

CSP INC /MA/
Form 10-Q
August 09, 2011

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2011.

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 0-10843

CSP Inc.
(Exact name of Registrant as specified in its Charter)

Massachusetts
(State of incorporation)

04-2441294
(I.R.S. Employer Identification No.)

43 Manning Road
Billerica, Massachusetts 01821-3901
(978) 663-7598
(Address and telephone number of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

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

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

As of July 28, 2011, the registrant had 3,473,222 shares of common stock issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CSP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	June 30, 2011 (Unaudited)	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$17,482	\$15,531
Accounts receivable, net of allowances of \$277 and \$288	10,318	12,190
Inventories	5,586	5,862
Refundable income taxes	334	721
Deferred income taxes	126	124
Other current assets	2,054	1,523
Total current assets	35,900	35,951
Property, equipment and improvements, net	873	873
Other assets:		
Intangibles, net	602	687
Deferred income taxes	918	880
Cash surrender value of life insurance	2,888	2,689
Other assets	249	299
Total other assets	4,657	4,555
Total assets	\$41,430	\$41,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$8,978	\$10,049
Deferred revenue	3,348	3,078
Pension and retirement plans	708	441
Income taxes payable	239	380
Total current liabilities	13,273	13,948
Pension and retirement plans	9,010	8,928
Capital lease obligation	25	24
Other long term liabilities	271	-
Total liabilities	22,579	22,900
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par; authorized, 7,500 shares; issued and outstanding 3,473 and 3,520 shares, respectively	35	35

Additional paid-in capital	11,035	11,280
Retained earnings	12,977	12,516
Accumulated other comprehensive loss	(5,196)	(5,352)
Total shareholders' equity	18,851	18,479
Total liabilities and shareholders' equity	\$41,430	\$41,379

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Amounts in thousands, except for per share data)

	For the three months ended		For the nine months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Sales:				
Product	\$ 16,416	\$ 23,753	\$ 49,566	\$ 59,549
Services	3,265	4,815	11,434	11,601
Total sales	19,681	28,568	61,000	71,150
Cost of sales:				
Product	13,690	21,153	41,440	50,729
Services	2,370	2,519	7,162	7,731
Total cost of sales	16,060	23,672	48,602	58,460
Gross profit	3,621	4,896	12,398	12,690
Operating expenses:				
Engineering and development	442	498	1,460	1,401
Selling, general and administrative	3,450	3,740	10,135	10,207
Total operating expenses	3,892	4,238	11,595	11,608
Operating income (loss)	(271)	658	803	1,082
Other income (expense):				
Foreign exchange gain (loss)	(9)	(6)	-	(16)
Other income (expense), net	(24)	(4)	(55)	(30)
Net other income (expense)	(33)	(10)	(55)	(46)
Income (loss) before income taxes	(304)	648	748	1,036
Income tax expense (benefit)	(90)	27	287	168
Net income (loss)	\$(214)	\$621	\$461	\$868
Net income (loss) attributable to common shareholders	\$(211)	\$614	\$455	\$860
Net income (loss) per share – basic	\$(0.06)	\$0.17	\$0.13	\$0.24
Weighted average shares outstanding – basic	3,428	3,548	3,446	3,545
Net income (loss) per share – diluted	\$(0.06)	\$0.17	\$0.13	\$0.24
Weighted average shares outstanding – diluted	3,428	3,574	3,485	3,574

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 For the Nine Months Ended June 30, 2011
 (Amounts in thousands)

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Total Shareholders' Equity	Comprehensive Income
Balance as of September 30, 2010	3,520	\$ 35	\$ 11,280	\$ 12,516	\$ (5,352)	\$ 18,479	
Comprehensive income (loss):							
Net income	—	—	—	461	—	461	\$ 461
Other comprehensive income:							
Effect of foreign currency translation	—	—	—	—	156	156	156
Total comprehensive income							\$ 617
Stock-based compensation	—	—	54	—	—	54	
Issuance of shares under employee stock purchase plan	25	—	74	—	—	74	
Restricted stock shares issued	37	1	74	—	—	75	
Purchase of common stock	(109)	(1)	(447)	—	—	(448)	
Balance as of June 30, 2011	3,473	\$ 35	\$ 11,035	\$ 12,977	\$ (5,196)	\$ 18,851	

