AGILYSYS INC
Form 10-Q
August 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to .

Commission file number 0-5734

AGILYSYS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**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)**

(440) 519-8700

(Registrant s telephone number, including area code)

N/A

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

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 x No ¨

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

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 x
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 Exchange Act). Yes ¨ No x

The number of Common Shares of the registrant outstanding as of July 29, 2011 was 23,003,275.

AGILYSYS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AGILYSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30	
(In thousands, except share and per share data)	**2011**	2010
Net sales:		
Products	**$ 118,059**	$ 103,487
Services	**33,584**	28,386
Total net sales	**151,643**	131,873
Cost of goods sold:		
Products	**98,265**	86,107
Services	**14,945**	11,900
Total cost of goods sold	**113,210**	98,007
Gross margin	**38,433**	33,866
Operating expenses:		
Selling, general, and administrative expenses	**41,425**	40,065
Restructuring charges	**2,395**	393
Operating loss	**(5,387)**	(6,592)
Other expenses (income):		
Other expenses (income), net	**138**	(1,083)
Interest income	**(33)**	(23)
Interest expense	**338**	286
Loss before income taxes	**(5,830)**	(5,772)
Income tax (benefit) expense	**(1,041)**	4,480
Net loss	**$ (4,789)**	$ (10,252)
Net loss per share:		
Basic and diluted	**$ (0.21)**	$ (0.45)
Weighted average shares outstanding:		
Basic and diluted	**22,953,235**	22,750,740

See accompanying notes to condensed consolidated financial statements (uanudited).

AGILYSYS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts at June 30, 2011 are unaudited)

(In thousands, except share and per share data)	**June 30, 2011**	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 51,675**	$ 74,354
Accounts receivable, net of allowances of $1,305 and $1,532, respectively	**130,522**	123,666
Inventories, net	**25,686**	20,632
Prepaid expenses	**4,319**	3,063
Income taxes receivable	**1,731**	1,583
Other current assets	**14,476**	6,494
Total current assets	**228,409**	229,792
Goodwill	**20,556**	20,569
Intangible assets, net of accumulated amortization of $68,296 and $67,530, respectively	**22,117**	22,535
Other non-current assets	**4,719**	12,959
Property and equipment:		
Furniture and equipment	**46,552**	46,563
Software	**49,854**	49,793
Leasehold improvements	**9,768**	9,771
Project expenditures not yet in use	**1,093**	739
	107,267	106,866
Accumulated depreciation and amortization	**81,965**	80,323
Property and equipment, net	**25,302**	26,543
Total assets	**$ 301,103**	$ 312,398
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 94,550**	$ 93,486
Deferred revenue	**20,747**	27,914
Accrued liabilities	**27,423**	23,887
Income taxes payable	**63**	156
Deferred income taxes current, net	**81**	77
Capital lease obligations current	**1,289**	1,267
Total current liabilities	**144,153**	146,787
Deferred income taxes non-current, net	**3,908**	3,894
Capital lease obligations non-current	**1,265**	1,461
Other non-current liabilities	**6,698**	12,152
Commitments and contingencies (see Note 9)		
Shareholders equity		
Common shares, without par value, at $0.30 stated value; 80,000,000 shares authorized; 31,606,831 shares issued; and 23,001,987 and 23,022,398 shares outstanding at June 30, 2011 and March 31, 2011, respectively	**9,482**	9,482
Treasury shares (8,604,844 at June 30, 2011 and 8,584,433 at March 31, 2011)	**(2,581)**	(2,575)
Capital in excess of stated value	**(3,728)**	(5,421)
Retained earnings	**141,870**	146,659
Accumulated other comprehensive income (loss)	**36**	(41)

Total shareholders equity	**145,079**	148,104
Total liabilities and shareholders equity	**$ 301,103**	$ 312,398

See accompanying notes to condensed consolidated financial statements (uanudited).

AGILYSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three months ended June 30 2011	2010
Operating activities		
Net loss	**$ (4,789)**	$ (10,252)
Adjustments to reconcile net loss to net cash used for operating activities:		
Restructuring charges	**2,395**	393
Gain on the redemption of corporate-owned life insurance policies		(2,065)
Depreciation	**1,130**	1,140
Amortization	**1,531**	2,446
Deferred income taxes	**18**	4,362
Stock based compensation	**2,042**	679
Change in cash surrender value of corporate-owned life insurance policies	**4**	855
Changes in operating assets and liabilities:		
Accounts receivable	**(6,737)**	(17,346)
Inventories	**(5,054)**	(11,413)
Accounts payable	**982**	17,711
Accrued and other liabilities	**(10,152)**	(2,658)
Income taxes receivable	**(951)**	(116)
Other changes, net	**(1,299)**	1,213
Other non-cash adjustments, net	**(354)**	(266)
Total adjustments	**(16,445)**	(5,065)
Net cash used for operating activities	**(21,234)**	(15,317)
Investing activities		
Proceeds from redemption of corporate-owned life insurance policies		2,248
Additional investments in corporate-owned life insurance policies	**(46)**	(504)
Proceeds from the sale of marketable securities	**15**	14
Additional investments in marketable securities	**(11)**	
Purchases of software, property, and equipment	**(756)**	(1,529)
Net cash (used for) provided by investing activities	**(798)**	229
Financing activities		
Principal payments under long-term obligations	**(350)**	(101)
Repurchases of shares to satisfy employee tax withholding	**(355)**	(188)
Net cash used for financing activities	**(705)**	(289)
Effect of exchange rate changes on cash	**58**	(191)
Net decrease in cash	**(22,679)**	(15,568)
Cash at beginning of the period	**74,354**	65,535
Cash at end of the period	**$ 51,675**	$ 49,967

See accompanying notes to condensed consolidated financial statements (uanaudited).

