

AGILYSYS INC  
Form 10-K  
June 10, 2016  
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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, 2016

or

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

For transition period from to

Commission file number 0-5734

AGILYSYS, INC.

(Exact name of registrant as specified in its charter)

Ohio 34-0907152

State or other jurisdiction of incorporation or organization (I.R.S. Employer Identification No.)

425 Walnut Street, Suite 1800, Cincinnati, Ohio 45,202  
(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. ☐

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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 June 30, 2015 was \$134,876,553.

As of May 27, 2016, 22,942,231 shares of the registrant's common stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be used in connection with its 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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AGILYSYS, INC.  
Annual Report on Form 10-K  
Year Ended March 31, 2016

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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. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions, or beliefs and are subject to a number of factors, assumptions, and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of this Annual Report. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events, or otherwise.

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### Part I

#### Item 1. Business.

##### Overview

Agilysys is a leading technology company that provides innovative software for point-of-sale (POS), property management (PMS), inventory and procurement, workforce management, analytics, document management and mobile and wireless solutions and services to the hospitality industry. Our solutions and services allow property managers to better connect, interact and transact with their customers and enhance their customer relationships by streamlining operations, improving efficiency, increasing guest recruitment and wallet share, and enhancing the overall guest experience. We serve four major market sectors: Gaming, both corporate and tribal; Hotels, Resorts and Cruise; Foodservice Management; and Restaurants, Universities, Stadia and Healthcare. A significant portion of our consolidated revenue is derived from contract support, maintenance and subscription services.

We operate throughout North America, Europe and Asia, with corporate services located in Alpharetta, GA, and offices in Singapore, Hong Kong, Malaysia and the Philippines.

The sales of our Retail Solutions Group (RSG) business and United Kingdom business entity (UK entity) each represented a disposal of a component of an entity. As such, the operating results of RSG and the UK entity have been reported as a component of discontinued operations in the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows for the twelve months ended March 31, 2014.

Our principal executive offices are located at 425 Walnut Street, Suite 1800, Cincinnati, Ohio, 45202 and our corporate services are located at 1000 Windward Concourse, 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 2016 refers to the fiscal year ended March 31, 2016.

##### 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, fund growth of our enterprise solutions business and acquire 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 Kyrus Corporation and became the leading provider of IBM retail solutions and services in the supermarket, chain drug, general retail, and hospitality segments. In that same year, the acquisition of Inter-American Data, Inc. allowed us to become the leading developer and provider of technology solutions for property and inventory management in the casino and resort industries.

In calendar 2007, we divested KeyLink Systems and exited the enterprise computer distribution business. We used the proceeds from that sale to return cash to shareholders and fund a number of acquisitions that broadened our solutions and capabilities portfolios. We acquired InfoGenesis and Visual One Systems Corp. in calendar 2007, significantly expanding our specialized offerings to the hospitality industry through enterprise-class, POS and 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 2008, we began reporting three primary operating segments: Hospitality Solutions Group (HSG), Retail Solutions Group (RSG) and Technology Solutions Group (TSG).

In fiscal 2012, we sold our TSG segment and restructured 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 operating units.

On June 10, 2013, we acquired the assets of TimeManagement Corporation, a privately-owned Minneapolis-based provider of enterprise-wide software and service solutions that streamline workforce management environments for hospitality operators.

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On July 1, 2013, we completed the sale of our RSG business to Kyrus Solutions, Inc. (Kyrus), 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.

On March 31, 2014, we completed the sale of our United Kingdom business entity (UK entity) to Verteda Limited (Verteda), led by the Company's former European management team. In connection with the sale, we have entered into a multi-year distribution agreement, whereby Verteda distributes certain Agilysys products within the U.K. marketplace. We continue to manage all property management system accounts as well as key global accounts in the EMEA market.

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 intuitive solutions that increase speed and accuracy, thereby enabling more effective management, intelligent upselling, reduced shrinkage, improved brand recognition and better control of the customer relationship. Our strategy is to increase the proportion of revenue we derive from ongoing support and maintenance agreements, software as a subscription 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: hardware and software products; support, maintenance and subscription services; and, professional services. Areas of specialization are point-of-sale, property management, inventory and procurement, workforce management, and mobile and wireless solutions designed to streamline operations, improve efficiency and enhance the guest experience.

