following is a schedule by year of future minimum rental payments required under operating leases, excluding the related operating expenses, which have initial or remaining non-cancelable lease terms in excess of a year as of March 31, 2019:

| (In thousands)               | Amount    |
|------------------------------|-----------|
| Fiscal year ending March 31, |           |
| 2020                         | \$ 4,143  |
| 2021                         | 3,945     |
| 2022                         | 3,166     |
| 2023                         | 1,916     |
| 2024                         | 1,770     |
| Thereafter                   | 4,497     |
| Total minimum lease payments | \$ 19,437 |

Rental expense for all non-cancelable operating leases amounted to \$3.9 million, \$3.2 million, and \$2.8 million for fiscal 2019, 2018, and 2017, respectively.

### *Legal 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 for the 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. Most of the patents at issue in the case were invalidated by the U.S. Court of Appeals for the Federal Circuit in 2016. Cases against us and our co-defendants remained pending in the District Court with respect to one surviving Ameranth patent. In September 2018, the District Court found that patent invalid, and granted summary judgment in favor of the movant co-defendants. In early 2019, Ameranth appealed the District Court's summary judgment ruling to the U.S. Court of Appeals for the Federal Circuit. We are not a party to the appeal, and it is currently

unclear what impact the summary judgment ruling or appeal 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.

### 13. Loss per Share

The following data shows the amounts used in computing 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)  | Year ended March 31, |                   |                    |
|--|----------------------|-------------------|--------------------|
|  | 2019                 | 2018              | 2017               |
| <b>Numerator:</b>  |                      |                   |                    |
| <b>Net loss</b>  | <b>\$ (13,164)</b>   | <b>\$ (8,350)</b> | <b>\$ (11,721)</b> |
| <b>Denominator:</b>  |                      |                   |                    |
| Weighted average shares outstanding - basic and diluted                      | <b>23,037</b>        | 22,801            | 22,615             |
| <b>Loss per share - basic and diluted:</b>                                   |                      |                   |                    |
| <b>Net loss per share-basic and diluted</b>                                  | <b>\$ (0.57)</b>     | <b>\$ (0.37)</b>  | <b>\$ (0.52)</b>   |
| Anti-dilutive stock options, SSARs, restricted shares and performance shares | <b>1,433</b>         | 756               | 1,004              |

Basic earnings (loss) per share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. The outstanding shares used to calculate the weighted average basic shares excludes 300,437, 334,817 and 490,355 of restricted shares and performance shares at March 31, 2019, 2018 and 2017, respectively, as these shares were issued but were not vested and, therefore, not considered outstanding for purposes of computing basic earnings per share at the balance sheet dates.

Diluted earnings (loss) per share includes the effect of all potentially dilutive securities on earnings per share. We have stock options, stock-settled appreciation rights ("SSARs"), unvested restricted shares and unvested performance 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 awards because doing so would be anti-dilutive. In addition, when a net loss is reported, adjusting the denominator of diluted earnings per share would also be anti-dilutive to the loss per share, even if the entity has net income after adjusting for a discontinued operation. Therefore, for all periods presented, basic weighted-average shares outstanding were used in calculating the diluted net loss per share.

### 14. Share-based Compensation

We may grant non-qualified stock options, incentive stock options, SSARs, restricted shares, and restricted share units under our shareholder-approved 2016 Stock Incentive Plan (the 2016 Plan) for up to 2.0 million common shares, plus 957,575 common shares, the number of shares that were remaining for grant under the 2011 Stock Incentive Plan (the 2011 Plan) as of the effective date of the 2016 Plan, plus the number of shares remaining for grant under the 2011 Plan that are forfeited, settled in cash, canceled or expired. The maximum aggregate number of restricted shares or restricted share units that may be granted under the 2016 Plan is 1.25 million.

We may distribute authorized but unissued shares or treasury shares to satisfy share option and appreciation right exercises or restricted share and performance share awards.