AGILYSYS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Table amounts in thousands, except per share data)

1. Nature of Operations and Financial Statement Presentation

Nature of Operations

Agilysys, Inc. and its subsidiaries (the Company) provide innovative information technology (IT) solutions to corporate and public-sector customers with special expertise in select vertical markets, including retail, hospitality, and, until August 1, 2011, technology solutions (see Note 3 to Condensed Consolidated Financial Statements for a discussion regarding the disposal of the Company s Technology Solutions Group). The Company operates extensively in North America with additional sales and support offices in the United Kingdom and Asia.

During the first quarter of both fiscal periods presented herein, the Company operated in three reportable business segments: Hospitality Solutions Group (HSG), Retail Solutions Group (RSG), and Technology Solutions Group (TSG). See Note 3 to Condensed Consolidated Financial Statements for a discussion regarding the disposal of TSG. Additional information regarding the Company s reportable business segments is also described in Note 11 to Condensed Consolidated Financial Statements.

The significant accounting policies applied in preparing the Company s unaudited condensed consolidated financial statements are summarized below:

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the Company s accounts. The Company s investments in subsidiaries are reported using the consolidation method. All inter-company accounts have been eliminated. 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, fiscal 2012 refers to the fiscal year ending March 31, 2012.

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

The Condensed Consolidated Balance Sheet as of June 30, 2011, as well as the Condensed Consolidated Statements of Operations for the three-month periods ended June 30, 2011 and 2010, and the Condensed Consolidated Statements of Cash Flows for the three-month periods ended June 30, 2011 and 2010, have been prepared by the Company without audit. However, these financial statements have been prepared on the same basis as those in the audited annual financial statements. In the opinion of management, all adjustments necessary to fairly present the results of operations, financial position, and cash flows have been made. Except as discussed below, such adjustments were of a normal recurring nature. Further, the Company has evaluated all significant events occurring subsequent to the date of the Condensed Consolidated Financial Statements and through the filing of this Quarterly Report and concluded that there are no additional significant subsequent events requiring recognition or disclosure other than disclosed in Note 13 to Condensed Consolidated Financial Statements.

These unaudited interim financial statements of the Company should be read together with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended March 31, 2011, filed with the Securities and Exchange Commission (SEC) on June 14, 2011.

The Company experiences a disproportionately large percentage of quarterly sales in the last month of its fiscal quarters. In addition, the Company experiences a seasonal increase in sales during its fiscal third quarter ending December 31st. Accordingly, the results of operations for the three months ended June 30, 2011 are not necessarily indicative of the operating results for the full fiscal year or any future period.

Use of Estimates

The Company makes certain estimates and assumptions when preparing financial statements according to GAAP that affect the reported amounts of assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the periods presented. These estimates and assumptions involve judgments with respect to many factors that are difficult to predict and are beyond the Company s control. Actual results could be materially different from these estimates. The Company revises the estimates and assumptions as new information becomes available.

Reclassifications

Certain fiscal 2011 product and service revenues and costs of sales were reclassified (no impact on total gross margin) in order to conform to current period reporting presentations.

Correction of Error

During the first quarter of fiscal 2011, the Company recorded an adjustment to increase income tax expense by $3.8 million. The adjustment increased the Company s valuation allowance against its U.S. deferred tax assets and represents a correction of an error. In fiscal 2009, the Company erroneously considered the tax effect of indefinite-lived intangible assets as a source of future taxable income, when it established a significant U.S. valuation allowance against its U.S. deferred tax assets. Loss before income taxes did not change. Net loss increased by $3.8 million, or $0.17 per share, due to this adjustment. Management performed an evaluation under the SEC s Staff Accounting Bulletin (SAB) No. 108 and concluded the effect of this adjustment was immaterial to prior years financial statements as well as the full-year fiscal 2011 financial statements.

2. Summary of Significant Accounting Policies

A detailed description of the Company s significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2011, included in the Company s Annual Report on Form 10-K. Except as described below, there have been no material changes in the Company s significant accounting policies and estimates from those disclosed therein.

Credit Facility

Until July 29, 2011, the Company maintained a $50.0 million Loan and Security Agreement among the Company, and certain of its subsidiaries, and Bank of America, N.A. (the Lender), dated May 5, 2009 (Credit Facility). The Credit Facility had the ability to be increased to $75.0 million by a $25.0 million accordion provision for borrowings and letters of credit and was due to mature on May 5, 2012. Except for letters of credit, the Company had no amounts outstanding under the Credit Facility as of June 30, 2011 and due to availability of eligible accounts receivable, $41.7 million was available for future borrowings. However, at June 30, 2011 and through July 29, 2011, the Company would have been limited to borrowing no more than $26.7 million under the Credit Facility in order to maintain compliance with the fixed charge coverage ratio as defined in the Credit Facility. The Company terminated the Credit Facility on August 1, 2011 in conjunction with the sale of TSG (see Note 13 to Condensed Consolidated Financial Statements for additional information).

