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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from __________ to __________.

Commission file number 0-5734

AGILYSYS, INC.
(Exact name of registrant as specified in its charter)

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

(770) 810-7800
(Registrant's telephone number, including area code)

N/A

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

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

The number of Common Shares of the registrant outstanding as of October 23, 2020 was 23,591,213.

AGILYSYS, INC.

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AGILYSYS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2020 Unaudited	March 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 85,706	$ 46,653
Accounts receivable, net of allowance for expected credit losses of $1,209 and for doubtful accounts of $1,634, respectively	20,173	35,869
Contract assets	2,475	2,125
Inventories	2,174	3,887
Prepaid expenses and other current assets	5,016	4,874
Total current assets	115,544	93,408
Property and equipment, net	10,108	12,230
Operating lease right-of-use assets	13,023	13,829
Goodwill	19,622	19,622
Intangible assets, net	8,400	8,400
Deferred income taxes, non-current	1,040	764
Other non-current assets	5,977	6,309
Total assets	$ 173,714	$ 154,562
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,176	$ 13,403
Contract liabilities	30,755	42,244
Accrued liabilities	7,185	9,033
Operating lease liabilities, current	4,638	4,719
Finance lease obligations, current	23	24
Total current liabilities	45,777	69,423
Deferred income taxes, non-current	889	880
Operating lease liabilities, non-current	9,923	10,617
Finance lease obligations, non-current	14	25
Other non-current liabilities	3,728	1,860
Commitments and contingencies (see Note 8)		
Series A convertible preferred stock, no par value	35,459	—
Shareholders' equity:		
Common shares, without par value, at $0.30 stated value; 80,000,000 shares authorized; 31,606,831 shares issued; and 23,588,178 and 23,609,398 shares outstanding at September 30, 2020 and March 31, 2020, respectively	9,482	9,482
Treasury shares, 8,018,653 and 7,997,433 at September 30, 2020 and March 31, 2020, respectively	(2,406)	(2,401)
Capital in excess of stated value	8,151	5,491
Retained earnings	62,645	58,984
Accumulated other comprehensive income	52	201
Total shareholders' equity	77,924	71,757
Total liabilities and shareholders' equity	$ 173,714	$ 154,562

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	**2020**	2019
Net revenue:				
Products	**$ 6,559**	$ 11,873	**$ 11,798**	$ 22,742
Support, maintenance and subscription services	**22,304**	20,329	**42,801**	40,411
Professional services	**5,497**	8,520	**9,567**	15,958
Total net revenue	**34,360**	40,722	**64,166**	79,111
Cost of goods sold:				
Products (inclusive of developed technology amortization)	**2,950**	9,794	**5,965**	18,417
Support, maintenance and subscription services	**4,555**	4,654	**8,860**	8,834
Professional services	**3,701**	6,057	**7,638**	11,628
Total cost of goods sold	**11,206**	20,505	**22,463**	38,879
Gross profit	**23,154**	20,217	**41,703**	40,232
Gross profit margin	**67.4%**	49.6%	**65.0%**	50.9%
Operating expenses:				
Product development	**8,257**	10,778	**16,524**	20,842
Sales and marketing	**2,350**	4,890	**4,951**	9,389
General and administrative	**5,217**	6,038	**10,936**	11,911
Depreciation of fixed assets	**715**	707	**1,438**	920
Amortization of intangibles	**508**	614	**968**	1,292
Severance and other charges	**7**	190	**1,210**	421
Legal settlements, net	**50**	(119)	**50**	(119)
Total operating expense	**17,104**	23,098	**36,077**	44,656
Operating income (loss)	**6,050**	(2,881)	**5,626**	(4,424)
Other (income) expense:				
Interest income	**(28)**	(114)	**(49)**	(194)
Interest expense	**2**	2	**3**	3
Other expense, net	**88**	108	**194**	193
Income (loss) before taxes	**5,988**	(2,877)	**5,478**	(4,426)
Income tax expense	**121**	41	**128**	67
Net income (loss)	**$ 5,867**	$ (2,918)	**$ 5,350**	$ (4,493)
Series A convertible preferred stock issuance costs	**(94)**	-	**(1,031)**	-
Series A convertible preferred stock dividends	**(459)**	-	**(658)**	-
Net income (loss) attributable to common shareholders	**$ 5,314**	$ (2,918)	**$ 3,661**	$ (4,493)
Weighted average shares outstanding - basic	**23,424**	23,238	**23,415**	23,225
Net income (loss) per share - basic:	**$ 0.23**	$ (0.13)	**$ 0.16**	$ (0.19)
Weighted average shares outstanding - diluted	**23,866**	23,238	**23,849**	23,225
Net income (loss) per share - diluted:	**$ 0.22**	$ (0.13)	**$ 0.15**	$ (0.19)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	**2020**	2019
Net income (loss)	**$ 5,867**	$ (2,918)	**$ 5,350**	$ (4,493)
Other comprehensive income (loss), net of tax:				
Unrealized foreign currency translation adjustments	**(124)**	156	**(149)**	61
Total comprehensive income (loss)	**$ 5,743**	$ (2,762)	**$ 5,201**	$ (4,432)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended September 30,	
	2020	2019
Operating activities		
Net income (loss)	**$ 5,350**	$ (4,493)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation	**1,438**	920
Amortization of intangibles	**968**	1,292
Amortization of developed technology	**—**	6,303
Deferred income taxes	**(269)**	(239)
Share-based compensation	**2,682**	1,827
Changes in operating assets and liabilities	**(3,527)**	(4,376)
Net cash provided by operating activities	**6,642**	1,234
Investing activities		
Capital expenditures	**(471)**	(1,940)
Additional investments in corporate-owned life insurance policies	**(2)**	(2)
Net cash used in investing activities	**(473)**	(1,942)
Financing activities		
Repurchase of common shares to satisfy employee tax withholding	**(959)**	(1,053)
Series A convertible preferred stock issuance proceeds, net of issuance costs	**33,969**	—
Payment of preferred stock dividends	**(199)**	—
Principal payments under long-term obligations	**(12)**	(12)
Net cash provided by (used in) financing activities	**32,799**	(1,065)
Effect of exchange rate changes on cash	**85**	(83)
Net increase (decrease) in cash and cash equivalents	**39,053**	(1,856)
Cash and cash equivalents at beginning of period	**46,653**	40,771
Cash and cash equivalents at end of period	**$ 85,706**	$ 38,915

See accompanying notes to unaudited condensed consolidated financial statements.