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

Restricted shares and restricted share units, whether time-vested or performance-based, may be issued at no cost or at a purchase price that may be below their fair market value, but are subject to forfeiture and restrictions on their sale or other transfer. Performance-based awards may be conditioned upon the attainment of specified performance objectives and other conditions, restrictions, and contingencies. Restricted shares and restricted share units have the right to receive dividends, or dividend equivalents in the case of restricted share

units, if any, upon vesting, subject to the same forfeiture provisions that apply to the underlying awards. Subject to certain exceptions set forth in the 2016 Plan, for awards to employees, no performance-based restricted shares or restricted share units shall be based on a restriction period of less than one year, and any time-based restricted shares or restricted share units shall have a minimum restriction period of three years.

We record compensation expense related to stock options, stock-settled stock appreciation rights, restricted shares, and performance shares granted to certain employees and non-employee directors based on the fair value of the awards on the grant date. The fair value of restricted share and performance share awards is based on the closing price of our common shares on the grant date. The fair value of stock option and stock-settled appreciation right awards is estimated on the grant date using the Black-Scholes-Merton option pricing model, which includes assumptions regarding the risk-free interest rate, dividend yield, life of the award, and the volatility of our common shares.

The following table summarizes the share-based compensation expense for options, SSARs, restricted and performance awards included in the Consolidated Statements of Operations for fiscal 2019, 2018 and 2017:

| (In thousands)                                | Year ended March 31, |                 |                 |
|---|----------------------|-----------------|-----------------|
|   | 2019                 | 2018            | 2017            |
| Product development                           | \$ 1,478             | \$ 1,306        | \$ 1,545        |
| Sales and marketing                           | 469                  | 371             | 360             |
| General and administrative                    | 2,429                | 3,011           | 522             |
| <b>Total share-based compensation expense</b> | <b>\$ 4,376</b>      | <b>\$ 4,688</b> | <b>\$ 2,427</b> |

*Stock-Settled Stock Appreciation Rights*

Stock-Settled Appreciation Rights (“SSARs”) are rights granted to an employee to receive value equal to the difference in the price of our common shares on the date of the grant and on the date of exercise. This value is settled only in common shares of Agilysys.

We use a Black-Scholes-Merton option pricing model to estimate the fair value of SSARs. The following table summarizes the principal assumptions utilized in valuing SSARs granted in fiscal 2019, 2018 and 2017:

|  | 2019   | 2018            | 2017          |
|--|--------|-----------------|---------------|
| Risk-free interest rate                | 2.68%  | 1.74%-1.94%     | 0.94%-2.14%   |
| Expected life (in years)               | 5      | 5               | 5             |
| Expected volatility                    | 32.42% | 32.42% - 32.84% | 35.25%-40.22% |
| Weighted average grant date fair value | \$4.72 | \$3.36          | \$3.69        |

The risk-free interest rate is based on the yield of a zero coupon U.S. Treasury bond whose maturity period approximates the expected life of the SSARs. The expected life is estimated using historical data representing the period of time the awards are expected to be outstanding. The estimated fair value of the SSARs granted is recognized over the vesting period of the awards utilizing the graded vesting method. Under this method, the compensation cost related to unvested amounts begins to be recognized as of the grant date.

The following table summarizes the activity during fiscal 2019 for SSARs awarded under the 2016 and 2011 Plans:

| (In thousands, except share and per share data)      | Number of Rights | Weighted-Average Exercise Price | Remaining Contractual Term | Aggregate Intrinsic Value |
|--|------------------|---------------------------------|----------------------------|---------------------------|
|  |                  |                                 |                            |                           |
| Outstanding at April 1, 2018                         | 1,103,160        | \$ 10.60                        |                            |                           |
| Granted  | 158,244          | 14.22                           |                            |                           |
| Exercised  | (193,819)        | 10.20                           |                            |                           |
| Forfeited  | (44,804)         | 10.91                           |                            |                           |
| Cancelled/expired                                    | (6,138)          | 10.62                           |                            |                           |
| <b>Outstanding at March 31, 2019</b>                 | <b>1,016,643</b> | <b>\$ 11.22</b>                 | <b>4.8</b>                 | <b>\$ 7,251</b>           |
| <b>Exercisable at March 31, 2019</b>                 | <b>707,950</b>   | <b>\$ 10.93</b>                 | <b>4.5</b>                 | <b>\$ 7,251</b>           |
| <b>Vested and expected to vest at March 31, 2019</b> | <b>1,016,643</b> | <b>\$ 11.22</b>                 | <b>4.5</b>                 | <b>\$ 10,111</b>          |

The following table presents additional information related to SSARs activity during fiscal 2019, 2018 and 2017:

| (In thousands)                           | 2019     | 2018     | 2017   |
|--|----------|----------|--------|
| Compensation expense                     | \$ 943   | \$ 1,869 | \$ 621 |
| Total intrinsic value of SSARs exercised | \$ 907   | \$ 88    | \$ 360 |
| Total fair value of SSARs vesting        | \$ 1,165 | \$ 1,325 | \$ 497 |

As of March 31, 2019, total unrecognized stock based compensation expense related to non-vested SSARs was \$0.4 million, which is expected to be recognized over the weighted-average vesting period of 2.8 years.