Additional information with respect to the Credit Facility is contained in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2011. Except as discussed in the Company s fiscal 2011 Annual Report, there were no changes to the Credit Facility since it was executed on May 5, 2009.

Recently Adopted Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding fair value measurements. This guidance requires additional disclosure within the rollforward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances, and settlements of assets and liabilities within Level 3 of the fair value hierarchy (see Note 12 to Condensed Consolidated Financial Statements for definitions of the fair value hierarchy levels). In addition, this guidance requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosure of purchases, sales, issuances, and settlements of Level 3 measurements, which are effective for fiscal years beginning after December 15, 2010. On April 1, 2010, the Company adopted the required provisions of this guidance (see Note 12 to Condensed Consolidated Financial Statements). On April 1, 2011, the Company adopted the remaining provisions of this authoritative guidance, as required (also see Note 12 to Condensed Consolidated Financial Statements). The adoption of this guidance did not have an impact on the Company s financial position, results of operations, or cash flows.

In October 2009, the FASB issued authoritative guidance on revenue arrangements with multiple deliverable elements (e.g., hardware with services), which is effective for the Company on April 1, 2011 for new revenue arrangements or material modifications to existing arrangements. The guidance amends the criteria for separating consideration in arrangements with multiple deliverable elements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable based on: 1) vendor-specific objective evidence; 2) third-party evidence; or 3) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands the required disclosures related to revenue arrangements with multiple deliverable elements. Entities may elect to adopt the guidance through either prospective application for revenue arrangements entered into, or materially modified, after the effective date, or through retrospective application to all revenue arrangements for all periods presented. Early adoption is permitted. The Company adopted the provisions of this guidance on April 1, 2011, as required. The adoption of this guidance did not have an impact on the Company s financial position, results of operations, cash flows, or related disclosures.

In October 2009, the FASB issued authoritative guidance on revenue arrangements that include software elements, which is effective for the Company on April 1, 2011. The guidance changes revenue recognition for tangible products containing software elements and non-software elements as follows: 1) the tangible product element is always excluded from the software revenue recognition guidance even when sold together with the software element; 2) the software element of the tangible product element is also excluded from the software revenue guidance when the software and non-software elements function together to deliver the product s essential functionality; and 3) undelivered elements in a revenue arrangement related to the non-software element are also excluded from the software revenue recognition guidance. Entities must select the same transition method and same period for the adoption of both this guidance and the guidance on revenue arrangements with multiple deliverable elements. The Company adopted the provisions of this guidance on April 1, 2011, as required. The adoption of this guidance did not have an impact on the Company s financial position, results of operations, cash flows, or related disclosures.

Recently Issued Accounting Standards

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income in an entity s financial statements, which is intended to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This authoritative guidance supersedes the presentation options currently available under GAAP and facilitates convergence of GAAP and International Financial Reporting Standards (IFRS) by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and requiring that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of this authoritative guidance are to be applied retrospectively and are effective for the Company beginning on April 1, 2012. The Company is currently evaluating the provisions of this guidance, but does not expect this guidance to have a significant impact on the Company s financial position, results of operations, cash flows, or related disclosures.

In May 2011 the FASB issued amendments to its authoritative guidance on fair value measurements and disclosures, which represents the converged guidance of the FASB and the International Accounting Standards Board (collectively, the Boards) on fair value measurements. The collective efforts of the Boards and their staffs, reflected in this authoritative guidance, resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this authoritative guidance are required to be applied prospectively, and are effective for the Company beginning April 1, 2012. The Company is currently evaluating the provisions of this guidance, but does not expect this guidance to have a significant impact on the Company s financial position, results of operations, cash flows, or related disclosures.

Management continually evaluates the potential impact, if any, on its financial position, results of operations, and cash flows, of all recent accounting pronouncements and, if significant, makes the appropriate disclosures required by such new accounting pronouncements.

3. Sale of TSG Business

On May 28, 2011, the Company entered into a definitive agreement to sell its TSG business for an aggregate purchase price of $64.0 million in cash, subject to a possible downward adjustment based on final working capital, to OnX Enterprise Solutions Limited and its subsidiary OnX Acquisition LLC (together, OnX), a leading IT solutions provider based in Toronto, Canada. On July 28, 2011, the Company s shareholders approved this sale and the transaction closed on August 1, 2011, the date on which certain other contingencies specified in the agreement were satisfied. Upon the close of the transaction, the aggregate purchase price of $64.0 million was reduced by the payment of agreed-upon fees of $3.3 million for severance costs and $1.2 million for third-party services in support of the transition, resulting in net proceeds received by the Company of $59.5 million. Since the transaction did not qualify as discontinued operations until after June 30, 2011 due to the outstanding contingencies related to the transaction, the assets and liabilities of the TSG business are not classified as discontinued operations in the Company s accompanying Condensed Consolidated Balance Sheets and the results of operations of the TSG business are not classified as discontinued operations in the Company s accompanying Condensed Consolidated Statements of Operations.