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

Three Months Ended September 30, 2020

	Common Shares				Capital in excess of stated value	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Issued		In Treasury					
(In thousands)	Shares	Stated value	Shares	Stated value				
Balance at June 30, 2020	31,607	$ 9,482	(7,994)	$ (2,399)	$ 6,760	$ 57,331	$ 176	$ 71,350
Share-based compensation	—	—	—	—	1,409	—	—	1,409
Restricted shares issued, net	—	—	(27)	(8)	8	—	—	—
Shares issued upon exercise of SSARs	—	—	3	1	(1)	—	—	—
Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares	—	—	(1)	—	(25)	—	—	(25)
Net income	—	—	—	—	—	5,867	—	5,867
Series A convertible preferred stock issuance costs	—	—	—	—	—	(94)	—	(94)
Series A convertible preferred stock dividends	—	—	—	—	—	(459)	—	(459)
Unrealized translation adjustments	—	—	—	—	—	—	(124)	(124)
Balance at September 30, 2020	31,607	$ 9,482	(8,019)	$ (2,406)	$ 8,151	$ 62,645	$ 52	$ 77,924

Three Months Ended September 30, 2019

	Common Shares				Capital in excess of stated value	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Issued		In Treasury					
(In thousands)	Shares	Stated value	Shares	Stated value				
Balance at June 30, 2019	31,607	$ 9,482	(7,927)	$ (2,379)	$ 1,698	$ 91,476	$ (354)	$ 99,923
Share-based compensation	—	—	—	—	1,228	—	—	1,228
Restricted shares issued, net	—	—	(24)	(8)	8	—	—	—
Shares issued upon exercise of SSARs	—	—	3	1	(1)	—	—	—
Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares	—	—	(1)	—	(24)	—	—	(24)
Net loss	—	—	—	—	—	(2,918)	—	(2,918)
Unrealized translation adjustments	—	—	—	—	—	—	156	156
Balance at September 30, 2019	31,607	$ 9,482	(7,949)	$ (2,386)	$ 2,909	$ 88,558	$ (198)	$ 98,365

Six Months Ended September 30, 2020

	Common Shares				Capital in excess of stated value	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Issued		In Treasury					
(In thousands)	Shares	Stated value	Shares	Stated value				
Balance at March 31, 2020	31,607	$ 9,482	(7,997)	$ (2,401)	$ 5,491	$ 58,984	$ 201	$ 71,757
Share-based compensation	—	—	—	—	2,835	—	—	2,835
Restricted shares issued, net	—	—	(41)	(12)	12	—	—	—
Shares issued upon exercise of SSARs	—	—	28	9	(9)	—	—	—
Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares	—	—	(9)	(2)	(178)	—	—	(180)
Net income	—	—	—	—	—	5,350	—	5,350
Series A convertible preferred stock issuance costs	—	—	—	—	—	(1,031)	—	(1,031)
Series A convertible preferred stock dividends	—	—	—	—	—	(658)	—	(658)
Unrealized translation adjustments	—	—	—	—	—	—	(149)	(149)
Balance at September 30, 2020	31,607	$ 9,482	(8,019)	$ (2,406)	$ 8,151	$ 62,645	$ 52	$ 77,924

Six Months Ended September 30, 2019

	Common Shares				Capital in excess of stated value	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Issued		In Treasury					
(In thousands)	Shares	Stated value	Shares	Stated value				
Balance at March 31, 2019	31,607	$ 9,482	(8,105)	$ (2,433)	$ 781	$ 93,051	$ (259)	$ 100,622
Share-based compensation	—	—	—	—	2,295	—	—	2,295
Restricted shares issued, net	—	—	144	43	(43)	—	—	—
Shares issued upon exercise of SSARs	—	—	17	5	(5)	—	—	—
Shares withheld for taxes upon exercise of stock options, SSARs or vesting of restricted shares	—	—	(5)	(1)	(119)	—	—	(120)
Net loss	—	—	—	—	—	(4,493)	—	(4,493)
Unrealized translation adjustments	—	—	—	—	—	—	61	61
Balance at September 30, 2019	31,607	$ 9,482	(7,949)	$ (2,386)	$ 2,909	$ 88,558	$ (198)	$ 98,365

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all geographic regions in which we do business, and government authorities around the world have implemented extensive measures attempting to contain the spread and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, closures of non-essential businesses, and social distancing requirements. The global spread of COVID-19 and the actions taken in response have negatively impacted us, our customers, our suppliers and the many communities in which we do business. The overall extent and duration of economic and business disruption is not currently known. In response to these challenges, we quickly adjusted our business policies and practices for employees to work from home and have taken other measures to continue our operations with safety as our priority.

We continuously monitor and assess the impact of the COVID-19 pandemic, including recommendations and orders from government and public health authorities. We are working to help our customers maintain their operations during this difficult time while managing our teams to be prepared for continuously changing demand for our products and services.

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

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include our accounts consolidated with our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Our fiscal year ends on March 31st. References to a particular year refer to the fiscal year ending in March of that year. For example, fiscal 2021 refers to the fiscal year ending March 31, 2021.

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

The Condensed Consolidated Balance Sheet as of September 30, 2020, as well as the Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Income (Loss), Condensed Consolidated Statements of Shareholders’ Equity for the three months and six months ended September 30, 2020 and 2019, and Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2020 and 2019, are unaudited. However, these financial statements have been prepared on the same basis as those in the audited annual financial statements, except for the recently adopted accounting pronouncements described below. In the opinion of management, all adjustments of a recurring nature necessary to fairly state the results of operations, financial position, and cash flows have been made.

These unaudited interim financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2020, filed with the Securities and Exchange Commission (SEC) on May 22, 2020.

Use of estimates

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

Considering the currently unknown extent and duration of the COVID-19 pandemic, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply to certain of our significant accounting policies. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts COVID-19 as of September 30, 2020 and through the date of this report. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

2. Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2020, included in our Annual Report on Form 10-K. We describe our accounting policy for Series A convertible preferred stock further below. There have been no other material changes to our significant accounting policies from those disclosed therein.

