Agilysys

2008 ANNUAL REPORT

technology. innovation. solutions.

about Agilysys, Inc.

Agilysys, Inc. (Nasdaq: AGYS) is a leading provider of innovative IT solutions to corporate and public-sector customers, with special expertise in select markets, including retail and hospitality. The company uses technology – including hardware, software and services – to help customers resolve their most complicated IT needs. The company possesses expertise in enterprise architecture and high availability, infrastructure optimization, storage and resource management, identity management and business continuity; and provides industry-specific software, services and expertise to the retail and hospitality markets. Headquartered in Cleveland, Agilysys operates extensively throughout North America, with additional sales offices in the United Kingdom and China. For more information, visit www.agilysys.com.

CORNERSTONE PARTNERS

SPECIAL NOTE ON SEC FILINGS

On December 16, 2008, Agilysys filed its Form 10-K for the fiscal year ended March 31, 2008, with the Securities and Exchange Commission (SEC), following the divestiture of the company's minority investment in Magirus AG, a privately held computer systems distributor headquartered in Germany. Because financial information associated with the company's proportionate share of profits and losses reported by Magirus remained unaudited and unconfirmed, Agilysys was unable to complete preparation of its fiscal 2008 consolidated financial statements prior to the divestiture of its ownership stake in Magirus. As of January 14, 2009, the company is current with its SEC filings through the second quarter of fiscal 2009.

FORWARD-LOOKING STATEMENTS

Portions of this annual report, particularly the statements made by management and those that are not historical facts, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current assumptions and expectations, and are subject to risks and uncertainties, many of which are beyond the control of Agilysys. Many factors could cause Agilysys' actual results to differ materially from those anticipated by the forward-looking statements. For a listing of these risk factors, please see the Agilysys fiscal 2008 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

to our fellow shareholders

Fiscal 2008 signaled a new beginning for Agilysys and was a pivotal year in our efforts to improve the strategic position of our company. It marked the first full fiscal year during which our 1,500 employees focused their talents solely on providing innovative IT solutions directly to *Fortune* 1000 companies and select vertical markets. This transformation began in 2003 when we exited our former electronic components distribution business, and was completed with the March 2007 divestiture of our KeyLink Systems Distribution Business.

Martin F. Ellis
President and Chief Executive Officer

We met and exceeded a number of our strategic goals in fiscal 2008, but we did not meet our profitability targets. Although we still have a lot of work to do, I believe we are taking the right steps to build a more profitable, better positioned Agilysys.

GROWTH THROUGH ACQUISITIONS

With the sale of our KeyLink Systems Distribution Business, we focused on repositioning the company. We used a large portion of the proceeds from the sale of KeyLink Systems to both expand and strengthen our business and return capital to shareholders.

Since January 2007, we have made six acquisitions and returned $150 million to shareholders through stock repurchases. The acquisitions we made were instrumental in repositioning Agilysys for long-term growth and enhanced profitability as a leading solutions provider with a more diversified supplier mix and a broader product and customer portfolio.

With the following acquisitions, we have expanded our capabilities and gained a much wider and deeper footprint for our Hospitality Solutions Group, and have dramatically diversified our business in the Technology Solutions Group.

- **Visual One Systems Corp.** (January 2007) – expanded our offerings of software for the hospitality industry, including additional applications in property management, condominium, golf course, spa, point-of-sale, and sales and catering management.
- **Stack Computer** (April 2007) – helped further diversify our supplier base and added product solutions and services that have enhanced our storage and networking professional services businesses.
- **InfoGenesis** (June 2007) – expanded our hospitality offerings with enterprise-class, point-of-sale solutions that provide end users a highly intuitive, secure and easy way to process customer transactions across multiple departments or property locations.
- **Innovativ Systems Design, Inc.** (July 2007) – brought a new and significant relationship with Sun Microsystems, primarily focused on integrating and reselling servers, enterprise storage management products and delivering proprietary professional services.

- **Eatec Corp.** (February 2008) – enhanced Agilysys' position as a leading inventory and procurement solutions provider to the hospitality and foodservice markets.
- **Triangle Hospitality Solutions Ltd.** (April 2008) – expanded Agilysys' European footprint in the hospitality, stadium and arena markets.

RETURNING CAPITAL TO SHAREHOLDERS

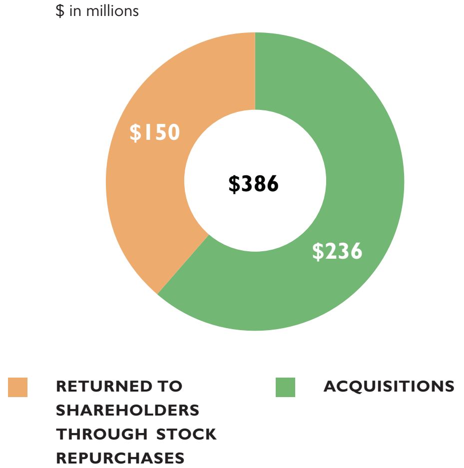
As part of our commitment to shareholders following the sale of KeyLink, we returned a total of $150 million to shareholders through a "Dutch Auction" tender offer and two open-market share buyback programs. From September 2007 through February 2008, we repurchased 9 million shares, or about 29 percent of our previously outstanding basic shares, reducing our outstanding shares to 22.7 million.

INCREASED TRANSPARENCY WITH SEGMENT REPORTING

Following the divestiture of KeyLink, Agilysys is a substantially different company. To facilitate better understanding of our new business model, we initiated reporting additional financial information on our three business segments – Hospitality Solutions Group, Retail Solutions Group and Technology Solutions Group – as well as our Corporate segment. This expanded reporting and transparency provides our shareholders, analysts and other stakeholders clearer and more complete information about Agilysys. This segment reporting will continue to help all of our stakeholders develop a better understanding of the strength of the franchise in each of our business segments.

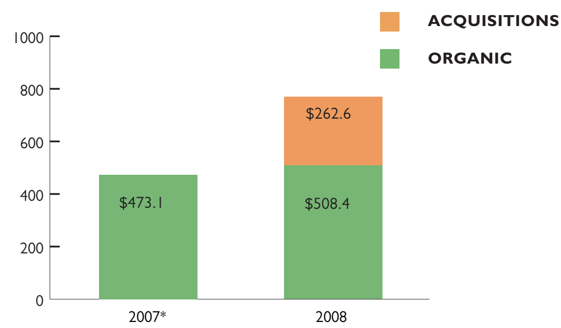
AGILYSYS PRIMARY USES OF CASH

$ in millions



FISCAL YEAR – SOURCES OF REVENUE

$ in millions



* *Revenue from Visual One acquisition contributed $1.5 million in fiscal 2007*

FISCAL 2008 RESULTS

While we were pleased with the strategic progress we made during the year toward transforming Agilysys into a diversified solutions provider, we were disappointed with our financial performance.

During the first half of the year, we made substantial progress in executing on acquisitions and in growing our business organically. However, business was affected during our fiscal fourth quarter by significant softening in IT spending in North America and increased pricing pressures.

In addition, our cost structure was too high, partly as a result of the acquisitions but more specifically due to high legacy infrastructure costs. This infrastructure was built over time to support our previous distribution businesses. It was not quick nor easy for us to reduce and realign this infrastructure with today's unprecedented marketplace and economic realities. However, we have made significant progress in realigning our corporate infrastructure costs with the current size of the company.

Gross margin for fiscal 2008 was 23.4 percent of sales, very close to our expectations of 23.5 percent. Our adjusted EBITDA totaled $4.6 million, excluding restructuring credits, or about 0.6 percent of revenues, which was considerably lower than expected.

COST-REDUCTION ACTIONS

Since the end of fiscal 2008, we have taken a number of actions to reduce expenses, improve profitability, expand EBITDA margins, drive positive cash flow and create shareholder value. In June 2008, we announced cost reductions that eliminated

$14 million in net expenses; and in the third fiscal quarter, we took further action to realign our cost structure to achieve an additional $11 million in cost savings. Of the total $25 million in annualized cost savings we have announced, $12 million was related to corporate and infrastructure costs.

MANAGEMENT AND BOARD CHANGES

As part of our corporate realignment in October 2008, we eliminated a layer of management, and the leaders of our operating segments now report directly to the president and chief executive officer, the position I was appointed to as the successor of Arthur Rhein. Tina Stehle of the Hospitality Solutions Group, Paul Civils of the Retail Solutions Group and Tony Mellina of the Technology Solutions Group comprise a very talented and seasoned operational leadership team. They are acknowledged industry leaders in their respective markets who are keenly focused on growing their distinctive brands and targeted customer bases. In addition, Kenneth J. Kossin, Jr. was named senior vice president and chief financial officer and Curtis C. Stout was named vice president and treasurer.

We thank Arthur Rhein, who retired as president and chief executive officer and stepped down as chairman and a company director in October 2008, for his many accomplishments and commitment to shareholders during his 26 years with the company. We also appreciate the many years of service and contributions of Robert Bailey and Peter Coleman, both executive vice presidents, and Jeff Levine, senior vice president of IT and operations, whose positions were eliminated in the restructuring.

Our Board has consistently demonstrated that it is resolute in its focus on generating shareholder value and maximizing the long-term growth potential of our business. We look forward to the continuing contributions of Keith Kolerus – a 40-year veteran of the IT industry and 10-year director of Agilysys who was appointed non-executive chairman of the Board in October 2008 – and Andrew Cueva, a managing director of our largest shareholder, MAK Capital, who was appointed to fill a Board vacancy in June 2008.

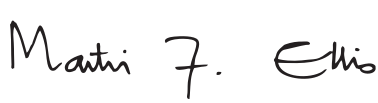
COMPLETION OF STRATEGIC ALTERNATIVES REVIEW

As announced on October 22, 2008, the Board completed its review of strategic alternatives and concluded that the best course of action to maximize shareholder value was to remain as an independent company, realign cost and overhead, and drive shareholder value creation. Our management team, Board, special committee of five independent directors and JPMorgan, our financial advisors, conducted a comprehensive review of all strategic alternatives, including, but not limited to, the sale of all or part of the company. We have subsequently met with key stakeholders who remain supportive of our strategy and recognize the strong long-term growth potential of our business.

GOING FORWARD

While fiscal 2008 was a financially challenging year for Agilysys, I am very excited about the acquisitions we closed and the future prospects for the company. We intend to continue to make select investments in our business and take advantage of opportunities provided by the current uncertain markets. As a result of our cost reductions and corporate realignment, I have confidence in our ability to generate long-term value for our shareholders. Taken as a whole, our actions will make us a nimbler company, bring us closer to our customers, strengthen our financial position and improve our prospects for profitable growth, as we continue to build on our already-distinctive customer service reputation.

I want to thank our Board of Directors for the guidance and direction they have provided; our employees for their tireless efforts; and, finally, our shareholders, for your support of our new business model. We are working diligently to improve our business and drive shareholder value. I look forward to reporting our fiscal 2009 progress to you.



Martin F. Ellis
President and Chief Executive Officer

February 12, 2009

Hospitality Solutions

The Hospitality Solutions Group is a leading technology provider in the worldwide hospitality market. Hospitality Solutions offers proven solutions to casinos, hotels, golf courses, spas, cruise lines, food management and stadiums – all focused on streamlining operations and enhancing guest satisfaction while maximizing profitability. The robust solutions provide unparalleled reliability, functionality, efficiency and control over every aspect of hospitality operations – from reservations, check-in, point-of-sale and other guest activities, to inventory and procurement management.

Our Value to Customers

Our role as a trusted advisor, coupled with our exceptional technical expertise and experience, enables us to provide our customers solutions that improve:

- Operational efficiency
- Technology utilization
- Customer satisfaction
- Profitability
- Productivity
- Security
- Integration of new technology
- Compliance with regulatory requirements

FISCAL 2008 FINANCIAL HIGHLIGHTS

Annual Revenue: $84.8 million

Gross Margin: 55.6%

Adjusted EBITDA: $9.0 million

REPRESENTATIVE CUSTOMERS

- Boyd Gaming Corporation
- The Breakers
- Compass Group
- The Dorchester
- Gaylord National Resort & Convention Center
- Hotel del Coronado
- Manchester United
- Mohegan Sun
- Pinehurst Resort
- The Venetian Resort-Hotel-Casino Las Vegas & The Venetian Macao-Resort-Hotel

PRODUCTS AND SERVICES

- Property Management Systems
- Inventory & Procurement
- Point-of-Sale
- Activities Management
- Dining Reservations
- Self-Service/Kiosk
- Document Management
- Analytics
- Business Consulting
- Disaster Recovery
- Infrastructure
- Server & Storage Consolidation
- Training

Retail Solutions

As trusted and experienced advisors, professionals in the Retail Solutions Group draw upon their own extensive experience in the retail industry, acting as true strategic partners for businesses. Agilysys serves as a single point-of-contact for software, hardware and services to help optimize technology and assist businesses in obtaining the results they seek.

FISCAL 2008 FINANCIAL HIGHLIGHTS

Annual Revenue: $129.7 million

Gross Margin: 19.0%

Adjusted EBITDA: $6.1 million

REPRESENTATIVE CUSTOMERS

- Bed Bath & Beyond, Inc.
- Big 5 Sporting Goods Corp.
- Denny's Corp.
- Giant Food Stores, Inc.
- Hancock Fabrics, Inc.
- Scheels All Sports
- Talbots
- Urban Outfitters
- Wakefern Food Corporation
- Wawa, Inc.

PRODUCTS AND SERVICES

- Self-Service Technologies
- Point-of-Sale & Scanning Solutions
- Wireless Solutions
- Back-Office Infrastructure Servers & Storage
- Payment Systems
- Consulting Services
- Implementation & Rollout Services
- Software Development Services
- Support Center Services (Hardware, Software, Application Support)
- Hardware & Software Technical Services, including Maintenance

Technology Solutions

The Technology Solutions Group is a leading provider of HP, Sun, IBM and EMC enterprise IT solutions for the complex needs of customers in a variety of industries – including education, finance, government, healthcare and telecommunications, among others. The solutions offered include enterprise architecture and high availability, infrastructure optimization, storage and resource management, identity management and business continuity.

FISCAL 2008 FINANCIAL HIGHLIGHTS

Annual Revenue: $556.4 million

Gross Margin: 18.8%

Adjusted EBITDA: $27.7 million

REPRESENTATIVE CUSTOMERS

- Allied Building Products Corporation
- American Dietetic Association
- Amesbury Textile
- Del Monte Foods
- Diebold
- International Securities Exchange
- McDonnell Investment Management
- MD Anderson
- PolyOne Corporation

PRODUCTS AND SERVICES

- High Availability
- Information Storage & Protection
- IT Management
- Consolidation & Virtualization
- IT Implementation

SUPPLIERS

- APC
- BEA Systems
- Brocade
- Cisco
- EMC
- Escalate Retail
- Hitachi Data Systems
- HP
- IBM
- Microsoft
- Motorola
- Novell
- Oracle
- Red Hat
- Sun Microsystems
- Symantec
- VeriFone
- VMware

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, 2008

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.)
28925 Fountain Parkway, Solon, Ohio	44139
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (440) 519-8700

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	NASDAQ
Common Share Purchase Rights	NASDAQ

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 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 ☐ (Do not check if a smaller reporting company) 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 September 30, 2007 (the second fiscal quarter in which this Form 10-K relates) was $438,479,643 computed on the basis of the last reported sale price per share ($16.90) of such shares on the Nasdaq Stock Market LLC.

As of December 9, 2008, the Registrant had the following number of Common Shares outstanding: 22,672,040, of which 890,686 were held by affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Except as otherwise stated, the information contained in this Annual Report on Form 10-K is as of March 31, 2008.

AGILYSYS, INC.
ANNUAL REPORT ON FORM 10-K
Year Ended March 31, 2008

TABLE OF CONTENTS

* Not included in this document; see explanatory note on page 30.

part I

Item 1. Business.

Reference herein to any particular year or quarter refers to periods within the company's fiscal year ended March 31. For example, 2008 refers to the fiscal year ended March 31, 2008.

Overview

Agilysys, Inc. ("Agilysys" or the "company") is a leading provider of innovative IT solutions to corporate and public-sector customers, with special expertise in select markets, including retail and hospitality. The company uses technology — including hardware, software and services — to help customers resolve their most complicated IT needs. The company possesses expertise in enterprise architecture and high availability, infrastructure optimization, storage and resource management, and business continuity, and provides industry-specific software, services and expertise to the retail and hospitality markets. Headquartered in Cleveland, Ohio, Agilysys operates extensively throughout North America, with additional sales offices in the United Kingdom and China. Agilysys has three reportable segments: Hospitality Solutions, Retail Solutions, and Technology Solutions.

History and Significant Events

Agilysys was organized as an Ohio corporation in 1963. While originally focused on electronic components distribution, the company grew to become a leading distributor in both electronic components and enterprise computer systems products and solutions.

As of the fiscal year ended March 31, 2002, the company was structured into two divisions, the Computer Systems Division (CSD), which focused on the distribution and reselling of enterprise computer systems products and solutions, and the Industrial Electronics Division (IED), which focused on the distribution of electronic components. Each division represented, on average, approximately one-half of the company's total revenues.

In 2002, the company conducted a review of strategic alternatives and developed a long-term strategic plan designed to increase the intrinsic value of the company. The company's strategic transformation began with its divestiture of IED, to focus solely on the computer systems business. The sale of the electronic components business meant that the company would be less dependent on the more cyclical markets in the components business. In addition, this would allow the company to invest more in the computer systems business, which offered greater potential for sustainable growth at higher levels of profitability. The remaining CSD business consisted of the KeyLink Systems Distribution Business and the IT Solutions Business. The KeyLink Systems Distribution Business operated as a distributor of enterprise computing products selling to resellers, which then sold directly to end-user customers. The IT Solutions Business operated as a reseller providing enterprise servers, software, storage and services and sold directly to end-user customers. Overall, the company was a leading distributor and reseller of enterprise computer systems, software, storage and services from HP, IBM, Intel, Enterasys, Hitachi Data Systems, Oracle and other leading manufacturers.

The proceeds from the sale of the electronic components distribution business, combined with cash generated from the company's ongoing operations, were used to retire long-term debt and accelerate the growth of the company, both organically and through a series of acquisitions. The growth of the company has been supported by a series of acquisitions that strategically expanded the company's range of solutions and markets served, including:

- The September 2003 acquisition of Kyrus Corporation, a leading provider of retail store solutions and services with a focus on the supermarket, chain drug and general retail segments of the retail industry.
- The February 2004 acquisition of Inter-American Data, Inc., a leading developer and provider of property management, materials management and document management software and related proprietary services to the hotel casino and destination resort segments of the hospitality industry.
- The May 2005 acquisition of The CTS Corporations, a services organization specializing in IT storage solutions for large and medium-sized corporate and public-sector customers.
- The December 2005 acquisition of a competitor's operations in China. This provided Agilysys entry into the enterprise IT solutions market in Hong Kong and China serving large and medium-sized businesses in those growing markets.
- The January 2007 acquisition of Visual One Systems, which provided Agilysys with expertise around the marketing, development and sale of Microsoft® Windows®-based software for the hospitality industry, including additional applications in property management, condominium, golf course, spa, point-of-sale, and catering management. Visual One was integrated into the company's existing hospitality solutions business.

In March 2007, the company completed its transformation with the sale of the assets and operations of its KeyLink Systems Distribution Business. This final event completed the Agilysys multi-year transformation to move closer to the customer and higher up the IT value scale, effectively positioning it to focus on its higher-growth IT Solutions Business. As a result of the divestiture, the company freed itself from the increasing channel conflict and marketplace restrictions that existed in the business. The divestiture also provided the company with the financial flexibility to grow through the pursuit of additional acquisitions, including:

— The April 2007 acquisition of Stack Computer, a technology integrator with a strong focus in high availability storage solutions. Stack has a significant relationship with EMC, and also does business with Cisco, Veritas, and other suppliers. Stack's customers, primarily located on the west coast, include leading corporations in the financial services, healthcare, and manufacturing industries.

— The June 2007 acquisition of InfoGenesis, Inc., a solutions provider for the food and beverage markets serving casinos, hotels and resorts, cruise lines, stadiums and food service. An independent solution provider, InfoGenesis offers enterprise-class point-of-sale solutions that provide end users an intuitive, secure and easy way to process customer transactions across multiple departments or locations, including comprehensive corporate and store reporting.

— The July 2007 acquisition of Innovative Systems Design, Inc., an integrator and value-added reseller of servers, enterprise storage management products and professional services. Innovativ is the largest U.S. commercial reseller of Sun Microsystems servers and storage products.

— The February 2008 acquisition of Eatec Corporation, which enhanced the company's standing as a leading inventory and procurement solution provider to the hospitality and foodservice markets. Eatec's customers include well-known restaurants, hotels, stadiums, and entertainment venues in North America and around the world as well as many public service institutions.

— Subsequent to our March 31 year end, the April 2008 acquisition of Triangle Hospitality Solutions Ltd., a European reseller of point-of-sale software and solutions for InfoGenesis. The acquisition expanded Agilysys' European footprint in the hospitality, stadium and arena markets.

Today, Agilysys offers diversified products and solutions from leading IT vendors such as HP, Sun, EMC, and IBM. The company is a leading systems integrator of retail point-of-sale, self-service and wireless solutions with proprietary business consulting, implementation and hardware maintenance services. In addition, the company's Hospitality Solutions Group provides Microsoft Windows-based software solutions as well as IBM servers and storage products. The Hospitality Solutions Group also offers property, activity, material, and inventory management software applications to automate functions for the hotel casino and destination resort segments of the hospitality industry.

Industry

According to information published in May 2008 by IDC (International Data Corporation), a leading provider of technology intelligence and market data, IT spending in North America was estimated at $500 billion. The IT market in North America has been softening, according to IDC figures. A slowdown in this market has negatively affected the company's revenues and results of operations.

The non-consumer IT industry consists of a supply chain made up of suppliers, distributors, resellers, and corporate and public-sector customers. Agilysys operates in the reseller category as a solution provider, as well as an independent software vendor (ISV) in the hospitality industry and system integrator in the retail industry.

In recent years, the role of solution providers in the industry has become more important as suppliers have shifted an increasing portion of their business away from direct sales, and many end-users are working more with solution providers to develop, implement and integrate comprehensive and increasingly complex solutions.

To ensure the efficient and cost-effective delivery of products and services to market, IT suppliers increasingly have been outsourcing functions such as logistics, order management, sales and technical support. Solution providers play crucial roles in this outsourcing strategy by offering to customers technically skilled and market-focused sales and services organizations. Certain solution providers, such as Agilysys, offer additional proprietary products and services that complement a total, customer-focused solution.

Products and Services

Within the solutions segment in which Agilysys operates, product sets include enterprise servers, data storage hardware, systems infrastructure software, networking equipment and IT services related to implementation and support. IDC estimates North American spending in these product sets was $240 billion in calendar year 2007, and is expected to grow to $301 billion by calendar year 2012.

Total revenues from continuing operations for the company's three specific product areas are as follows:

(In thousands)	For The Year Ended March 31 **2008**	2007	2006
Hardware	**$572,044**	$348,463	$351,886
Software	**72,701**	33,260	30,016
Services	**126,215**	92,847	87,082
Total	**$770,960**	$474,570	$468,984

During 2008, 2007 and 2006, sales of the company's three largest suppliers' products and services accounted for 76%, 65%, and 64%, respectively, of the company's sales volume. Sales of HP products and services accounted for 36%, 45%, and 39% of the company's sales volumes in 2008, 2007, and 2006, respectively. Sales of IBM products and services accounted for 19%, 20%, and 25% in 2008, 2007, and 2006, respectively. Sales of Sun products and services through Innovativ, which was purchased in July 2007, accounted for 21% of the sales volume in 2008.

The loss of any of the top three suppliers or a combination of certain other suppliers could have a material adverse effect on the company's business, results of operations and financial condition unless alternative products manufactured by others are available to the company. In addition, although the company believes that its relationships with suppliers are good, there can be no assurance that the company's suppliers will continue to supply products on terms acceptable to the company. Through agreements with its suppliers, Agilysys is authorized to sell all or some of the suppliers' products. The authorization with each supplier is subject to specific terms and conditions regarding such items as purchase discounts and supplier incentive programs including sales volume incentives and cooperative advertising reimbursements. A substantial portion of the company's profitability results from these supplier incentive programs. These cooperative supplier incentive programs and advertising programs are at the discretion of the supplier. From time to time, suppliers may terminate the right of the company to sell some or all of their products or change these terms and conditions or reduce or discontinue the incentives or programs offered. Any such termination or implementation of such changes could have a material adverse impact on the company's results of operations.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in determining how to allocate resources and in assessing performance. Operating segments can be aggregated for segment reporting purposes so long as certain economic and operating aggregation criteria are met. With the divestiture of the company's KeyLink Systems Distribution Business in 2007, the continuing operations of the company represented one business segment that provided IT solutions to corporate and public-sector customers. In 2008, the company evaluated its business groups and developed a structure to support the company's strategic direction as it has transformed to a pervasive solution provider largely in the North American IT market. With this transformation, the company now has three reportable segments: Hospitality Solutions Group, Retail Solutions Group, and Technology Solutions Group. See note 13 to consolidated financial statements included in Item 15 for a discussion of the company's segment reporting.

Customers

Agilysys customers include large and medium-sized companies, divisions or departments of corporations in the *Fortune* 1000, and public-sector institutions. The company serves customers in a wide range of industries, including education, finance, government, healthcare, hospitality, manufacturing and retail. In 2008, Verizon Communications, Inc. represented approximately 11.5% of total sales. No single customer accounted for more than 10 percent of Agilysys total sales during 2007 or 2006.