Major Categories of Assets and Liabilities Sold

At June 30, 2011 and March 31, 2011, the major categories of assets and liabilities of the TSG business were comprised of the following:

	June 30, 2011	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 4,862**	$ 4,214
Accounts receivable, net	**95,158**	91,719
Inventories, net	**9,340**	9,711
Prepaid expenses and other current assets	**1,824**	484
Total current assets	**111,184**	106,128
Goodwill	**5,358**	5,358
Other non-current assets	**964**	1,250
Property and equipment, net	**1,194**	1,380
Total assets	**$ 118,700**	$ 114,116
LIABILITIES		
Current liabilities:		
Accounts payable	**$ 69,473**	$ 75,598
Deferred revenue	**2,487**	3,919
Accrued liabilities	**7,436**	9,402
Capital lease obligations current	**152**	150
Total current liabilities	**79,548**	89,069
Capital lease obligations non-current	**403**	441
Other non-current liabilities	**50**	180
Total liabilities	**$ 80,001**	$ 89,690

4. Comprehensive Income (Loss)

Comprehensive income (loss) is the total of net loss as currently reported under GAAP plus other comprehensive income (loss). Other comprehensive income (loss) considers the effects of additional transactions and economic events that are not required to be recorded in determining net income, but rather are reported as a separate component of shareholders equity. Changes in the components of accumulated other comprehensive income (loss) for the three months ended June 30, 2011 and 2010 are as follows:

	Foreign currency translation adjustment	Unamortized net actuarial gains	Unrealized losses on securities	Accumulated other comprehensive income (loss)	Comprehensive income (loss)
Balance at April 1, 2011	$ (99)	$ 58	$	$ (41)	
Change during the three months ended June 30, 2011	86		(9)	77	77
Balance at June 30, 2011	$ (13)	$ 58	$ (9)	$ 36	
Net loss for the three months ended June 30, 2011					(4,789)
Total comprenhensive loss for the three months ended June 30, 2011					$ (4,712)

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	Foreign currency translation adjustment	Unamortized net actuarial losses and prior service costs	Accumulated other comprehensive loss	Comprehensive (loss) income
Balance at April 1, 2010	$ (664)	$ (656)	$ (1,320)	
Change during the three months ended June 30, 2010	(204)	57	(147)	(147)
Balance at June 30, 2010	$ (868)	$ (599)	$ (1,467)	
Net loss for the three months ended June 30, 2010				(10,252)
Total comprehensive loss for the three months ended June 30, 2010				$ (10,399)

5. Restructuring Charges

The Company recognizes restructuring charges when a plan that materially changes the scope of the Company s business or the manner in which that business is conducted is adopted and communicated to the impacted parties, and the expenses have been incurred or are reasonably estimable. In addition, the Company assesses the property and equipment associated with the related facilities for impairment. The remaining useful lives of property and equipment associated with the related operations are re-evaluated based on the respective restructuring plan, resulting in the acceleration of depreciation and amortization of certain assets. Additional information regarding the Company s respective restructuring plans is included in the Company s Annual Report on Form 10-K for the year ended March 31, 2011.

Fiscal 2012 Restructuring Plan

In the first quarter of fiscal 2012, the Company announced restructuring actions, including the relocation of its corporate headquarters from Solon, Ohio to Alpharetta, Georgia, designed to better align corporate functions with the Company s operating units and reduce costs following the sale of TSG. In addition, the Company announced that its President and Chief Executive Officer was stepping down to pursue other interests. These restructuring actions are expected to be mostly completed by March 31, 2012 and have impacted or will impact approximately 160 employees. The Company recorded $2.4 million in restructuring charges during the first three months of fiscal 2012, primarily comprised of severance and related benefits, with $0.2 million, $0.1 million, $0.1 million, and $2.0 million related to HSG, RSG, TSG, and Corporate/Other, respectively. The Company expects to incur between approximately $14.0 million and $16.0 million in additional restructuring charges for severance and related benefits, relocation, and facilities related to these restructuring actions during the remainder of fiscal 2012 and the first quarter of fiscal 2013. As a result of taking these restructuring actions, the Company expects to realize between approximately $14.0 million and $16.0 million in cost savings, which are expected to be primarily realized during fiscal 2013.

Fiscal 2009 Restructuring Plan

The Company recorded $0.4 million in additional restructuring charges during the first three months of fiscal 2011, primarily comprised of settlement costs related to the payment of an obligation to a former executive under the Company s Supplemental Executive Retirement Plan (SERP) and ongoing facility lease obligations. The additional restructuring charges recorded in fiscal 2011 related to the previously disclosed restructuring actions taken in fiscal 2009.

Since fiscal 2009, the Company has incurred charges totaling $42.0 million related to restructuring actions taken during fiscal 2009 and previously disclosed. These restructuring charges were comprised of $0.4 million, $0.8 million and $40.8 million for the fiscal years ended March 31, 2011, 2010, and 2009, respectively. Approximately $23.5 million of these restructuring charges related to TSG, with the remaining $18.5 million related to Corporate/Other. The Company expects to incur minimal additional net restructuring charges related to the fiscal 2009 restructuring activity for the remainder of fiscal 2012 and through fiscal 2014 for non-cash settlement charges related to the expected payment of a SERP obligation to a former executive and for ongoing facility obligations.