A total of 44,331 shares, net of 15,698 shares withheld to cover the employee's minimum applicable income taxes, were issued from treasury shares to settle SSARs exercised during the twelve months ended March 31, 2019. The shares withheld were returned to treasury shares.

*Restricted Shares*

We granted shares to certain of our Directors, executives and key employees under the 2016 and 2011 Plans, the vesting of which is service-based. The following table summarizes the activity during the twelve months ended March 31, 2019 for restricted shares awarded under the 2016 and 2011 Plans:

|                                      | Number<br>of Shares | Weighted-<br>Average<br>Grant-<br>Date Fair<br>Value<br>(per share) |
|--------------------------------------|---------------------|---|
| Outstanding at April 1, 2018         | 243,354             | \$ 10.78  |
| Granted                              | 265,452             | 14.66   |
| Vested                               | (197,917)           | 12.74   |
| Forfeited                            | (73,743)            | 11.3  |
| <b>Outstanding at March 31, 2019</b> | <b>237,146</b>      | <b>\$ 13.46</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. During fiscal 2019, a total of 197,917 shares, net of 47,146 shares withheld from the vested restricted shares to cover the employee's minimum applicable income taxes, were issued from treasury. The shares withheld were returned to treasury shares.

The following table presents additional information related to restricted stock activity during fiscal years 2019, 2018, and 2017:

| (In thousands)                               | 2019     | 2018     | 2017     |
|--|----------|----------|----------|
| Compensation expense                         | \$ 2,803 | \$ 2,594 | \$ 1,770 |
| Total fair value of restricted share vesting | \$ 4,383 | \$ 4,315 | \$ 1,182 |

As of March 31, 2019, total unrecognized stock based compensation expense related to non-vested restricted stock was \$1.0 million, which is expected to be recognized over a weighted-average vesting period of 3.5 years. We do not include restricted stock in the calculation of earnings per share until the shares are vested.

Performance Shares

The following table summarizes the activity during fiscal 2019 for performance shares awarded under the 2016 Plan:

|                                      | Number<br>of<br>Shares | Weighted-<br>Average<br>Grant-<br>Date Fair<br>Value<br><br>(per share) |
|--------------------------------------|------------------------|---|
| Outstanding at April 1, 2018         | 91,463                 | \$ 9.84   |
| Granted                              | 63,291                 | 14.22   |
| Vested                               | (15,822)               | \$ 9.84   |
| Forfeited                            | (75,641)               | \$ 9.84   |
| <b>Outstanding at March 31, 2019</b> | <b>63,291</b>          | <b>\$ 14.22</b>   |

Based on the performance goals, management estimates a liability of \$630,000 to be settled through the vesting of a variable number of the performance shares subsequent to March 31, 2019. As of March 31, 2019, total stock based compensation expense related to performance shares has been fully recognized.

The following table presents additional information related to performance share activity during the fiscal 2019, 2018, and 2017:

| (In thousands)                                | 2019   | 2018   | 2017  |
|---|--------|--------|-------|
| Compensation expense                          | \$ 630 | \$ 225 | \$ 36 |
| Total fair value of performance share vesting | \$ 243 | \$ —   | 83    |

Once attainment of the performance goals becomes probable, compensation expense related to performance share awards is recognized ratably over the vesting period based upon the closing market price of our common shares on the grant date.

## 15. Fair Value Measurements

We estimate the fair value of financial instruments using available market information and generally accepted valuation methodologies. We assess the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which pricing inputs used in measuring fair value are observable in the market. Level 1 inputs include unadjusted quoted prices for identical assets or liabilities and are the most observable. Level 2 inputs include unadjusted quoted prices for similar assets and liabilities that are either directly or indirectly observable, or other observable inputs such as interest rates, foreign currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable in the market and include our own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the tables below.