Uneven Sales Patterns and Seasonality

The company experiences a disproportionately large percentage of quarterly sales in the last month of its fiscal quarters. In addition, the company's Technology Solutions Group experiences a seasonal increase in sales during its fiscal third quarter ending in December. Third quarter sales were 32%, 32%, and 29% of annual revenues for 2008, 2007, and 2006, respectively. Agilysys believes that this sales pattern is industry-wide. Although the company is unable to predict whether this uneven sales pattern will continue over the long term, the company anticipates that this trend will remain the same in the foreseeable future.

Backlog

The company historically has not had a significant backlog of orders. There was no significant backlog at March 31, 2008.

Competition

The reselling of innovative computer technology solutions is competitive, primarily with respect to price, but also with respect to service levels. The company faces competition with respect to developing and maintaining relationships with customers. Agilysys competes for customers with other solution providers and occasionally with some of its suppliers.

There are very few large, public enterprise product reseller companies in the IT solution provider market. As such, Agilysys competition is typically small or regional, privately held technology solution providers with $50 million to $200 million in revenues. The company does occasionally compete with large companies such as Berbee Information Networks Corporation (a division of CDW Corporation), Forsythe Solutions Group, Inc., Logicalis Group, Micros Systems, Inc. and Radiant Systems, Inc.

Employees

As of December 1, 2008, Agilysys had 1,328 employees. The company is not a party to any collective bargaining agreements, has had no strikes or work stoppages and considers its employee relations to be excellent.

Markets

Agilysys sells its products principally in the United States and Canada and entered the China, Hong Kong and U.K. markets through acquisition. Sales to customers outside of the United States and Canada are not a significant portion of the company's sales. As of July 2008, management has decided to sell its China and Hong Kong operations.

Access to Information

Agilysys makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports available free of charge through its Internet site (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 the company's Internet site is not incorporated into this Annual Report on Form 10-K. In addition, the SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

Failure to timely file our periodic reports with the SEC could result in the delisting of our common shares by Nasdaq.

Our common shares are subject to potential delisting from The Nasdaq Stock Market as a result of our failure to timely file this Annual Report on Form 10-K with the SEC. On July 3, 2008, we received a Nasdaq Staff determination letter indicating that, as a result of our failure to file with the SEC our Annual Report on Form 10-K for the year ended March 31, 2008, we failed to comply with Nasdaq Marketplace Rule 4310(c)(14) which requires us to make, on a timely basis, all filings with the SEC required by the Securities Exchange Act of 1934, as amended. We subsequently received an additional Staff determination regarding our failure to timely file with the SEC our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008. On August 28, 2008, we attended a hearing before a Nasdaq Listing Qualifications Panel ("Panel"), at which we presented our plan to regain compliance with Nasdaq's filing requirement. The Panel subsequently determined to grant our request for continued listing, provided the Company file our Annual Report on Form 10-K for the year ended March 31, 2008 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 with the SEC, on or before December 30, 2008. We subsequently received an additional notice from The Nasdaq Stock Market indicating that our failure to timely file with the SEC our Quarterly Report on Form 10-Q for the quarter ending September 30, 2008 potentially serves as an additional basis for delisting. Upon the filing of this Annual Report on Form 10-K and subsequent filing of the two delayed Quarterly Reports on Form 10-Q, we expect the Panel to determine that the Company has evidenced compliance with its decision and to grant the Company's request for continued listing, however, there can be no assurance that it will do so.

If we are unable to continue to maintain our listing on The Nasdaq Stock Market, it may become more difficult for our shareholders to sell our common shares in the public market, and the price of our common shares may be adversely affected due to the likelihood of decreased liquidity resulting from delisting. In addition, our ability to raise additional necessary capital through equity financing, and attract and retain personnel by means of equity compensation, would be greatly impaired. Furthermore, we would expect decreases in institutional and other investor demand, analyst interest, market making activity and information available concerning trading prices and volume, and fewer broker-dealers would be willing to execute trades with respect to our common shares.

Our business could be materially adversely affected if we cannot successfully implement changes to our information technology to support a changed business.

We may not be able to successfully implement changes to and manage our internal systems, procedures and controls. Our current information systems environment was principally designed for the distribution business and, although we are in the process of implementing a new information system, we may be unable to successfully support the implementation in an efficient or timely manner.

When we make acquisitions, we may not be able to successfully integrate them or attain the anticipated benefits.

If we are unsuccessful in integrating our acquisitions, or if integration is more difficult than anticipated, we may experience disruptions that could have a material adverse effect on our business or the acquisition. In addition, we may not realize all of the anticipated benefits from our acquisitions, which could result in an impairment of goodwill or other intangible assets.

Our profitability will be partly dependent upon restructuring and executing planned cost savings.

If our cost reduction efforts are ineffective or our estimates of costs available to be saved are inaccurate, our revenues and profitability could be negatively impacted. We may not be successful in achieving the operating efficiencies and operating cost reductions expected from these efforts, and may experience business disruptions associated with the restructuring and cost reduction activities. These efforts may not produce the full efficiency and cost reduction benefits that we expect. Further, such benefits may be realized later than expected, and the costs of implementing these measures may be greater than anticipated.

We are dependent on a long-term product procurement agreement with Arrow Electronics, Inc.

We have entered into a long-term product procurement agreement to purchase a wide variety of products from Arrow Electronics, Inc. Our success will be dependent on competitive pricing, the availability of products on a timely basis and maintenance of certain service levels by Arrow.

We are highly dependent on key suppliers and supplier programs.

We presently depend on a small number of key suppliers, including IBM, HP and Sun Microsystems. The loss of any of these suppliers or a combination of certain other suppliers could have a material adverse effect on the company's business, results of operations and financial condition. From time to time, a supplier may terminate the company's right to sell some or all of a supplier's products or change the terms and conditions of the supplier relationship or reduce or discontinue the incentives or programs offered. Any such termination or implementation of such changes could have a material negative impact on the company's results of operations.

The market for our products and services is affected by changing technology and if we fail to anticipate and adapt to such changes, our results of operations may suffer.

The markets in which the company competes are characterized by technological change, new product introductions, evolving industry standards and changing needs of customers. The company's future success will depend on its ability to anticipate and adapt to changes in technology and industry standards. If the company fails to successfully manage the challenges of rapidly changing technology, the company's results of operations may suffer.

Prolonged economic weakness could cause a decline in spending for information technology, adversely affecting our financial results.

Our revenue and profitability depend on the overall demand for our products and services. Delays or reductions in demand for information technology by end users could materially adversely affect the demand for our products and services. If the markets for our products and services continue to soften, our business, results of operations or financial condition could be materially adversely affected.

While we believe that our plans to remediate our 2008 material weakness in internal controls over financial reporting, discussed in Item 9A of this report, will return us to the status of having adequate internal controls over financial reporting, we continue to be exposed to risks that those internal controls may be inadequate and we may have difficulty accurately reporting our financial results on a timely basis.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to remediate internal control deficiencies and material weaknesses and perform the system and process evaluation and testing necessary to comply with these requirements. As a result, we expect to incur increased expense and to devote additional management resources to Section 404 remediation and compliance. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determine that our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions of the company may be adversely effected and could cause a decline in the market price of our stock.

We may be required to adopt International Financial Reporting Standards (IFRS). The ultimate adoption of such standards could negatively impact our business, financial condition or results of operations.

Although not yet required, we could be required to adopt IFRS which is different than accounting principles generally accepted in the United States of America for our accounting and reporting standards. The implementation and adoption of new standards could favorably or unfavorably impact our business, financial condition or results of operations.

Capital markets are currently experiencing a period of dislocation and instability, which has had and could continue to have a negative impact on our business and operations.

The general disruption in the U.S. capital markets has impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole. These conditions could persist for a prolonged period of time or worsen in the future. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition, results of operations and our ability to obtain and manage our liquidity. Any such developments could have a material adverse impact on our business, financial condition and results of operations.

Credit market developments may adversely affect our business and results of operations by reducing availability under our credit agreement.

In the current volatile state of the credit markets, there is risk that any lenders, even those with strong balance sheets and sound lending practices, could fail or refuse to honor their legal commitments and obligations under existing credit commitments, including but not limited to: extending credit up to the maximum permitted by a credit facility, allowing access to additional credit features and otherwise accessing capital and/or honoring loan commitments. If our lender(s) fail to honor their legal commitments under our credit facility, it could be difficult in the current environment to replace our credit facility on similar terms. The failure of any of the lenders under the company's credit facility may impact the company's ability to borrow money to finance its operating activities.

Disruptions in the financial and credit markets may adversely impact the spending of our customers, which could adversely affect our business, results of operations and financial condition.

Demand for our products and services depends in large part upon the level of capital of our customers. Decreased customer spending could have a material adverse effect on the demand for our services and our business, results of operations and financial condition. In addition, the disruptions in the financial markets may also have an adverse impact on regional economies or the world economy, which could negatively impact the capital and maintenance expenditures of our customers. There can be no assurance that government responses to the disruptions on the financial markets will restore confidence, stabilize markets or increase liquidity and the availability of credit. These conditions may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase.

Delays in filing periodic reports and financial restatements may adversely affect the Company's stock price and ability to raise capital.

We did not file our quarterly reports on Form 10-Q for the quarters ended June 30, 2008 and September 30, 2008 and this annual report on Form 10-K for the year ended March 31, 2008 within the time periods required by SEC regulations. The delays in filing our periodic reports and related financial statements may harm investor confidence and negatively affect our stock price. In addition, the failure to timely file such reports results in restrictions placed on us by the SEC to use certain registration statements, which could adversely affect our ability to raise additional capital.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At March 31, 2008, the company's principal corporate offices were located in a 10,250 square foot facility in Boca Raton, Florida. On October 20, 2008, the principal corporate offices were relocated to Solon, Ohio. As of March 31, 2008, the company owned or leased a total of approximately 392,919 square feet of space for its continuing operations, of which approximately 282,669 square feet is devoted to product warehouse and sales offices. The company's major leases contain renewal options for periods of up to 9 years. On December 2, 2008, the Boca Raton, Florida facility was closed and the company is looking for a tenant to sublease the facility. For information concerning the company's rental obligations, see the discussion of contractual obligations under Item 7 as well as note 7 to consolidated financial statements contained in Part IV hereof. The company believes that its product warehouse and office facilities are well maintained, are suitable and provide adequate space for the operations of the company.

The company's facilities of 75,000 square feet or larger, as of March 31, 2008, are set forth in the table below.

Location	Type of facility	Approximate square footage	Leased or owned
Solon, Ohio	Warehouse and office facility	100,000	Leased
Taylors, South Carolina	Warehouse and office facility	77,500	Leased

Item 3. Legal Proceedings.

The company is not a party to any material pending legal proceedings other than ordinary routine litigation incidental to its business.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the company's security holders during the last quarter of the fiscal year ended March 31, 2008, nor have any matters been submitted to a vote of the company's security holders as of the date of this Report.

Item 4A. Executive Officers of the Registrant.

The information provided below is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K. The following table sets forth the name, age, current position and principal occupation and employment during the past five years through June 1, 2008, of the company's executive officers.

There is no relationship by blood, marriage or adoption among the listed officers. Mr. Rhein holds office until terminated as set forth in his employment agreement. Mr. Rhein's contract was terminated October 20, 2008, upon his retirement. All other executive officers serve until terminated.

Executive Officers of the Registrant (6)

Name	Age	Current Position at June 1, 2008	Other Positions
Arthur Rhein (1)	63	Chairman of the Board, President and Chief Executive Officer of the company since April 2003.	
Robert J. Bailey (2)	52	Executive Vice President since May 2002.	
Peter J. Coleman (2)	54	Executive Vice President since May 2002.	
Martin F. Ellis (3)	44	Executive Vice President, Treasurer and Chief Financial Officer since June 2005	Executive Vice President, Corporate Development and Investor Relations from July 2003 to June 3, 2005. Prior to July 2003, Senior Vice President, Principal, and Head of Corporate Finance for Stern Stewart & Co.
Kenneth J. Kossin, Jr. (4)	44	Vice President and Controller since October 2005	Assistant Controller from April 2004 to October 2005. Prior to April 2004, Director of General Accounting for Roadway, Express, Inc.
Richard A. Sayers II	58	Executive Vice President, Chief Human Resources Officer since May 2002.	
Rita A. Thomas	42	Vice President, Corporate Counsel & Assistant Secretary since August 2006.	Prior to August 2006, Associate General Counsel.
Lawrence N. Schultz	61	Secretary of the company since 1999.	Prior to 2003 to present, Partner of the law firm of Calfee, Halter & Griswold LLP. (5)

(1) Mr. Rhein retired from the company on October 20, 2008.
(2) On October 21, 2008, the employment of both Mr. Bailey and Mr. Coleman was terminated.
(3) On October 20, 2008, Mr. Ellis was elected to serve as President and Chief Executive Officer.
(4) On October 20, 2008, Mr. Kossin was elected to serve as Senior Vice President and Chief Financial Officer.
(5) The law firm of Calfee, Halter & Griswold LLP serves as counsel to the company.
(6) On October 20, 2008, Mr. Curtis C. Stout was elected to serve as Vice President and Treasurer and on November 14, 2008, Mr. John T. Dyer was elected to serve as Vice President and Controller.

part II

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

The company's common shares, without par value, are traded on the NASDAQ Stock Market LLC. Common share prices are quoted daily under the symbol "AGYS." The high and low market prices and dividends per share for the common shares for each quarter during the past two fiscal years are presented in the table below.

	Year ended March 31, 2008				
	First quarter	**Second quarter**	**Third quarter**	**Fourth quarter**	**Year**
Dividends declared per common share	**$0.03**	**$0.03**	**$0.03**	**$0.03**	**$0.12**
Price range per common share	**$21.03-$23.45**	**$14.50-$23.46**	**$12.68-$18.53**	**$11.13-$15.30**	**$11.13-$23.46**
Closing price on last day of period	**$22.50**	**$16.90**	**$15.12**	**$11.60**	**$11.60**

	Year ended March 31, 2007				
	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Dividends declared per common share	$0.03	$0.03	$0.03	$0.03	$0.12
Price range per common share	$13.38-$18.00	$12.19-$17.51	$13.84-$17.00	$18.26-$23.00	$12.19-$23.00
Closing price on last day of period	$18.00	$14.00	$16.74	$22.47	$22.47

As of December 9, 2008, there were 22,672,040 common shares of the company outstanding, and there were 2,162 shareholders of record. The closing price of the common shares on December 9, 2008, was $3.60 per share.

Cash dividends on common shares are payable quarterly upon authorization by the Board of Directors. Regular payment dates have been the first day of August, November, February and May.

The company maintains a Dividend Reinvestment Plan whereby cash dividends and additional monthly cash investments up to a maximum of $5,000 per month may be invested in the company's common shares at no commission cost.

The company has adopted a Shareholder Rights Plan. For further information about the Shareholder Rights Plan, see note 14 to the consolidated financial statements contained in Part IV hereof.

The following table presents information about repurchases of common stock made by the company during the fourth quarter of fiscal 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2008 through January 31, 2008	1,510,243	$14.66	1,510,243	608,846 (1)
February 1, 2008 through February 29, 2008	430,633	13.58	430,633	— (2)
March 1, 2008 through March 31, 2008	—	—	—	—
Total — End of Fourth Quarter	1,940,876	$14.49	1,940,876	—

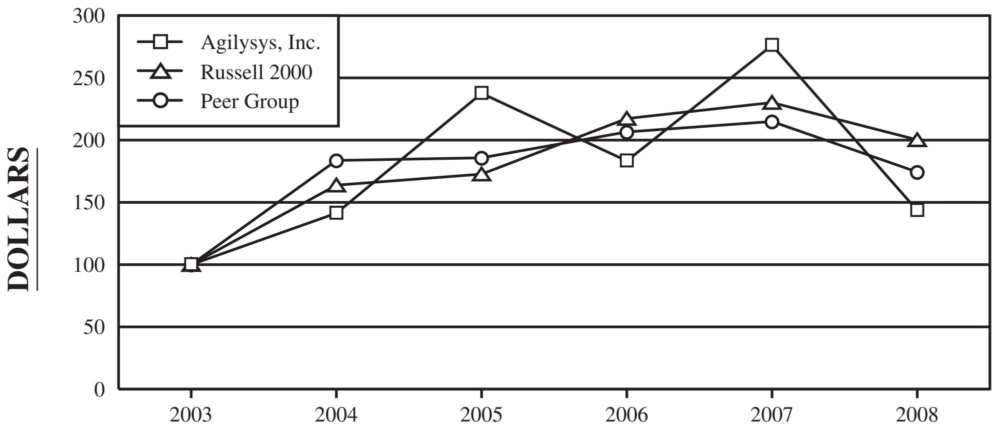
(1) On August 21, 2007, the company announced that it initiated a "Dutch Auction" tender offer for up to 6,000,000 shares. On September 19, 2007, the company accepted for purchase 4,653,287 of the company's common shares at a purchase price of $18.50 per share, for a total cost of approximately $86.1 million, excluding related transaction costs. The tender offer was funded through cash on hand. On September 14, 2007, the company entered into a written trading plan that complies with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which provided for the purchase of up to 2,000,000 of the company's common shares (the "September 2007 10b5-1 Plan") during the one-year period following September 17, 2007. In November 2007, the company completed the repurchase of the shares pursuant to the September 2007 10b5-1 Plan on the open market for a total cost of $30.4 million, excluding related transaction costs. On December 14, 2007, the company entered into another written trading plan that complies with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which provided for the purchase of up to 2,500,000 of the company's common shares (the "December 2007 10b5-1 Plan"). By December 31, 2007, 380,911 of the 2,500,000 shares were repurchased, resulting in the maximum number of shares that may yet be repurchased under the plan of 2,119,089 shares. The Board of Directors only authorized a cash outlay of $150 million, which complies with the credit facility approval limit.

(2) By February 11, 2008, 2,321,787 of the 2,500,000 shares were redeemed for a total cost of $33.5 million. The $150 million maximum cash outlay was achieved; therefore the purchase of common shares for treasury was completed.

Shareholder Return Performance Presentation

The following chart compares the value of $100 invested in the company's common shares, including reinvestment of dividends, with a similar investment in the Russell 2000 Index (the "Russell 2000") and the companies listed in the SIC Code 5045-Computer and Computer Peripheral Equipment and Software (the company's "Peer Group") for the period March 31, 2003, through March 31, 2008:

Comparison of Cumulative Five Year Total Return



Indexed returns

Company Name / Index	Base period March 2003	Years ending March 2004	March 2005	March 2006	March 2007	March 2008
Agilysys, Inc.	100.00	141.33	237.58	183.31	276.18	143.53
Russell 2000	100.00	163.83	172.70	217.34	230.18	200.25
Peer Group	100.00	183.68	185.79	206.58	214.95	174.40

Item 6. Selected Financial Data.

The following selected consolidated financial and operating data has been derived from the audited consolidated financial statements of the company and should be read in conjunction with the company's consolidated financial statements and notes thereto, and Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations, which are elsewhere included in this Annual Report on Form 10-K.

	For the year ended March 31				
(In thousands, except per share data)	**2008**	2007	2006	2005	2004
Operating results (a)(b)(c)(d)					
Net sales	**$ 770,960**	$ 474,570	$ 468,984	$ 377,029	$ 338,152
Income (loss) from continuing operations, net of taxes	**$ 681**	$ (11,635)	$ (20,744)	$ (25,118)	$ (24,676)
Income from discontinued operations, net of taxes	**2,978**	244,490	48,858	44,603	33,339
Net income	**$ 3,659**	$ 232,855	$ 28,114	$ 19,485	$ 8,663
Per share data — (a)(b)(c)(d)					
Income (loss) from continuing operations — basic and diluted	**$ 0.03**	$ (0.38)	$ (0.69)	$ (0.89)	$ (0.88)
Income from discontinued operations — basic and diluted	**0.10**	7.97	1.63	1.58	1.20
Net income — basic and diluted	**$ 0.13**	$ 7.59	$ 0.94	$ 0.69	$ 0.32
Cash dividends per share	**$ 0.12**	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Weighted-average shares outstanding					
Basic	**28,252,137**	30,683,766	29,935,200	28,100,612	27,743,769
Diluted	**28,766,112**	30,683,766	29,935,200	28,100,612	27,743,769
Financial position					
Total assets	**$ 695,871**	$ 893,716	$ 763,513	$ 818,492	$ 768,550
Long-term obligations (e)	**$ 680**	$ 3	$ 99	$ 59,624	$ 59,503
Mandatorily Redeemable Convertible Trust Preferred Securities (f)	**$ —**	$ —	$ —	$ 125,317	$ 125,425
Total shareholders' equity	**$ 479,465**	$ 626,844	$ 385,176	$ 332,451	$ 308,990

(a) In 2008, the company acquired Stack, InfoGenesis, Innovativ and Eatec. Accordingly, the results of operations for the acquisitions have been included in the accompanying consolidated financial statements since the acquisition date. See note 2 to the consolidated financial statements for additional information.

(b) In 2007, the company sold the assets and operations of its KeyLink Systems Distribution Business ("KSG"). The operating results of KSG have been classified as discontinued operations for all periods presented. See Note 3 to the consolidated financial statements for additional information regarding the company's sale of KSG's assets and operations.

(c) In 2007, the company included the operating results of Visual One Systems Corporation in the results of operations from the date of acquisition. In 2006, the company included the results of operations of both The CTS Corporations and the Hong Kong and China operations of Mainline Information Systems, Inc. from their respective dates of acquisition. In 2004, the company included the results of operations of both Kyrus Corporation and Inter-American Data, Inc. from their respective dates of acquisition.

(d) In 2008, an impairment charge of $4.9 million was recognized on the company's equity investment in Magirus. In 2007, the company recognized an impairment charge of $5.9 million ($5.1 million after taxes) on its equity method investment in Magirus. See note 6 for further information regarding this investment.
(e) The company's Senior Notes matured in 2007. In 2006, the company's Senior Notes were reclassified from long-term obligations to a current liability.
(f) In 2006, the company completed the redemption of its 6.75% Mandatorily Redeemable Convertible Trust Preferred Securities ("Trust Preferred Securities"). Trust Preferred Securities with a carrying value of $105.4 million were redeemed for cash at a total expense of $109.0 million. In addition, Trust Preferred Securities with a carrying value of $19.9 million were converted into common shares of the company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of Agilysys, Inc.'s consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this document. Information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" may include forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to differ materially from those contained in the forward-looking statements. See "Forward-Looking Information" below and Item 1A "Risk Factors" in Part I of this Annual Report on Form 10-K for additional information concerning these items.

Overview

Agilysys, Inc. ("Agilysys" or the "company") is a leading provider of innovative IT solutions to corporate and public-sector customers, with special expertise in select markets, including retail and hospitality. The company uses technology — including hardware, software and services — to help customers resolve their most complicated IT needs. The company possesses expertise in enterprise architecture and high availability, infrastructure optimization, storage and resource management, and business continuity, and provides industry-specific software, services and expertise to the retail and hospitality markets. Headquartered in Cleveland, Ohio effective October 2008, Agilysys operates extensively throughout North America, with additional sales offices in the United Kingdom and China. The China operations are held for sale effective July 2008. Agilysys has three reportable segments: Hospitality Solutions, Retail Solutions, and Technology Solutions. See note 13 to consolidated financial statements included in Item 15, for additional discussion.

As disclosed in previous filings, the company sold its KeyLink Systems Distribution business ("KSG") in March 2007 and now operates solely as an IT solutions provider. The following long-term goals were established by the company with the divestiture of KSG:

— Grow sales to $1 billion in two years and to $1.5 billion in three years. Much of the growth will come from acquisitions.
— Target gross margin in excess of 20% and earnings before interest, taxes, depreciation and amortization of 6% within three years.
— While in the near term return on invested capital will be diluted due to acquisitions and legacy costs, the company continues to target long-term return on invested capital of 15%.

As a result of the decline of the macroeconomic environment, significant risk in the credit markets and changes in demand for IT products, the company is reevaluating its long-term revenue goals and acquisition strategy.

The company experienced solid demand across its base business and its newly acquired businesses in 2008, with base business net sales increasing 7.5% year-over-year and newly acquired businesses contributing $262.6 million of incremental sales during the year. Gross margin as a percentage of sales decreased two percentage points year-over-year at 23.4% and 25.4% at March 31, 2008, and 2007, respectively, which was above our long-term goal of achieving gross margins in excess of 20%.

For financial reporting purposes, the prior period operating results of KSG have been classified as discontinued operations. Accordingly, the discussion and analysis presented below, including the comparison to prior periods, reflects the continuing business of Agilysys.

The following discussion of the company's results of operations and financial condition is intended to provide information that will assist in understanding the company's financial statements, including key changes in financial statement components and the primary factors that accounted for those changes.

Results of Operations

2008 Compared with 2007

Net Sales and Operating Loss

	Year ended March 31		Increase (decrease)	
(Dollars in thousands)	**2008**	2007	$	%
Net Sales				
Product	**$ 644,745**	$381,723	$263,022	68.9
Service	**126,215**	92,847	33,368	35.9
Total	**770,960**	474,570	296,390	62.5
Cost of goods sold				
Product	**549,057**	328,831	220,226	67.0
Service	**41,749**	25,032	16,717	66.8
Total	**590,806**	353,863	236,943	67.0
Gross margin	**180,154**	120,707	59,447	49.2
Gross margin percentage	***23.4%***	*25.4%*		
Operating expenses				
Selling, general, and administrative expenses	**199,258**	133,185	66,073	49.6
Restructuring credits	**(75)**	(2,531)	2,456	97.0
Operating loss	**$(19,029)**	$ (9,947)	$ (9,082)	(91.3)
Operating loss percentage	***(2.5)%***	*(2.1)%*		

Net sales. The $296.4 million increase in net sales was largely driven by an increase in hardware revenue. Hardware revenue increased $223.6 million year-over-year. The increase in hardware revenue was principally due to higher revenues generated from the acquisitions which contributed $205.7 million. Innovativ contributed $162.0 million of the $205.7 million.