Adopted and Recently Issued Accounting Pronouncements

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

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which affects general principles within Topic 740, Income Taxes, and is meant to simplify and reduce the cost of accounting for income taxes. The new standard will be effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We are currently reviewing this standard but do not expect it will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15*, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* ASU 2018-15 addresses the treatment of implementation costs incurred in a hosting arrangement that is a service contract. The update does not impact the accounting for the service element of a hosting arrangement that is a service contract. We adopted ASU 2018-15 as of April 1, 2020 with no impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* ASU 2018-13 addresses the required disclosures around fair value measurement. The disclosure requirements of the reasons for transfers between Level 1 and Level 2, the policy for timing transfers between levels, and the valuation process for Level 3 measurements have been removed. Certain modifications were made to required disclosures and additional requirements were established. We adopted ASU 2018-13 as of April 1, 2020 with no impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles- Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment*. ASU No. 2017-04 eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. We adopted ASU 2017-04 as of April 1, 2020 with no impact on our condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments*. This new standard requires entities to measure expected credit losses for certain financial assets held at the reporting date using a current expected credit loss model, which is based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. The Company's financial instruments within the scope of this guidance primarily includes accounts receivable and contract assets. We adopted ASU 2016-13 as of April 1, 2020 under the modified retrospective approach. As a result, comparative information has not been restated and continues to be reported under accounting standards applicable for those periods. The adoption of ASU 2016-13 did not have a material impact on our condensed consolidated financial statements, including accounting policies, given our limited historical write-off activity.

3. Revenue Recognition

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

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

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

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

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

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

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

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

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

Disaggregation of Revenue

We derive and report our revenue from the sale of products (software licenses, third party hardware and operating systems), support, maintenance and subscription services and professional services. Revenue recognized at a point in time (products) totaled $6.6 million and $11.8 million, and $11.9 million and $22.7 million for the first three and six months ended September 30, 2020 and 2019. Revenue recognized over time (support, maintenance and subscription services and professional services) totaled $27.8 million and $52.4 million, and $28.8 million and $56.4 million for the three and six months ended September 30, 2020 and 2019, respectively.

Contract Balances

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

Revenue recognized from amounts included in contract liabilities at the beginning of the period was $12.1 million and $10.5 million for the three months ended September 30, 2020 and 2019, respectively, and $30.5 million and $26.0 million for the six months ended September 30, 2020 and 2019, respectively. Because the right to the transaction became unconditional, we transferred to accounts receivable from contract assets at the beginning of the period, $0.2 million and $0.4 million for the three months ended September 30, 2020 and 2019, respectively, and $1.7 million and $2.4 million for the six months ended September 30, 2020 and 2019, respectively.

Our arrangements are for a period of one year or less. As a result, unsatisfied performance obligations as of September 30, 2020 are expected to be satisfied and the allocated transaction price recognized in revenue within a period of 12 months or less.

Assets Recognized from Costs to Obtain a Contract

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

We had $3.1 million and $3.4 million of capitalized sales incentive costs as of September 30, 2020 and 2019, respectively. These balances are included in other non-current assets on our condensed consolidated balance sheets. During the three and six months ended September 30, 2020, we expensed $0.7 million and $1.3 million, respectively, of sales commissions, which included amortization of capitalized amounts of $0.4 million and $0.7 million, respectively. During the comparable periods ending September 30, 2019, we expensed $1.2 million and $2.2 million, respectively, of sales commissions, which included amortization of capitalized amounts of $0.3 million and $0.7 million, respectively. These expenses are included in operating expenses – sales and marketing in our condensed consolidated statement of operations. All other costs to obtain a contract are not considered incremental and therefore are expensed as incurred.

4. Intangible Assets and Software Development Costs

The following table summarizes our intangible assets and software development costs:

	September 30 and March 31, 2020			
(In thousands)	Gross carrying amount	Accumulated amortization	Accumulated Impairment	Net carrying amount
Amortized intangible assets:				
Customer relationships	$ 10,775	$ (10,775)	$ —	$ —
Non-competition agreements	2,700	(2,700)	—	—
Developed technology	10,398	(10,398)	—	—
Trade names	230	(230)	—	—
Patented technology	80	(80)	—	—
	24,183	(24,183)	—	—
Trade names	8,400	N/A	—	8,400
Total intangible assets	$ 32,583	$ (24,183)	$ —	$ 8,400
(In thousands)				
Software development costs	$ 67,541	$ (45,535)	$ (22,006)	$ —

As of March 31, 2020, management determined the net realizable value of the remaining capitalized software development costs for certain solutions within our rGuest suite of products no longer exceeded their carrying value, and as a result, recorded non-cash impairment charges of $22.0 million for the year ended March 31, 2020. The impact of the COVID-19 pandemic on the hospitality industry resulted in economic conditions that made it difficult to project future sales and revenue accurately for the related rGuest solutions. After evaluating the Company's strategy for market development and continued costs to support the software, an impairment charge was required. The amount of impairment recognized during the year ended March 31, 2020 reduced the carry value of capitalized software development costs to zero with no remaining amortization expense to be recognized in future periods.

Amortization expense for software development costs related to assets to be sold, leased, or otherwise marketed was $3.1 million and $6.3 million for the three and six months ended September 30, 2019. These charges are included as costs of goods sold - products in our condensed consolidated statements of operations.

5. Additional Balance Sheet Information

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

	September 30, 2020	March 31, 2020
Accrued liabilities:		
Salaries, wages, and related benefits	$ 4,793	$ 6,945
Other taxes payable	1,835	1,649
Accrued legal settlements	50	—
Severance liabilities	100	32
Professional fees	93	50
Other	314	357
Total	$ 7,185	$ 9,033
Other non-current liabilities:		
Uncertain tax positions	$ 1,116	$ 1,103
Asset retirement obligations	170	170
Payroll taxes deferred under CARES Act	1,287	—
Employee benefit obligations	1,081	511
Other	74	76
Total	$ 3,728	$ 1,860

6. Supplemental Disclosures of Cash Flow Information

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

	Six Months Ended September 30,	
(In thousands)	**2020**	2019
Cash (receipts) for interest, net	**$ (46)**	$ (191)
Cash payments for income taxes, net	**167**	247
Cash payments for operating leases	**3,002**	2,210
Cash payments for finance leases	**14**	18
Accrued capital expenditures	**12**	125

7. Income Taxes

The following table compares our income tax expense and effective tax rates for the three and six months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Six Months Ended September 30,	
(Dollars in thousands)	**2020**	2019	**2020**	2019
Income tax expense	**$ 121**	$ 41	**$ 128**	$ 67
Effective tax rate	**2.0%**	(1.4)%	**2.3%**	(1.5)%

For the three and six months ended September 30, 2020, the effective tax rate was different than the statutory tax rate due primarily to the utilization of net operating losses that were offset by decreases in the valuation allowances in the U.S, certain foreign and state tax effects and other U.S. permanent book to tax differences. For the three and six months ended September 30, 2019, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets in the U.S. and certain foreign jurisdictions, which were offset by increases in the valuation allowance, certain foreign and state tax effects and other U.S. permanent book to tax differences.