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

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

Total revenue from continuing operations for these three specific areas is as follows:

	Year ended March 31,		
(In thousands)	2016	2015	2014
Products	\$41,445	\$31,846	\$34,629
Support, maintenance and subscription services	60,104	56,013	53,169
Professional services	18,817	15,655	13,463
Total	\$120,366	\$103,514	\$101,261

### Products:

The hospitality industry has long been focused on operating an end-to-end business, but the technology vendors that serviced the industry have been focused on product-centric solutions that make use of a high number of software modules and operating silos. We have evolved our approach to the industry to an integrated "platform" centric solutions for Lodging, Food & Beverage and Payments applications that looks to leverage the entire business, by investing in the development of an web services oriented architecture enterprise platform. Our rGuest™ 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, pre-, during and post-visit. The rGuest platform facilitates an



end-to-end solution that helps our customers improve guest services, increase top-line performance and reduce operating costs, which leads to opportunities for higher profitability. Our next-generation of products and services are aimed at helping hospitality operators recruit customers into their facilities, increase their wallet share from each customer and improve the overall guest experience from the initial customer touch point through the post-visit experience.

Our proprietary product suite is comprised of:

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The rGuest platform underlies our industry leading hospitality solutions that are being introduced to operators of all sizes and with varying needs. The rGuest platform is designed to run as a Software as a Service (“SaaS”)-based platform on the public cloud, private cloud, on-premise, or in a hybrid configuration where the infrastructure may be above premise but the data resides on premise. rGuest’s architecture seamlessly functions as well for a multi-property customer as it does for a single property.

The rGuest enterprise platform helps operators more efficiently manage their business and grow their sales by:

- Identifying and tracking guest profile and behavior so that it may be used to create effective loyalty programs and the right promotions and offers to ensure the best guest experience while ensuring the property extracts the maximum wallet share from each customer;
- Enabling historical analysis of data;
- Allowing for real-time management through mobile and web interfaces for immediate remediation of business and guest related issues;
- Creating a framework for core services for the delivery of business applications faster with the critical benefit of having fewer moving parts to manage;
- Ensuring that all new rGuest modules will be written on top of the rGuest platform to create a common look/feel, functions and usage paradigms and reduce the overhead of managing and learning multiple systems, and,
- Providing for easy integration with other hospitality management systems;
- Incorporating key infrastructure design elements such as global and multi-language support, regulatory compliance and security, including authentication, authorization, encryption, tokenization, handling of payment & PII information and overall application data and user security.

Our rGuest product suite is designed to maximize the insight and value available in “big data” by:

- Identifying the right data and determining how to best use it;
- Empowering users to be capable of both working with new technologies and of interpreting the data to find meaningful business insights;
- Creating data access and connectivity across the majority of customer touch points;
- Providing an IT platform that can adapt to changes in the landscape in an efficient manner;
- Working across functions organizational challenges and finding ways of collaborating across functions and businesses; and,
- Implementing the highest levels of security to ensure data protection

The rGuest platform currently includes the following in-market solutions:

rGuest® Stay 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 limited service and select service hotels and chains.

rGuest Stay is an innovative web-based property management system built using the revolutionary Agilysys rGuest hospitality platform. The guest-centric PMS leverages a standards-based solution 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. Managers can 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 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.

To help improve property operations, rGuest Stay offers a next-generation housekeeping optimization engine built using the included rGuest workflow engine that assigns staff resources to balance guest needs and operational efficiency. In addition, its intuitive user interface and online help functionality reduce team training time and ensure superior guest service with rapid solution ROI.

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rGuest Buy is an enterprise-class self-service, and customer-facing point of sale solution for the hospitality industry. It is ideal for food & beverage venues such as Grab N Go, corporate cafeterias and food courts. It includes self-service “order and pay” kiosks, and kitchen workflow management systems. rGuest Buy is currently available in limited release.

rGuest Buy’s intuitive customer-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 customer throughput, check size, order accuracy, customer 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 offers:

**Extensibility & partner ecosystem:** The technology architecture allows for rich data integrations for all Agilysys products (InfoGenesis, rGuest Pay, rGuest Analyze, etc.), as well as easy integrations for a partner development ecosystem, and customer applications.

**“Self-managed” Cloud Solution:** Fully managed cloud solution pushes latest releases, patches and features automatically to all rGuest Buy devices at the property. This ensures quicker support turn-around times, zero on-site IT resources for maintenance, robust security and uptimes.

**“Always on” Business - No offline interruptions:** rGuest Buy offers “always-on” customer experience with robust network tolerance and offline capabilities.

**Manage at Scale:** rGuest Buy allows to map a complex business structure in an intuitive way to support propagation of brands, concepts, and other policies.