The technology solutions business sales increased $212.9 million primarily due to the Innovative and Stack acquisitions, which contributed $175.3 million and $46.2 million, respectively. The hospitality solutions business sales increased $46.9 million primarily due to the InfoGenesis and Eatec acquisitions, which contributed $31.4 and $0.9 million respectively. The retail solutions business sales increased $37.0 million primarily due to respective changes in sales volume.

Gross Margin. The $59.4 million increase in gross margin was driven by the overall increase in sales. Changes in product mix, pricing under our procurement agreement with Arrow and margins of our acquisitions all contributed to the lower gross margin percentage.

The technology solutions business gross margin increased $32.2 million primarily due to the Innovative and Stack acquisitions, which contributed $34.1 million and $6.1 million, respectively. The hospitality solutions business gross margin increased $24.1 million primarily due to the InfoGenesis and Eatec acquisitions, which contributed $15.5 and $0.8 million, respectively. The retail solutions business gross margin increased $5.1 million, which can be directly attributable to the increase in sales.

Operating Expenses. The company's operating expenses consist of selling, general, and administrative ("SG&A") expenses and restructuring credits. The $66.1 million increase in SG&A expenses was mainly driven by the following key factors: incremental operating expenses of $0.4, $25.8, $16.6, and $8.3 million related to the acquisitions of Eatec, Innovativ, InfoGenesis, and Stack, respectively, outside services expense of $4.2 million, and rental expense of $2.5 million. The remaining increase in SG&A was principally due to higher stock-based compensation and benefits costs.

Restructuring credits decreased $2.5 million during 2008. The decline was principally due to the $4.9 million reversal of the remaining restructuring liability that was initially recognized in 2003 for an unutilized leased facility. In connection with the sale of KSG, management determined that the company would utilize the leased facility to house the majority of its remaining IT Solutions Business and corporate personnel. Accordingly, the reversal of the remaining restructuring liability was classified as a restructuring credit in the consolidated statement of operations in 2007. The 2007 restructuring credit was offset by a charge of approximately $1.7 million for the termination of a facility lease that was previously exited as part of a prior restructuring effort and a $0.5 million charge for one-time termination benefits resulting from a workforce reduction that was executed in connection with the sale of KSG.

Other (Income) Expenses

	Year ended March 31		Favorable (unfavorable)	
(Dollars in thousands)	**2008**	2007	$	%
Other (income) expenses				
Other (income) expense, net	**$ (6,632)**	$ 6,025	$12,657	210.1%
Interest income	**(13,101)**	(5,133)	7,968	155.2%
Interest expense	**945**	2,731	1,786	65.4%
Total other (income) expenses	**$(18,788)**	$ 3,623	$22,411	618.6%

Other (income) expense, net. The $12.7 million favorable change in other (income) expense, net, was due to a $1.4 million gain recognized on the redemption of the company's investment in an affiliated company in the first quarter of the current year. The company recognized a $1.5 million increase in foreign currency transaction gains during the current year compared with last year due to changes in exchange rates. Additionally, there was a $9.8 million year-over-year increase in earnings from the company's equity method investment which included a fourth quarter gain on sale of $15.1 million as a result of the sale by Magirus the investment of a portion of its distribution business. In the fourth quarter of 2008, the company recognized a $4.9 million impairment charge to write down the company's equity method investment to its fair value compared to a $5.9 million impairment charge for the write down of the company's equity method investment to its estimated realizable value in 2007. The write down was driven by changing market conditions and the equity method investee's recent operating losses that indicated an other-than-temporary loss condition and the eventual sale of the investment in 2009.

Interest income. The $8.0 million favorable change in interest income was due to higher average cash and cash equivalent balance in the current year compared with last year. The higher cash and cash equivalent balance was driven by the sale of KSG for $485.0 million on March 31, 2007. However, the company's cash and cash equivalent balance has declined during the current year as the company has used cash to acquire businesses and purchase common shares for treasury.

Income Taxes

The company recorded an income tax benefit from continuing operations at an effective tax rate of 381.1% in 2008 compared with an income tax benefit at an effective rate of 14.3% in 2007. The increase in the effective tax rate is primarily attributable to the reversal of the valuation allowance associated with Magirus, the settlement of an IRS audit, and other changes in liabilities related to FIN 48 which were partially offset by higher meals and entertainment expenses incurred in marketing the company's products.

2007 Compared with 2006

Net Sales and Operating Loss

(Dollars in thousands)	Year ended March 31 **2007**	2006	Increase (decrease) $	%
Net Sales				
Product	**$381,723**	$ 381,902	$ (179)	NM
Service	**92,847**	87,082	5,765	6.6%
Total	**474,570**	468,984	5,586	1.2%
Cost of goods sold				
Product	**328,831**	336,339	(7,508)	(2.2)%
Service	**25,032**	25,676	(644)	(2.5)%
Total	**353,863**	362,015	(8,152)	(2.3)%
Gross margin	**120,707**	106,969	13,738	12.8%
Gross margin percentage	**25.4%**	*22.8%*		
Operating expenses				
Selling, general, and administrative expenses	**133,185**	123,058	10,127	8.2%
Restructuring (credits) charges	**(2,531)**	5,337	(7,868)	(147.4)%
Operating loss	**$ (9,947)**	$(21,426)	$ 11,479	53.6%
Operating loss percentage	***(2.1)%***	*(4.6)%*		

Net sales. The $5.6 million increase in net sales was driven by an increase in services revenue. Proprietary service revenue increased $3.0 million year-over-year. The increase in proprietary service revenue was principally due to higher revenues generated from the company's hospitality solutions group. Remarketed service revenue, which is classified on a "net" basis within the statement of operations, increased $2.7 million year-over-year. The increase in remarketed service revenue was principally due to higher sales volume of HP remarketed services.

The technology solutions business sales increased $22.6 million, the hospitality solutions business sales decreased $4.9 million and the retail solutions business sales decreased $11.0 million primarily due to respective changes in sales volumes.

Gross Margin. The $13.7 million increase in gross margin was driven by the overall increase in sales as well as a higher mix of software and service revenue, which traditionally results in higher gross margin.

The technology solutions business gross margin increased $7.9 million, which is directly attributable to the increase in net sales while the hospitality and retail solutions businesses experienced declining sales, margins increased $1.3 million and $0.2 million respectively between 2008 and 2007. The increase is due to higher service sales, which carry higher margins over declines in product sales, which have lower margins.

Operating Expenses. The company's operating expenses consist of SG&A expenses and restructuring (credits) charges. The $10.1 million increase in SG&A expenses was mainly driven by the following key factors: incremental operating expenses of $3.0 million associated with the company's entrance into the China market, incremental operating expenses of $0.9 million related to the acquisition of Visual One, share-based compensation expense of $3.6 million, offset by a $2.5 million decline in bad debt expense. Regarding the increase in stock-based compensation expense, the company began to expense stock option awards at the beginning of 2007 upon adoption of FAS 123R. Regarding the decline in bad debt expense, the company continued to experience an overall improvement in its accounts receivable base. The remaining increase in SG&A was principally due to higher compensation and benefits costs driven by annual wage increases for the company's employee base.

Restructuring (credits) charges decreased $7.9 million during 2007. The decline was principally due to the $4.9 million reversal of the remaining restructuring liability that was initially recognized in 2003 for an unutilized leased facility. In connection with the sale of KSG, management determined that the company would utilize the leased facility to house the majority of its remaining IT Solutions Business and corporate personnel. Accordingly, the reversal of the remaining restructuring liability was classified as a restructuring credit in the consolidated statement of operations. The restructuring credit was offset by a charge of approximately $1.7 million for the termination of a facility lease that was previously exited as part of a prior restructuring effort and a $0.5 million charge for one-time termination benefits resulting from a workforce reduction that was executed in connection with the sale of KSG. Additionally, 2006 included charges of $4.2 million to consolidate a portion of the company's operations to reduce costs and increase future operating efficiencies. As part of the 2006 restructuring effort, the company exited certain leased facilities, reduced its workforce and executed a senior management realignment and consolidation of responsibilities.

Other (Income) Expenses

	Year ended March 31		Favorable (unfavorable)	
(Dollars in thousands)	**2007**	2006	$	%
Other (income) expenses				
Other expense (income), net	**$ 6,025**	$(1,094)	$(7,119)	(650.7)%
Interest income	**(5,133)**	(4,451)	682	15.3%
Interest expense	**2,731**	6,069	3,338	55.0%
Loss on redemption of Mandatorily Redeemable Convertible Trust Preferred Securities	**—**	4,811	4,811	100.0%
Total other expenses	**$ 3,623**	$ 5,335	$ 1,712	32.1%

Other (income) net. The $7.1 million unfavorable change in other expense (income), net, was principally due to a $0.9 million decline in earnings from the company's equity method investment and $5.9 million impairment charge for the write-down of the company's equity method investment to its estimated realizable value. The write-down was driven by changing market conditions and the equity method investee's recent operating losses that indicated an other-than-temporary loss condition.

Interest expense. The $3.3 million favorable change in interest expense was largely driven by the company's lower debt level resulting from the retirement of its 9.5% Senior Notes in August 2006.

Loss on redemption of Trust Preferred Securities. In connection with the company's redemption of its Trust Preferred Securities in the first quarter of 2006, the company wrote off deferred financing fees of $2.7 million. The financing fees, incurred at the time of issuing the Trust Preferred Securities, were being amortized over a 30-year period ending on March 31, 2028, which was the maturity date of the Trust Preferred Securities. The write off of deferred financing fees, along with the $2.1 million premium paid for the redemption, resulted in a loss of $4.8 million in 2006.

Income Taxes

The company recorded an income tax benefit from continuing operations at an effective tax rate of 14.3% in 2007 compared with an income tax benefit at an effective rate of 26.0% in 2006. The decrease in the rate is primarily attributable to the indefinite reinvestment of all earnings (losses) generated by the company's foreign equity method investment, including the 2007 impairment charge recognized by the company for the write-down of its investment. In 2007, the company recognized a tax benefit (reduction in valuation allowance) for $1.2 million of Canada deferred tax assets.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table provides aggregated information regarding the company's contractual obligations as of March 31, 2008. These obligations are discussed in detail in the preceding paragraphs and notes 7 and 8 to the consolidated financial statements.

	Payments due by fiscal year				
(Dollars in thousands)	Total	Less than 1 year	1 to 3 Years	3 to 5 years	More than 5 years
Capital leases	$ 647	$ 305	$ 289	$ 53	$ —
Operating leases (1)	21,177	5,625	7,547	3,390	4,615
Purchase obligations (2)	1,320,000	330,000	660,000	330,000	—
Total contractual obligations	$1,341,824	$335,930	$667,836	$333,443	$4,615

(1) Lease obligations are presented net of contractually binding sub-lease arrangements.

(2) In connection with the sale of KSG, the company entered into a product procurement agreement ("PPA") with Arrow Electronics, Inc. Under the PPA, the company is required to purchase a minimum of $330 million worth of products each year during the term of the agreement (5 years), adjusted for product availability and other factors.

At March 31, 2008, the company had $3.6 million accrued for potential income tax uncertainties and $20.2 million accrued for employee benefit plan obligations, both of which are excluded from the contractual obligations table as the timing of payment cannot be reasonably estimated.

The company anticipates that cash on hand, funds from continuing operations, and access to capital markets will provide adequate funds to finance capital spending and working capital needs and to service its obligations and other commitments arising during the foreseeable future.

Liquidity and Capital Resources

Overview

The company's operating cash requirements consist primarily of working capital needs, operating expenses, capital expenditures and payments of principal and interest on indebtedness outstanding, which mainly consists of lease and rental obligations at March 31, 2008. The company believes that cash flow from operating activities, cash on hand, and access to capital markets will provide adequate funds to meet its short-and long-term liquidity requirements.

As of March 31, 2008, the company's total debt was approximately $1.0 million and consisted of $0.5 million of capital lease obligations and $0.5 million of long term customer deposits. As of March 31, 2007, the company's total debt was approximately $0.1 million, and consisted of capital lease obligations.

Revolving Credit Facility

The company had a $200 million unsecured credit facility ("Facility") that expires in 2010. At March 31, 2008, the company had $199 million available under the Facility given certain letter of credit commitments. The Facility included a $20 million sub-facility for letters of credit and a $20 million sub-facility for swingline loans. The Facility was available to refinance existing debt, provide for working capital requirements, capital expenditures and general corporate purposes of the company including acquisitions. Borrowings under the Facility bore interest at various levels over LIBOR. The Facility contained various compliance and financial covenants. The company was in default of its covenants as a result of its failure to timely file this report with the SEC and other technical requirements. There were no amounts outstanding under the Facility at March 31, 2008.

Cash Flow

(Dollars in thousands)	Year ended March 31 **2008**	2007	Increase (decrease) $	Year ended March 31 2006
Net Cash (used for) provided by continuing operations:				
Operating activities	**$(160,613)**	$ 152,386	$ (312,999)	$ (25,411)
Investing activities	**(240,654)**	469,976	(710,630)	(37,744)
Financing activities	**(137,390)**	(51,288)	(86,102)	(105,985)
Effect of foreign currency fluctuations on cash	**1,314**	(97)	1,411	367
Cash flows (used for) provided by continuing operations	**(537,343)**	570,977	(1,108,320)	(168,773)
Net operating and investing cash flows provided by (used for) discontinued operations	**3,272**	(114,160)	117,432	74,743
Net (decrease) increase in cash and cash equivalents	**$(534,071)**	$ 456,817	$ (990,888)	$ (94,030)

Cash flow (used for) provided by operating activities. The $313.0 million decline in cash used for operating activities was due to the decrease in accrued income taxes payable of $271.5 million as a result of the payment of taxes related to the gain on sale of KSG. The remainder of the increase was principally driven by changes in working capital.

Cash flow (used for) provided by investing activities. The $710.6 million decline in cash used for investing activities was principally due to the $485.0 million proceeds received from the sale of KSG in 2007. Additionally, more cash was used in 2008 for business acquisitions compared with 2007. The company's cash outflow for the acquisition of Eatec, Innovativ, InfoGenesis, and Stack in 2008 was $236.2 million (net of cash acquired) compared with $10.6 million (net of cash acquired) for Visual One in 2007.

Cash flow used for financing activities. The $86.1 million decline in cash used for financing activities was principally driven by the company's redemption of its common shares for treasury for a total cost of $150.0 million and the increase in cash of $14.6 relating to the floor plan financing agreement. In 2007, there was a $59.6 million use of cash for principal payments under long term obligations, of which $59.4 million related to the company's retirement of its Senior Notes.

Critical Accounting Policies, Estimates & Assumptions

The management discussion and analysis of its financial condition and results of operations are based upon the company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. The company regularly evaluates its estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, restructuring and contingencies, litigation and supplier incentives. The company bases its estimates on historical experience and on various other assumptions that are believed 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.

The company's most significant accounting policies relate to the sale, purchase, and promotion of its products. The policies discussed below are considered by management to be critical to an understanding of the company's 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. No material adjustments to the company's accounting policies were made in 2008. 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. The company derives revenue from three primary sources: server and storage hardware, software, and services. Revenue is recorded in the period in which the goods are delivered or services are rendered and when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price to the customer is fixed or determinable, and collectibility is reasonably assured. The company reduces revenue for discounts, sales incentives, estimated customer returns and other allowances. Discounts are offered based on the volume of products and services purchased by customers. Shipping and handling fees billed to customers are recognized as revenue and the related costs are recognized in cost of goods sold.

Regarding hardware sales, revenue is generally recognized when the product is shipped to the customer and when there are not unfulfilled obligations that affect the customer's final acceptance of the arrangement. A portion of the company's hardware sales involves shipment directly from its suppliers to the end-user customers. In such transactions, the company is responsible for negotiating price both with the supplier and the customer, payment to the supplier, establishing payment terms with the customer and product returns, and bears credit risk if the customer does not pay for the goods. As the principal contact with the customer, the company recognizes revenue and cost of goods sold when it is 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.

Regarding software sales, the company offers proprietary software as well as remarketed software to its customers. Generally, software sales do not require significant production, modification, or customization at the time of shipment (physically or electronically) to the customer. As such, revenue from both proprietary and remarketed software sales is generally recognized when the software has been shipped. For software delivered electronically, delivery is considered to have occurred when the customer either takes possession of the software via downloading or has been provided with the requisite codes that allow for immediate access to the software.

Regarding sales of services, the company offers proprietary and third-party services to its customers. Proprietary services generally are as follows: consulting, installation, integration, and maintenance. Revenue relating to consulting, installation, and integration services is recognized when the service is performed. For certain long-term proprietary service contracts, the company follows the percentage-of-completion method of accounting. Accordingly, income is recognized in the ratio that work performed bears to estimated total work to be performed on the contract. Adjustments to contract price and estimated service hours are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of billings on uncompleted contracts in excess of related costs is shown as a current asset. Revenue relating to maintenance services is recognized evenly over the coverage period of the underlying agreement. In addition to proprietary services, the company offers third-party service contracts to its customers. In such instances, the supplier is the primary obligor in the transaction and the company bears credit risk in the event of nonpayment by the customer. Since the company is acting as an agent or broker with respect to such sales transactions, the company reports revenue only in the amount of the "commission" (equal to the selling price less the cost of sale) received rather than reporting revenue in the full amount of the selling price with separate reporting of the cost of sale.

Allowance for Doubtful Accounts. The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its 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 historical trends of the entire customer pool. If the financial condition of the company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To mitigate this credit risk the company performs frequent credit evaluations of its customers.

Inventories. 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. The company's inventory is monitored to ensure appropriate valuation. Adjustments of inventories to lower of cost or market, if necessary, are based upon contractual provisions governing 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. The company provides 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.

Deferred Taxes. The carrying value of the company's deferred tax assets is dependent upon the company's ability to generate sufficient future taxable income in certain tax jurisdictions. Should the company determine that it is not able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets is expensed in the period such determination is made to an amount that is more likely than not to be realized. The company presently records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that the company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount (including valuation allowance), an adjustment to the tax valuation allowance would decrease tax expense in the period such determination was made.

Goodwill and Long-Lived Assets. In assessing the recoverability of the company's goodwill, identified intangibles, and other long-lived assets, significant assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets must be made, as well as the related estimated useful lives. The fair value of goodwill and long-lived assets is estimated using a discounted cash flow valuation model. If these estimates or their related assumptions change in the future as a result of changes in strategy or market conditions, the company may be required to record impairment charges for these assets in the period such determination was made.

Restructuring and Other Special Charges. The company recorded a reserve in connection with reorganizing its ongoing business. The reserve principally includes estimates related to employee separation costs and the consolidation and impairment of facilities deemed inconsistent with continuing operations. Actual amounts could be different from those estimated. Determination of the impairment of assets is discussed above in *Goodwill and Long-Lived Assets*. 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.

Valuation of Accounts Payable. The company's accounts payable has been reduced by amounts claimed by vendors for amounts related to incentive programs. Amounts related to incentive programs are recorded as adjustments to cost of goods sold or operating expenses, depending on the nature of the program. There is a time delay between the submission of a claim by the company and confirmation of the claim by our vendors. Historically, the company's estimated claims have approximated amounts agreed to by vendors.

Supplier Programs. The company receives funds from suppliers for product sales incentives and marketing and training programs, which are generally recorded, net of direct costs, as adjustments to cost of goods sold or operating expenses according to the nature of the program. The product sales incentives are generally based on a particular quarter's sales activity and are primarily formula-based. Some of these programs may extend over one or more quarterly reporting periods. The company accrues supplier sales incentives and other supplier incentives as earned based on sales of qualifying products or as services are provided in accordance with the terms of the related program. Actual supplier sales incentives may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued, and can, at times, result in significant earnings fluctuations on a quarterly basis.

Recently Issued Accounting Pronouncements

In May 2008, the FASB issued Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts, and interpretation of FASB Statement No. 60* ("Statement 163"). Statement 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. Statement 163 is effective for fiscal years after December 15, 2008, or fiscal year 2010 for the company. The company is currently evaluating the impact, if any, that Statement 163 will have on its financial position, results of operations and cash flows.

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("Statement 162"). Statement 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. Statement 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The company is currently evaluating the impact, if any, that Statement 162 will have on its financial position, results of operations and cash flows.

In March 2008, The FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* ("Statement 161"). Statement 161 enhances the disclosures about an entity's derivative and hedging activities. Statement 161 is effective for fiscal periods beginning after November 15, 2008, or January 1, 2009, for the company. The company is currently evaluating the impact, if any, that Statement 161 will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations* ("Statement 141(R)"). Statement 141(R) significantly changes the accounting for and reporting of business combination transactions. Statement 141(R) is effective for fiscal years beginning after December 15, 2008, or fiscal 2010 for the company. The company is currently evaluating the impact that Statement 141(R) will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued Statement No. 160, *Accounting and Reporting for Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("Statement 160"). Statement 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Statement 160 is effective for the first annual reporting period beginning after December 15, 2008, or fiscal 2010 for the company. The company is currently evaluating the impact that Statement 160 will have on its financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115* ("Statement 159"). Statement 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item will be reported in current earnings at each subsequent reporting date. Statement 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. Statement 159 is effective for fiscal years beginning after November 15, 2007, or fiscal 2009 for the company. The company is currently evaluating the impact that Statement 159 will have on its financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("Statement 157"). Statement 157 provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. Statement 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except FAS No. 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. Statement 157 is effective for fiscal years beginning after November 15, 2007, or fiscal 2009 for the company. The company is currently evaluating the impact that Statement 157 will have on its financial position, results of operations and cash flows.

Effective April 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As a result of the implementation of FIN 48, the company recognized approximately $2.9 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the April 1, 2007 balance of retained earnings. As of March 31, 2008 and 2007, the company had a liability of uncertain tax positions, excluding interest, penalty, and federal benefit of $6.0 million and $8.1 million respectively. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

(Dollars in thousands)	
Balance at March 31, 2007	$ 8,055
Additions:	
Relating to positions taken during current year	1,372
Due to business acquisitions	3,454
Reductions:	
Relating to tax settlements	(4,635)
Relating to positions taken during prior year	(899)
Due to business acquisitions	(1,350)
Balance at March 31, 2008	$ 5,997

The company recognizes interest accrued on any unrecognized tax benefits as a component of income tax expense. Penalties are recognized as a component of selling, general and administrative expenses. As of March 31, 2008, and 2007, the company had approximately $1.2 million and $1.0 million of interest and penalties accrued, respectively.

As of March 31, 2008, the company has a liability of $2.6 million related to uncertain tax positions and $1.0 million related to interest and penalties, the recognition of which would affect the company's effective income tax rate.

The company anticipates the completion of a state income tax audit in the next twelve months which could reduce the accrual for unrecognized tax benefits by $0.2 million. The company believes that, other than the changes noted above, it is impractical to determine the positions for which it is reasonably possible that the total of uncertain tax benefits will significantly increase or decrease in the next twelve months.

The company is currently being audited by multiple state taxing jurisdictions. In material jurisdictions, the company has potential tax examination years open back to and including 1998 which may be subject to tax authority examination.

Business Combinations

2008 Acquisitions

Eatec

On February 19, 2008, the company acquired all of the shares of Eatec Corporation ("Eatec"), a privately held developer and marketer of inventory and procurement software. Accordingly, the results of operations for Eatec have been included in the accompanying condensed consolidated financial statements from that date forward. Eatec's software, EatecNetX (now called Eatec Solutions by Agilysys), is a recognized leading, open architecture-based, inventory and procurement management system. The software provides customers with the data and information necessary to enable them to increase sales, reduce product costs, improve back-office productivity and increase profitability. Eatec customers include well-known restaurants, hotels, stadiums and entertainment venues in North America and around the world as well as many public service institutions. The acquisition further enhances the company's position as a leading inventory and procurement solution provider to the hospitality and foodservice markets. Eatec was acquired for a total cost of $25.0 million. Based on management's preliminary allocation of the acquisition cost to the net assets acquired, approximately $24.8 million has been assigned to goodwill. The company is still in the process of valuing certain intangible assets; accordingly, allocation of the acquisition cost is subject to modification in the future. Goodwill resulting from the Eatec acquisition will not be deductible for income tax purposes.

Innovative Systems Design, Inc.

On July 2, 2007, the company acquired all of the shares of Innovative Systems Design, Inc. ("Innovativ"), the largest U.S. commercial reseller of Sun Microsystems servers and storage products. Accordingly, the results of operations for Innovativ have been included in the accompanying condensed consolidated financial statements from that date forward. Innovativ is an integrator and solution provider of servers, enterprise storage management products and professional services. The acquisition of Innovativ establishes a new and significant relationship between Sun Microsystems and the company. Innovativ was acquired for an initial cost of $108.6 million. Additionally, the company agreed to pay an earn-out of two dollars for every dollar of earnings before interest, taxes, depreciation, and amortization, or EBITDA, greater than $50.0 million in cumulative EBITDA over the first two years after consummation of the acquisition. The earn-out originally was limited to a maximum payout of $90.0 million. During the fourth quarter of 2008, the company recognized $35.0 million of the $90.0 million maximum earn-out, which was paid in the first quarter of 2009. In addition, the company amended its agreement with the Innovativ shareholders whereby the maximum payout available to the Innovativ shareholders was limited to $58.65 million, inclusive of the $35 million. The EBITDA target required for the shareholders to be eligible for an additional payout is now $67.5 million in cumulative EBITDA over the first two years after the close of the acquisition.