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

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

8. Commitments and Contingencies

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

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

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

9. Income (Loss) per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(In thousands, except per share data)	**2020**	2019	**2020**	2019
Numerator:				
Net income (loss)	**$ 5,867**	$ (2,918)	**$ 5,350**	$ (4,493)
Series A convertible preferred stock issuance costs	**(94)**	—	**(1,031)**	—
Series A convertible preferred stock dividends	**(459)**	—	**(658)**	—
Net income (loss) attributable to common shareholders	**$ 5,314**	$ (2,918)	**$ 3,661**	$ (4,493)
Denominator:				
Weighted average shares outstanding - basic	**23,424**	23,238	**23,415**	23,225
Dilutive SSARs	**342**	—	**329**	—
Dilutive unvested restricted shares	**100**	—	**105**	—
Weighted average shares outstanding - diluted	**23,866**	23,238	**23,849**	23,225
Income (loss) per share - basic:	**$ 0.23**	$ (0.13)	**$ 0.16**	$ (0.19)
Income (loss) per share - diluted:	**$ 0.22**	$ (0.13)	**$ 0.15**	$ (0.19)
Anti-dilutive stock options, SSARs, restricted shares, performance shares and preferred shares	**2,415**	1,494	**2,418**	1,386

Basic income (loss) per share is computed as net income (loss) attributable to common shareholders divided by the weighted average basic shares outstanding. The outstanding shares used to calculate the weighted average basic shares excludes 161,042 and 418,854 of restricted shares at September 30, 2020 and 2019, respectively, as these shares were issued but were not vested and therefore, not considered outstanding for purposes of computing basic income (loss) per share at the balance sheet dates.

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

10. Share-based Compensation

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

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

We record compensation expense related to stock options, SSARs, restricted shares, and performance shares granted to certain employees and non-employee directors based on the fair value of the awards on the grant date. The fair value of restricted share and performance share awards is based on the closing price of our common shares on the grant date. The fair value of stock option and SSARs awards is estimated on the grant date using the Black-Scholes-Merton option pricing model, which includes assumptions regarding the risk-free interest rate, dividend yield, life of the award, and the volatility of our common shares. During fiscal year 2020, we issued 125,000 SSAR awards which are subject to a market condition. The fair value of these awards is estimated using the Lattice option pricing model which utilizes a binary tree and includes multiple assumptions which include volatility and life of the award to determine an appropriate fair value based on the award grant date.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(In thousands)	**2020**	2019	**2020**	2019
Product development	**$ 239**	$ 672	**$ 411**	$ 940
Sales and marketing	**34**	51	**70**	113
General and administrative	**983**	622	**2,201**	774
Total share-based compensation expense	**$ 1,256**	$ 1,345	**$ 2,682**	$ 1,827

Stock-Settled Appreciation Rights

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

The following table summarizes the activity during the six months ended September 30, 2020 for SSARs awarded under the 2011 and 2016 Plans:

	Number of Rights	Weighted-Average Exercise Price	Remaining Contractual Term	Aggregate Intrinsic Value
(In thousands, except share and per share data)		(per right)	(in years)	
Outstanding at April 1, 2020	1,644,888	$ 21.07		
Exercised	(63,872)	11.64		
Forfeited	(11,430)	18.65		
Expired	(1,522)	14.22		
Outstanding at September 30, 2020	**1,568,064**	**$ 21.48**	**4.4**	**$ 11,674**
Exercisable at September 30, 2020	**973,110**	**$ 13.82**	**3.7**	**$ 11,214**
Vested and expected to vest at September 30, 2020	**1,568,064**	**$ 21.48**	**4.4**	**$ 11,674**

As of September 30, 2020, total unrecognized share-based compensation expense related to unvested SSARs was $3.4 million, which is expected to be recognized over a weighted-average vesting period of 2.0 years.

Restricted Shares

We granted shares to certain of our Directors, executives and key employees, the vesting of which is service-based. The following table summarizes the activity during the six months ended September 30, 2020 for restricted shares awarded under the 2011 and 2016 Plans:

	Number of Shares	Weighted-Average Grant-Date Fair Value
(In thousands, except share and per share data)		(per share)
Outstanding at April 1, 2020	178,462	$ 19.89
Forfeited	(17,420)	19.03
Outstanding at September 30, 2020	**161,042**	**$ 19.98**

The weighted-average grant date fair value of the restricted shares is determined based upon the closing price of our common shares on the grant date. As of September 30, 2020, total unrecognized share-based compensation expense related to unvested restricted stock was $1.2 million, which is expected to be recognized over a weighted-average vesting period of 1.4 years.

Performance Shares

We awarded certain restricted shares to our Chief Executive Officer, the vesting of which is performance based. The number of shares that vested were based on relative attainment of a performance metric and any unvested shares were forfeited upon settlement of the bonus.

The following table summarizes the activity during the six months ended September 30, 2020 for the performance shares awarded under the 2016 Plan:

(In thousands, except share and per share data)	Number of Shares
Outstanding at April 1, 2020	30,120
Granted	—
Vested	(6,714)
Forfeited	(23,406)
Outstanding at September 30, 2020	**—**

11. Preferred Stock

Series A Convertible Preferred Stock

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

Accounting Policy

We classify convertible preferred stock as temporary equity in the condensed consolidated balance sheets due to certain contingent redemption clauses that are at the election of the Holders. We increase the carrying value of the convertible preferred stock to its redemption value (described below) for all undeclared dividends using the interest method.

The Convertible Preferred Stock has the following rights, preferences and restrictions (the Certificate of Amendment included as Exhibit 3.1 to our Current Report on Form 8-K, filed on May 26, 2020, defines all terms not otherwise defined below):

Voting

The Holders will be entitled to one vote for each share of Convertible Preferred Stock upon all matters presented to the common shareholders of the Company, and except as otherwise provided by the Amended Articles of Incorporation of the Company or required by law, the Holders and common shareholders will vote together as one class on all matters. Additionally, certain matters specific to the Convertible Preferred Stock will require the approval of two-thirds of the outstanding Convertible Preferred Stock, voting as a separate class.

Liquidation Preference

Upon a liquidation, dissolution or winding up of the Company, each share of Convertible Preferred Stock will be entitled to receive an amount per share equal to the greater of (i) the purchase price paid by the Purchaser, plus all accrued and unpaid dividends (the “Liquidation Preference”) and (ii) the amount that the Holder would have been entitled to receive at such time if the Convertible Preferred Stock were converted into common stock.

Redemption

On and after the fifth anniversary of the date the Convertible Preferred Stock is initially issued, the Company will have the right, and the Holders will have the right to require the Company, in each case, at the initiating party's election, to redeem all, but not less than all, of the then-outstanding Convertible Preferred Stock for an amount equal to the Liquidation Preference.