There were no significant transfers between Levels 1, 2, and 3 during the twelve months ended March 31, 2019.

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value:

|  | Recorded<br>value<br>as of<br><b>March 31, 2019</b> | Fair value measurement used  |   |  |
|--|---|--|---|--|
|  |   | Active<br>markets<br>for<br>identical<br>assets or<br>liabilities<br>(Level 1) | Quoted<br>prices in<br>similar<br>instruments<br>and<br>observable<br>inputs<br>(Level 2) | Active<br>markets for<br>unobservable<br>inputs<br>(Level 3) |
| (In thousands)                               |   |  |   |  |
| <b>Assets:</b>                               |   |  |   |  |
| Corporate-owned life insurance — non-current | \$ 895  | —  | —   | \$ 895   |

| (In thousands)                               | Recorded value as of March 31, 2018 | Fair value measurement used                                  |  |  |
|--|-------------------------------------|--|--|--|
|  |                                     | Active markets for identical assets or liabilities (Level 1) | Quoted prices in similar instruments and observable inputs (Level 2) | Active markets for unobservable inputs (Level 3) |
| <b>Assets:</b>                               |                                     |  |  |  |
| Corporate-owned life insurance — non-current | \$ 853                              | —  | —  | \$ 853   |

The recorded value of the corporate-owned life insurance policies is adjusted to the cash surrender value of the policies obtained from the third party life insurance providers, which are not observable in the market, and therefore, are classified within Level 3 of the fair value hierarchy. Changes in the cash surrender value of these policies are recorded within “Other expenses (income), net” in the Consolidated Statements of Operations.

The following table presents a summary of changes in the fair value of the corporate-owned life insurance Level 3 asset for the fiscal years ended March 31, 2019 and 2018:

| (In thousands)  | Level 3 assets and liabilities |        |
|---|--------------------------------|--------|
|   | 2019                           | 2018   |
| <b>Corporate-owned life insurance:</b>                                |                                |        |
| Balance on April 1  | \$ 853                         | \$ 809 |
| Realized Gains  | 15                             | 17     |
| Unrealized (loss) gain relating to instruments held at reporting date | 27                             | 27     |
| Balance on March 31   | \$ 895                         | \$ 853 |

## 16. Quarterly Results (Unaudited)

Because quarterly reporting of per share data is used independently for each reporting period, the sum of per share amounts for the four quarters in the fiscal year will not necessarily equal annual per share amounts. GAAP prohibits retroactive adjustment of quarterly per share amounts so that the sum of those amounts equals amounts for the full year.

Occasionally, the timing of large one-time orders, such as those associated with significant remarketed product sales around large customer refresh cycles or significant volume rollouts, creates variability in our quarterly results.

| (In thousands except per share data)       | Year ended March 31, 2019 |                |               |                |             | Year |
|--|---------------------------|----------------|---------------|----------------|-------------|------|
|  | First Quarter             | Second Quarter | Third Quarter | Fourth Quarter |             |      |
| Net revenue                                | \$ 34,007                 | \$ 34,203      | \$ 36,014     | \$ 36,618      | \$ 140,842  |      |
| Gross profit                               | 17,889                    | 17,749         | 18,647        | 19,595         | 73,880      |      |
| Restructuring, severance and other charges | 440                       | 448            | 58            | 222            | 1,168       |      |
| Legal settlements                          | 91                        | 35             | —             | 15             | 141         |      |
| Net loss                                   | \$ (1,736)                | \$ (3,791)     | \$ (4,048)    | \$ (3,589)     | \$ (13,164) |      |
| Net loss Per share data-basic and diluted  | \$ (0.08)                 | \$ (0.16)      | \$ (0.18)     | \$ (0.15)      | \$ (0.57)   |      |