During the fourth quarter, management completed its purchase price allocation and assigned $29.7 million of the acquisition cost to identifiable intangible assets as follows: $4.8 million to non-compete agreements, $5.5 million to customer relationships, and $19.4 million to supplier relationships which will be amortized over useful lives ranging from two to five years. The calculated Innovativ intangible asset amortization expense for the fourth quarter was $3.4 million. The company actually recorded $7.0 million during the fourth quarter, which includes the final estimated amortization upon completion of the purchase price allocation and change in estimate for the second and third quarter recorded expense.

Based on management's allocation of the acquisition cost to the net assets acquired, approximately $97.8 million has been assigned to goodwill. Goodwill resulting from the Innovativ acquisition will be deductible for income tax purposes.

InfoGenesis

On June 18, 2007, the company acquired all of the shares of IG Management Company, Inc. and its wholly-owned subsidiaries, InfoGenesis and InfoGenesis Asia Limited (collectively, "InfoGenesis"), an independent software vendor and solution provider to the hospitality market. InfoGenesis offers enterprise-class point-of-sale solutions that provide end users a highly intuitive, secure and easy way to process customer transactions across multiple departments or locations, including comprehensive corporate and store reporting. InfoGenesis has a significant presence in casinos, hotels and resorts, cruise lines, stadiums and foodservice. The acquisition provides the company a complementary offering that extends its reach into new segments of the hospitality market, broadens its customer base and increases its software application offerings. InfoGenesis was acquired for a total acquisition cost of $90.6 million.

Based on management's preliminary allocation of the acquisition cost to the net assets acquired, approximately $71.7 million has been assigned to goodwill. InfoGenesis had intangible assets with a net book value of $18.3 million as of the acquisition date, which were included in the acquired net assets to determine goodwill. Intangible assets were assigned values as follows: $3.0 million to developed technology, $4.5 million to customer relationships, and $10.8 million to trade names, which have an indefinite life. Management will amortize the developed technology and the customer relationships over useful lives ranging from six months to seven years. Amortization expense of $0.6 million and $2.0 million for the quarter and year ended March 31, 2008, respectively, has been recognized by the company relating to the identified intangible assets. Management is in the process of evaluating the acquired intangible assets, including an evaluation of additional intangible assets not previously recognized by InfoGenesis, and determining the appropriate fair value. Management expects to complete this analysis within one year of the date of acquisition. Accordingly, allocation of the acquisition cost is subject to modification in the future. In subsequent periods, the nature and amount of any material adjustments made to the initial allocation of the purchase price will be disclosed. Goodwill resulting from the InfoGenesis acquisition will not be deductible for income tax purposes.

The following is a condensed balance sheet showing the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

Condensed balance sheet as of the date of acquisition

(Dollars in thousands)	Innovativ	InfoGenesis
Current assets	$ 82,815	$ 18,321
Property and equipment	1,247	5,944
Intangible assets	29,730	18,291
Goodwill arising after the acquisition	97,781	71,662
Total Assets	211,573	114,218
Current Liabilities	67,630	18,281
Long-term debt	—	649
Other long-term obligations	—	8,185
Total liabilities	67,630	27,115
Net assets acquired	$143,943	$ 87,103

Pro Forma Disclosure of Financial Information

The following table summarizes the company's unaudited consolidated results of operations as if the InfoGenesis and Innovativ acquisitions occurred on April 1:

	Twelve months ended March 31	
(Dollars in thousands)	**2008**	2007
Net Sales	**$851,893**	$750,681
Income from continuing operations	**$ 2,252**	$ 3,194
Net income	**$ 5,242**	$241,749
Earnings per share — basic and diluted		
Income from continuing operations	**$ 0.08**	$ 0.10
Net income	**$ 0.19**	$ 7.88
Earnings per share — diluted		
Income from continuing operations	**$ 0.08**	$ 0.10
Net income	**$ 0.18**	$ 7.88

Stack Computer, Inc.

On April 2, 2007, the company acquired all of the shares of Stack Computer, Inc. ("Stack"). Stack's customers include leading corporations in the financial services, healthcare and manufacturing industries. Stack also operates a highly sophisticated solution center, which is used to emulate customer IT environments, train staff and evaluate technology. The acquisition of Stack strategically provides the company with product solutions and services offerings that significantly enhance its existing storage and professional services business. Stack was acquired for a total acquisition cost of $25.2 million.

Management has made a preliminary adjustment of $0.8 million to the fair value of acquired capital equipment and assigned $11.7 million of the acquisition cost to identifiable intangible assets as follows: $1.5 million to non-compete agreements, which will be amortized over five years using the straight-line amortization method; $1.3 million to customer relationships, which will be amortized over five years using an accelerated amortization method; and $8.9 million to supplier relationships, which will be amortized over ten years using an accelerated amortization method. The cumulative amortization expense of $1.3 million relating to the identified intangible assets from the acquisition date through December 31, 2007, was recognized during the third quarter of 2008.

Based on management's allocation of the acquisition cost to the net assets acquired, approximately $13.3 million has been assigned to goodwill. Goodwill resulting from the Stack acquisition is deductible for income tax purposes.

2007 Acquisition

Visual One Systems Corporation

On January 23, 2007, the company acquired all the shares of Visual One Systems Corporation ("Visual One Systems"), a leading developer and marketer of Microsoft Windows-based software for the hospitality industry. The acquisition provides the company with additional expertise around the development, marketing and sale of software applications for the hospitality industry, including property management, condominium, golf course, spa, point-of-sale, and sales and catering management applications. Visual One Systems customers include well-known North American and international full-service hotels, resorts, conference centers and condominiums of all sizes. The aggregate acquisition cost was $14.4 million.

During the second quarter of 2008, management assigned $4.9 million of the acquisition cost to identifiable intangible assets as follows: $3.8 million to developed technology, which will be amortized over six years using the straight-line method; $0.6 million to non-compete agreements, which will be amortized over eight years using the straight-line amortization method; and $0.5 million to customer relationships, which will be amortized over five years using an accelerated amortization method. Amortization expense of $0.2 million and $1.1 million for the quarter and year ended March 31, 2008, respectively, has been recognized by the company relating to the identified intangible assets.

Based on management's allocation of the acquisition cost to the net assets acquired, including identified intangible assets, approximately $9.4 million has been assigned to goodwill. Goodwill resulting from the Visual One Systems acquisition is not deductible for income tax purposes.

2006 Acquisitions

Mainline China and Hong Kong

On December 8, 2005, the company acquired the China and Hong Kong operations of Mainline Information Systems, Inc. Accordingly, the results of operations for the China and Hong Kong operations have been included in the accompanying consolidated financial statements from that date forward. The business specializes in IBM information technology enterprise solutions for large and medium-sized businesses and banking institutions in the China market, and has sales offices in Beijing, Guangzhou, Shanghai and Hong Kong. The business provides the company the opportunity to begin operations in China with a nucleus of local workforce. The aggregate acquisition cost for the China and Hong Kong operations was $0.8 million. Based on management's allocation of the acquisition cost to the net assets acquired, approximately $0.8 million was assigned to goodwill. Goodwill resulting from the acquisition of the China and Hong Kong operations will not be deductible for income tax purposes.

The CTS Corporations

On May 31, 2005, the company acquired The CTS Corporations ("CTS"), a independent services organization, specializing in information technology storage solutions for large and medium-sized corporate customers and public-sector clients. Accordingly, the results of operations for CTS have been included in the accompanying consolidated financial statements from that date forward. The addition of CTS enhances the company's offering of comprehensive storage solutions. The aggregate acquisition cost was $27.8 million, which included repayment of $2.6 million of CTS debt. Based on management's allocation of the acquisition cost to the net assets acquired, approximately $17.6 million was assigned to goodwill in 2006. Additionally, specifically identifiable intangible assets were assigned a fair value of $9.8 million. Of the intangible assets acquired, $9.4 million was assigned to customer relationships, which is being amortized over ten years using an accelerated method and $0.4 million was assigned to non-compete agreements, which are being amortized over four years using the straight-line method. During 2007, the company adjusted the estimated fair value of acquired tax assets by $0.8 million, with a corresponding decrease to goodwill. Goodwill resulting from the CTS acquisition will not be deductible for income tax purposes.

Discontinued Operations

Sale of KeyLink Systems Distribution Business Assets and Operations

During 2007, the company sold the assets and operations of its KeyLink Systems Distribution Business ("KSG") for $485.0 million in cash, subject to a working capital adjustment. At March 31, 2007, the final working capital adjustment was $10.8 million. Through the sale of

KSG, the company exited all distribution-related businesses and exclusively sells directly to end-user customers. By monetizing the value of KSG, the company significantly increased its financial flexibility and intends to redeploy the proceeds to accelerate the growth, both organically and through acquisition, of its IT solutions business. The sale of KSG represented a disposal of a component of an entity. As such, the operating results of KSG, along with the gain on sale, have been reported as a component of discontinued operations.

Restructuring Charges

2007 Restructuring Activity

During 2007, the company recorded a restructuring charge of approximately $0.5 million for one-time termination benefits resulting from a workforce reduction that was executed in connection with the sale of KSG. The workforce reduction was comprised mainly of corporate personnel. Payment of the one-time termination benefits was substantially complete in 2008.

2006 Restructuring Activity

During 2006, the company recorded restructuring charges of $4.2 million to consolidate a portion of its operations in order to reduce costs and increase operating efficiencies. Costs incurred in connection with the restructuring comprised one-time termination benefits and other associated costs resulting from workforce reductions as well as facilities costs relating to the exit of certain leased facilities. Costs of $2.5 million were incurred to reduce the workforce of KSG, professional services business and to execute a senior management realignment and consolidation of responsibilities. Facilities costs of $1.7 million represented the present value of qualifying exit costs, offset by an estimate for future sublease income.

Investments

Investment in Marketable Securities

The company invests in marketable securities to satisfy future obligations of its employee benefit plans. The marketable securities are held in a Rabbi Trust. The company's investment in marketable equity securities are held for an indefinite period and thus are classified as available for sale. The aggregate fair value of the securities was $0.1 million and $6.2 million at March 31, 2008 and 2007, respectively. During 2008, sale proceeds and realized gain were $6.1 million and $0.2 million, respectively. The company used the sale proceeds to fund corporate-owned life insurance policies.

Investment in Magirus — Held For Sale at March 31, 2008

During 2008, the company maintained an equity interest in Magirus AG ("Magirus"), a privately-owned European enterprise computer systems distributor headquartered in Stuttgart, Germany. The company held a 20% interest in Magirus and accounted for the investment under the equity method. Because of changing market conditions, Magirus experienced several consecutive quarterly operating losses in fiscal 2007 which indicated an other-than-temporary loss condition. Accordingly, at March 31, 2007, the company's investment was written down to its estimated realizable value. The amount of the write-down of $5.9 million was charged to operations in 2007.

Prior to March 31, 2008, the company met the qualifications to consider the asset as held for sale and decided to sell its 20% investment in Magirus. As a result, the company reclassified its Magirus investment to investment held for sale in accordance with FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets ("Statement 144").*

Magirus has continued to experience consecutive quarterly operating losses in each quarter of 2008 and, in the third quarter, Magirus sold the IBM and HP portion of its distribution business. Agilysys recorded, as other income, 20% of the equity basis operating gains and losses totaling $6.2 million. Additionally, the company increased the value of the investment by recording an annual currency translation adjustment of $3.4 million which was slightly offset by a $0.1 million dividend which was recorded as a return of capital. Subsequent to March 31, 2008, the company received a dividend from Magirus (as a result of Magirus selling its distribution business in fiscal 2008) of approximately $7.3 million and sold its 20% ownership interest of Magirus for approximately $2.3 million, resulting in approximately $9.6 million of total proceeds received in fiscal 2009. As a result of these events, the company adjusted the fair market value of the investment as of March 31, 2008, to the net present value of the subsequent cash proceeds, resulting in a $5.5 million reversal of the cumulative currency translation adjustment in accordance with EITF 01-5, *Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed of,* and an impairment charge of $4.9 million to write the held-for-sale investment to its fair value less cost to sell.

As a result of the company's inability to obtain and include audited financial statements of Magirus for fiscal years ended March 31, 2008 and 2007 as required by Rule 3-09 of Regulation S-X, the SEC has stated that it will not permit effectiveness of any, if any, of the Company's securities registration statements or post-effective amendments until such time as the company files audited financial statements that reflect the disposition of Magirus and the company requests and the SEC grants relief to the company from the requirements of Rule 3-09. As part of this restriction, the company is not permitted to file any new securities registration statements that are intended to automatically go into effect when they are filed, nor can the company make offerings under effective registration statements or under Rules 505 and 506 of Regulation D where any purchasers of securities are not accredited investors under Rule 501(a) of Regulation D. These restrictions do not apply to: offerings or sales of securities upon the conversion of outstanding convertible securities or upon the exercise of outstanding warrants or rights; dividend or interest reinvestment plans; employee benefit plans, including stock option plans; transactions involving secondary offerings; or sales of securities under Rule 144.

As of April 1, 2008, the company has invoked FASB Interpretation No. 35, *Criteria for Applying the Equity Method of Accounting for Investments in Common Stock* ("FIN 35"), for its investment in Magirus. The invocation of FIN 35 requires the company to account for its investment in Magirus via cost, rather than equity accounting. FIN 35 clarifies the criteria for applying the equity method of accounting for investments of 50% or less of the voting stock of an investee enterprise. The cost method is being used by the company because management does not have the ability to exercise significant influence over Magirus, which is one of the presumptions in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* necessary to account for an investment in common stock under the equity method.

Investment in Affiliated Companies

During 2008, the investment in an affiliated company was redeemed by the affiliated company for $4.8 million in cash, resulting in a $1.4 million gain on redemption of the investment. The gain was classified within "other income (expense), net" in the consolidated statement of operations.

Stock Based Compensation

The company accounts for stock based compensation in accordance with the fair value recognition provisions of FASB Statement 123R, *Share-Based Payment* ("FAS 123R"), which was adopted on April 1, 2006. The company adopted the provisions of FAS 123R using the modified prospective application and, accordingly, results for prior periods have not been restated. Prior to April 1, 2006, the company accounted for stock based compensation in accordance with the intrinsic value method. As such, no stock based employee compensation cost was recognized by the company for stock option awards, as all options granted to employees had an exercise price equal to the market value of the underlying stock on the date of grant.

Compensation cost charged to operations relating to stock options during 2008 was $3.5 million. As of March 31, 2008, total unrecognized stock based compensation expense related to non-vested stock options was $1.8 million, which is expected to be recognized over a weighted-average period of 13 months.

Risk Control and Effects of Foreign Currency and Inflation

The company extends credit based on customers' financial condition and, generally, collateral is not required. Credit losses are provided for in the consolidated financial statements when collections are in doubt.

The company sells internationally and enters into transactions denominated in foreign currencies. As a result, the company is subject to the variability that arises from exchange rate movements. The effects of foreign currency on operating results did not have a material impact on the company's results of operations for the 2008, 2007 or 2006 fiscal years.

The company believes that inflation has had a nominal effect on its results of operations in fiscal 2008, 2007 and 2006 and does not expect inflation to be a significant factor in fiscal 2009.

Forward Looking Information

Portions of this report contain current management expectations, which may constitute forward-looking information. When used in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere throughout this Annual Report on Form 10-K, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect management's current opinions and are subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Risks and uncertainties include, but are not limited to, those described above in Item 1A, "Risk Factors."

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

The company has assets, liabilities and cash flows in foreign currencies creating foreign exchange risk. Systems are in place for continuous measurement and evaluation of foreign exchange exposures so that timely action can be taken when considered desirable. Reducing exposure to foreign currency fluctuations is an integral part of the company's risk management program. Financial instruments in the form of forward exchange contracts are employed, when deemed necessary, as one of the methods to reduce such risk. There were no foreign currency exchange contracts executed by the company during 2008, 2007, or 2006.

The company is currently exposed to interest rate risk from the floating-rate pricing mechanisms on its revolving credit facility; however, there were no amounts outstanding under the credit facility in 2008, 2007, or 2006.

Item 8. Financial Statements and Supplementary Data.

The information required by this item is set forth beginning at page 36 of this Annual Report on Form 10-K.

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 and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are not effective solely because of the material weakness relating to the company's internal control over financial reporting as described below in "Management's Report on Internal Controls Over Financial Reporting." In light of the material weakness, the company performed additional analysis and post-closing procedures to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities 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) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding 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 the company, 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 Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2008 based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management has concluded that the company did not maintain effective internal control over financial reporting as a result of the material weakness discussed below as of March 31, 2008.

Revenue Recognition Controls — The aggregation of several errors in the company's hospitality and retail segments' order processing operations resulted in a material weakness in the operating effectiveness of revenue recognition controls.

Management has performed a review of the company's internal control processes and procedures surrounding the hospitality and retail order processing operations. As a result of this review, the company has taken and continues to implement the following steps to prevent future errors from occurring:

1. Mandatory training for all sales operations personnel including procedure and process review, and awareness and significance of key controls;
2. Additional review and approval on documents supporting all transactions greater than $100,000 by the Sales Operations Management; and
3. Enhanced monthly sales cutoff testing by the company's Internal Audit Department to ensure proper and timely revenue recognition.

Ernst & Young LLP, our independent registered public accounting firm, has issued their report regarding the company's internal control over financial reporting as of March 31, 2008, which is included elsewhere herein.

Change in Internal Control over Financial Reporting

The company continues to integrate each acquired entity's internal controls over financial reporting into the company's own internal controls over financial reporting, and will continue to review and, if necessary, make changes to each acquired entity's internal controls over financial reporting until such time as integration is complete. No change in our internal control over financial reporting occurred during the company's last quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, during the first quarter of fiscal 2009, the company began implementing the remedial measures described above.

Item 9B. Other Information.

None.

part III

The company filed the information required by Part III of Form 10-K with its Annual Report on Form 10-K dated December 16, 2008. The information required by Part III of Form 10-K is also presented in the company's proxy statement relating to its 2008 Annual Meeting of Shareholders provided herewith under the headings "Share Ownership," "Election of Directors," "Corporate Governance and Related Matters," "Executive Compensation," "Related Person Transactions," and in the company's proxy statement with regard to audit fees.

part IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) *Financial statements.* The following consolidated financial statements are included in this Annual Report on Form 10-K beginning on page 34:

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Consolidated Statements of Operations for the years ended March 31, 2008, 2007, and 2006

Consolidated Balance Sheets as of March 31, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007, and 2006

Consolidated Statements of Shareholders' Equity for the years ended March 31, 2008, 2007, and 2006

Notes to Consolidated Financial Statements

(a)(2) *Financial statement schedule*. The following financial statement schedule is included in this Annual Report on Form 10-K on page 71:

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.* See the Index to Exhibits beginning at page 72 of this Annual Report on Form 10-K.

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 Cleveland, State of Ohio, on December 15, 2008.

AGILYSYS, INC.

/s/ Martin F. Ellis

Martin F. Ellis
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 as of December 15, 2008.

Signature	Title
/s/ Martin F. Ellis Martin F. Ellis	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Kenneth J. Kossin, Jr. Kenneth J. Kossin, Jr.	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Keith M. Kolerus Keith M. Kolerus	Chairman, Director
/s/ Charles F. Christ Charles F. Christ	Director
/s/ Thomas A. Commes Thomas A. Commes	Director
/s/ R. Andrew Cueva R. Andrew Cueva	Director
/s/ Howard V. Knicely Howard V. Knicely	Director
/s/ Robert A. Lauer Robert A. Lauer	Director
/s/ Robert G. McCreary, III Robert G. McCreary, III	Director
/s/ Eileen M. Rudden Eileen M. Rudden	Director

ANNUAL REPORT ON FORM 10-K
Year Ended March 31, 2008

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

report of ernst & young llp, independent registered public accounting firm

The Board of Directors and Shareholders
of Agilysys, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Agilysys, Inc. and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended March 31, 2008. We have also audited the accompanying financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Agilysys, Inc. and subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1, 10 and 11 to the consolidated financial statements, on April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, on April 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* and on March 31, 2007, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Agilysys, Inc.'s internal control over financial reporting as of March 31, 2008, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 15, 2008 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
December 15, 2008

report of ernst & young llp, independent registered public accounting firm on internal control over financial reporting

The Board of Directors and Shareholders
of Agilysys, Inc. and Subsidiaries

We have audited Agilysys, Inc. and subsidiaries' internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Agilysys, Inc. and subsidiaries' 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 Report of Management 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment.

— The aggregation of several errors in the Company's order processing operations of the retail and hospitality segments resulted in a material weakness in the operating effectiveness of revenue recognition controls.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 consolidated financial statements, and this report does not affect our report dated December 15, 2008, on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Agilysys, Inc. and subsidiaries has not maintained effective internal control over financial reporting as of March 31, 2008, based on the COSO criteria.

/s/ Ernst & Young LLP

Cleveland, Ohio
December 15, 2008

Consolidated Statements of Operations

(In thousands, except share and per share data)	Year Ended March 31 2008	2007	2006
Net sales:			
Products	**$ 644,745**	$ 381,723	$ 381,902
Services	**126,215**	92,847	87,082
Total net sales	**770,960**	474,570	468,984
Cost of goods sold:			
Products	**549,057**	328,831	336,339
Services	**41,749**	25,032	25,676
Total cost of goods sold	**590,806**	353,863	362,015
Gross margin	**180,154**	120,707	106,969
Operating expenses			
Selling, general, and administrative expenses	**199,258**	133,185	123,058
Restructuring (credits) charges	**(75)**	(2,531)	5,337
Operating loss	**(19,029)**	(9,947)	(21,426)
Other (income) expenses			
Other (income) expense, net	**(6,632)**	6,025	(1,094)
Interest income	**(13,101)**	(5,133)	(4,451)
Interest expense	**945**	2,731	6,069
Loss on redemption of Mandatorily Redeemable Convertible Trust Preferred Securities	**—**	—	4,811
Loss before income taxes	**(241)**	(13,570)	(26,761)
Provision (benefit) for income taxes	**(922)**	(1,935)	(6,966)
Distributions on Mandatorily Redeemable Convertible Trust Preferred Securities, net of taxes	**—**	—	949
Income (loss) from continuing operations	**681**	(11,635)	(20,744)
Discontinued operations			
Income from operations of discontinued components, net of taxes	**2,978**	48,761	48,858
Gain on disposal of discontinued component, net of taxes	**—**	195,729	—
Income from discontinued operations	**2,978**	244,490	48,858
Net income	**$ 3,659**	$ 232,855	$ 28,114
Earnings (loss) per share — Basic and diluted			
Income (loss) from continuing operations	**$ 0.03**	$ (0.38)	$ (0.69)
Income from discontinued operations	**0.10**	7.97	1.63
Net income	**$ 0.13**	$ 7.59	$ 0.94
Weighted average shares outstanding			
Basic	**28,252,137**	30,683,766	29,935,200
Diluted	**28,766,112**	30,683,766	29,935,200

See accompanying notes to consolidated financial statements.

agilysys, inc. and subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share data)	March 31 2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	**$ 70,596**	$604,667
Accounts receivable, net of allowance of $2,431 in 2008 and $1,186 in 2007	**170,357**	111,211
Inventories, net of allowance of $1,334 in 2008 and $1,045 in 2007	**25,646**	9,922
Deferred income taxes	**3,788**	3,092
Prepaid expenses and other current assets	**3,056**	3,494
Income taxes receivable	**4,960**	—
Assets of discontinued operations — current	**369**	206
Total current assets	**278,772**	732,592
Goodwill	**298,420**	93,197
Intangible assets, net of amortization of $27,456 in 2008 and $9,744 in 2007	**55,625**	8,716
Investments in affiliated companies-held for sale in 2008	**9,549**	11,231
Other non-current assets	**25,779**	30,701
Property and equipment		
Building	**57**	—
Furniture and equipment	**37,909**	30,257
Software	**37,514**	35,639
Leasehold improvements	**13,323**	6,974
	88,803	72,870
Accumulated depreciation and amortization	**61,077**	55,591
Property and equipment, net	**27,726**	17,279
Total assets	**$695,871**	$893,716
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 98,928**	$ 84,286
Floor plan financing	**14,552**	—
Income taxes payable	**—**	134,607
Deferred revenue	**16,232**	6,715
Accrued liabilities	**58,282**	19,950
Current portion of long-term debt	**308**	116
Liabilities of discontinued operations — current	**610**	162
Total current liabilities	**188,912**	245,836
Deferred income taxes	**169**	62
Other non-current liabilities	**27,093**	20,751
Liabilities of discontinued operations — noncurrent	**232**	223
Shareholders' Equity		
Common shares, without par value, at $0.30 stated value; authorized 80,000,000 shares; 31,568,818 and 31,349,476 shares outstanding in 2008 and 2007, respectively	**9,366**	9,334
Capital in excess of stated value	**(11,469)**	129,750
Retained earnings	**486,799**	489,435
Treasury stock (8,978,378 in 2008 and 35,304 in 2007)	**(2,694)**	(11)
Accumulated other comprehensive income (loss)	**(2,537)**	(1,664)
Total shareholders' equity	**479,465**	626,844
Total liabilities and shareholders' equity	**$695,871**	$893,716

See accompanying notes to consolidated financial statements.