Conversion

Each Holder will have the right, at its option, to convert its Convertible Preferred Stock, in whole or in part, into fully paid and non-assessable shares of common stock at a conversion price equal to $20.1676 per share (as may be adjusted from time to time, as described in the Certificate of Amendment).

Subject to certain conditions, the Company may, at its option, require conversion of all of the outstanding shares of Convertible Preferred Stock to common stock if, at any time after November 22, 2023, the daily volume-weighted average price of the Company's common stock is at least 150% of the conversion price for at least 20 trading days during the 30 consecutive trading days immediately preceding the date the Company notifies the Holders of the election to convert.

Dividends

The Holders are entitled to dividends on the Liquidation Preference at the rate of 5.25% per annum, payable semi-annually either (i) 50% in cash and 50% in kind as an increase in the then-current Liquidation Preference or (ii) 100% in cash, at the option of the Company. The Holders are not entitled to participate in dividends declared or paid on the common stock on an as-converted basis; however, certain anti-dilution adjustments to the Convertible Preferred Stock may be made in the event of such dividends.

The Convertible Preferred Stock ranks senior to the Company's common stock with respect to dividends and distributions on liquidation, winding-up and dissolution. Upon a liquidation, dissolution or winding up of the Company, each share of Convertible Preferred Stock will be entitled to receive an amount per share equal to the greater of (i) the Liquidation Preference and (ii) the amount that the Holder would have been entitled to receive at such time if the Convertible Preferred Stock were converted into common stock.

Change in Control Events

Upon certain change of control events involving the Company, the Company has the right, and each Holder has the right, in each case, at the initiating party's election, to require the Company to repurchase all or a portion of its then-outstanding shares of Convertible Preferred Stock for cash consideration equal to (i) 150% of the then-current Liquidation Preference for a change of control occurring prior to the third anniversary of the date the Convertible Preferred Stock is initially issued, (ii) 125% of the then-current Liquidation Preference for a change of control occurring on or following the third anniversary and prior to the fifth anniversary of the date the Convertible Preferred Stock is initially issued and (iii) 100% of the then-current Liquidation Preference for a change of control occurring on or following the fifth anniversary of the date the Convertible Preferred Stock is initially issued.

Standstill Restrictions

The Purchaser and its affiliates are subject to certain customary standstill provisions that restrict them from, among other actions, acquiring additional securities of the Company if such acquisition would result in the Purchaser beneficially owning in excess of 25% of the outstanding shares of common stock of the Company until the later of the third anniversary of the date the Convertible Preferred Stock is initially issued and the date on which the Purchaser no longer has record or beneficial ownership of common stock and Convertible Preferred Stock that constitute at least 10% of the outstanding common stock.

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

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

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

The MD&A analyzes changes in specific line items in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows and provides information that management believes is important to assessing and understanding our consolidated financial condition and results of operations. This Quarterly Report on Form 10-Q updates information included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, filed with the Securities and Exchange Commission (SEC). This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes that appear in Item 1 of this Quarterly Report as well as our Annual Report for the year ended March 31, 2020. Information provided in the MD&A may include forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to be materially different from those contained in the forward-looking statements. See "Forward-Looking Information" on page 29 of this Quarterly Report, Item 1A "Risk Factors" in Part II of this Quarterly Report, and Item 1A "Risk Factors" in Part I of our Annual Report for the fiscal year ended March 31, 2020 for additional information concerning these items. Management believes that this information, discussion, and disclosure is important in making decisions about investing in Agilysys.

Overview

Recent Developments

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all geographic regions in which we do business, and government authorities around the world have implemented extensive measures attempting to contain the spread and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, closures of non-essential businesses, and social distancing requirements. The global spread of COVID-19 and the actions taken in response have negatively impacted us, our customers, our suppliers and the many communities in which we do business. The overall extent and duration of economic and business disruption is not currently known. In response to these challenges, we quickly adjusted our business policies and practices for employees to work from home and have taken other measures to continue our operations with safety as our priority.

We continuously monitor and assess the impact of the COVID-19 pandemic, including recommendations and orders from government and public health authorities. We are working to help our customers maintain their operations during this difficult time while managing our teams to be prepared for continuously changing demand for our products and services.

During the first half of our fiscal 2021, revenue was negatively impacted by delays and reduced spending attributed to the impact of the COVID-19 pandemic on our customers' operational priorities and as a result of various one-time recurring revenue related and other concessions we have given to customers to help them during this time of need. Due to the pandemic, we have seen a reduction or delay in customer contracts, and we have been unable to conduct face-to-face meetings with existing or prospective customers, present in-person demonstrations of our solutions, or host or attend in-person trade shows and conferences. Limitations on access to the facilities of our customers have also impacted our ability to deliver some of our products, complete certain implementations, and provide in-person consulting and training services, negatively impacting our ability to recognize revenue. We continued to experience high recurring revenue renewal rates during the first half of the fiscal year. We also have an expanded product base that includes new products which allow for contactless capabilities and other features which help promote social distancing and guest safety. Despite our strong first half recurring renewal rates and new solution offerings, we cannot predict how the pandemic will impact our results in future periods, including to the extent that customers delay or miss payments, customers defer, reduce, or refrain from placing orders or renewing subscriptions or maintenance arrangements, or travel restrictions and site access restrictions remain necessary.

We continue to conduct business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These modifications may continue to delay or reduce sales and harm productivity and collaboration. In addition, during the first half of our fiscal 2021, we reduced discretionary costs, implemented a hiring freeze on non-essential positions and reduced payroll and related costs through layoffs, employee furloughs, employee retirement benefit limitations, and salary decreases for executive team members and certain other employees of the Company. Such actions may have an adverse impact on us, particularly those actions that remain in place for an extended period.

We may take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity, and financial results cannot be predicted at this time.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted and signed into U.S. law to provide economic relief to individuals and businesses facing economic hardship as a result of the COVID-19 pandemic. We plan to continue deferring the timing of employer payroll tax payments as permitted by the CARES Act. We deferred $1.3 million in employer payroll tax payments under the CARES Act as of September 30, 2020. The CARES Act did not have a material impact on our consolidated results of operations as of and for the six months ended September 30, 2020.

MAK Capital Investment

In May 2020, we entered into an agreement to sell to MAK Capital One, LLC (“MAK Capital”) $35 million of convertible preferred stock carrying a 5.25% dividend that will be convertible into shares of the Company’s common stock. The transaction resulted in the issuance of 1,735,457 preferred shares which added $35 million in preferred stock to the Company’s balance sheet and increased our cash balance by the $35 million investment less closing costs of $1.0 million. The 5.25% dividends will accumulate and increase the liquidation preference of the preferred stock for any undeclared amounts.