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Amounts in thousands)

	For the nine months ended	
	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Net income	\$461	\$868
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	277	295
Amortization of intangibles	85	85
Loss on disposal of fixed assets, net	3	1
Foreign exchange loss (gain)		16
Non-cash changes in accounts receivable	(12	) 8
Stock-based compensation expense on stock options and restricted stock awards	129	166
Deferred income taxes		(153
Increase in cash surrender value of life insurance	(59	) (60
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	2,212	(4,819
(Increase) decrease in inventories	295	(1,281
(Increase) decrease in refundable income taxes	410	(46
(Increase) decrease in other current assets	(449	) 132
Decrease in other assets	54	10
Increase (decrease) in accounts payable and accrued expenses	(1,322	) 4,959
Increase in deferred revenue	149	180
Increase in pension and retirement plans liability	58	159
Increase (decrease) in income taxes payable	(143	) 252
Increase (decrease) in other long term liabilities	271	(309
Net cash provided by operating activities	2,419	463
Cash flows from investing activities:		
Purchase of investments	-	(1,100
Life insurance premiums paid	(140	) (121
Purchases of property, equipment and improvements	(249	) (288
Net cash used in investing activities	(389	) (1,509
Cash flows from financing activities:		
Proceeds from issuance of shares under employee stock purchase plan	74	113
Purchase of common stock	(448	) (122
Net cash used in financing activities	(374	) (9
Effects of exchange rate on cash	295	(1,143
Net increase (decrease) in cash and cash equivalents	1,951	(2,198
Cash and cash equivalents, beginning of period	15,531	18,904
Cash and cash equivalents, end of period	\$17,482	\$16,706
Supplementary cash flow information:		
Cash paid for income taxes	\$267	\$404

Cash paid for interest	\$85	\$89
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See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 THREE AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010

Organization and Business

CSP Inc. was founded in 1968 and is based in Billerica, Massachusetts. To meet the diverse requirements of its industrial, commercial and defense customers worldwide, CSP Inc. and its subsidiaries (collectively “CSPI” or the “Company”) develop and market IT integration solutions and high-performance cluster computer systems. The Company operates in two segments, its Systems segment and its Service and System Integration segment.

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. All adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in the annual financial statements, which are prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted. Accordingly, the Company believes that although the disclosures are adequate to make the information presented not misleading, the unaudited financial statements should be read in conjunction with the footnotes contained in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

2. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates under different assumptions or conditions.

3. Earnings Per Share of Common Stock

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the maximum dilution that would have resulted from the assumed exercise and share repurchase related to dilutive stock options and is computed by dividing net income by the assumed weighted average number of common shares outstanding.

We are required to present earnings per share, or EPS, utilizing the two class method because we had outstanding, non-vested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, which are considered participating securities.

Basic and diluted earnings per share computations for the Company’s reported net income attributable to common stockholders are as follows:

For the Three Months Ended		For the Nine Months Ended	
June 30,	June 30,	June 30,	June 30,
2011	2010	2011	2010
(Amounts in thousands, except per share data)			

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Net income (loss)	\$ (214)	\$ 621	\$ 461	\$ 868
Less: Net income (loss) attributable to nonvested common stock	(3)	7	6	8
Net income (loss) attributable to common stockholders	(211)	614	455	860
Weighted average total shares outstanding – basic	3,484	3,588	3,497	3,578
Less: weighted average non-vested shares outstanding	(56)	(40)	(51)	(33)
Weighted average number of common shares outstanding – basic	3,428	3,548	3,446	3,545
Potential common shares from non-vested stock awards and the assumed exercise of stock options		26	39	29
Weighted average common shares outstanding – diluted	3,428	3,574	3,485	3,574
Net income (loss) per share – basic	\$ (0.06)	\$ 0.17	\$ 0.13	\$ 0.24
Net income (loss) per share – diluted	\$ (0.06)	\$ 0.17	\$ 0.13	\$ 0.24

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All anti-dilutive securities, including stock options, are excluded from the diluted income per share computation. For the three and nine months ended June 30, 2011, 247,000 and 205,000 options, respectively, were excluded from the diluted income per share calculation because their inclusion would have been anti-dilutive.