agilysys, inc. and subsidiaries

Consolidated Statements of Cash Flows

(In thousands)	Year Ended March 31 2008	2007	2006
Operating activities			
Net income	**$ 3,659**	$ 232,855	$ 28,114
Less: Income from discontinued operations	**(2,978)**	(244,490)	(48,858)
Income (loss) from continuing operations	**681**	(11,635)	(20,744)
Adjustments to reconcile income (loss) from continuing operations to net cash (used for) provided by operating activities (net of effects from business acquisitions):			
Investment impairment	**4,921**	5,892	—
(Gain) loss on equity investment	**(8,780)**	970	464
Gain on redemption of investment by affiliated company	**(1,330)**	—	(622)
Loss on redemption of Mandatorily Redeemable Convertible Trust Preferred Securities	**—**	—	4,811
Loss on disposal of property and equipment	**12**	1,501	302
Depreciation	**3,369**	1,565	1,822
Amortization	**20,552**	6,315	6,978
Deferred income taxes	**(4,571)**	1,478	(2,274)
Stock based compensation	**6,039**	4,239	591
Excess tax benefit from exercise of stock options	**(97)**	(1,854)	—
Changes in working capital:			
Accounts receivable	**24,794**	(988)	(12,771)
Inventories	**(5,713)**	122	1,165
Accounts payable	**(53,144)**	30,136	(8,873)
Accrued liabilities	**(11,675)**	(11,286)	(243)
Income taxes payable	**(138,694)**	132,771	1,224
Other working capital	**2,013**	(1,316)	4,752
Other non-cash adjustments	**1,010**	(5,524)	(1,993)
Total adjustments	**(161,294)**	164,021	(4,667)
Net cash (used for) provided by operating activities	**(160,613)**	152,386	(25,411)
Investing activities			
Change in cash surrender value of company owned life insurance policies	**(439)**	269	(494)
Proceeds from sale of investment in affiliated company	**4,770**	—	788
Purchase of marketable securities	**—**	—	(6,822)
Proceeds from sale of marketable securities	**—**	1,147	—
Proceeds from sale of business	**—**	485,000	—
Acquisition of business, net of cash acquired	**(236,210)**	(10,613)	(27,964)
Purchase of property and equipment	**(8,775)**	(6,250)	(3,252)
Proceeds from escrow settlement	**—**	423	—
Net cash (used for) provided by investing activities	**(240,654)**	469,976	(37,744)
Financing activities			
Floor plan financing agreement, net	**14,552**	—	—
Self tender offer — buyback of common shares for treasury	**(149,999)**	—	—
Redemption of Mandatorily Redeemable Convertible Trust Preferred Securities	**—**	—	(107,536)
Principal payment under long-term obligations	**(196)**	(59,567)	(286)
Issuance of common shares	**1,447**	10,100	5,445
Excess tax benefit from exercise of stock options	**213**	1,854	—
Dividends paid	**(3,407)**	(3,675)	(3,608)
Net cash used for financing activities	**(137,390)**	(51,288)	(105,985)
Effect of exchange rate changes on cash	**1,314**	(97)	367
Cash flows (used for) provided by continuing operations	**(537,343)**	570,977	(168,773)
Cash flows of discontinued operations			
Operating cash flows	**3,272**	(114,087)	74,767
Investing cash flows	**—**	(73)	(24)
Net (decrease) increase in cash	**(534,071)**	456,817	(94,030)
Cash at beginning of year	**604,667**	147,850	241,880
Cash at end of year	**$ 70,596**	$ 604,667	$ 147,850
Supplemental disclosures of cash flow information:			
Cash payments for interest			
Distributions on Mandatorily Redeemable Convertible Trust Preferred Securities	**$ —**	$ —	$ 1,482
Other	**618**	3,135	6,068
Cash payments for income taxes, net of refunds received	**140,450**	22,978	10,478
Change in value of available-for-sale securities, net of taxes	**(169)**	86	9

See accompanying notes to consolidated financial statements.

agilysys, inc. and subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share data)	Treasury shares	Common shares	Stated value of common shares	Capital in excess of stated value	Treasury shares	Retained earnings	Unearned compensation on restricted stock	Accumulated other comprehensive income (loss)	Total
Balance at April 1, 2005	(46)	28,821	$8,578	$ 88,927	$ (14)	$235,749	$(873)	$ 84	$ 332,451
Net income	—	—	—	—	—	28,114	—	—	28,114
Unrealized translation adjustment	—	—	—	—	—	—	—	1,948	1,948
Unrealized gain on securities net of $4 in taxes	—	—	—	—	—	—	—	9	9
Total comprehensive income									30,071
Cash dividends ($0.12 per share)	—	—	—	—	—	(3,608)	—	—	(3,608)
Shares issued upon exercise of stock options	—	469	141	5,301	—	—	—	—	5,442
Tax benefit related to exercise of stock options	—	—	—	659	—	—	—	—	659
Tax benefit related to forfeiture of restricted stock	—	—	—	157	—	—	—	—	157
Shares issued upon conversion of Trust Preferred Securities	45	1,265	366	19,031	13	—	—	—	19,410
Forfeiture of restricted stock award	(53)	(53)	—	(434)	(16)	—	450	—	—
Restricted stock award	—	25	8	331	—	—	(339)	—	—
Amortization of unearned compensation	—	—	—	—	—	—	594	—	594
Balance at March 31, 2006	(54)	30,527	9,093	113,972	(17)	260,255	(168)	2,041	385,176
Net income	—	—	—	—	—	232,855	—	—	232,855
Unrealized translation adjustment	—	—	—	—	—	—	—	(772)	(772)
Unrealized gain on securities net of $54 in taxes	—	—	—	—	—	—	—	86	86
Minimum pension liability, net of $477 in taxes	—	—	—	—	—	—	—	(753)	(753)
Total comprehensive income									231,416
Reversal of unearned compensation in restricted stock award	—	—	—	(168)	—	—	168	—	—
Adjustment to initially apply FASB Statement No. 158, net of $1,432 in taxes	—	—	—	—	—	—	—	(2,266)	(2,266)
Cash dividends ($0.12 per share)	—	—	—	—	—	(3,675)	—	—	(3,675)
Non-cash stock based compensation expense	—	—	—	4,232	—	—	—	—	4,232
Shares issued upon exercise of stock options	—	804	241	10,161	—	—	—	—	10,402
Nonvested shares issued from treasury shares	32	32	—	(10)	10	—	—	—	—
Tax benefit related to exercise of stock options	—	—	—	1,854	—	—	—	—	1,854
Purchase of common shares for treasury	(13)	(13)	—	(291)	(4)	—	—	—	(295)
Balance at March 31, 2007	(35)	31,350	9,334	129,750	(11)	489,435	—	(1,664)	626,844
Net income	—	—	—	—	—	3,659	—	—	3,659
Unrealized translation adjustment	—	—	—	—	—	—	—	(1,503)	(1,503)
Unrealized gain on securities net of $8 in taxes	—	—	—	—	—	—	—	(169)	(169)
Minimum pension liability, net of $505 in taxes	—	—	—	—	—	—	—	799	799
Total comprehensive income									2,786
Record cumulative effect — FIN 48	—	—	—	—	—	(2,888)	—	—	(2,888)
Cash dividends ($0.12 per share)	—	—	—	—	—	(3,407)	—	—	(3,407)
Non-cash stock based compensation expense	—	76	—	5,332	—	—	—	—	5,332
Shares issued upon exercise of stock options	—	110	32	1,414	—	—	—	—	1,446
Self tender offer — buyback of common shares for treasury	(8,975)	—	—	(147,305)	(2,693)	—	—	—	(149,998)
Self tender expenses	—	—	—	(1,570)	—	—	—	—	(1,570)
Nonvested shares issued from treasury shares	32	32	—	697	10	—	—	—	707
Tax benefit related to exercise of stock options	—	—	—	213	—	—	—	—	213
Balance at March 31, 2008	(8,978)	31,568	$9,366	$ (11,469)	$(2,694)	$486,799	$ —	$(2,537)	$ 479,465

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

(Table amounts in thousands, except per share data and note 16)

1.

OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations. Agilysys, Inc. and its subsidiaries (the "company" or "Agilysys") provides innovative IT solutions to corporate and public-sector customers with special expertise in select vertical markets, including retail, hospitality and technology solutions. The company operates extensively in North America and has sales offices in the United Kingdom and China.

The company's fiscal year ends on March 31. References to a particular year refer to the fiscal year ending in March of that year. For example, 2008 refers to the fiscal year ended March 31, 2008.

Principles of consolidation. The consolidated financial statements include the accounts of the company. Investments in affiliated companies are accounted for by the equity or cost method, as appropriate. All inter-company accounts have been eliminated. Unless otherwise indicated, amounts in the notes to the consolidated financial statements refer to continuing operations.

Use of estimates. Preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reported periods. Actual results could differ from those estimates.

Foreign currency translation. The financial statements of the company's 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 revenues 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 income (loss) within shareholders' equity. Gains and losses on monetary transactions denominated in other than the functional currency of an operation are reflected in other income (expense). Foreign currency gains and losses from changes in exchange rates have not been material to the consolidated operating results of the company.

Related party transactions. The Secretary of the company is also a partner in the law firm, Calfee, Halter & Griswold LLP ("Calfee"), which provides certain legal services to the company. Legal costs paid to Calfee by the company were $2.6 million for fiscal year 2008, $1 million for fiscal year 2007 and $1.5 million for fiscal year 2006.

In connection with the move of our headquarters from Ohio to Florida, we provided relocation assistance to our executive officers who were required to relocate to Florida. This relocation assistance included costs related to temporary housing, commuting expenses, sales and broker commissions, moving expenses, costs to maintain the executive's former residence while it was on the market and the loss, if any, associated with the sale of the executive's former residence. For more information, see the Summary Compensation Table for Fiscal 2008 in the Company's February 2009 proxy statement.

All related party transactions with the company require the prior approval of or ratification by the company's Audit Committee. The company, through its Nominating and Corporate Governance Committee, also makes a formal yearly inquiry of all of its officers and directors for purposes of disclosure of related person transactions, and any such newly revealed related person transactions are conveyed to the Audit Committee. All officers and directors are charged with updating this information with the company's internal legal counsel.

Segment reporting. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Operating segments may be aggregated for segment reporting purposes so long as certain aggregation criteria are met. With the divestiture of the company's KeyLink Systems Distribution Business in 2007, the continuing operations of the company represented one business segment that provided IT solutions to corporate and public-sector customers. In 2008, the company evaluated its business groups and developed a structure to support the company's strategic direction as it has transformed to a pervasive solution provider largely in the North American IT market. With this transformation, the company now has three reportable segments: Hospitality Solutions, Retail Solutions, and Technology Solutions. See note 13 for a discussion of the company's segment reporting.

Revenue recognition. The company derives revenue from three primary sources: server and storage hardware, software, and services. Revenue is recorded in the period in which the goods are delivered or services are rendered and when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price to the customer is fixed or determinable, and collectibility is reasonably assured. The company reduces revenue for estimated discounts, sales incentives, estimated customer returns and other allowances. Discounts are offered based on the volume of products and services purchased by customers. Shipping and handling fees billed to customers are recognized as revenue and the related costs are recognized in cost of goods sold.

Regarding hardware sales, revenue is generally recognized when the product is shipped to the customer and when there are not unfulfilled obligations that affect the customer's final acceptance of the arrangement. A majority of the company's hardware sales involves shipment directly from its suppliers to the end-user customers. In such transactions, the company is responsible for negotiating price both with the supplier and the customer, payment to the supplier, establishing payment terms with the customer and product returns, and bears credit risk if the customer does not pay for the goods. As the principal contact with the customer, the company recognizes revenue and cost of goods sold when it is 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.

Regarding software sales, the company offers proprietary software as well as remarketed software to its customers. Generally, software sales do not require significant production, modification, or customization at the time of shipment (physically or electronically) to the customer. As such, revenue from both proprietary and remarketed software sales is generally recognized when the software has been shipped. For software delivered electronically, delivery is considered to have occurred when the customer either takes possession of the software via downloading or has been provided with the requisite codes that allow for immediate access to the software.

Regarding sales of services, the company offers proprietary and third-party services to its customers. Proprietary services generally are as follows: consulting, installation, integration, and maintenance. Revenue relating to consulting, installation, and integration services is recognized when the service is performed. For certain long-term proprietary service contracts, the company follows the percentage-of-completion method of accounting. Accordingly, income is recognized in the ratio that work performed bears to estimated total work to be performed on the contract. Adjustments to contract price and estimated service hours are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of billings on uncompleted contracts in excess of related costs is shown as a current asset. Revenue relating to maintenance services is recognized evenly over the coverage period of the underlying agreement. In addition to proprietary services, the company offers third-party service contracts to its customers. In such instances, the supplier is the primary obligor in the transaction and the company bears credit risk in the event of nonpayment by the customer. Since the company is acting as an agent or broker with respect to such sales transactions, the company reports revenue only in the amount of the "commission" (equal to the selling price less the cost of sale) received rather than reporting revenue in the full amount of the selling price with separate reporting of the cost of sale.

Stock-based compensation. The company has a stock incentive plan under which it may grant non-qualified stock options, incentive stock options, time-vested restricted shares, performance-vested restricted shares, and performance shares. Shares issued pursuant to awards under the plan may be made out of treasury or authorized but unissued shares. The company also has an employee stock purchase plan.

Prior to the April 1, 2006 adoption of *FASB Statement 123R, Share-Based Payment* ("FAS 123R"), the company accounted for stock based compensation using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), as permitted by FAS No. 123R. No stock-based employee compensation cost was recognized by the company for stock option awards, as all options granted to employees had an exercise price equal to the market value of the underlying stock on the date of grant. Effective April 1, 2006, the company adopted the fair value recognition provisions of FAS 123R using the modified prospective transition method. Under this transition method, compensation cost recognized since April 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123R. Results for prior periods have not been restated for purposes of FAS 123R.

Prior to the adoption of FAS 123R, the company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. FAS 123R requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Excess tax benefits recognized by the company during the year ended March 31, 2008, were $0.2 million.

The following table shows the effects on net income and earnings per share had compensation cost been measured on the fair value method pursuant to FAS 123R. The pro forma expense determined under the fair value method presented in the table below relates only to stock options that were granted as of March 31, 2006. The impact of applying the fair value method is not indicative of future expense amounts.

	Year ended March 31, 2006
Net income, as reported (a)	$28,114
Compensation cost based on fair value method, net of taxes	(3,372)
Pro forma net income	$24,742
Earnings per share — basic & diluted	
As reported	$ 0.94
Pro forma	$ 0.83
(a) Includes stock compensation expense, net of taxes, for restricted stock awards of:	$ 346

Earnings per share. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period and adjusting income available to common shareholders for the assumed conversion of all potentially dilutive securities, as necessary. The dilutive common equivalent shares outstanding is computed by sequencing each series of issues of potential common shares from the most dilutive to the least dilutive. Diluted earnings per share is determined as the lowest earnings per incremental share in the sequence of potential common shares.

Comprehensive income (loss). Comprehensive income (loss) is the total of net income (loss) plus all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income (loss). Changes in the components of accumulated other comprehensive income (loss) for 2008 are as follows:

	Foreign currency translation adjustment	Unrealized gain (loss) on securities	Minimum pension liability	Accumulated other comprehensive income (loss)
Balance at April 1, 2005	$ 84	$ —	$ —	$ 84
Change during 2006	$ 1,948	$ 9	$ —	$ 1,957
Balance at March 31, 2006	$ 2,032	$ 9	$ —	$ 2,041
Change during 2007	$ (772)	$ 86	$(3,019)	$(3,705)
Balance at March 31, 2007	$ 1,260	$ 95	$(3,019)	$(1,664)
Change during 2008	$(1,503)	$(169)	$ 799	$ (873)
Balance at March 31, 2008	$ (243)	$ (74)	$(2,220)	$(2,537)

Cash and cash equivalents. The company considers all highly liquid investments purchased with an original maturity 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. At March 31, 2007, cash and cash equivalents includes $485.0 million from the sale of the assets and operations of the company's KeyLink Systems Distribution Business that was held in escrow on behalf of the company on March 31, 2007. The sale closed as of the end of business on March 31, 2007, with the $485.0 million sale proceeds transferred from escrow to the company on the next day of business.

Concentrations of credit risk. Financial instruments that potentially subject the company to concentrations of credit risk consist principally of accounts receivable. Concentration of credit risk on accounts receivable is mitigated by the company's large number of customers and their dispersion across many different industries and geographies. The company extends credit based on customers' financial condition and, generally, collateral is not required. To further reduce credit risk associated with accounts receivable, the company also performs periodic credit evaluations of its customers.

Allowance for doubtful accounts. The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its 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 the company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To mitigate this credit risk the company performs frequent credit evaluations of its customers.

Inventories. 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. The company's 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. The company provides 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.

Investment in marketable securities. The company invests in marketable securities to satisfy future obligations of its employee benefit plans. The marketable securities are held in a Rabbi Trust. The company's investment in marketable equity securities are held for an indefinite period and thus are classified as available for sale. The aggregate fair value of the securities at March 31, 2008, and 2007 were $0.1 million and $6.2 million, respectively. Realized gains and losses are determined on the basis of specific identification. During 2008, securities with a fair value at the date of sale of $6.1 million were sold. The gross realized gain based on specific identification on such sales totaled $0.2 million. The net adjustment to unrealized holding gains on available-for-sale securities in other comprehensive income totaled $(0.2) million. At March 31, 2008, the gross unrealized loss on available-for-sale securities was $0.2 million (before taxes).

Investments in affiliated companies — held for sale in 2008. The company enters into certain investments for the promotion of business and strategic objectives, and typically does not attempt to reduce or eliminate the inherent market risks on these investments. The company has investments in affiliates accounted for using the equity method and the cost method. For those investments accounted for under the equity method, the company's proportionate share of income or losses from affiliated companies, as well as impairments in 2007 and 2008, are recorded in other (income) expense.

Intangible assets. Purchased intangible assets with finite lives are primarily amortized using the straight-line method over the estimated economic lives of the assets. Purchased intangible assets relating to customer relationships and supplier relationships are being amortized using an accelerated or straight-line method, which reflects the period the asset is expected to contribute to the future cash flows of the company. The company's finite-lived intangible assets are being amortized over periods ranging from six months to ten years. The company has an indefinite-lived intangible asset relating to purchased trade names. The 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.

Goodwill. Goodwill represents the excess purchase price paid over the fair value of the net assets of acquired companies. Goodwill is subject to periodic impairment testing at least annually. The company conducted its annual goodwill impairment test as of February 1, 2008 and, based on the analysis, and subsequent updates of the analysis to March 31, 2008, concluded that goodwill was not impaired. Goodwill will also be tested as necessary if changes in circumstances or the occurrence of certain events indicate potential impairment.

Long-lived assets. Property and equipment are recorded at cost. Major renewals and improvements are capitalized, as are interest costs on capital projects. 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 a negligible portion 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. Total depreciation and amortization expense on property and equipment was $6.0 million, $5.5 million and $4.6 million during 2008, 2007 and 2006, respectively.

The company evaluates the recoverability of its 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. As of March 31, 2008, there is no impairment to be recognized.

Non-current assets and liabilities. The components of other non-current assets and non-current liabilities are as follows:

	2008	2007
Other non-current assets:		
Corporate-owned life insurance policies	**$25,024**	$18,965
Marketable securities	**133**	6,158
Other	**622**	5,578
Total	**$25,779**	$30,701
Other non-current liabilities:		
Employee benefit plan obligations	**$20,221**	$20,239
Other	**6,872**	512
Total	**$27,093**	$20,751

Valuation of accounts payable. The company's accounts payable has been reduced by amounts claimed to vendors for returns and other amounts related to incentive programs. Amounts related to incentive programs are recorded as adjustments to cost of goods sold or operating expenses, depending on the nature of the program. There is a time delay between the submission of a claim by the company and confirmation of the claim by our vendors. Historically, the company's estimated claims have approximated amounts agreed to by vendors.

Supplier programs. The company participates in certain programs provided by various suppliers that enable it to earn volume incentives. These incentives are generally earned by achieving quarterly sales targets. The amounts earned under these programs are recorded as a reduction of cost of sales when earned. In addition, the company receives incentives from suppliers related to cooperative advertising allowances and other programs. These incentives generally relate to agreements with the suppliers and are recorded, when earned, as a reduction of cost of sales or advertising expense, as appropriate. All costs associated with advertising and promoting products are expensed in the year incurred. Cooperative reimbursements from suppliers, which are earned and available, are recorded in the period the related advertising expenditure is incurred.

Concentrations of supplier risk. The company's largest supplier, HP, accounted for 36%, 45% and 39% of the company's sales volume in 2008, 2007 and 2006, respectively. Sales of products sourced by IBM accounted for 19%, 20% and 25% of the company's sales volume in 2008, 2007, and 2006, respectively. Sales of Sun products through Innovativ, which was purchased in July 2007, accounted for 21% of the sales volume in 2008. The loss of any of the top three suppliers or a combination of certain other suppliers could have a material adverse effect on the company's business, results of operations and financial condition unless alternative products manufactured by others are available to the company. In addition, although the company believes that its relationships with suppliers are good, there can be no assurance that the company's suppliers will continue to supply products on terms acceptable to the company.

Income taxes. Income tax expense includes U.S. and foreign income taxes and is based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws. Valuation allowances are recognized to reduce the deferred tax assets to an amount that is more likely than not to be realized. In determining whether it is more likely than not that deferred tax assets will be realized, the company considers such factors as (a) expectations of future taxable income, (b) expectations of material changes in the present relationship between income reported for financial and tax purposes, and (c) tax-planning strategies.

Non-cash investing activities. During 2008, the company's investment in an affiliated company was redeemed by the affiliated company for $4.8 million in cash, resulting in a $1.4 million gain on redemption of the investment. The gain was classified within "other income (expense), net" in the consolidated statement of operations.

Recently issued accounting standards. In May 2008, the FASB issued Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts, and interpretation of FASB Statement No. 60* ("Statement 163"). Statement 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. Statement 163 is effective for fiscal years after December 15, 2008, or fiscal year 2010 for the company. The company is currently evaluating the impact, if any, that Statement 163 will have on its financial position, results of operations and cash flows.

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("Statement 162"). Statement 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. Statement 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The company is currently evaluating the impact, if any, that Statement 162 will have on its financial position, results of operations and cash flows.

In March 2008, The FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* ("Statement 161"). Statement 161 enhances the disclosures about an entity's derivative and hedging activities. Statement 161 is effective for fiscal periods beginning after November 15, 2008, or January 1, 2009 for the company. The company is currently evaluating the impact, if any, that Statement 161 will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations* ("Statement 141(R)"). Statement 141(R) significantly changes the accounting for and reporting of business combination transactions. Statement 141(R) is effective for fiscal years beginning after December 15, 2008, or fiscal 2010 for the company. The company is currently evaluating the impact that Statement 141(R) will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued Statement No. 160, *Accounting and Reporting for Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("Statement 160"). Statement 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Statement 160 is effective for the first annual reporting period beginning after December 15, 2008, or fiscal 2010 for the company. The company is currently evaluating the impact that Statement 160 will have on its financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115* ("Statement 159"). Statement 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item will be reported in current earnings at each subsequent reporting date. Statement 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. Statement 159 is effective for fiscal years beginning after November 15, 2007, or fiscal 2009 for the company. The company is currently evaluating the impact that Statement 159 will have on its financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("Statement 157"). Statement 157 provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. Statement 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except FAS No. 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. Statement 157 is effective for fiscal years beginning after November 15, 2007, or fiscal 2009 for the company. The company is currently evaluating the impact that Statement 157 will have on its financial position, results of operations and cash flows.

Effective April 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As a result of the implementation of FIN 48, the company recognized approximately $2.9 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the April 1, 2007, balance of retained earnings. As of March 31, 2008, and 2007, the company had a liability of uncertain tax positions, excluding interest, penalty, and federal benefit of $6.0 million and $8.1 million respectively. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

Balance at March 31, 2007	$ 8,055
Additions:	
Relating to positions taken during current year	1,372
Due to business acquisitions	3,454
Reductions:	
Relating to tax settlements	(4,635)
Relating to positions taken during prior year	(899)
Due to business acquisitions	(1,350)
Balance at March 31, 2008	$ 5,997

The company recognizes interest accrued on any unrecognized tax benefits as a component of income tax expense. Penalties are recognized as a component of selling, general and administrative expenses. As of March 31, 2008, and 2007, the company had approximately $1.2 million and $1.0 million of interest and penalties accrued, respectively.

The company anticipates the completion of a state income tax audit in the next 12 months which could reduce the accrual for unrecognized tax benefits by $0.2 million. The company believes that, other than the changes noted above, it is impractical to determine the positions for which it is reasonably possible that the total of uncertain tax benefits will significantly increase or decrease in the next twelve months.

The company is currently being audited by multiple state taxing jurisdictions. In material jurisdictions, the company has potential tax examination years open back to and including 1998 which may be subject to tax authority examination.

Reclassifications. Certain amounts in the prior periods' Consolidated Financial Statements have been reclassified to conform to the current period's presentation, primarily to reflect the results of discontinued operations of the KeyLink Systems Distribution Business (see Note 3). The 2007 balance sheet contains a reclassification between accounts receivable and accrued liabilities.

2.

RECENT ACQUISITIONS

2008 Acquisitions

Eatec

On February 19, 2008, the company acquired all of the shares of Eatec Corporation ("Eatec"), a privately held developer and marketer of inventory and procurement software. Accordingly, the results of operations for Eatec have been included in the accompanying condensed consolidated financial statements from that date forward. Eatec's software, EatecNetX, now called Eatec Solutions by Agilysys, is a recognized leading, open architecture-based, inventory and procurement management system. The software provides customers with the data and information necessary to enable them to increase sales, reduce product costs, improve back-office productivity and increase profitability. Eatec customers include well-known restaurants, hotels, stadiums and entertainment venues in North America and around the world as well as many public service institutions. The acquisition further enhances the company's position as a leading inventory and procurement solution provider to the hospitality and foodservice markets. Eatec was acquired for a total cost of $25.0 million. Based on management's preliminary allocation of the acquisition cost to the net assets acquired, approximately $24.8 million has been assigned to goodwill. The company is still in the process of valuing certain intangible assets; accordingly, allocation of the acquisition cost is subject to modification in the future. Goodwill resulting from the Eatec acquisition will not be deductible for income tax purposes.