Our Business

Agilysys has been a leader in hospitality software for more than 40 years, delivering innovative guest-centric technology solutions for gaming, hotels, resorts and cruise, corporate foodservice management, restaurants, universities, stadia, airport foodservice and healthcare. Agilysys offers the most comprehensive solutions in the industry, including point of sale (POS), property management systems (PMS), inventory and procurement, payments, and related applications, to manage the entire guest journey. Agilysys is known for its leadership in hospitality, its broad product offerings and its customer-centric service. Some of the largest hospitality companies around the world use Agilysys solutions to help improve guest loyalty, drive revenue growth, increase operational efficiencies and support social distancing. The Company has just one reportable segment serving the global hospitality industry. Agilysys operates across North America, Europe, Asia-Pacific, and India with headquarters located in Alpharetta, Georgia.

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

Our strategic plan specifically focuses on:

- Putting the customer first with world class support and services
- Accelerating our product development
- Improving organizational efficiency and teamwork
- Developing our employees and leaders
- Growing revenue by improving the breadth and depth of our product set
- Growing revenue through international expansion

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

Revenue - Defined

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

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

Results of Operations

Second Fiscal Quarter 2021 Compared to Second Fiscal Quarter 2020

Net Revenue and Operating Income (Loss)

The following table presents our consolidated revenue and operating results for the three months ended September 30, 2020 and 2019:

	Three months ended September 30,		Increase (decrease)	
	2020	2019	$	%
Net revenue:				
Products	**$ 6,559**	$ 11,873	$ (5,314)	(44.8)%
Support, maintenance and subscription services	**22,304**	20,329	1,975	9.7
Professional services	**5,497**	8,520	(3,023)	(35.5)
Total net revenue	**34,360**	40,722	(6,362)	(15.6)
Cost of goods sold:				
Products (inclusive of developed technology amortization)	**2,950**	9,794	(6,844)	(69.9)
Support, maintenance and subscription services	**4,555**	4,654	(99)	(2.1)
Professional services	**3,701**	6,057	(2,356)	(38.9)
Total cost of goods sold	**11,206**	20,505	(9,299)	(45.3)
Gross profit	**$ 23,154**	$ 20,217	$ 2,937	14.5%
Gross profit margin	**67.4%**	49.6%		
Operating expenses:				
Product development	**$ 8,257**	$ 10,778	$ (2,521)	(23.4)%
Sales and marketing	**2,350**	4,890	(2,540)	(51.9)
General and administrative	**5,217**	6,038	(821)	(13.6)
Depreciation of fixed assets	**715**	707	8	1.1
Amortization of intangibles	**508**	614	(106)	(17.3)
Severance and other charges	**7**	190	(183)	(96.3)
Legal settlements, net	**50**	(119)	169	nm
Operating income (loss)	**$ 6,050**	$ (2,881)	$ 8,931	310.0%
Operating income (loss) percentage	**17.6%**	(7.1)%		

nm - not meaningful

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

	Three months ended September 30,	
	2020	2019
Net revenue:		
Products	**19.1%**	29.2%
Support, maintenance and subscription services	**64.9**	49.9
Professional services	**16.0**	20.9
Total net revenue	**100.0%**	100.0%
Cost of goods sold:		
Products	**8.6%**	24.1%
Support, maintenance and subscription services	**13.3**	11.4
Professional services	**10.7**	14.9
Total cost of goods sold	**32.6%**	50.4%
Gross profit	**67.4%**	49.6%
Operating expenses:		
Product development	**24.0%**	26.5%
Sales and marketing	**6.8**	12.0
General and administrative	**15.2**	14.8
Depreciation of fixed assets	**2.2**	1.7
Amortization of intangibles	**1.5**	1.5
Severance and other charges	**0.0**	0.5
Legal settlements, net	**0.1**	(0.3)
Operating income (loss)	**17.6%**	(7.1)%

Net revenue. Total net revenue decreased $6.4 million, or 15.6%, during the second quarter of fiscal 2021 compared to the second quarter of fiscal 2020. Products revenue decreased $5.3 million, or 44.8%, due to lower sales combined with delayed deliveries resulting from customer restrictions including temporary site closures in response to the COVID-19 pandemic. Support, maintenance and subscription services revenue increased $2.0 million, or 9.7%, compared to the second quarter of fiscal 2020 driven by continued growth in subscription-based service revenue, which increased 23.9% during the second quarter of fiscal 2021 compared to the second quarter of fiscal 2020. Professional services revenue decreased $3.0 million, or 35.5%, due to lower sales combined with delayed installations and integration of our software solutions resulting from travel and customer restrictions including temporary site closures in response to the COVID-19 pandemic.

Gross profit and gross profit margin. Our total gross profit increased $2.9 million, or 14.5%, for the second quarter of fiscal 2021 and total gross profit margin increased from 49.6% to 67.4% driven by changes in the composition of revenue by category. Products gross profit increased $1.5 million, or 73.6%, compared to the second quarter of fiscal 2020 and products gross profit margin increased from 17.5% to 55.0% due to the absence of software development cost amortization during the second quarter of fiscal 2021 and a higher proportion of proprietary software sales over third party products. Support, maintenance and subscription services gross profit increased $2.1 million and gross profit margin increased 247 basis points to 79.6%. The margin increase is the result of increased revenue on a relatively flat cost base. Professional services gross profit decreased $0.7 million due to the drop in demand for professional services while gross profit margin increased from 28.9% to 32.7% due to a slightly larger decrease in the percentage of professional services costs compared to professional services revenue as a result of employee furloughs and layoffs, temporary salary reductions, lower incentive pay and employee benefits.

Operating expenses

Operating expenses, excluding legal settlements, severance and other charges, decreased $6.0 million, or 26.0%, during the second quarter of fiscal 2021 compared with the second quarter of fiscal 2020.

Product development. Product development decreased $2.5 million, or 23.4%, in the second quarter of fiscal 2021 due to employee furloughs, temporary salary reductions, lower incentive pay and employee benefits, lower recruiting fees, and significantly reduced travel and outside service expenses due to employees working from home.

Sales and marketing. Sales and marketing decreased $2.5 million, or 51.9%, in the second quarter of fiscal 2021 compared with the second quarter of fiscal 2020 due to temporary reductions in salaries and employee benefits, furloughs, and reduced commission expense due to lower sales levels. The decrease also includes the impact of significantly reduced travel, the absence of in-person trade shows and conference activity, and the ability to conduct more business remotely.

General and administrative. General and administrative decreased by $0.8 million, or 13.6%, in the second quarter of fiscal 2021 compared with the second quarter of fiscal 2020 due to employee furloughs, temporary salary reductions, lower incentive pay and employee benefits offset by an increase in share-based compensation.