**Reduce Risk - PCI validated payment platform:** rGuest Buy integrates with rGuest Pay, our secure payment platform. Protect brand value and avoid liability with our encrypted card data solution. Safeguard against fraud and chargebacks by implementing EMV solutions, and protect application data via SSL.

rGuest Pay 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. 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 Pay offers:

- A full suite of credit card processing services
- Industry-leading payment security through tokenization and P2PE
- Flexible hardware supporting EMV and NFC contactless transactions
- Integration with 3rd Party application through a simple-to-use API
- Consolidated transaction reporting
- Comprehensive payment processor support



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rGuest Seat is a guest centric table, reservation and wait list management solution that helps restaurants increase revenue by retaining repeat customers and providing a superior guest 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 customers.

rGuest Seat offers:

- Streamlined online reservations increase guest bookings without tying staff up on the phone
- Wait list automation to accurately predict wait times and meet guest expectations
- Two way text communications with waiting guests
- Toggle between restaurants within peer group to get a complete view of the reservation or wait list status
- Accessibility of guest data based on their previous dining experiences to provide a much high level of guest service
- Library of reconfigurable reports can be accessed in real time or received through email at a scheduled delivery time
- Integrated POS automatically updates the status of the guest experience and imports valuable data about the guest
- Real-time table status visibility to minimize table turn times and keep restaurant operations and reservations running smoothly

rGuest Analyze is a platform-based subscription data analysis service focused on the needs of the hospitality industry. It is a full business intelligence solution that is delivered through the cloud (SaaS). rGuest Analyze 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.

rGuest Analyze offers:

- Cross-enterprise and centralized reporting across sites, venues and profit centers
- Slice-and-dice reporting without the need for IT/DBA resources immediately drives insight into food & beverage as well as lodging operations
- Out-of-the-box customizable reports provide insight into sales, revenue, server/cashier activity, discounts, tenders, ADR, RevPAR, and Occupancy
- Easy to learn, web-based reporting tool with simple drag-and-drop capabilities for fast data exploration and report generation
- Design, publish and disseminate executive level dashboards as easily as creating a word document with both web and mobile views

Going forward, Agilysys plans to introduce additional functionality and modules for the rGuest platform.

As we move forward with a focus on selling the rGuest platform and modules, we are committed to providing our customers an upgrade and/or migration path from previously purchased Agilysys products to the new rGuest application.

Agilysys' additional iconic offerings for point-of-sale, property management, inventory procurement, workforce management, document management and activity booking product and services include:

All POS products are available through traditional software licensing or via subscription.

Point-of Sale

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Agilysys InfoGenesis®™ POS is award-winning point-of-sale software that combines powerful reporting and configuration capabilities in the back office with a fast, intuitive and easy-to-use terminal application. The flexible 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 give insight into sales data and guest purchasing trends. Other features include packages and prix fixe menus, signature capture and multi-language capability. InfoGenesis POS is available as an on-premise solution or through a subscription service.

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Agilysys InfoGenesis Flex is a mobility solution that offers full POS functionality on a Windows tablet, such as the Dell Venue 8 Pro. It provides a sleek, modern alternative to traditional POS installations and can be used as a slim fixed terminal or as a convertible simply by removing the tablet from its base.

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Agilysys eCash takes traditional cashless payment and stored value card capabilities and integrates them directly with InfoGenesis POS, increasing consumers' payment options.

### Property Management Systems (“PMS”)

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Agilysys Lodging Management System® (LMS) is an on-premises, web-enabled PMS solution targeting the Casino/Gaming segment (also offered as a hosted solution). It runs 24/7 to automate every aspect of hotel operations in properties of 1,000 rooms or more, and has interfaces to all core casino management systems.. Its foundation expands to incorporate modules for sales and catering, activities scheduling, attraction ticketing and more.

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Agilysys Visual One™ PMS is installed in hotels and resorts ranging from 50-1,500 rooms. It is a complete PMS solution enabling the resort to run its end-to-end operations, including Front Desk, House Keeping, Sales & Catering, Maintenance, Accounting, SPA, Golf and Activities. For complex resorts that require an enterprise-wide system, Visual One provides an integrated solution with interfaces to leading global distribution systems (GDSs) and our other products.

Agilysys Insight™ Mobile Manager is a mobile dashboard application that enables hotel managers to quickly view key property information - including arrivals and departures, VIPs, total guests, housekeeping, revenue and groups - from a mobile device. It is supported by iPad®, iPad mini and iPhone® mobile devices and integrates fully with the Agilysys LMS property management solution.

### Inventory and Procurement

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Agilysys Eatec® 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.

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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.

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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.

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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.

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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.

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

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Workforce Management

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The Agilysys Workforce Management Solution™ (WMx®™) is a comprehensive enterprise-level labor management solution that helps hospitality organizations improve the efficiency and productivity of their workforce. WMx offers tools for performance-based scheduling, dynamic labor forecasting, embedded workflow for employee hiring, employee self-service, multiple time capture solutions and seamless integration to numerous POS, PMS, inventory and payroll systems.