Innovative Systems Design, Inc.

On July 2, 2007, the company acquired all of the shares of Innovative Systems Design, Inc. ("Innovativ"), the largest U.S. commercial reseller of Sun Microsystems servers and storage products. Accordingly, the results of operations for Innovativ have been included in the accompanying condensed consolidated financial statements from that date forward. Innovativ is an integrator and solution provider of servers, enterprise storage management products and professional services. The acquisition of Innovativ establishes a new and significant relationship between Sun Microsystems and the company. Innovativ was acquired for an initial cost of $108.6 million. Additionally, the company is required to pay an earn-out of two dollars for every dollar of earnings before interest, taxes, depreciation, and amortization, or EBITDA, greater than $50.0 million in cumulative EBITDA over the first two years after consummation of the acquisition. The earn-out will be limited to a maximum payout of $90.0 million. During the fourth quarter of 2008, the company recognized $35.0 million of the $90.0 million maximum earn-out, which was paid in the first quarter of 2009. In addition, the company amended its agreement with the Innovativ shareholders whereby the maximum payout available to the Innovativ shareholders was limited to $58.65 million, inclusive of the $35 million. The EBITDA target required for the shareholders to be eligible for an additional payout is now $67.5 million in cumulative EBITDA over the first two years after the close of the acquisition.

During the fourth quarter, management completed its purchase price allocation and assigned $29.7 million of the acquisition cost to identifiable intangible assets as follows: $4.8 million to non-compete agreements, $5.5 million to customer relationships, and $19.4 million to supplier relationships which will be amortized over useful lives ranging from two to five years. The calculated Innovativ intangible asset amortization expense for the fourth quarter was $3.4 million. The company actually recorded $7.0 million during the fourth quarter, which includes the final estimated amortization upon completion of the purchase price allocation and change in estimate for the second and third quarter recorded expense.

Based on management's allocation of the acquisition cost to the net assets acquired, approximately $97.8 million has been assigned to goodwill. Goodwill resulting from the Innovativ acquisition will be deductible for income tax purposes.

InfoGenesis

On June 18, 2007, the company acquired all of the shares of IG Management Company, Inc. and its wholly-owned subsidiaries, InfoGenesis and InfoGenesis Asia Limited (collectively, "InfoGenesis"), an independent software vendor and solution provider to the hospitality market. InfoGenesis offers enterprise-class point-of-sale solutions that provide end users a highly intuitive, secure and easy way to process customer transactions across multiple departments or locations, including comprehensive corporate and store reporting. InfoGenesis has a significant presence in casinos, hotels and resorts, cruise lines, stadiums and foodservice. The acquisition provides the company a complementary offering that extends its reach into new segments of the hospitality market, broadens its customer base and increases its software application offerings. InfoGenesis was acquired for a total acquisition cost of $90.6 million.

Based on management's preliminary allocation of the acquisition cost to the net assets acquired, approximately $71.7 million has been assigned to goodwill. InfoGenesis had intangible assets with a net book value of $18.3 million as of the acquisition date, which were included in the acquired net assets to determine goodwill. Intangible assets were assigned values as follows: $3.0 million to developed technology, $4.5 million to customer relationships, and $10.8 million to trade names, which have an indefinite life. Management expects to amortize the developed technology and the customer relationships over useful lives ranging from six months to seven years. Amortization expense of $0.6 million and $2.0 million for the quarter and year ended March 31, 2008, respectively, has been recognized by the company relating to the identified intangible assets. Management is in the process of evaluating the acquired intangible assets, including an evaluation of additional intangible assets not previously recognized by InfoGenesis, and determining the appropriate fair value. Management expects to complete this analysis within one year of the date of acquisition. Accordingly, allocation of the acquisition cost is subject to modification in the future. In subsequent periods, the nature and amount of any material adjustments made to the initial allocation of the purchase price will be disclosed. Goodwill resulting from the InfoGenesis acquisition will not be deductible for income tax purposes.

The following are condensed balance sheets showing the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

Condensed balance sheets as of the date of acquisition

	Innovativ	InfoGenesis
Current assets	$ 82,815	$ 18,321
Property and equipment	1,247	5,944
Intangible assets	29,730	18,291
Goodwill arising after the acquisition	97,781	71,662
Total Assets	211,573	114,218
Current Liabilities	67,630	18,281
Long-term debt	—	649
Other long-term obligations	—	8,185
Total liabilities	67,630	27,115
Net assets acquired	$143,943	$ 87,103

Pro Forma Disclosure of Financial Information

The following table summarizes the company's unaudited consolidated results of operations as if the InfoGenesis and Innovativ acquisitions occurred on April 1:

	Twelve Months Ended March 31	
	2008	2007
Net Sales	**$851,893**	$750,681
Income from continuing operations	**$ 2,252**	$ 3,194
Net income	**$ 5,242**	$241,749
Earnings per share — basic Income from continuing operations	**$ 0.08**	$ 0.10
Net income	**$ 0.19**	$ 7.88
Earnings per share — diluted Income from continuing operations	**$ 0.08**	$ 0.10
Net income	**$ 0.18**	$ 7.88

Stack Computer, Inc.

On April 2, 2007, the company acquired all of the shares of Stack Computer, Inc. ("Stack"). Stack's customers include leading corporations in the financial services, healthcare and manufacturing industries. Stack also operates a highly sophisticated solution center, which is used to emulate customer IT environments, train staff and evaluate technology. The acquisition of Stack strategically provides the company with product solutions and services offerings that significantly enhance its existing storage and professional services business. Stack was acquired for a total acquisition cost of $25.2 million.

Management has made a preliminary adjustment of $0.8 million to the fair value of acquired capital equipment and assigned $11.7 million of the acquisition cost to identifiable intangible assets as follows: $1.5 million to non-compete agreements, which will be amortized over five years using the straight-line amortization method; $1.3 million to customer relationships, which will be amortized over five years using an accelerated amortization method; and $8.9 million to supplier relationships, which will be amortized over ten years using an accelerated amortization method. The cumulative amortization expense of $1.3 million relating to the identified intangible assets from the acquisition date through December 31, 2007 was recognized during the third quarter of 2008.

Based on management's allocation of the acquisition cost to the net assets acquired, approximately $13.3 million has been assigned to goodwill. Goodwill resulting from the Stack acquisition is deductible for income tax purposes.

2007 Acquisition

Visual One Systems Corporation

On January 23, 2007, the company acquired all the shares of Visual One Systems Corporation ("Visual One Systems"), a leading developer and marketer of Microsoft Windows-based software for the hospitality industry. The acquisition provides Agilysys additional expertise around the development, marketing and sale of software applications for the hospitality industry, including property management, condominium, golf course, spa, point-of-sale, and sales and catering management applications. Visual One Systems customers include well-known North American and international full-service hotels, resorts, conference centers and condominiums of all sizes. The aggregate acquisition cost was $14.4 million.

During the second quarter of 2008, management assigned $4.9 million of the acquisition cost to identifiable intangible assets as follows: $3.8 million to developed technology, which will be amortized over six years using the straight-line method; $0.6 million to non-compete agreements, which will be amortized over eight years using the straight-line amortization method; and $0.5 million to customer relationships, which will be amortized over five years using an accelerated amortization method. Amortization expense of $0.2 million and $1.1 million for the quarter and year ended March 31, 2008, respectively, has been recognized by the company relating to the identified intangible assets.

Based on management's allocation of the acquisition cost to the net assets acquired, including identified intangible assets, approximately $9.4 million has been assigned to goodwill. Goodwill resulting from the Visual One Systems acquisition is not deductible for income tax purposes.

2006 Acquisitions

Mainline China and Hong Kong

On December 8, 2005, the company acquired the China and Hong Kong operations of Mainline Information Systems, Inc. Accordingly, the results of operations for the China and Hong Kong operations have been included in the accompanying consolidated financial statements from that date forward. The business specializes in IBM information technology enterprise solutions for large and medium-sized businesses and banking institutions in the China market, and has sales offices in Beijing, Guangzhou, Shanghai and Hong Kong. The business provides the company the opportunity to begin operations in China with a nucleus of local workforce. The aggregate acquisition cost for the China and Hong Kong operations was $0.8 million. Based on management's allocation of the acquisition cost to the net assets acquired, approximately $0.8 million was assigned to goodwill. Goodwill resulting from the acquisition of the China and Hong Kong acquisitions will not be deductible for income tax purposes.

The CTS Corporations

On May 31, 2005, the company acquired The CTS Corporations ("CTS"), a leading independent services organization, specializing in information technology storage solutions for large and medium-sized corporate customers and public-sector clients. Accordingly, the results of operations for CTS have been included in the accompanying consolidated financial statements from that date forward. The addition of CTS enhances the company's offering of comprehensive storage solutions. The aggregate acquisition cost was $27.8 million, which included repayment of $2.6 million of CTS debt. Based on management's initial allocation of the acquisition cost to the net assets acquired, approximately $17.6 million was assigned to goodwill in 2006. Additionally, specifically identifiable intangible assets were assigned a fair value of $9.8 million. Of the intangible assets acquired, $9.4 million was assigned to customer relationships, which is being amortized over ten years using an accelerated method and $0.4 million was assigned to non-compete agreements, which are being amortized over four years using the straight-line method. During 2007, the company adjusted the estimated fair value of acquired tax assets by $0.8 million, with a corresponding decrease to goodwill. Goodwill resulting from the CTS acquisition will not be deductible for income tax purposes.

3.

DISCONTINUED OPERATIONS

Sale of Assets and Operations of KeyLink Systems Distribution Business

On March 31, 2007, the company sold the assets and operations of its KeyLink Systems Distribution Business ("KSG") for $485.0 million in cash, subject to a working capital adjustment. During the second and third quarters of 2008, the final working capital adjustment of

$10.8 million was settled and paid, contingencies were resolved and financial adjustments were recorded. Through the sale of KSG, the company exited all distribution-related businesses and now exclusively sells directly to end-user customers. By monetizing the value of KSG, the company significantly increased its financial flexibility and intends to redeploy the proceeds to accelerate the growth of its ongoing business both organically and through acquisition. The sale of KSG represented a disposal of a component of an entity. As such, the operating results of KSG, along with the gain on sale, have been reported as a component of discontinued operations. Included in the operating results of KSG that are reported as a component of discontinued operations is an allocation of the company's consolidated interest based on the ratio of KSG net assets to total consolidated net assets.

In connection with the sale of KSG, the company entered into a product procurement agreement ("PPA") with Arrow Electronics, Inc. Under the PPA, the company is required to purchase a minimum of $330 million worth of products each year during the term of the agreement (5 years), adjusted for product availability and other factors. We complied with this requirement in 2008.

The income from discontinued operations for the year ended March 31, 2007, includes KSG net sales of $1.3 billion, pre-tax income of $79.2 million and net income of $48.6 million.

Income from discontinued operations for the year ended March 31, 2008, consists primarily of the settlement of obligations and contingencies of KSG that existed as of the date the assets and operations of KSG were sold.

Components of Results of Discontinued Operations

For the years ended March 31, 2008, and 2007, income from discontinued operations was comprised of the following:

	2008	2007
Discontinued operations:		
Income from operations of KSG	**$ —**	$ 80,178
Resolution of contingencies	**4,664**	—
Loss from operations of IED	**(8)**	(827)
Gain on sale of KSG	**—**	318,517
	4,656	397,868
Provisions for income taxes	**1,678**	153,378
Income from discontinued operations	**$2,978**	$244,490

4.

RESTRUCTURING CHARGES

2007 Restructuring Activity

During 2007, the company recorded a restructuring charge of approximately $0.5 million for one-time termination benefits resulting from a workforce reduction that was executed in connection with the sale of KSG. The workforce reduction was comprised mainly of corporate personnel. Payment of the one-time termination benefits was substantially complete in 2008.

2006 Restructuring Activity

During 2006, the company recorded restructuring charges of $4.2 million to consolidate a portion of its operations in order to reduce costs and increase operating efficiencies. Costs incurred in connection with the restructuring comprised one-time termination benefits and other associated costs resulting from workforce reductions as well as facilities costs relating to the exit of certain leased facilities. Costs of $2.5 million were incurred to reduce the workforce of KSG, professional services business and to execute a senior management realignment and consolidation of responsibilities. Facilities costs of $1.7 million represented the present value of qualifying exit costs, offset by an estimate for future sublease income.

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

	Severance and other employment costs	Facilities	Total
Balance at April 1, 2006	$ 130	$ 6,246	$ 6,376
Additions	535	—	535
Accretion of lease obligations	—	354	354
Payments	(120)	(956)	(1,076)
Adjustments	(10)	(5,544)	(5,554)
Balance at March 31, 2007	$ 535	$ 100	$ 635
Accretion of lease obligations	—	7	7
Payments	(513)	(70)	(583)
Adjustments	(21)	6	(15)
Balance at March 31, 2008	**$ 1**	**$ 43**	**$ 44**

Of the remaining $44,000 liability at March 31, 2008, the remaining severance and other employment costs are expected to be paid during 2009 and approximately $34,000 is expected to be paid during 2009 for ongoing facility obligations. Facility obligations are expected to continue through 2010.

Adjustments to Restructuring Liability

The $5.5 million adjustment to facilities in 2007 was due to two factors: $0.6 million aggregate adjustment to remaining facility obligations for sublease agreements and early termination agreements and $4.9 million credit for the reversal of the remaining restructuring liability that was initially recognized in 2003 for an abandoned leased facility. In connection with the sale of the assets and operations of KSG in March 2007, management determined that the company would utilize the leased facility to house the majority of its remaining IT Solutions Business and corporate personnel. Accordingly, the reversal of the remaining restructuring liability was classified as a restructuring credit in the consolidated statement of operations.

Components of Restructuring Credit (Charge)

Included in the consolidated statement of operations is a $75,000 restructuring credit for 2008, which is comprised of the following: $7,000 accretion expense for lease obligations, $61,000 credit relating to the write-off of leasehold improvements and differences between actual and accrued sub-lease income and common area costs; offset by a $21,000 credit for severance adjustments.

Included in the consolidated statement of operations is a $2.5 million restructuring credit for 2007, which is comprised of the following: $0.5 million restructuring charge for one-time termination benefits, $0.4 million accretion expense for lease obligations, $1.7 million expense relating to the termination of a lease agreement, $0.4 million expense relating to the write-off of leasehold improvements and differences between actual and accrued sub-lease income and common area costs; offset by $0.6 million credit for adjustments to remaining facility obligations for sublease agreements and early termination agreements and $4.9 million credit for the reversal of the remaining restructuring liability that was initially recognized in 2003 for an abandoned leased facility.

5.

GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Beginning of year	**$ 93,197**	$82,580
Goodwill acquired — Eatec (see note 2)	**24,778**	—
Goodwill acquired — Innovativ (see note 2)	**97,781**	—
Goodwill acquired — InfoGenesis (see note 2)	**71,662**	—
Goodwill acquired — Stack (see note 2)	**13,328**	—
Goodwill acquired — Visual One (see note 2)	**(2,507)**	11,914
Goodwill adjustment — CTS	**—**	(826)
Goodwill adjustment — Kyrus	**—**	(501)
Impact of foreign currency translation	**181**	30
End of year	**$298,420**	$93,197

Goodwill is tested for impairment at the reporting unit level. Statement 142 describes a reporting unit as an operating segment or one level below the operating segment (depending on whether certain criteria are met), as that term is used in FASB Statement 131, *Disclosures About Segments of an Enterprise and Related Information.* Goodwill has been allocated to the company's reporting units that are anticipated to benefit from the synergies of the business combinations generating the underlying goodwill. As discussed under Note 13, the company has three reporting segments.

As of February 1, 2008, the company concluded that the fair value of its three reporting units each exceeded their respective carrying value, including goodwill. As such, step two of the goodwill impairment test was not necessary and no impairment loss was recognized. After completing this annual goodwill impairment test, and updating such test through March 31, 2008, the company did not have an impairment of goodwill.

Intangible Assets

The following table summarizes the company's intangible assets at March 31, 2008, and 2007:

	2008			2007		
	Gross carrying amount	**Accumulated Amortization**	**Net carrying amount**	Gross carrying amount	Accumulated Amortization	Net carrying amount
Amortized intangible assets:						
Customer relationships	**$26,526**	**$(13,627)**	**$12,899**	$14,700	$(8,324)	$6,376
Supplier relationships	**28,280**	**(8,336)**	**19,944**	—	—	—
Non-competition agreements	**8,210**	**(2,015)**	**6,195**	1,310	(587)	723
Developed technology	**8,285**	**(3,398)**	**4,887**	1,470	(753)	717
Patented technology	**80**	**(80)**	**—**	80	(80)	—
	71,381	**(27,456)**	**43,925**	17,560	(9,744)	7,816
Unamortized intangible assets:						
Trade names	**11,700**	**N/A**	**11,700**	900	N/A	900
Total intangible assets	**$83,081**	**$(27,456)**	**$55,625**	$18,460	$(9,744)	$8,716

Customer relationships are being amortized over estimated useful lives between two and ten years; non-competition agreements are being amortized over estimated useful lives between four and eight years; developed technology is being amortized over estimated useful lives between six months and eight years; patented technology is amortized over an estimated useful life of three years; supplier relationships are being amortized over estimated useful lives between two and ten years.

Amortization expense relating to intangible assets for the years ended March 31, 2008, 2007 and 2006 was $17.7 million, $3.1 million, and $3.7 million, respectively.

The estimated amortization expense relating to intangible assets for each of the five succeeding fiscal years is as follows:

	Amount
Year ending March 31	
2009	$19,748
2010	8,442
2011	4,824
2012	4,122
2013	2,903
Total estimated amortization expense	$40,039

6.

INVESTMENTS HELD FOR SALE IN 2008

At March 31, 2008, and 2007, the company's investments in affiliated companies consisted of the following:

	2008	2007
Magirus AG	**$9,549**	$ 7,788
Other non-marketable equity securities	**—**	3,443
Total	**$9,549**	$11,231

Magirus AG

The company maintained an equity interest in Magirus AG ("Magirus"), a privately-owned European enterprise computer systems distributor headquartered in Stuttgart, Germany. The company had a 20% interest in Magirus and accounted for the investment under the equity method. The investment was initially recorded at cost and the carrying amount was subsequently adjusted to reflect the company's share of operating results as well as dividends received from Magirus, foreign currency translation and additional contributions made by the company. Because of changing market conditions, Magirus has experienced several consecutive quarterly operating losses which indicated an other-than-temporary loss condition. Accordingly, at March 31, 2007, the company's investment was written down to its estimated realizable value. The amount of the write-down of $5.9 million was charged to operations in 2007.

Prior to March 31, 2008, the company decided to sell its 20% investment in Magirus. As a result, the company reclassified its Magirus investment to investment held for sale in accordance with FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets ("Statement 144").*

Magirus has continued to experience consecutive quarterly operating losses in each quarter of 2008 and, in the third quarter, Magirus sold the IBM and HP portion of its distribution business. The company recorded, as other income, 20% of the gain totaling $15.1 million and 20% of annual operating losses totaling $6.2 million. Additionally, the company increased the value of the investment by recording an annual currency translation adjustment of $3.4 million which was slightly offset set by a $0.1 million dividend which was recorded as a return of capital. Subsequent to March 31, 2008, the company received a dividend from Magirus (as a result of Magirus selling its distribution business in fiscal 2008) of approximately $7.3 million and sold its share 20% ownership stake in, Magirus for approximately $2.3 million resulting in approximately $9.6 million of total proceeds received in fiscal 2009. As a result of these events, the company adjusted the fair market value of the investment as of March 31, 2008, to the net present value of the subsequent cash proceeds resulting in a $5.5 million reversal of the cumulative currency translation adjustment in accordance with EITF 01-5, *Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed of,* and an impairment charge of $4.9 million.

As a result of the company's inability to obtain and include audited financial statements of Magirus for fiscal years ended March 31 2008, and 2007, as defined by Rule 3-09 of Regulation S-X, the SEC has stated that it will not permit effectiveness of any, if any, of the company's securities registration statements or post-effective amendments until such time as the company files audited financial statements that reflect the disposition of Magirus and the company requests and the SEC grants relief to the company from the requirements of Rule 3-09. As part of this restriction, the company is not permitted to file any new securities registration statements that are intended to automatically go into effect when they are filed, nor can the company make offerings under effective registration statements or under Rules 505 and 506 of Regulation D where any purchasers of securities are not accredited investors under Rule 501(a) of Regulation D. These restrictions do not apply to: offerings or sales of securities upon the conversion of outstanding convertible securities or upon the exercise of outstanding warrants or rights; dividend or interest reinvestment plans; employee benefit plans, including stock option plans; transactions involving secondary offerings; or sales of securities under Rule 144.

On April 1, 2008, the company has invoked FASB Interpretation No. 35, *Criteria for Applying the Equity Method of Accounting for Investments in Common Stock* ("FIN 35"), for its investment in Magirus. The invocation of FIN 35 requires the company to account for its investment in Magirus via cost, rather than equity, accounting. FIN 35 clarifies the criteria for applying the equity method of accounting for investments of 50% or less of the voting stock of an investee enterprise. The cost method is being used by the company because management does not have the ability to exercise significant influence over Magirus, which is one of the presumptions in APB Opinion

No. 18, *The Equity Method of Accounting for Investments in Common Stock*, necessary to account for an investment in common stock under the equity method.

Other Non-Marketable Equity Securities

The other non-marketable equity securities consisted of capital stock in a privately held company where a market value was not readily available and the company did not exercise significant influence over its operating and financial policies. As such, the investment was stated at cost. During the year ended March 31, 2008, the investment was redeemed by the affiliated company for $4.8 million in cash, resulting in a $1.4 million gain on redemption of the investment. The gain was classified within "other income (expense), net" in the consolidated statement of operations.

7.

LEASE COMMITMENTS

Capital Leases

The company is the lessee of certain equipment under capital leases expiring in various years through 2008. 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 lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Minimum future lease payments under capital leases as of March 31, 2008, for each of the next five years and in the aggregate are:

	Amount
Year ending March 31	
2009	$305
2010	228
2011	61
2012	49
2013	4
Total minimum lease payments	647
Less: amount representing interest	(87)
Present value of minimum lease payments	$560

Interest rates on capitalized leases vary from 7.3% to 14.4% and are imputed based on the lower of the company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Operating Leases

The company leases certain facilities and equipment under non-cancelable operating leases which expire at various dates through 2014. 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.

The following is a schedule by year of future minimum rental payments required under operating leases, excluding real estate taxes and insurance, which have initial or remaining non-cancelable lease terms in excess of a year as of March 31, 2008:

	Amount
Year ending March 31	
2009	$ 5,625
2010	4,251
2011	3,296
2012	2,178
2013	1,212
Thereafter	4,615
Total minimum lease payments	$21,177

Total minimum future rental payments have been reduced by $0.1 million of sublease rentals to be received in the future under non-cancelable subleases. Rental expense for all non-cancelable operating leases amounted to $7.9 million, $4.5 million, and $4.2 million for 2008, 2007, and 2006, respectively.

8.

FINANCING ARRANGEMENTS

The following is a summary of long-term obligations at March 31, 2008, and 2007:

	2008	2007
IBM floor plan agreement	**$ 14,552**	$ —
Capital lease obligations	**560**	119
	15,112	119
Less: current maturities of long-term obligations	**(14,857)**	(116)
	$ 255	$ 3

Revolving Credit Agreement

The company had a $200 million unsecured credit facility ("Facility") that expires in 2010. At March 31, 2008, the company had $199 million available under the Facility given certain letter-of-credit commitments. The Facility includes a $20 million sub-facility for letters of credit and a $20 million sub-facility for swingline loans. The Facility was available to refinance existing debt, provide for working capital requirements, capital expenditures and general corporate purposes of the company including acquisitions. Borrowings under the Facility will generally bear interest at various levels over LIBOR. The Facility contains various financial covenants. The company was in default of its covenants as a result of its failure to timely file this report with the SEC and of other technical requirements. There were no amounts outstanding under the Facility at March 31, 2008. Also See Note 19 to Consolidated Financial Statements.

IBM Floor Plan Agreement

On February 22, 2008, the company entered into the Fourth Amended and Restated Agreement for Inventory Financing (Unsecured) ("Inventory Financing Agreement") with IBM Credit LLC, a wholly-owned subsidiary of International Business Machines Corporation ("IBM"). In addition to providing the Inventory Financing Agreement, IBM has engaged and may engage as a primary supplier to the company in the ordinary course of business. Under the Inventory Financing Agreement, the company may finance the purchase of products from authorized suppliers up to an aggregate outstanding amount of $145 million. The lender may, in its sole discretion, temporarily increase the amount of the credit line but in no event shall the amount of the credit line exceed $250 million. Financing charges will only accrue on amounts outstanding more than 75 days.

9.

MANDATORILY REDEEMABLE CONVERTIBLE TRUST PREFERRED SECURITIES

In 1998, Pioneer-Standard Financial Trust (the "Pioneer-Standard Trust") issued 2,875,000 shares relating to $143.7 million of 6.75% Mandatorily Redeemable Convertible Trust Preferred Securities (the "Trust Preferred Securities"). The Pioneer-Standard Trust, a statutory business trust, was a wholly-owned consolidated subsidiary of the company, with its sole asset being $148.2 million aggregate principal amount of 6.75% Junior Convertible Subordinated Debentures of the company due March 31, 2028 (the "Trust Debentures"). The company had executed a guarantee with regard to the Trust Preferred Securities. The guarantee, when taken together with the company's obligations under the Trust Debentures, the indenture pursuant to which the Trust Debentures were issued and the applicable trust document, provided a full and unconditional guarantee of the Pioneer-Standard Trust's obligations under the Trust Preferred Securities. The Trust Preferred Securities were non-voting (except in limited circumstances), paid quarterly distributions at an annual rate of 6.75%, carried a liquidation value of $50 per share and were convertible at the option of the holder into the company's Common Shares at any time prior to the close of business on March 31, 2028. After March 31, 2003, the Trust Preferred Securities were redeemable, at the option of the company, for a redemption price of 103.375% of par reduced annually by 0.675% to a minimum of $50 per Trust Preferred Security.