Severance and other charges. Severance, and other charges decreased $0.2 million in the second quarter of fiscal 2021 due to reduced severance activity.

Other (Income) Expenses

	Three months ended September 30,		(Unfavorable) favorable	
(Dollars in thousands)	**2020**	2019	$	%
Other (income) expense:				
Interest income	**$ (28)**	$ (114)	$ (86)	(75.4)%
Interest expense	**2**	2	0	nm
Other expense, net	**88**	108	20	nm
Total other (income) expense, net	**$ 62**	$ (4)	$ (66)	nm

nm - not meaningful

Interest income. Interest income consists of interest earned on cash equivalents including short-term investments in certificates of deposit, commercial paper, treasury bills and money market funds.

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

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

Income Taxes

	Three months ended September 30,		(Unfavorable) favorable	
(Dollars in thousands)	**2020**	2019	$	%
Income tax expense	**$ 121**	$ 41	$ (80)	nm
Effective tax rate	**2.0%**	(1.4)%		

nm - not meaningful

For the three months ended September 30, 2020, the effective tax rate was different than the statutory tax rate due primarily to the utilization of net operating losses that were offset by decreases in the valuation allowances in the U.S, certain foreign and state tax effects and other U.S. permanent book to tax differences. For the three months ended September 30, 2019, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets in the U.S. and certain foreign jurisdictions, which were offset by increases in the valuation allowance, certain foreign and state tax effects and other U.S. permanent book to tax differences.

Although the timing and outcome of tax settlements are uncertain, it is reasonably possible that during the next 12 months an immaterial reduction in unrecognized tax benefits may occur based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. We are consistently subject to tax audits; due to the nature of examinations in multiple jurisdictions, changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

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

Results of Operations

First Half Fiscal 2021 Compared to First Half Fiscal 2020

Net Revenue and Operating Income (Loss)

The following table presents our consolidated revenue and operating results for the six months ended September 30, 2020 and 2019:

	Six Months Ended September 30,		Increase (decrease)	
	2020	2019	$	%
Net revenue:				
Products	**$ 11,798**	$ 22,742	$ (10,944)	(48.1)%
Support, maintenance and subscription services	**42,801**	40,411	2,390	5.9
Professional services	**9,567**	15,958	(6,391)	(40.0)
Total net revenue	**64,166**	79,111	(14,945)	(18.9)
Cost of goods sold:				
Products	**5,965**	18,417	(12,452)	(67.6)
Support, maintenance and subscription services	**8,860**	8,834	26	0.3
Professional services	**7,638**	11,628	(3,990)	(34.3)
Total cost of goods sold	**22,463**	38,879	(16,416)	(42.2)
Gross profit	**$ 41,703**	$ 40,232	$ 1,471	3.7%
Gross profit margin	**65.0%**	50.9%		
Operating expenses:				
Product development	**$ 16,524**	$ 20,842	$ (4,318)	(20.7)%
Sales and marketing	**4,951**	9,389	(4,438)	(47.3)
General and administrative	**10,936**	11,911	(975)	(8.2)
Depreciation of fixed assets	**1,438**	920	518	56.3
Amortization of intangibles	**968**	1,292	(324)	(25.1)
Restructuring, severance and other charges	**1,210**	421	789	187.4
Legal settlements, net	**50**	(119)	169	nm
Operating income (loss)	**$ 5,626**	$ (4,424)	$ 10,050	227.2%
Operating income (loss) percentage	**8.8%**	(5.6)%		

nm - not meaningful

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

	Six Months Ended September 30,	
Net revenue:	**2020**	2019
Products	**18.4%**	28.7%
Support, maintenance and subscription services	**66.7**	51.1
Professional services	**14.9**	20.2
Total net revenue	**100.0%**	100.0%
Cost of goods sold:		
Products	**9.3%**	23.3%
Support, maintenance and subscription services	**13.8**	11.1
Professional services	**11.9**	14.7
Total cost of goods sold	**35.0%**	49.1%
Gross profit	**65.0%**	50.9%
Operating expenses:		
Product development	**25.8%**	26.4%
Sales and marketing	**7.7**	11.9
General and administrative	**17.0**	15.1
Depreciation of fixed assets	**2.2**	1.2
Amortization of intangibles	**1.5**	1.6
Restructuring, severance and other charges	**1.9**	0.5
Legal settlements, net	**0.1**	(0.2)
Operating income (loss)	**8.8%**	(5.6)%

Net revenue. Total net revenue decreased $14.9 million, or 18.9%, during the first half of fiscal 2021 compared to the first half of fiscal 2020. Products revenue decreased $10.9 million, or 48.1%, due to lower sales combined with delayed deliveries resulting from customer restrictions including temporary site closures in response to the COVID-19 pandemic. Support, maintenance and subscription services revenue increased $2.4 million, or 5.9%, compared to the first half of fiscal 2020 driven by continued growth in subscription-based service revenue, which increased 16.4% during the first half of fiscal 2021 compared to the first half of fiscal 2020. The growth rate in our support, maintenance and subscription services is significantly lower than we have reported in recent periods due to one-time COVID-19 related financial relief we provided to certain customers during the first half of fiscal 2021 to help them as they deal with temporary site closures during the period. Professional services revenue decreased $6.4 million, or 40.0%, due to lower sales combined with delayed installations and integration of our software solutions resulting from travel and customer restrictions including temporary site closures in response to the COVID-19 pandemic.

Gross profit and gross profit margin. Our total gross profit increased $1.5 million, or 3.7%, for the first half of fiscal 2021 and total gross profit margin increased from 50.9% to 65.0% driven by changes in the composition of revenue by category. Products gross profit increased $1.5 million, or 34.9%, compared to the second half of fiscal 2020 and products gross profit margin increased from 19.0% to 49.4% due to the absence of software development cost amortization during the first half of fiscal 2021 along with a higher proportion of proprietary software sales over third party products. Support, maintenance and subscription services gross profit increased $2.4 million and gross profit margin increased 116 basis points to 79.3%. The margin increase is the result of increased revenue on a relatively flat cost base. Professional services gross profit decreased $2.4 million and gross profit margin decreased from 27.1% to 20.2% due to the drop in demand for professional services resulting from travel and customer restrictions including temporary site closures in response to the COVID-19 pandemic.

Operating expenses

Operating expenses, excluding legal settlements, severance and other charges, decreased $9.5 million, or 21.5%, during the first half of fiscal 2021 compared with the first half of fiscal 2020.