Restructuring Liabilities Reconciliation

The following table presents a reconciliation of the beginning and ending balances of the Company s restructuring liabilities recorded in fiscal 2009 through fiscal 2012:

	Severance and other employment costs	Facilities	Total
Balance at April 1, 2011	$ 1,085	$ 444	$ 1,529
Additions	2,411		2,411
Accretion of lease obligations		10	10
Adjustments		(26)	(26)
Payments	(593)	(40)	(633)
Balance at June 30, 2011	$ 2,903	$ 388	$ 3,291

These liabilities are recorded within Accrued liabilities and Other non-current liabilities in the accompanying Condensed Consolidated Balance Sheets. Of the remaining $3.3 million liability at June 30, 2011, $1.5 million of severance and other employment costs are expected to be paid during fiscal 2012, $1.0 million is expected to be paid during fiscal 2013, and the remaining $0.4 million is expected to be paid during fiscal 2014. Approximately $155,000 is expected to be paid during the remainder of fiscal 2012 for ongoing facility lease obligations. Facility lease obligations are expected to continue through fiscal 2014.

6. Stock Based Compensation

The Company has a shareholder-approved 2006 Stock Incentive Plan (the 2006 Plan), as well as a 2000 Stock Option Plan for Outside Directors and a 2000 Stock Incentive Plan (collectively, the 2000 Plans) that all have vested awards outstanding. The Company is no longer granting awards under the 2006 Plan and 2000 Plans. On July 28, 2011, the Company s shareholders also approved a 2011 Stock Incentive Plan (see Note 13 to Condensed Consolidated Financial Statements for additional information).

Under the 2006 Plan, the Company may grant non-qualified stock options, incentive stock options, stock-settled stock appreciation rights, time-vested restricted shares, restricted share units, performance-vested restricted shares, and performance shares for up to 3.2 million common shares. The maximum aggregate number of restricted shares, restricted share units, and performance shares that may be granted under the 2006 Plan is 1.6 million. The aggregate number of shares underlying all awards granted under the 2006 Plan in any two consecutive fiscal year period may not exceed 1.6 million shares plus the aggregate number of shares underlying awards previously cancelled, terminated, or forfeited.

For stock option awards, the exercise price must be set at least equal to the closing market price of the Company s common shares 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 2006 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. The maximum term of stock appreciation rights awards is 10 years.

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 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. Performance shares have the right to receive dividends, if any, subject to the same forfeiture provisions that apply to the underlying awards. As of June 30, 2011, there were no restricted share units awarded from the 2006 Plan.

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

Stock Options

The following table summarizes the activity during the three months ended June 30, 2011 for stock options awarded by the Company under the 2006 Plan and prior plans:

	Number of Options	Weighted-Average Exercise Price (per share)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at April 1, 2011	**1,867,501**	**$ 11.88**		
Granted				
Exercised				
Forfeited				
Cancelled/expired				
Outstanding and exercisable at June 30, 2011	**1,867,501**	**$ 11.88**	**5.0**	**$ 2,388**

The aggregate intrinsic value in the table above represents the total pre-tax difference between the $8.34 closing price of the Company s common shares on June 30, 2011 over the exercise price of the stock option, multiplied by the number of stock options outstanding and exercisable. Under GAAP, the aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on changes in the fair market value of the Company s common shares.

The following table presents additional information related to stock option activity during the three months ended June 30, 2010:

	Three months ended June 30, 2010
Compensation expense	$ 291
Total vest-date fair value of stock options vesting	$ 532

Compensation expense for stock options was recorded within Selling, general and administrative expenses in the Consolidated Statements of Operations during the three months ended June 30, 2010. The compensation expense recorded in the first quarter of fiscal 2011 included $0.2 million for the accelerated vesting of stock option expense due to a change in control provision contained in the original award agreements that was triggered by MAK Capital and its affiliates reaching a 20% ownership stake in the Company. As of June 30, 2010, there was no remaining unrecognized stock based compensation expense related to non-vested stock options.

Stock-Settled Stock Appreciation Rights

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

The Company uses a Black-Scholes-Merton option pricing model to estimate the fair value of SSARs. The following table summarizes the principal assumptions utilized in valuing SSARs granted in the first quarter of fiscal 2011:

	Three months ended June 30, 2010
Dividend yield	0%
Risk-free interest rate	1.94%
Expected life (years)	4.5
Expected volatility	81.92%

The dividend yield reflects the Company s historical dividend yield on the date of the award. On August 5, 2009, the Company s Board of Directors voted to eliminate the payment of cash dividends on the Company s common shares. For awards granted prior to August 5, 2009, the dividend yield reflects the Company s historical dividend yield on the date of award. Awards granted after August 5, 2009 were valued using a zero percent dividend yield, which is the yield expected during the life of the award. The risk-free interest rate is based on the yield of a zero coupon U.S. Treasury bond whose maturity period approximates the expected life of the SSARs. The Company utilizes the simplified method as permitted under SAB No. 110 to calculate the expected life of the SSARs. Under SAB No. 110, the expected life is based on the midpoint between the vesting date and the end of the contractual term of the SSARs award. The Company believes that SSARs awarded in the first quarter of fiscal 2011 meet the criteria established by the SEC for the use of the simplified method. The expected stock price volatility is based on the volatility of the Company s common shares for the most recent historical period equal to the expected life of the SSARs. The Company s ownership base has been and may continue to be concentrated in a few shareholders, which has increased and could continue to increase the volatility of the Company s common share price over time. The estimated fair value of the SSARs granted, less expected forfeitures, is recognized over the vesting period of the awards utilizing the graded vesting method. Under this method, the compensation cost related to unvested amounts begins to be recognized as of the grant date.