On June 15, 2005, the company redeemed all outstanding Trust Preferred Securities. Trust Preferred Securities with a carrying value of $105.4 million were redeemed for cash at a total cost of $109.0 million, which included accrued interest of $1.5 million and a 2.025% premium of $2.1 million. The company funded the redemption with existing cash. In addition, 398,324 Trust Preferred Securities with a carrying value of $19.9 million were converted into common shares of the company. Approximately $0.5 million of deferred financing fees were applied against capital in excess of stated value in connection with the conversion. The Trust Preferred Securities were converted at the conversion rate of 3.1746 common shares for each share of the Trust Preferred Securities converted, resulting in the issuance of 1,264,505 common shares of the company.

As a result of the redemption, the company wrote off deferred financing fees of $2.7 million in the first quarter of 2006. The financing fees, incurred at the time of issuing the Trust Preferred Securities, were being amortized over a 30-year period ending on March 31, 2028, which was the initial maturity date of the Trust Preferred Securities. The write-off of deferred financing fees, along with the premium payment discussed above, resulted in a loss on retirement of debt of $4.8 million.

10.

INCOME TAXES

The components of income (loss) before income taxes from continuing operations and income tax provision are as follows:

	2008	2007	2006
Income (loss) before income taxes			
Domestic	**$ 2,021**	$(12,991)	$(25,589)
Foreign	**(2,263)**	(579)	(1,172)
Total	**$ (242)**	$(13,570)	$(26,761)
Provision for income taxes			
Current			
Federal	**$ 2,632**	$ (4,583)	$ (5,669)
State and local	**(514)**	196	342
Foreign	**(391)**	274	438
Total	**$ 1,727**	$ (4,113)	$ (4,889)
Deferred			
Federal	**$(2,971)**	$ 2,563	$ (1,703)
State and local	**250**	292	(377)
Foreign	**172**	(677)	3
Total	**(2,649)**	2,178	(2,077)
Benefit for income taxes	**$ (922)**	$ (1,935)	$ (6,966)

A reconciliation of the federal statutory rate to the company's effective income tax rate for continuing operations is as follows:

	2008	2007	2006
Statutory rate	**35.0%**	35.0%	35.0%
(benefit) Provision for state taxes	**205.5**	(2.3)	0.1
Impact of foreign operations	**(12.7)**	—	—
Change in valuation allowance	**(113.5)**	4.5	(1.7)
(settlement) Adjustment of income tax audits	**339.8**	5.2	(4.9)
Meals & entertainment	**(488.1)**	(3.9)	(2.1)
Equity investment — Magirus	**702.0**	(17.1)	(0.7)
Compensation	**(203.2)**	(5.0)	1.3
Other	**(83.7)**	(2.1)	(1.0)
Effective rate	**381.1%**	14.3%	26.0%

Deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets:		
Accrued liabilities	**$ 3,935**	$ 2,799
Allowance for doubtful accounts	**852**	301
Inventory valuation reserve	**467**	471
Restructuring reserve	**121**	285
Federal domestic net operating losses	**107**	—
Foreign net operating losses	**502**	348
Investment	**365**	—
State net operating losses	**500**	922
Deferred compensation	**7,054**	7,190
Other	**1,232**	731
	15,136	13,047
Less: valuation allowance	**(999)**	(1,274)
Total	**$14,137**	$11,773
Deferred tax liabilities:		
Deferred revenue	**$ 23**	$ 36
Software amortization	**1,347**	1,774
Goodwill and other intangible assets	**8,914**	3,561
Property and equipment	**169**	(435)
Other	**65**	57
Total	**10,518**	4,993
Total deferred tax assets	**$ 3,619**	$ 6,780

At March 31, 2008, the company's China subsidiary had $1.8 million of net operating loss carryforwards that expire, if unused, in years 2009 through 2016. At March 31, 2008, the company's Hong Kong subsidiary had $1.2 million of net operating loss carryforwards that can be carried forward indefinitely. At March 31, 2008, the company also had $18.7 million of state net operating loss carryforwards that expire, if unused, in years 2009 through 2025.

At March 31, 2008, the total valuation allowance against deferred tax assets of $1.0 million was mainly comprised of a valuation allowance of $0.5 million for state net operating loss carryforwards that more likely than not will not be realized, and a valuation allowance of $0.5 million associated with deferred tax assets in China and Hong Kong that more likely than not will not be realized.

Effective April 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As a result of the implementation of FIN 48, the company recognized approximately $2.9 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the April 1, 2007, balance of retained earnings. As of March 31, 2008, and 2007, the company had a liability of uncertain tax positions, excluding interest, penalty, and federal benefit of $6.0 million and $8.1 million respectively. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

Balance at April 1, 2007	$ 8,055
Additions:	
Relating to positions taken during current year	1,372
Due to business acquisitions	3,454
Reductions:	
Relating to tax settlements	(4,635)
Relating to positions taken during prior year	(899)
Due to business acquisitions	(1,350)
Balance at March 31, 2008	$ 5,997

The company recognizes interest accrued on any unrecognized tax benefits as a component of income tax expense. Penalties are recognized as a component of selling, general and administrative expenses. As of March 31, 2008, and 2007, the company had approximately $1.2 million and $1.0 million of interest and penalties accrued, respectively.

As of March 31, 2008, the company has a liability of $2.6 million related to uncertain tax positions and $1.0 million related to interest and penalties, the recognition of which would affect the company's effective income tax rate.

The company anticipates the completion of a state income tax audit in the next 12 months which could reduce the accrual for unrecognized tax benefits by $0.2 million. The company believes that, other than the changes noted above, it is impractical to determine the positions for which it is reasonably possible that the total of uncertain tax benefits will significantly increase or decrease in the next twelve months.

The company is currently being audited by multiple state taxing jurisdictions. In material jurisdictions, the company has potential tax examination years open back to and including 1998 which may be subject to tax authority examination.

11.

EMPLOYEE BENEFIT PLANS

The company maintains profit-sharing and 401(k) plans for employees meeting certain service requirements. Generally, the plans allow eligible employees to contribute a portion of their compensation, with the company matching $1.00 for every $1.00 on the first 1% of the employee's pre-tax contributions and $0.50 for every $1.00 up to the next 5% of the employee's pre-tax contributions. The company may also make discretionary contributions each year for the benefit of all eligible employees under the plans. Total profit sharing and company matching contributions were $3.2 million, $3.0 million, and $2.9 million for 2008, 2007, and 2006, respectively.

The company also provides a non-qualified benefit equalization plan ("BEP") covering certain employees, which provides for employee deferrals and company retirement deferrals so that the total retirement deferrals equal amounts that would have been contributed to the company's 401(k) plan if it were not for limitations imposed by income tax regulations. The benefit obligation related to the BEP was $5.6 million at both March 31, 2008, and 2007. Contribution expense for the BEP was $0.1 million, $0.4 million, and $0.1 million in 2008, 2007, and 2006, respectively.

The company also provides a supplemental executive retirement plan ("SERP") for certain officers of the company. The SERP is a non-qualified plan designed to provide retirement benefits and life insurance for the plan participants. The projected benefit obligation recognized by the company related to the SERP was $14.0 million at both March 31, 2008 and 2007. At March 31, 2008, the benefit obligation recognized by the company represents the projected benefit obligation, in accordance with Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans* ("Statement 158") adoption standards. The accumulated benefit obligation related to the SERP was $12.5 million and $12.3 million at March 31, 2008, and 2007, respectively. The annual expense for the SERP was $1.3 million, $1.1 million, and $2.0 million in 2008, 2007, and 2006, respectively.

In conjunction with the BEP and SERP, the company has invested in life insurance policies related to certain employees and marketable securities held in a Rabbi Trust to satisfy future obligations of the plans. The value of the policies and marketable securities was

$22.4 million and $22.5 million at March 31, 2008, and 2007, respectively. The life insurance policies are valued at their cash surrender value and the marketable securities held in a Rabbi Trust are valued at fair market value.

12.

CONTINGENCIES

The company is the subject of various threatened or pending legal actions and contingencies in the normal course of conducting its business. The company provides 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 the company's 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 the consolidated financial position, results of operations or cash flows of the company.

13.

BUSINESS SEGMENTS

Description of Business Segments

With the divestiture of the company's KeyLink Systems Distribution Business in 2007, the continuing operations of the company represented one business segment that provided IT solutions to corporate and public-sector customers. In 2008, the company evaluated its business groups and developed a structure to support the company's strategic direction as it has transformed to a pervasive solution provider largely in the North American IT market. With this transformation, the company now has three reportable segments: Hospitality Solutions Group, Retail Solutions Group, and Technology Solutions Group. The reportable segments are each managed separately and are supported by various practices for storage and network solutions, professional services, and software services, as well as company-wide functional departments. The segment information for prior periods that is provided below has been restated as a result of the change in the composition of the company's reportable segments.

The Hospitality Solutions Group (HSG) is a leading technology provider to the hospitality industry, offering application software and services that streamline management of operations, property and inventory for customers in the gaming, hotel and resort, cruise lines, food management services, and sports and entertainment markets.

The Retail Solutions Group (RSG) is a leader in designing solutions that help make retailers more productive and provide their customers with an enhanced shopping experience. RSG solutions help improve operational efficiency, technology utilization, customer satisfaction and in-store profitability, including customized pricing, inventory and customer relationship management systems. The group also provides implementation plans and supplies the complete package of hardware needed to operate the systems, including servers, receipt printers, point-of-sale terminals and wireless devices for in-store use by the retailer's store associates.

The Technology Solutions Group (TSG) is an aggregation of the company's IBM, HP, Sun and EMC operating business due to the similarity of their economic and operating characteristics. TSG is a leading provider of HP, Sun, IBM and EMC enterprise IT solutions for the complex needs of customers in a variety of industries — including education, finance, government, healthcare and telecommunications, among others. The solutions offered include enterprise architecture and high availability, infrastructure optimization, storage and resource management, identity management and business continuity.

Measurement of Segment Operating Results and Segment Assets

The company evaluates performance and allocates resources to its reportable segments based on operating income and "adjusted EBITDA," which is defined as operating income plus depreciation and amortization expense. Certain costs and expenses arising from the company's functional departments are not allocated to the reportable segments for performance evaluation purposes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies elsewhere in the footnotes to the consolidated financial statements.

As a result of the March 2007 divestiture of the company's KeyLink Systems Distribution Business and acquisitions and due to debt covenant definitions, the company believes that adjusted EBITDA is a meaningful measure and reflects the company's performance. Adjusted EBITDA differs from U.S. GAAP and should not be considered an alternative measure required by U.S. GAAP. Management has reconciled adjusted EBITDA to operating income (loss) in the following chart.

Intersegment sales are recorded at pre-determined amounts to allow for intercompany profit to be included in the operating results of the individual reportable segments. Such intercompany profit is eliminated for consolidated financial reporting purposes.

The company's chief operating decision maker does not evaluate a measurement of segment assets when evaluating the performance of the company's reportable segments. As such, financial information relating to segment assets is not provided in the financial information below.

The following table presents segment profit and related information for each of the company's reportable segments:

	2008	2007	2006
Hospitality			
Total revenue	**$ 85,103**	$ 37,875	$ 42,787
Elimination of intersegment revenue	**(280)**	—	—
Revenue from external customers	**$ 84,823**	$ 37,875	$ 42,787
Gross margin	**$ 47,193**	$ 23,082	$ 21,753
	55.6%	*60.9%*	*50.8%*
Depreciation and Amortization	**$ 4,865**	$ 1,160	$ 1,714
Operating income	**4,125**	5,535	6,546
Adjusted EBITDA	**$ 8,990**	$ 6,695	$ 8,260
	10.6%	*17.7%*	*19.3%*
Retail			
Total revenue	**$130,223**	$ 93,064	$104,067
Elimination of intersegment revenue	**(493)**	(288)	(255)
Revenue from external customers	**$129,730**	$ 92,776	$103,812
Gross margin	**$ 24,599**	$ 19,491	$ 19,280
	19.0%	*21.0%*	*18.6%*
Depreciation and Amortization	**$ 376**	$ 503	$ 1,039
Operating income	**5,692**	2,559	5,641
Adjusted EBITDA	**$ 6,068**	$ 3,062	$ 6,680
	4.7%	*3.3%*	*6.4%*
Technology			
Total revenue	**$565,447**	$351,440	$326,996
Elimination of intersegment revenue	**(9,040)**	(7,934)	(6,110)
Revenue from external customers	**$556,407**	$343,506	$320,886
Gross margin	**$104,506**	$ 72,299	$ 64,435
	18.8%	*21.0%*	*20.1%*
Depreciation and Amortization	**$ 14,599**	$ 2,134	$ 1,840
Operating income	**$ 13,123**	15,533	15,552
Adjusted EBITDA	**$ 27,722**	$ 17,667	$ 17,392
	5.0%	*5.1%*	*5.4%*
Corporate/Other			
Revenue from external customers	**$ —**	$ 413	$ 1,499
Gross margin	**$ 3,856**	$ 5,835	$ 1,501
Depreciation and Amortization	**$ 3,855**	$ 4,880	$ 4,830
Operating loss	**(41,969)**	(33,574)	(49,165)
Adjusted EBITDA	**$(38,114)**	$(28,694)	$(44,335)
Consolidated			
Total revenue	**$780,773**	$482,792	$475,349
Elimination of intersegment revenue	**(9,813)**	(8,222)	(6,365)
Revenue from external customers	**$770,960**	$474,570	$468,984
Gross margin	**$180,154**	$120,707	$106,969
	23.4%	*25.4%*	*22.8%*
Depreciation and Amortization	**$ 23,695**	$ 8,677	$ 9,423
Operating loss	**(19,029)**	(9,947)	(21,426)
Adjusted EBITDA	**$ 4,666**	$ (1,270)	$(12,003)
	0.6%	*(0.3)%*	*(2.6)%*

Enterprise-Wide Disclosures

The company's assets are primarily located in the United States of America. Further, revenues attributable to customers outside the United States of America accounted for 6% of total revenues for 2008 and less than 13% of total revenues for 2007 and 2006. Total revenues for the company's three specific product areas are as follows:

	For the year ended March 31,		
	2008	2007	2006
Hardware	**$572,044**	$348,463	$351,886
Software	**72,701**	33,260	30,016
Services	**126,215**	92,847	87,082
Total	**$770,960**	$474,570	$468,984

14.

SHAREHOLDERS' EQUITY

Capital Stock

Holders of the company's common shares are entitled to one vote for each share held of record on all matters to be submitted to a vote of the shareholders. At March 31, 2008, and 2007, there were no shares of preferred stock outstanding.

Dividend Payments

Common share dividends were paid quarterly at the rate of $0.03 per share in 2008 and 2007 to shareholders of record.

Shareholder Rights Plan

On April 27, 1999, the company's Board of Directors approved a new Shareholder Rights Plan, which became effective upon expiration of the existing plan on May 10, 1999. A dividend of one Right per common share was distributed to shareholders of record as of May 10, 1999. Each Right, upon the occurrence of certain events, entitles the holder to buy from the company one-tenth of a common share at a price of $4.00, or $40.00 per whole share, subject to adjustment. The Rights may be exercised only if a person or group acquires 20% or more of the company's common shares, or announces a tender offer for at least 20% of the company's common shares. Each Right will entitle its holder (other than such acquiring person or members of such acquiring group) to purchase, at the Right's then-current exercise price, a number of the company's common shares having a market value of twice the Right's then-exercise price. The Rights trade with the company's common shares until the Rights become exercisable.

If the company is acquired in a merger or other business combination transaction, each Right will entitle its holder to purchase, at the Right's then-exercise price, a number of the acquiring company's common shares (or other securities) having a market value at the time of twice the Right's then-current exercise price. Prior to the acquisition by a person or group of beneficial ownership of 20% or more of the company's Common Shares, the Rights are redeemable for $0.001 per Right at the option of the company's Board of Directors. The Shareholder Rights Plan and the Rights will expire May 10, 2009.

15.

EARNINGS PER SHARE

The following data show the amounts used in computing earnings per share from continuing operations and the effect on income and the weighted average number of shares of dilutive potential common stock.

	For the year ended March 31		
	2008	2007	2006
Numerator:			
Income (loss) from continuing operations — basic and diluted	**$ 681**	$(11,635)	$(20,744)
Denominator:			
Weighted average shares outstanding — basic	**28,252**	30,684	29,935
Effect of dilutive securities:			
Stock options and unvested restricted stock	**514**	—	—
Weighted average shares outstanding — diluted	**28,766**	30,684	29,935
Income (loss) per share from continuing operations			
Basic and diluted	**$ 0.03**	$ (0.38)	$ (0.69)

Diluted earnings per share is computed by sequencing each series of potential issuance of common shares from the most dilutive to the least dilutive. Diluted earnings per share is determined as the lowest earnings or highest (loss) per incremental share in the sequence of potential common shares.

For the years ended March 31, 2008, 2007, and 2006, options on 1.0 million, 3.4 million, and 3.3 million shares of common stock, respectively, were not included in computing diluted earnings per share because their effects were anti-dilutive.

For the year ended March 31, 2006, 1,647 million shares issuable upon conversion of the Trust Preferred Securities (i.e., convertible debt) were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

16.

STOCK-BASED COMPENSATION

The company has a stock incentive plan. Under the plan, the company may grant stock options, stock appreciation rights, restricted shares, restricted share units, and performance shares for up to 3.2 million shares of common stock. The maximum aggregate number of restricted shares, restricted share units and performance shares that may be granted under the plan is 1.6 million. For stock option awards, the exercise price must be set at the closing market price of the company's stock on the date of grant. The maximum term of option awards is 10 years from the date of grant. Stock option awards vest over a period established by the Compensation Committee of the Board of Directors. Stock appreciation rights may be granted in conjunction with, or independently from, a stock option granted under the plan. Stock appreciation rights, 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 stock appreciation rights terminate upon the termination or exercise of the related stock option. Restricted shares, restricted share units and performance shares may be issued at no cost or at a purchase price that may be below their fair market value, but which are subject to forfeiture and restrictions on their sale or other transfer. Performance share awards may be granted, where the right to receive shares in the future is conditioned upon the attainment of specified performance objectives and such other conditions, restrictions and contingencies. The company generally issues authorized but unissued shares to satisfy share option exercises.

As of March 31, 2008, there were no stock appreciation rights or restricted share units awarded from the plan.

Stock Options

The following table summarizes stock option activity during 2008, 2007, and 2006 for stock options awarded by the company under the stock incentive plan and prior plans.

	For the year ended March 31					
	2008		2007		2006	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at April 1	**3,394,748**	**$13.61**	3,289,999	$12.84	3,522,133	$12.59
Granted	**280,000**	**22.21**	997,500	15.72	575,000	13.57
Exercised	**(108,038)**	**13.38**	(804,250)	12.93	(469,369)	11.59
Cancelled/expired	**(11,800)**	**14.57**	(76,669)	15.22	(267,265)	13.05
Forfeited	**(28,000)**	**21.07**	(11,832)	15.85	(70,500)	13.17
Outstanding at March 31	**3,526,910**	**$14.24**	3,394,748	$13.63	3,289,999	$12.84
Options exercisable at March 31	**2,897,564**	**$13.58**	2,494,267	$13.04	2,844,684	$12.92

The fair market value of each option granted is estimated on the grant date using the Black-Scholes method. The following assumptions were made in estimating fair value:

	For the year ended March 31		
	2008	2007	2006
Dividend yield	**0.7%**	0.7%	0.9%
Risk-free interest rate	**4.9%**	4.7%	4.0%
Expected life	**6.0 years**	5.0 years	5.6 years
Expected volatility	**43.8%**	44.3%	45.4%

The dividend yield reflects the company's historical dividend yield on the date of award. The risk-free interest rate is based on the yield of a zero-coupon U.S. Treasury bond whose maturity period equals the option's expected term. The expected term reflects employee-specific future exercise expectations and historical exercise patterns, as appropriate. The expected volatility is based on historical volatility of the company's common stock. The fair market value of options granted during the year ended March 31, 2008, was $10.27.

Compensation expense charged to operations during the year ended March 31, 2008, and 2007 relating to stock options was $3.5 and $3.6 million, respectively. The total income tax benefit recognized in operations during the year ended March 31, 2008, was $0.2 million. As of March 31, 2008, total unrecognized stock based compensation expense related to non-vested stock options was $1.8 million, which is expected to be recognized over a weighted-average period of 13 months. During the year ended March 31, 2008, the total intrinsic value of stock options exercised was $0.6 million. Cash received for stock options exercised during the year ended March 31, 2008, was $1.4 million.

The following table summarizes the status of stock options outstanding at March 31, 2008.

	Options outstanding			Options exercisable	
Exercise price range	Number	Weighted average exercise price	Weighted average remaining contractual life	Number	Weighted average exercise price
$6.63 — $8.29	138,400	$ 7.63	4.84	138,400	$ 7.63
$8.29 — $9.95	230,876	8.72	2.76	219,476	8.71
$9.95 — $11.61	30,000	11.17	3.32	30,000	11.17
$11.61 — $13.26	364,800	12.82	2.41	356,700	12.83
$13.26 — $14.92	1,602,500	13.88	5.17	1,602,500	13.88
$14.92 — $16.58	903,334	15.70	8.23	464,831	15.75
$16.58 — $22.21	257,000	22.21	9.14	85,657	22.21
	3,526,910			2,897,564	

Non-vested Shares

Compensation expense related to non-vested share awards is recognized over the restriction period based upon the closing market price of the company's shares on the grant date. Compensation expense charged to operations for non-vested share awards was $0.8 million $0.6 million, and $0.6 million for the year ended March 31, 2008, 2007 and 2006, respectively. As of March 31, 2008, there was $0.9 million of total unrecognized compensation cost related to non-vested share awards, which is expected to be recognized over a weighted-average period of 18 months.

The following table summarizes non-vested share activity during the years ended March 31, 2008, 2007, and 2006 for restricted shares awarded by the company under the stock incentive plan and prior plans.

	2008	2007	2006
Outstanding at April 1	**18,750**	25,000	336,999
Granted	**76,000**	32,000	25,000
Vested	**(13,850)**	(38,250)	(284,099)
Forfeited	**—**	—	(52,900)
Outstanding at March 31	**80,900**	18,750	25,000

The fair market value of non-vested shares is determined based on the closing price of the company's shares on the grant date.

Performance Shares

Compensation expense charged to operations for performance share awards was $1.0 million for the year ended March 31, 2008. As of March 31, 2008, there was $2.3 million of total unrecognized compensation cost related to performance share awards, which is expected to be recognized over a weighted-average period of 24 months.

There were no performance shares issued in 2007 and 2006. The following table summarizes performance share activity during year ended March 31, 2008:

Outstanding at April 1, 2007	—
Granted	152,000
Vested	(50,666)
Forfeited	—
Outstanding at March 31, 2008	101,334

The company granted shares to certain executives of the company, the vesting of which is contingent upon meeting various company-wide performance goals. The performance shares contingently vest over three years. The fair value of the performance share grant is determined based on the closing market price of the company's shares on the grant date and assumes that performance goals will be met. If such goals are not met, no compensation cost will be recognized and any compensation cost previously recognized during the vesting period will be reversed.

17.

CAPITAL STOCK

In August 2007, in fulfillment of the company's previously disclosed intention to return capital to shareholders, the company announced a modified "Dutch Auction" tender offer for up to 6,000,000 of the company's common shares. In September 2007, the company accepted for purchase 4,653,287 of the company's common shares at a purchase price of $18.50 per share (considered a current market trading price), for a total cost of approximately $86.1 million, excluding related transaction costs. The tender offer was funded through cash on hand. The company uses the par value method to account for treasury stock. Accordingly, the treasury stock account is charged only for the aggregate stated value of the shares reacquired, or $0.30 per share. The capital in excess of stated value is charged for the difference between cost and stated value.

In September 2007, the company entered into a written trading plan that complies with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which provided for the purchase of up to 2,000,000 of the company's common shares. In December 2007, the company announced it had completed the repurchase of the shares on the open market for a total cost of $30.4 million, excluding related transaction costs. Also in December 2007, the company entered into an additional Rule 10b5-1 plan that provided for the purchase of up to an additional 2,500,000 of the company's common shares. The Board of Directors only authorized a cash outlay of $150 million, which complied with the credit facility approval limit. By February 2008, 2,321,787 of the 2,500,000 shares were redeemed for a total cost of $33.5 million. The $150 million maximum cash outlay was achieved; therefore the purchase of common shares for treasury was completed.

18.

QUARTERLY RESULTS (UNAUDITED)

As discussed under Note 3, the company sold the assets and operations of its KeyLink Systems Distribution Business in March 2007, which represented a disposal of a component of an entity. Accordingly, the operating results of the KeyLink Systems Distribution Business have been reported as a component of discontinued operations in the quarterly results provided below. Prior to the sale in the fourth quarter of 2007, the operating results of the KeyLink Systems Distribution Business were included as a component of continuing operations.

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. FASB Statement 128, *Earnings Per Share,* prohibits retroactive adjustment of quarterly per share amounts so that the sum of those amounts equals amounts for the full year.