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| (In thousands except per share data)       | Year ended March 31, 2018 |                   |                  |                   |            | Year |
|--|---------------------------|-------------------|------------------|-------------------|------------|------|
|  | First<br>Quarter          | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |            |      |
| Net revenue                                | \$ 33,865                 | \$ 30,129         | \$ 31,310        | \$ 32,056         | \$ 127,360 |      |
| Gross profit                               | 16,670                    | 15,370            | 15,628           | 16,749            | 64,417     |      |
| Restructuring, severance and other charges | 37                        | 826               | 378              | 557               | 1,798      |      |
| Legal settlements                          | —                         | —                 | 150              | —                 | 150        |      |
| Net loss                                   | \$ (2,958)                | \$ (3,248)        | \$ (1,934)       | \$ (210)          | \$ (8,350) |      |
| Net loss Per share data-basic and diluted  | \$ (0.13)                 | \$ (0.14)         | \$ (0.08)        | \$ (0.01)         | \$ (0.37)  |      |

**17. Subsequent Events**

None.

**18. Related Party Transaction**

None.

**Schedule II - Valuation and Qualifying Accounts Years ended March 31, 2019, 2018 and 2017**

| (In thousands)                          | Balance at<br>beginning of<br>year | Charged to<br>costs and<br>expenses | Deductions      | Balance at<br>end of<br>year |
|---|------------------------------------|-------------------------------------|-----------------|------------------------------|
| <b>2019</b>                             |                                    |                                     |                 |                              |
| <b>Deferred tax valuation allowance</b> | <b>\$ 54,260</b>                   | <b>\$ 3,592</b>                     | <b>\$ —</b>     | <b>\$ 57,852</b>             |
| <b>Allowance for doubtful accounts</b>  | <b>\$ 900</b>                      | <b>\$ 539</b>                       | <b>\$ (651)</b> | <b>\$ 788</b>                |
| <b>2018</b>                             |                                    |                                     |                 |                              |
| Deferred tax valuation allowance        | \$ 80,013                          | \$ (25,753)                         | \$ —            | \$ 54,260                    |
| Allowance for doubtful accounts         | \$ 509                             | \$ 1,063                            | \$ (672)        | \$ 900                       |
| <b>2017</b>                             |                                    |                                     |                 |                              |
| Deferred tax valuation allowance        | \$ 77,846                          | \$ 2,167                            | \$ —            | \$ 80,013                    |
| Allowance for doubtful accounts         | \$ 617                             | \$ 648                              | \$ (756)        | \$ 509                       |

**Item 9. Change in and Disagreements With Accountants on Accounting and Financial Disclosures.**

None.

**Item 9A. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to ensure that information required to be disclosed by us in reports filed under the Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow for timely decisions regarding required disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

*Management’s Report on Internal Control Over Financial Reporting*

The management of Agilysys, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision of our CEO and CFO, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2019 based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, management concluded that Agilysys maintained effective internal control over financial reporting as of March 31, 2019.

Grant Thornton LLP, our independent registered public accounting firm, issued their report regarding Agilysys’ internal control over financial reporting as of March 31, 2019, which is included elsewhere in this annual report.

*Change in Internal Control over Financial Reporting*

No changes in our internal control over financial reporting occurred during the last quarter of fiscal 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B. Other Information**

None.

## **Part III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

Information required by this Item as to the Directors of Agilysys, Executive Officers, the Audit Committee, Agilysys' Code of Business Conduct, and the procedures by which shareholders may recommend nominations appearing under the headings "Election of Directors," "Executive Officers" and "Corporate Governance" in our Proxy Statement to be used in connection with Agilysys' 2019 Annual Meeting of Shareholders (the "2019 Proxy Statement") is incorporated herein by reference. Information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 by our Directors, executive officers, and holders of more than five percent of Agilysys' equity securities will be set forth in the 2019 Proxy Statement under the heading "Section 16 (a) Beneficial Ownership Reporting Compliance."

We adopted a Code of Business Conduct that applies to all Directors and employees of Agilysys, including the Chief Executive Officer and Chief Financial Officer. The Code is available on our website at <http://www.agilysys.com>.

### **Item 11. Executive Compensation.**

The information required by this Item is set forth in our 2019 Proxy Statement under the headings, "Executive Compensation," "Director Compensation," "Compensation Committee Report," and "Corporate Governance," which is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.**

The information required by this Item is set forth in our 2019 Proxy Statement under the headings "Beneficial Ownership of Common Shares," and "Equity Compensation Plan Information," which information is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this item is set forth in our 2019 Proxy Statement under the headings "Corporate Governance" and "Related Person Transactions," which information is incorporated herein by reference.