Product development. Product development decreased $4.3 million, or 20.7%, in the first half of fiscal 2021 due to employee furloughs and layoffs, temporary salary reductions, lower incentive pay and employee benefits, lower recruiting fees, and significantly reduced travel and outside service expenses due to employees working from home.

Sales and marketing. Sales and marketing decreased $4.4 million, or 47.3%, in the first half of fiscal 2021 compared with the first half of fiscal 2020 due to temporary reductions in salaries and employee benefits, furloughs, layoffs, and reduced commission expense due to lower sales levels. The decrease also includes the impact of significantly reduced travel, the absence of in-person trade shows and conference activity, and the ability to conduct more business remotely.

General and administrative. General and administrative decreased by $1.0 million, or 8.2%, in the first half of fiscal 2021 compared with the first half of fiscal 2020 due to employee furloughs and layoffs, temporary salary reductions, lower incentive pay and employee benefits offset by an increase in share-based compensation.

Severance and other charges. Severance, and other charges increased $0.8 million in the first half of fiscal 2021 due to severance charges resulting from layoffs.

Other (Income) Expenses

(Dollars in thousands)	Six Months Ended September 30, 2020	Six Months Ended September 30, 2019	(Unfavorable) favorable $	(Unfavorable) favorable %
Other (income) expense:				
Interest income	**$ (49)**	$ (194)	$ (145)	(74.7)%
Interest expense	**3**	3	0	nm
Other expense, net	**194**	193	(1)	nm
Total other expense, net	**$ 148**	$ 2	$ (146)	nm

nm - not meaningful

Interest income. Interest income consists of interest earned on cash equivalents including short-term investments in certificates of deposit, commercial paper, treasury bills and money market funds.

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

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

Income Taxes

(Dollars in thousands)	Six months ended September 30, 2020	Six months ended September 30, 2019	(Unfavorable) favorable $	(Unfavorable) favorable %
Income tax expense	**$ 128**	$ 67	$ (61)	nm
Effective tax rate	**2.3%**	(1.5)%		

nm - not meaningful

For the six months ended September 30, 2020, the effective tax rate was different than the statutory tax rate due primarily to the utilization of net operating losses that were offset by decreases in the valuation allowances in the U.S, certain foreign and state tax effects and other U.S. permanent book to tax differences. For the six months ended September 30, 2019, the effective tax rate was different than the statutory rate due primarily to the recognition of net operating losses as deferred tax assets in the U.S. and certain foreign jurisdictions, which were offset by increases in the valuation allowance, certain foreign and state tax effects and other U.S. permanent book to tax differences.

Although the timing and outcome of tax settlements are uncertain, it is reasonably possible that during the next 12 months an immaterial reduction in unrecognized tax benefits may occur based on the outcome of tax examinations and as a result of the expiration of various statutes of limitations. We are consistently subject to tax audits; due to the nature of examinations in multiple jurisdictions, changes could occur in the amount of gross unrecognized tax benefits during the next 12 months which cannot be estimated at this time.

Liquidity and Capital Resources

Overview

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

At September 30, 2020, 100% of our cash and cash equivalents, of which 97% were located in the United States, were deposited in bank accounts. We believe credit risk is limited with respect to our cash and cash equivalents balances.

The MAK Capital investment increased our cash balance by $34.0 million after closing costs of $1.0 million. As described above under Recent Developments and further in Note 11 to the condensed consolidated financial statements, the transaction resulted in the issuance of 1,735,457 preferred shares with an annual dividend rate of 5.25%.

Our liquidity could be negatively impacted by a decrease in demand for our products and services, including the impact of changes in customer buying behavior due to circumstances over which we have no control, including, but not limited to, the effects of the COVID-19 pandemic. If we require additional funding, for operating needs, a business acquisition or otherwise, we may need access to more capital, which could involve borrowings under a credit facility.

As of September 30, 2020, and March 31, 2020, our total debt was approximately $0.1 million, comprised of finance lease obligations in both periods.

We believe that cash flow from operating activities, cash on hand of $85.7 million as of September 30, 2020 and access to capital markets will provide adequate funds to meet our short- and long-term liquidity requirements.

Cash Flow

	Six Months Ended September 30,	
(In thousands)	**2020**	2019
Net cash provided by (used in):		
Operating activities	**$ 6,642**	$ 1,234
Investing activities	**(473)**	(1,942)
Financing activities	**32,799**	(1,065)
Effect of exchange rate changes on cash	**85**	(83)
Net increase (decrease) in cash and cash equivalents	**$ 39,053**	$ (1,856)

Cash flow provided by operating activities. Cash flow provided by operating activities was $6.6 million in the first six months of fiscal 2021. The provision of cash was due primarily to the addition of $4.7 million in non-cash expense including depreciation, amortization, and share-based compensation, to our operating income of $5.4 million offset by a decrease of $3.5 million in net operating assets and liabilities.

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

Cash flow provided by (used in) financing activities. During the first six months of fiscal 2021, the $32.8 million provided by financing activities consisted primarily of $34.0 million in preferred stock issuance proceeds from the MAK Capital investment, net of issuance costs, offset by $1.0 million related to the repurchase of shares to satisfy employee tax withholding on share-based compensation and $0.2 million in preferred stock dividends. During the first six months of fiscal 2020, the $1.1 million used in financing activities was primarily related to the repurchase of shares to satisfy employee tax withholding on share-based compensation.

Contractual Obligations

As of September 30, 2020, there were no significant changes to our contractual obligations as presented in our Annual Report for the year ended March 31, 2020.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

A detailed description of our significant accounting policies is included in our Annual Report for the year ended March 31, 2020. Other than as described in Note 2 to the condensed consolidated financial statements, there have been no material changes in our significant accounting policies and estimates since March 31, 2020.

Forward-Looking Information

This Quarterly Report and other publicly available documents, including the documents incorporated herein and therein by reference, contain, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions, or beliefs and are subject to a number of factors, assumptions, and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A in Part II of this Quarterly Report and Item IA of our Annual Report for the fiscal year ended March 31, 2020. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," contained in our Annual Report for the fiscal year ended March 31, 2020. There have been no material changes in our market risk exposures since March 31, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the six months ended September 30, 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Other than as described below, there have been no material changes in the risk factors included in our Annual Report for the fiscal year ended March 31, 2020 that may materially affect our business, results of operations, or financial condition.

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

3.1	Amended Code of Regulations of Agilysys, Inc., effective as of October 9, 2020.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
31.3	Rule 13a-14(a)/15d-14(a) Certification of Corporate Controller and Treasurer.
32	Certification of Chief Executive Officer, Chief Financial Officer and Corporate Controller and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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

AGILYSYS, INC.

Date: October 28, 2020	/s/ William David Wood III
	William David Wood III Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)