The following table summarizes the activity during the three months ended June 30, 2011 for SSARs awarded by the Company under the 2006 Plan:

	Number of Rights	Weighted-Average Exercise Price (per right)	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at April 1, 2011	**1,317,684**	**$ 6.50**		
Granted				
Exercised	**(31,000)**	**5.82**		
Forfeited				
Cancelled/expired	**(3,333)**	**6.83**		
Outstanding at June 30, 2011	**1,283,351**	**$ 6.51**	**5.5**	**$ 2,380**
Exercisable at June 30, 2011	**1,269,351**	**$ 6.48**	**5.5**	**$ 2,380**

The aggregate intrinsic value in the table above represents the total pre-tax difference between the $8.34 closing price of the Company s common shares on June 30, 2011 over the exercise price of the SSARs, multiplied by the number of SSARs outstanding or outstanding and exercisable. Under GAAP, the aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on changes in the fair market value of the Company s common shares.

The following table presents additional information related to SSARs activity during the three months ended June 30, 2011 and 2010:

	Three months ended June 30	
	2011	2010
Compensation expense	**$ 1,728**	$ 236
Income tax benefit related to SSARs exercised:		
Classified in operating activities in the Consolidated Statements of Cash Flows	**$**	$
Classified in financing activities in the Consolidated Statements of Cash Flows	**$**	$
Total intrinsic value of SSARs exercised	**$ 72**	$ 189
Total vest-date fair value of SSARs vesting	**$ 2,807**	$

Compensation expense for SSARs was recorded within Selling, general and administrative expenses in the Consolidated Statements of Operations during the three months ended June 30, 2011 and 2010. The compensation expense recorded in the first quarter of fiscal 2012 included $1.4 million for the accelerated vesting of SSARs expense due to a change in control provision contained in the 2006 Plan that was triggered by the announcement of the sale of TSG on May 31, 2011. As of June 30, 2011, total unrecognized stock based compensation expense related to non-vested SSARs was $66,000, which is expected to be recognized over a weighted-average vesting period of 5.8 years.

A total of 8,852 shares were issued from treasury shares to settle SSARs exercised during the first quarter of fiscal 2012. A total of 4,935 shares, net of 2,463 shares withheld to cover the employee s minimum applicable income taxes, were issued from treasury shares to settle SSARs exercised during the first quarter of fiscal 2011.

As discussed in Note 7 to Condensed Consolidated Financial Statements, in fiscal 2012 and fiscal 2011 the Company was in a net operating loss position for U.S. federal income taxes. Therefore, the Company did not recognize and will not recognize an income tax benefit related to SSARs until that tax benefit can be realized.

Restricted Shares

The Company granted shares to certain of its Directors and executives under the 2006 Plan, the vesting of which is service-based. The following table summarizes the activity during the three months ended June 30, 2011 for restricted shares awarded by the Company:

	Number of shares	Weighted-Average Grant-Date Fair Value (per share)
Outstanding at April 1, 2011	35,000	$ 8.18
Granted		
Vested	(25,000)	7.71
Forfeited		
Outstanding at June 30, 2011	10,000	$ 9.35

The weighted-average grant date fair value of the restricted shares is determined based upon the closing price of the Company s common shares on the grant date.

The following table presents additional information related to restricted stock activity during the three months ended June 30, 2011 and 2010:

	Three months ended June 30	
	2011	2010
Compensation expense	**$ 146**	$ 72
Total vest-date fair value of restricted stock vesting	**$ 170**	$

Compensation expense related to restricted stock awards is recognized ratably over the restriction period based upon the closing market price of the Company s common shares on the grant date. Compensation expense for restricted stock was recorded within Selling, general and administrative expenses in the Consolidated Statements of Operations during the three months ended June 30, 2011 and 2010. The fiscal 2012 compensation expense included $0.1 million for the accelerated vesting of restricted stock expense due to a change in control provision contained in the 2006 Plan that was triggered by the announcement of the sale of TSG on May 31, 2011. As of June 30, 2011, total unrecognized stock based compensation expense related to non-vested restricted stock was $72,000, which is expected to be recognized over a weighted-average vesting period of 5.8 years. The Company will not include restricted stock in the calculation of earnings per share until the shares are vested.

Performance Shares

The Company granted shares to certain of its executives under the 2006 Plan, the vesting of which is contingent upon meeting various Company-wide performance goals as of March 31, 2010. The earned performance shares vest over three years. The weighted-average grant date fair value of the performance share grants was determined based on the closing market price of the Company s common shares on the grant date and assumed that performance goals would be met at target.