### **Item 14. Principal Accountant Fees and Services.**

The information required by this Item is set forth in our 2019 Proxy Statement under the heading "Ratification of Appointment of Independent Registered Public Accounting Firm," which information is incorporated herein by reference.

## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules.**

(a)(1) *Financial statements.* The following consolidated financial statements are included herein and are incorporated by reference in Part II, Item 8 of this Annual Report:

Report of Grant Thornton LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of March 31, 2019 and 2018

Consolidated Statements of Operations for the years ended March 31, 2019, 2018, and 2017

Consolidated Statements of Comprehensive Loss for the years ended March 31, 2019, 2018, and 2017

Consolidated Statements of Cash Flows for the years ended March 31, 2019, 2018, and 2017

Consolidated Statements of Shareholders' Equity for the years ended March 31, 2019, 2018, and 2017

Notes to Consolidated Financial Statements

(a)(2) *Financial statement schedule.* The following financial statement schedule is included herein and is incorporated by reference in Part II, Item 8 of this Annual Report:

Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted since they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(a)(3) *Exhibits.* Exhibits included herein and those incorporated by reference are listed in the Exhibit Index of this Annual Report.

**Item 16. Form 10-K Summary.**

None.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Agilysys, Inc. has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Alpharetta, State of Georgia, on May 24, 2019.

AGILYSYS, INC.

/s/ Ramesh Srinivasan

Ramesh Srinivasan  
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of May 24, 2019.

| <u>Signature</u>  | <u>Title</u>   |
|---|--|
| <u>/s/ Ramesh Srinivasan</u><br>Ramesh Srinivasan       | President, Chief Executive Officer and Director<br>(Principal Executive Officer) |
| <u>/s/ Anthony S. Pritchett</u><br>Anthony S. Pritchett | Chief Financial Officer,<br>(Principal Financial Officer)                        |
| <u>/s/ Chris J. Robertson</u><br>Chris J. Robertson     | Corporate Controller and Treasurer<br>(Principal Accounting Officer)             |
| <u>/s/ Michael A. Kaufmann</u><br>Michael A. Kaufmann   | Chairman and Director  |
| <u>/s/ Keith M. Kolerus</u><br>Keith M. Kolerus         | Vice Chairman and Director   |
| <u>/s/ Donald A. Colvin</u><br>Donald A. Colvin         | Director   |
| <u>/s/ Gerald C. Jones</u><br>Gerald C. Jones           | Director   |
| <u>/s/ John Mutch</u><br>John Mutch                     | Director   |
| <u>/s/ Melvin L. Keating</u><br>Melvin L. Keating       | Director   |
| <u>/s/ Dana Jones</u><br>Dana Jones                     | Director   |