The company experiences a seasonal increase in sales during its fiscal third quarter ending in December. The company believes that this sales pattern is industry-wide. Although the company is unable to predict whether this uneven sales pattern will continue over the long-term, the company anticipates that this trend will remain the same in the foreseeable future.

	Year ended March 31, 2008				
	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Net Sales	$128,363	$196,231	$250,050	$196,316	$770,960
Gross margin	32,316	42,813	57,655	47,370	180,154
Income (loss) from continuing operations	2,657	1,424	1,074	(4,474)	681
(Loss) income from discontinued operations	(65)	2,016	881	146	2,978
Net income (loss)	$ 2,592	$ 3,440	$ 1,955	$ (4,328)	$ 3,659
Per share data:					
Basic					
Income (loss) from continuing operations	$ 0.08	$ 0.05	$ 0.04	$ (0.18)	$ 0.03
Income from discontinued operations	—	0.06	0.04	—	0.10
Net income (loss)	$ 0.08	$ 0.11	$ 0.08	$ (0.18)	$ 0.13
Per share data:					
Diluted					
Income (loss) from continuing operations	$ 0.08	$ 0.05	$ 0.04	$ (0.18)	$ 0.03
Income from discontinued operations	—	0.06	0.03	—	0.10
Net income (loss)	$ 0.08	$ 0.11	$ 0.07	$ (0.18)	$ 0.13

	Year ended March 31, 2007				
	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Net Sales	$107,065	$97,934	$151,478	$118,093	$474,570
Gross margin	28,749	24,517	35,510	31,931	120,707
(Loss) income from continuing operations	(2,784)	(4,807)	2,537	(6,581)	(11,635)
Income from discontinued operations	9,535	10,299	17,426	207,230	244,490
Net income	$ 6,751	$ 5,492	$ 19,963	$200,649	$232,855
Per share data:					
Basic					
(Loss) income from continuing operations	$ (0.09)	$ (0.16)	$ 0.08	$ (0.21)	$ (0.38)
Income from discontinued operations	0.31	0.34	0.57	6.67	7.97
Net income	$ 0.22	$ 0.18	$ 0.65	$ 6.46	$ 7.59
Per share data:					
Diluted					
(Loss) income from continuing operations	$ (0.09)	$ (0.16)	$ 0.08	$ (0.21)	$ (0.38)
Income from discontinued operations	0.31	0.34	0.56	6.67	7.97
Net income	$ 0.22	$ 0.18	$ 0.64	$ 6.46	$ 7.59

The 2008 fourth quarter continuing operations results include a $4.9 million impairment charge of the company's equity method investment, and the 2008 third quarter includes amortization of Innovativ's Intangibles of $3.1 million.

The 2007 fourth quarter continuing operations results include the following: $4.9 million restructuring credit for the reversal of a restructuring liability that was established in 2003 for a previously exited facility and $5.9 million impairment charge for the write-down of the company's equity method investment. The 2007 fourth quarter discontinued operations results include a $318.5 million pre-tax gain on sale of the assets and operations of the KeyLink Systems Distribution Business.

19.

SUBSEQUENT EVENTS (UNAUDITED)

Acquisition of Triangle Hospitality Solutions Limited

On April 9, 2008, the company acquired all of the shares of Triangle Hospitality Solutions Limited ("Triangle"), the UK-based reseller and specialist for InfoGenesis products and services for $2.7 million. Triangle will be instrumental in enhancing the company's international presence and growth strategy in the UK, as well as solidifying the company's leading position in the hospitality and stadium and arena markets. Triangle will also add to the company's hospitality solutions suite with the ability to offer customers the Triangle mPOS solution, which is a handheld point-of-sale solution which seamlessly integrates with the company's InfoGenesis products.

China and Hong Kong Operations

On July 1, 2008, the company began exploring divestiture opportunities for its Hong Kong and China operations. Agilysys acquired the Hong Kong and China businesses of TSG in December 2005. The assets and liabilities of these operations will be recorded as "held for sale" on the company's balance sheet in the company's September 30, 2008 Form 10-Q. In addition, the operations of Hong Kong and China will be reported as discontinued operations effective July 1, 2008, in accordance with Statement 144.

Liquidity and Capital Resources

The Reserve Fund's Primary Fund

As of December 4, 2008, approximately $7.7 million of the company's cash was invested with The Reserve Fund's Primary Fund, a Triple A rated money market account. Effective September 19, 2008, the Reserve Fund suspended rights of redemption from the Primary Fund. As has been widely reported, the Reserve Fund is working with the Securities and Exchange Commission to liquidate the Primary Fund however, the timing of the liquidation is uncertain at this time. Although the company believes it is unlikely, the Primary Fund may impose a partial loss of principal upon the investors, as a liquidation process completes.

Credit Facility

Although the company has no amounts outstanding under its credit facility, as of October 17, 2008, the company's ability to borrow under its credit facility was suspended. The suspension of the facility was due to the company's previously announced failure to timely file its 10-K annual report with the SEC due to audit issues relating to Magirus and potential default due to other technical deficiencies. The company is exploring alternative financing arrangements.

Goodwill Impairment

Based on a combination of factors, including the deterioration in the current economic environment in the fall of 2008, recent operating results, and a significant decline in Agilysys' market capitalization, applicable accounting guidance requires the company to perform an interim goodwill and other intangible asset impairment analyses. Accordingly, with the company's current business outlook and current market capitalization below its book value, it is compelled to potentially recognize impairments of its goodwill and/or trademarks recorded on its balance sheet at June 30 and September 30, 2008. As a result, the Company expects to record a non-cash write-off of up to $290 million.

Changes to Management, Board and Headquarters

On October 20, 2008, the company's former Chairman, President and CEO, Arthur Rhein, announced his retirement, effective immediately. The Board appointed Keith M. Kolerus, a current Agilysys director, as its non-executive Chairman. Martin F. Ellis, the company's Executive Vice President, Treasurer and Chief Financial Officer, was appointed by the Board to serve as President and Chief Executive Officer of the company and elected to the Board. The Board further appointed Kenneth J. Kossin, Jr., the former Vice President and Controller, to Senior Vice President and Chief Financial Officer. Curtis C. Stout, was appointed to serve as Treasurer. On October 21, 2008, the company terminated the employment of Messrs. Robert J. Bailey and Peter J. Coleman, both Executive Vice Presidents of the company.

Also in October, the company relocated its headquarters from Boca Raton, Florida, to Cleveland, Ohio, where the company has a facility with a large number of employees. The company was previously headquartered in Cleveland, Ohio.

Schedule II — Valuation and Qualifying Accounts Years ended March 31, 2008, 2007 and 2006
(In thousands)

Classification	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
2008					
Allowance for doubtful accounts	**$1,186**	**$ 682**	**$1,411 (a)**	**$ (848)**	**$2,431**
Inventory valuation reserve	**$1,045**	**$ 670**	**$ —**	**$ (381)**	**$1,334**
Restructuring reserves	**$ 635**	**$ (8)**	**$ —**	**$ (583)**	**$ 44**
2007					
Allowance for doubtful accounts	$ 3,311	$(1,547)	$ —	$ (578)	$ 1,186
Inventory valuation reserve	$ 1,617	$ (103)	$ —	$ (469)	$ 1,045
Restructuring reserves	$ 6,376	$(4,665)	$ —	$(1,076)	$ 635
2006					
Allowance for doubtful accounts	$ 2,588	$ 881	$ 305 (a)	$ (463)	$ 3,311
Inventory valuation reserve	$ 1,637	$ 154	$ —	$ (174)	$ 1,617
Restructuring reserves	$ 5,458	$ 4,081	$ —	$(3,163)	$ 6,376

(a) The $1,411 and the $305 represent allowance for doubtful accounts acquired in business combinations.

agilysys, inc.

Exhibit Index

Exhibit No.	Description
2	Agreement and Plan of Merger by and Among Agilysys, Inc., Agilysys NJ, Inc. and Innovative Systems Design, Inc., which is incorporated by reference to Exhibit 10.1 of the company's Current Report on Form 8-K filed June 1, 2007 (File No. 000-05734).
3(a)	Amended Articles of Incorporation of Pioneer-Standard Electronics, Inc., which is incorporated by reference to Exhibit 3.1 to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, (File No. 000-05734).
3(b)	Amended Code of Regulations, as amended, of Agilysys, Inc., which is incorporated by reference to Exhibit 3.1 to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (File No. 000-05734).
4(a)	Rights Agreement, dated as of April 27, 1999, by and between the company and National City Bank, which is incorporated herein by reference to Exhibit 1 to the company's Registration Statement on Form 8-A (File No. 000-05734).
4(b)	Indenture, dated as of August 1, 1996, by and between the company and Star Bank, N.A., as Trustee, which is incorporated herein by reference to Exhibit 4(g) to the company's Annual Report on Form 10-K for the year ended March 31, 1997 (File No. 000-05734).
4(c)	Share Subscription Agreement and Trust, effective July 2, 1996, by and between the company and Wachovia Bank of North Carolina, N.A., which is incorporated herein by reference to Exhibit 10.1 to the company's Registration Statement on Form S-3 (Reg. No. 333-07665).
4(d)	Certificate of Trust of Pioneer-Standard Financial Trust, dated March 23, 1998, which is incorporated herein by reference to Exhibit 4(l) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
4(e)	Amended and Restated Trust Agreement among Pioneer-Standard Electronics, Inc., as Depositor, Wilmington Trust company, as Property Trustee and Delaware Trustee, and the Administrative Trustees named therein, dated as of March 23, 1998, which is incorporated herein by reference to Exhibit 4(m) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
4(f)	Junior Subordinated Indenture, dated March 23, 1998, between the company and Wilmington Trust, as trustee, which is incorporated herein by reference to Exhibit 4(n) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
4(g)	First Supplemental Indenture, dated March 23, 1998, between the company and Wilmington Trust, as trustee, which is incorporated herein by reference to Exhibit 4(o) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
4(h)	Form of 6¾% Convertible Preferred Securities, which is incorporated herein by reference to Exhibit 4(m) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
4(i)	Form of Series A 6¾% Junior Convertible Subordinated Debentures, which is incorporated herein by reference to Exhibit 4(o) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).

Exhibit No.	Description
4(j)	Guarantee Agreement, dated March 23, 1998, between the company and Wilmington Trust, as guarantee trustee, which is incorporated herein by reference to Exhibit 4(r) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
*10(a)	Credit Agreement among Agilysys, Inc., the Borrower party thereto, the Lenders party thereto, and LaSalle Bank National Association, as Administrative Agent, dated as of October 18, 2005, which is incorporated herein by reference to Exhibit 10.1 to the company's Current Report on Form 8-K filed October 21, 2005 (File No. 000-05734).
*10(b)	The company's Executive Officer Annual Incentive Plan, which is incorporated herein by reference to Exhibit B to the company's definitive Schedule 14A filed July 8, 2005 (File No. 000-05734).
*10(c)	The company's Amended and Restated 1991 Stock Option Plan, which is incorporated herein by reference to Exhibit 4.1 to the company's Form S-8 Registration Statement (Reg. No. 033-53329).
*10(d)	The company's Amended 1995 Stock Option Plan for Outside Directors, which is incorporated herein by reference to Exhibit 99.1 to the company's Form S-8 Registration Statement (Reg. No. 333-07143).
*10(e)	Pioneer-Standard Electronics, Inc. 1999 Stock Option Plan for Outside Directors, which is incorporated herein by reference to Exhibit 10.5 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 000-05734).
*10(f)	Pioneer-Standard Electronics, Inc. 1999 Restricted Stock Plan, which is incorporated herein by reference to Exhibit 10.6 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 000-05734).
*10(g)	Pioneer-Standard Electronics, Inc. Supplemental Executive Retirement Plan, which is incorporated herein by reference to Exhibit 10(o) to the company's Annual Report on Form 10-K for the year ended March 31, 2000 (File No. 000-05734).
*10(h)	Pioneer-Standard Electronics, Inc. Benefit Equalization Plan, which is incorporated herein by reference to Exhibit 10(p) to the company's Annual Report on Form 10-K for the year ended March 31, 2000 (File No. 000-05734).
*10(i)	Form of Option Agreement between Pioneer-Standard Electronics, Inc. and the optionees under the Pioneer-Standard Electronics, Inc. 1999 Stock Option Plan for Outside Directors, which is incorporated herein by reference to Exhibit 10.7 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 000-05734).
*10(j)	Employment agreement, effective April 24, 2000, between Pioneer-Standard Electronics, Inc. and Steven M. Billick, which is incorporated herein by reference to Exhibit 10.3 to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File No. 000-05734).
*10(k)	Pioneer-Standard Electronics, Inc. Senior Executive Disability Plan, effective April 1, 2000, which is incorporated herein by reference to Exhibit 10(v) to the company's Annual Report on Form 10-K for the year ended March 31, 2001 (File No. 000-05734).
*10(l)	Non-Competition Agreement, dated as of February 25, 2000, between Pioneer-Standard Electronics, Inc. and Robert J. Bailey, which is incorporated herein by reference to Exhibit 10(w) to the company's Annual Report on Form 10-K for the year ended March 31, 2001 (File No. 000-05734).
*10(m)	Change of Control Agreement, dated as of February 25, 2000, between Pioneer-Standard Electronics, Inc. and Robert J. Bailey, which is incorporated herein by reference to Exhibit 10(x) to the company's Annual Report on Form 10-K for the year ended March 31, 2001 (File No. 000-05734).

Exhibit No.	Description
*10(n)	Non-Competition Agreement, dated as of February 25, 2000, between Pioneer-Standard Electronics, Inc. and Peter J. Coleman, which is incorporated herein by reference to Exhibit 10(y) to the company's Annual Report on Form 10-K for the year ended March 31, 2001 (File No. 000-05734).
*10(o)	Change of Control Agreement, dated as of February 25, 2000, between Pioneer-Standard Electronics, Inc. and Peter J. Coleman, which is incorporated herein by reference to Exhibit 10(z) to the company's Annual Report on Form 10-K for the year ended March 31, 2001 (File No. 000-05734).
*10(p)	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 the company's Annual Report on Form 10-K for the year ended March 31, 2002 (File No. 000-05734).
*10(q)	Amended and Restated Employment agreement, effective April 1, 2002, between Pioneer-Standard Electronics, Inc. and James L. Bayman which is incorporated herein by reference to Exhibit 10(z) to the company's Annual Report on Form 10-K for the year ended March 31, 2002 (File No. 000-05734).
*10(r)	Employment agreement, effective April 1, 2002, between Pioneer-Standard Electronics, Inc. and Arthur Rhein which is incorporated herein by reference to Exhibit 10(aa) to the company's Annual Report on Form 10-K for the year ended March 31, 2002 (File No. 000-05734).
*10(s)	Amended and Restated Employment Agreement between Agilysys, Inc. and Arthur Rhein, effective December 23, 2005, which is incorporated herein by reference to Exhibit 10.1 to the company's Current Report on Form 8-K filed December 30, 2005 (File No. 000-05734).
*10(t)	Letter dated December 23, 2005 from Charles F. Christ to Arthur Rhein, which is incorporated herein by reference to Exhibit 10.2 to the company's Current Report on Form 8-K filed December 30, 2005 (File No. 000-05734).
10(u)	Three Year Credit Agreement among Pioneer-Standard Electronics, Inc., as Borrower, various financial institutions, as Lenders, Key Corporate Capital, Inc., as Lead Arranger, Book Runner and Administrative Agent, U.S. Bank National Association, as Syndication Agent, and Harris Trust and Savings Bank, as Documentation Agent dated as of April 16, 2003, which is incorporated by reference to Exhibit 10(bb) to the company's Annual Report on Form 10-K for the year ended March 31, 2003 (File No. 000-05734).
*10(v)	Amended and Restated Employment Agreement between Pioneer-Standard Electronics, Inc. and Arthur Rhein, effective April 1, 2003, which is incorporated by reference to Exhibit 10(cc) to the company's Annual Report on Form 10-K for the year ended March 31, 2003 (File No. 000-05734).
*10(w)	Amendment No. 1 to Employment Agreement, between Pioneer-Standard Electronics, Inc. and Steven M. Billick, effective April 1, 2002, which is incorporated by reference to Exhibit 10(dd) to the company's Annual Report on Form 10-K for the year ended March 31, 2003 (File No. 000-05734).
*10(x)	Amendment No. 1 to Change of Control Agreement and Non-Competition Agreement, dated as of January 30, 2003, between Pioneer-Standard Electronics, Inc. and Robert J. Bailey, which is incorporated by reference to Exhibit 10(ee) to the company's Annual Report on Form 10-K for the year ended March 31, 2003 (File No. 000-05734).
*10(y)	Amendment No. 1 to Change of Control Agreement and Non-Competition Agreement, dated as of January 30, 2003, between Pioneer-Standard Electronics, Inc. and Peter J. Coleman, which is incorporated by reference to Exhibit 10(ff) to the company's Annual Report on Form 10-K for the year ended March 31, 2003 (File No. 000-05734).

Exhibit No.	Description
*10(z)	Employment Agreement dated June 30, 2003 between Martin F. Ellis and Pioneer-Standard Electronics (n/k/a Agilysys, Inc.), which is incorporated by reference to Exhibit 10(gg) to the company's Annual Report on Form 10-K for the year ended March 31, 2004 (File No. 000-05734).
*10(aa)	Change of Control Agreement dated June 30, 2003 by and between Martin F. Ellis and Pioneer-Standard Electronics (n/k/a Agilysys, Inc.), which is incorporated by reference to Exhibit 10(hh) to the company's Annual Report on Form 10-K for the year ended March 31, 2004 (File No. 000-05734).
*10(bb)	Amendment No. 1 to Change of Control Agreement dated June 30, 2003 between Agilysys, Inc. and Martin F. Ellis, effective May 31, 2005, which is incorporated by reference to Exhibit 10.1 to the company's Current Report on Form 8-K filed June 6, 2005 (File No. 000-05734).
*10(cc)	Non-Competition Agreement between Agilysys, Inc. and Martin F. Ellis, effective May 31, 2005, which is incorporated by reference to Exhibit 10.2 to the company's Current Report on Form 8-K filed June 6, 2005 (File No. 000-05734).
*10(dd)	Agilysys, Inc. 2006 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.1 of the company's Current Report on Form 8-K filed August 3, 2006 (File No. 000-05734)
10(ee)	Asset Purchase Agreement between Agilysys, Inc. and its wholly-owned subsidiary, Agilysys Canada Inc., and Arrow Electronics, Inc. and its wholly-owned subsidiaries, Arrow Electronics Canada Ltd. and Support Net, Inc., which is incorporated by reference to Exhibit 10.1 of the company's Current Report on Form 8-K filed January 5, 2007 (File No. 000-05734)
10(ff)	Second Amendment Agreement to the Credit Agreement among Agilysys, Inc., the Borrowers party thereto, the Lenders party thereto, and LaSalle Bank National Association, as Administrative Agent, which is incorporated by reference to Exhibit 10.1 of the company's Current Report on Form 8-K filed March 21, 2007 (File No. 000-05734)
10(gg)	Third Amendment Agreement among Agilysys, Inc., the Borrowers party thereto, the Lenders party thereto, and LaSalle Bank National Association, as Administrative Agent, dated as of September 11, 2007, which is incorporated by reference to Exhibit 10.1 of the company's Current Report on Form 8-K filed September 13, 2007 (File No. 000-05734).
*10(hh)	Amendment and Extension Agreement between Agilysys, Inc. and Arthur Rhein, effective January 28, 2008, which is incorporated by reference to Exhibit 10.1 of the company's Current Report on Form 8-K filed January 30, 2008 (File No. 000-05734).
10(ii)	Fourth Amendment Agreement among Agilysys, Inc., the Borrower party thereto, the Lenders party thereto, and LaSalle Bank National Association, as Administrative Agent, dated as of February 21, 2008.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

Exhibit No.	Description
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99(a)	Certificate of Insurance Policy, effective November 1, 1997, between Chubb Group of Insurance Companies and Pioneer-Standard Electronics, Inc., which is incorporated herein by reference to Exhibit 99(a) to the company's Annual Report on Form 10-K for the year ended March 31, 1998 (File No. 000-05734).
99(b)	Forms of Amended and Restated Indemnification Agreement entered into by and between the company and each of its Directors and Executive Officers, which are incorporated herein by reference to Exhibit 99(b) to the company's Annual Report on Form 10-K for the year ended March 31, 1994 (File No. 000-05734).

* Denotes a management contract or compensatory plan or arrangement.

Exhibit 21

SUBSIDIARIES OF AGILYSYS, INC.

Subsidiaries of Agilysys, Inc.	State or jurisdiction of organization or incorporation
Agilysys, Inc.	Ohio
Agilysys Canada Inc.	Ontario
Agilysys NV, LLC	Delaware
Aprisa Holdings, LLC	Delaware
Aprisa, Inc.	Delaware
Agilysys CH Limited	Hong Kong
Agilysys Information Services Company Limited	China
Agilysys HK Limited	Hong Kong
Agilysys MC Limited	Macau
Agilysys (Europe) Limited	England and Wales
Agilysys NJ, Inc.	New Jersey

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

— Registration Statement (Form S-8 No. 333-143994) pertaining to the Agilysys, Inc. 2006 Stock Incentive Plan

— Registration Statement (Forms S-8 No. 333-64164 and 33-106267) pertaining to the 2000 Stock Option Plan for Outside Directors and 2000 Stock Incentive Plan, as amended, of Agilysys, Inc.

— Registration Statement (Form S-8 No. 333-07143) pertaining to the 1995 Stock Option Plan for Outside Directors of Agilysys, Inc.

— Registration Statement (Forms S-8 No. 33-46008 and 33-53329) pertaining to the 1991 Incentive Stock Option Plan of Agilysys, Inc.

— Registration Statement (Form S-8 No. 333-40750) pertaining to the Retirement Plan of Agilysys, Inc. of our reports dated December 15, 2008, with respect to the consolidated financial statements and schedule of Agilysys, Inc. and Subsidiaries, and the effectiveness of internal control over financial reporting of Agilysys, Inc. and Subsidiaries included in this Annual Report (Form 10-K) for the year ended March 31, 2008.

/s/ Ernst & Young LLP

Cleveland, Ohio
December 15, 2008

corporate and shareholder information

OFFICERS

Martin F. Ellis
President and Chief Executive Officer

Kenneth J. Kossin, Jr.
Senior Vice President and
Chief Financial Officer

John Dyer
Vice President and Controller

Richard A. Sayers II
Executive Vice President,
Chief Human Resources and
Compliance Officer

Curtis C. Stout
Vice President and Treasurer

Rita A. Thomas
Vice President, Corporate Counsel and
Assistant Secretary

Lawrence N. Schultz
Secretary

BUSINESS UNIT LEADERS

Tina Stehle
Senior Vice President, General Manager-
Hospitality Solutions Group

Paul Civils
Senior Vice President, General Manager-
Retail Solutions Group

Tony Mellina
Senior Vice President, General Manager-
Technology Solutions Group

DIRECTORS

Keith M. Kolerus [1, 2, 5]
Non-Executive Chairman
Retired Vice President,
National Semiconductor
Corporation
(semiconductors)

Charles F. Christ [3, 5]
Retired Vice President and
General Manager of
Components Division,
Digital Equipment Corporation
(computer and office equipment)

Thomas A. Commes [1, 2, 4, 5]
Retired President and
Chief Operating Officer,
Sherwin-Williams Company
*(paints and painting supplies,
manufacturer and distribution)*

R. Andrew Cueva [5]
Managing Director,
MAK Capital
(a value-oriented hedge fund)

Martin F. Ellis
President and Chief Executive Officer,
Agilysys, Inc.

Howard V. Knicely [1, 3, 4, 5]
Retired Executive
Vice President,
TRW, Inc.
*(aerospace, software systems and
automotive components)*

Robert A. Lauer [3, 5]
Retired Managing Partner,
Accenture
(consulting services)

Robert G. McCreary, III [1, 2, 4, 5]
Founder and Principal,
CapitalWorks, LLC
*(a private equity group focusing
on micro-cap public companies)*

Eileen M. Rudden [2, 5]
Retired Vice President and
General Manager of Unified
Communications
Division, Avaya, Inc.
(communications systems)

[1] Executive Committee
[2] Audit Committee
[3] Compensation Committee
[4] Nominating and Corporate Governance Committee
[5] Independent Director

OTHER INFORMATION

Corporate Offices

Agilysys, Inc.
28925 Fountain Parkway
Solon, Ohio 44139
Phone: 877-374-4783
www.agilysys.com

Legal Counsel

Calfee, Halter & Griswold LLP
1400 KeyBank Center
800 Superior Avenue
Cleveland, Ohio 44114

Independent Registered Public Accounting Firm

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115

Transfer Agent and Registrar

National City Bank
Corporate Trust Operations
P.O. Box 92301-N
Cleveland, Ohio 44193
Phone: 800-622-6757

Common Shares

Nasdaq Symbol: AGYS
Quoted on the National
Market System

Dividend Reinvestment and Stock Purchase Plan

The plan allows for full or partial dividend reinvestment, and additional monthly cash investments up to $5,000 per month, in Agilysys Common Shares without brokerage commissions or service charges on stock purchases. If you are interested in joining the Plan and need an authorization form and/or more background information, please contact the Plan Administrator at:

National City Bank
Reinvestment Services
P.O. Box 94946
Cleveland, Ohio 44101
Phone: 800-622-6757

Annual Meeting

Shareholders and other interested persons are cordially invited to attend the Annual Meeting of Shareholders at 8:00 a.m., Thursday, March 26, 2009, at:

Agilysys Corporate Offices
28925 Fountain Parkway
Solon, Ohio 44139

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28925 FOUNTAIN PARKWAY
SOLON, OHIO 44139
877-374-4783

WWW.AGILYSYS.COM