The following table summarizes the activity during the three months ended June 30, 2011 for performance shares awarded by the Company under the 2006 Plan:

	Number of shares	Weighted -Average Grant-Date Fair Value (per share)
Outstanding at April 1, 2011	49,438	$ 6.83
Granted		
Vested	(49,438)	6.83
Forfeited		
Outstanding at June 30, 2011		$

The following table presents additional information related to performance share activity during the three months ended June 30, 2011 and 2010:

	Three months ended June 30	
	2011	2010
Compensation expense	**$ 168**	$ 80
Total vest-date fair value of performance shares vesting	**$ 337**	$ 539

Once attainment of the performance goals becomes probable, compensation expense related to performance share awards is recognized ratably over the vesting period based upon the closing market price of the Company s common shares on the grant date. The compensation expense for performance shares was recorded within Selling, general and administrative expenses in the Consolidated Statements of Operations during the three months ended June 30, 2011 and 2010. The fiscal 2012 compensation expense included $0.2 million for the accelerated vesting of performance share expense due to a change in control provision contained in the 2006 Plan that was triggered by the announcement of the sale of TSG on May 31, 2011. At June 30, 2011, there was no remaining unrecognized stock based compensation expense related to non-vested performance shares.

7. Income Taxes

The effective tax rates from continuing operations for the three months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30	
	2011	2010
Effective income tax rate	**17.8%**	(77.6)%

Income tax expense is based on the Company s estimate of the effective tax rate expected to be applicable for the respective full year. For the first quarter of fiscal 2012, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses, as deferred tax assets, which were offset by increases in the valuation allowance. Other items effecting the rate in the current year quarter include foreign and state taxes and a discrete item related to a decrease in unrecognized tax benefits. For the first quarter of fiscal 2011, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses, as deferred tax assets, which were offset by increases in the valuation allowance. In addition, an increase in the valuation allowance was recorded due to the correction of an error, as more fully described in Note 1 to Condensed Consolidated Financial Statements. Other items effecting the rate in the prior year quarter include foreign and state taxes and a discrete item related to an increase in unrecognized tax benefits.

Although the timing and outcome of tax settlements are uncertain, it is reasonably possible that during the next 12 months a reduction in unrecognized tax benefits may occur in the range of zero to $0.8 million based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. The Company is routinely audited and is currently under examination by the Internal Revenue Service (IRS) for the tax year ended March 31, 2010. Due to the ongoing nature of current examinations in multiple jurisdictions, other changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

8. Loss Per Share

The following data show the amounts used in computing loss per share and the effect on income and the weighted average number of dilutive potential common shares:

	Three months ended June 30	
	2011	2010
Numerator:		
Net loss basic and diluted	**$ (4,789)**	$ (10,252)
Denominator:		
Weighted average shares outstanding basic	**22,953**	22,751
Effect of dilutive securities:		
Share-based compensation awards		
Weighted average shares outstanding diluted	**22,953**	22,751
Loss per share - basic and diluted:		
Net loss	**$ (0.21)**	$ (0.45)

Basic loss per share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. The outstanding shares used to calculate the weighted average basic shares excludes 10,000 of restricted shares at June 30, 2011, and 223,532, of restricted shares and 428,778 of performance shares (in each case, including reinvested dividends) at June 30, 2010, as these shares were issued but were not vested and, therefore, not considered outstanding for purposes of computing basic earnings per share at the balance sheet dates. Diluted loss per share is computed by sequencing each series of potential issuance of common shares from the most dilutive to the least dilutive. Diluted loss per share is determined as the lowest earnings or highest loss per incremental share in the sequence of potential common shares. When a loss is reported, the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of share-based compensation awards because doing so would be anti-dilutive to the loss per share. Therefore, for the three months ended June 30, 2011 and 2010, basic weighted-average shares outstanding were used in calculating the diluted net loss per share.

For the three months ended June 30, 2011, stock options and SSARs on 3.2 million common shares were not included in computing diluted earnings per share because their effects were anti-dilutive. For the three months ended June 30, 2010, stock options and SSARs on 3.2 million common shares were not included in computing diluted earnings per share because their effects were anti-dilutive.

9. Commitments and 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 certain 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.

As of June 30, 2011, the Company is expected to reach its minimum purchase commitments from a vendor of $330.0 million per year through fiscal 2012, which were disclosed in the Company s Annual Report on Form 10-K for the year ended March 31, 2011. The majority of this obligation, representing $310.0 million, was assumed by OnX upon the completion of the TSG divestiture. The remaining $20.0 million obligation will be retained by the Company and the Company expects to reach its commitment during fiscal 2012.