## Agilysys, Inc. Exhibit Index

| Exhibit No. | Description   |
|-------------|---|
| 3(a)        | <a href="#"><u>Amended Articles of Incorporation of Agilysys, Inc., which is incorporated by reference to Exhibit 3(a) to Agilysys, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (File No. 000-05734).</u></a>  |
| 3(b)        | <a href="#"><u>Amended Code of Regulations of Agilysys, Inc., which is incorporated by reference to Exhibit 3.1 to Agilysys, Inc.'s Current Report on Form 8-K filed September 21, 2016 (File No. 000-05734).</u></a>   |
| *10(a)      | <a href="#"><u>The Company's Annual Incentive Plan, which is incorporated herein by reference to Exhibit 10(b) to Agilysys, Inc.'s Definitive Proxy Statement on Schedule 14A filed June 28, 2011 (File No. 000-05734).</u></a>   |
| *10(b)      | <a href="#"><u>Pioneer-Standard Electronics, Inc. Supplemental Executive Retirement Plan, which is incorporated herein by reference to Exhibit 10(o) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2000 (File No. 000-05734).</u></a>   |
| *10(c)      | <a href="#"><u>Pioneer-Standard Electronics, Inc. Benefit Equalization Plan, which is incorporated herein by reference to Exhibit 10(p) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2000 (File No. 000-05734).</u></a>  |
| *10(d)      | <a href="#"><u>Amendment to the Pioneer-Standard Electronics, Inc. Supplemental Executive Retirement Plan dated January 29, 2002, which is incorporated herein by reference to Exhibit 10(x) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2002 (File No. 000-05734).</u></a> |
| **10(e)     | <a href="#"><u>Indemnification Agreement entered into by and between Agilysys, Inc. and each of its Directors, which is incorporated herein by reference to Exhibit 10(e) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2018 (File No. 000-05734).</u></a>                    |
| *10(f)      | <a href="#"><u>Agilysys, Inc. 2011 Stock Incentive Plan, which is incorporated herein by reference to Exhibit 10(a) to Agilysys, Inc.'s Definitive Proxy Statement on Schedule 14A filed June 28, 2011 (File No. 000-05734).</u></a>  |
| *10(g)      | <a href="#"><u>Agilysys, Inc. 2016 Stock Incentive Plan, which is incorporated herein by reference to Appendix B to Agilysys, Inc.'s Definitive Proxy Statement on Schedule 14A filed August 15, 2016 (File No. 000-05734).</u></a>   |
| *10(h)      | <a href="#"><u>Form of Stock Appreciation Right Agreement, which is incorporated herein by reference to Exhibit 10.3 to Agilysys, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (File No. 000-05734).</u></a>   |
| *10(i)      | <a href="#"><u>Form of Directors Restricted Stock Award Agreement, which is incorporated herein by reference to Exhibit 10.1 to Agilysys, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (File No. 000-05734).</u></a>   |
| *10(j)      | <a href="#"><u>Form of Restricted Stock Award Agreement, which is incorporated herein by reference to Exhibit 10.2 to Agilysys, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (File No. 000-05734).</u></a>   |
| *10(k)      | <a href="#"><u>Amendment to the Agilysys, Inc. Supplemental Executive Retirement Plan, effective March 25, 2011, which is incorporated by reference to Exhibit 10(cc) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2011 (File No. 000-05734).</u></a>                        |
| *10(l)      | <a href="#"><u>Amendment to the Agilysys, Inc. Benefits Equalization Plan, effective March 31, 2011, which is incorporated by reference to Exhibit 10(dd) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2011 (File No. 000-05734).</u></a>                                    |
| *10(m)      | <a href="#"><u>Form of Executive Employment Agreement, which is incorporated herein by reference to Exhibit 10.1 to Agilysys, Inc.'s Current Report on Form 8-K filed January 31, 2018 (File No. 000-05734).</u></a>  |
| *10(n)      | <a href="#"><u>Separation Agreement dated effective January 2, 2017, by and between Agilysys, Inc. and James H. Denny, which is incorporated by reference to Exhibit 10.1 to Agilysys, Inc.'s Current Report on Form 8-K filed January 12, 2017 (File No. 000-05734).</u></a>                               |
| *10(o)      | <a href="#"><u>Employment Agreement dated December 6, 2016, by and between Agilysys, Inc. and Ramesh Srinivasan, which is incorporated by reference to Exhibit 10.1 to Agilysys, Inc.'s Current Report on Form 8-K filed December 12, 2016 (File No. 000-05734).</u></a>                                    |
| *10(p)      | <a href="#"><u>SSAR Agreement dated January 3, 2017, by and between Agilysys, Inc. and Ramesh Srinivasan, which is incorporated herein by reference to Exhibit 10(s) to Agilysys, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2017 (File No. 000-05734).</u></a>                         |
| **21        | <a href="#"><u>Subsidiaries of the Registrant.</u></a>  |
| **23.1      | <a href="#"><u>Consent of Independent Registered Public Accounting Firm.</u></a>  |
| **24.1      | <a href="#"><u>Power of Attorney</u></a>  |
| **31.1      | <a href="#"><u>Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</u></a>  |
| **31.2      | <a href="#"><u>Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</u></a>  |
| **31.3      | <a href="#"><u>Certification of Corporate Controller and Treasurer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</u></a>   |

\*\*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 The following materials from our annual report on Form 10-K for the year ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2019 and 2018, (ii) Consolidated Statements of Operations for the twelve months ended March 31, 2019, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income (Loss) for the twelve months ended March 31, 2019, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the twelve months ended March 31, 2019, 2018 and 2017, and (v) Notes to the Consolidated Financial Statements for the twelve months ended March 31, 2019.

\* Denotes a management contract or compensatory plan or arrangement.

\*\* Filed herewith