10. Additional Balance Sheet Information

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

	June 30, 2011	March 31, 2011
Other current assets:		
Marketable securities restricted in Rabbi Trust	$ 13,727	$ 5,791
Other	749	703
Total	$ 14,476	$ 6,494
Other non-current assets:		
Corporate-owned life insurance policies	$ 3,365	$ 3,323
Marketable securities restricted in Rabbi Trust		7,950
Other	1,354	1,686
Total	$ 4,719	$ 12,959
Accrued liabilities:		
Salaries, wages, and related benefits	$ 7,343	$ 10,374
SERP obligations	5,705	5,675
BEP obligations	5,418	
Other employee benefit obligations	116	116
Restructuring liabilities	2,057	1,141
Other taxes payable	4,194	3,432
Other	2,590	3,149
Total	$ 27,423	$ 23,887
Other non-current liabilities:		
BEP obligations	$	$ 5,629
Other employee benefit obligations	305	305
Income taxes payable	3,521	4,337
Restructuring liabilities	1,234	388
Other	1,638	1,493
Total	$ 6,698	$ 12,152

The marketable securities included in the table above within Other current assets and Other non-current assets are maintained in a Rabbi Trust to informally fund the Company s obligations with respect to employee benefit plan obligations under the SERP and Benefits Equalization Plan (BEP), which are included within Accrued liabilities and Other non-current liabilities. The corporate-owned life insurance policies included in the table above within Other non-current assets represent split-dollar endorsement life insurance policies for which the related benefit obligation is included within Other non-current liabilities. The Company presents these contracts at their cash surrender value (which is considered fair value), net of policy loans. The Company adjusts the carrying value of these contracts to the cash surrender value at the end of each reporting period. Such periodic adjustments are included in Other (income) expenses, net within the accompanying Condensed Consolidated Statements of Operations. Additional information with respect to the Company s marketable securities, corporate-owned life insurance policies, and employee benefit plans obligations is provided in the Company s Annual Report on Form 10-K for the year ended March 31, 2011.

11. Business Segments

Description of Business Segments

During the first quarter of fiscal 2012 and fiscal 2011, the Company had three reportable business segments: HSG, RSG, and TSG (see Note 3 to Condensed Consolidated Financial Statements for a discussion regarding the disposal of TSG). The reportable segments are each managed separately and are supported by various practices as well as Company-wide functional departments. These functional support departments include general accounting, tax, and information technology. Certain costs associated with the functional support departments are contained within Corporate/Other and are not allocated back to the reportable business segments. Corporate/Other is not a reportable business segment as defined by GAAP.

HSG is a leading technology provider to the hospitality industry, offering hardware, 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.

RSG is a leader in designing solutions for retailers to improve productivity, operational efficiency, technology utilization, customer satisfaction, and in-store profitability, and to provide retail customers with an enhanced shopping experience. RSG provides mobility and wireless, customized pricing, and inventory solutions, and customer relationship management systems. RSG also provides implementation plans and supplies the hardware package required to operate the systems, including servers, receipt printers, point-of-sale terminals, and wireless devices for in-store use by retail store associates.

TSG is a leading provider of IBM, HP, Oracle, EMC[2], Hitachi Data Systems, and NetApp enterprise IT solutions for the complex data center needs of customers in a variety of industries including finance, government, healthcare, telecommunications, and education, 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 s Interim President and Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), evaluates performance and allocates resources to its reportable segments based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies elsewhere in these Notes to Condensed Consolidated Financial Statements. Intersegment sales are recorded at pre-determined amounts to allow for inter-company profit to be included in the operating results of the individual reportable segments. Such inter-company profit is eliminated for consolidated financial reporting purposes.

The CODM 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 table below.

Customer Concentration

Verizon Communications, Inc. accounted for 29.8% and 28.1% of TSG s total revenues, and 19.2% and 18.1% of total Company revenues for the three months ended June 30, 2011 and 2010, respectively.

Segment Operating Results

The following table presents segment profit and related information for each of the Company s reportable segments. Please refer to Note 5 to Condensed Consolidated Financial Statements for further information on the Corporate/Other restructuring charges.

	Reportable Segments			Corporate/	
	HSG	RSG	TSG	Other	Consolidated
Three Months Ended June 30, 2011					
Total revenue	$ 20,960	$ 33,105	$ 97,757	$	$ 151,822
Elimination of intersegment revenue		(179)			(179)
Revenue from external customers	$ 20,960	$ 32,926	$ 97,757	$	$ 151,643
Gross margin	$ 13,267	$ 6,260	$ 18,906	$	$ 38,433
Gross margin percentage	*63.3%*	*19.0%*	*19.3%*		*25.3%*
Operating income (loss)	$ 515	$ 2,095	$ 2,570	$ (10,567)	$ (5,387)
Other expenses, net				(138)	(138)
Interest expense, net				(305)	(305)
Income (loss) before income taxes	$ 515	$ 2,095	$ 2,570	$ (11,010)	$ (5,830)
Other information:					
Capital expenditures	$ 749	$ 7	$	$	$ 756
Non-cash charges:					
Depreciation and Amortization (1)	$ 1,058	$ 151	$ 119	$ 1,202	$ 2,530
Restructuring charges	$ 187	$ 134	$ 49	$ 2,025	$ 2,395
Total	$ 1,245	$ 285	$ 168	$ 3,227	$ 4,925
Three Months Ended June 30, 2010					
Total revenue	$ 23,049	$ 23,813	$ 85,087	$	$ 131,949
Elimination of intersegment revenue		(76)			(76)
Revenue from external customers	$ 23,049	$ 23,737	$ 85,087	$	$ 131,873
Gross margin	$ 13,287	$ 5,669	$ 14,910	$	$ 33,866
Gross margin percentage	*57.6%*	*23.9%*	*17.5%*		*25.7%*
Operating income (loss)	$ 2,239	$ 1,768	$ (1,752)	$ (8,847)	$ (6,592)
Other income, net					