4. Inventories

Inventories consist of the following:

	June 30, 2011	September 30, 2010
(Amounts in thousands)		
Raw materials	\$ 966	\$ 1,029
Work-in-process	948	439
Finished goods	3,672	4,394
Total	\$ 5,586	\$ 5,862

Finished goods includes inventory that has been shipped, but for which all revenue recognition criteria has not been met of approximately \$1.7 million and \$2.4 million as of June 30, 2011 and September 30, 2010, respectively.

Total inventory balances in the table above are shown net of reserves for obsolescence of approximately \$4.2 million and \$4.1 million as of June 30, 2011 and September 30, 2010, respectively.

5. Accumulated Other Comprehensive Loss

The components of comprehensive income (loss) are as follows:

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(Amounts in thousands)				
Net income (loss)	\$(214)	\$621	\$461	\$868
Effect of foreign currency translation	115	(297)	156	(653)
Comprehensive income (loss)	\$(99)	\$324	\$617	\$215

The components of Accumulated Other Comprehensive Loss are as follows:

	June 30, 2011	September 30, 2010
(Amounts in thousands)		
Cumulative effect of foreign currency translation	\$ (1,977)	\$ (2,133)
Additional minimum pension liability	(3,219)	(3,219)
Accumulated Other Comprehensive Loss	\$ (5,196)	\$ (5,352)

6. Pension and Retirement Plans

The Company has defined benefit and defined contribution plans in the United Kingdom, Germany and the U.S. In the United Kingdom and Germany, the Company provides defined benefit pension plans and defined contribution plans

for the majority of its employees. In the U.S., the Company provides benefits through supplemental retirement plans to certain current and former employees. The domestic supplemental retirement plans have life insurance policies which are not plan assets but were purchased by the Company as a vehicle to fund the costs of the plan. Domestically, the Company also provides for officer death benefits through post-retirement plans to certain officers. All of the Company's defined benefit plans are closed to newly hired employees and have been for fiscal years 2009, 2010 and for the nine months ended June 30, 2011.

The Company funds its pension plans in amounts sufficient to meet the requirements set forth in applicable employee benefits laws and local tax laws. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheets.

Our pension plan in the United Kingdom is the only plan with plan assets. The plan assets consist of an investment in a commingled fund which in turn comprises a diversified mix of assets including corporate equity securities, government securities and corporate debt securities.

The components of net periodic benefit costs related to the U.S. and international plans are as follows:

	For the Three Months Ended June 30					
	Foreign	2011 U.S.	Total	Foreign	2010 U.S.	Total
	(Amounts in thousands)					
Pension:						
Service cost	\$ 18	\$ 3	\$ 21	\$ 14	\$ 2	\$ 16
Interest cost	176	25	201	159	29	188
Expected return on plan assets	(128)	—	(128)	(106)	—	(106)
Amortization of:						
Prior service gain	—	—	—	—	—	—
Amortization of net gain	18	7	25	10	8	18
Net periodic benefit cost	\$ 84	\$ 35	\$ 119	\$ 77	\$ 39	\$ 116
Post Retirement:						
Service cost	\$ —	\$ 5	\$ 5	\$ —	\$ 5	\$ 5
Interest cost	—	17	17	—	17	17
Amortization of net gain	—	12	12	—	16	16
Net periodic benefit cost	\$ —	\$ 34	\$ 34	\$ —	\$ 38	\$ 38

	For the Nine Months Ended June 30					
	Foreign	2011 U.S.	Total	Foreign	2010 U.S.	Total
	(Amounts in thousands)					
Pension:						
Service cost	\$ 54	\$ 8	\$ 62	\$ 44	\$ 7	\$ 51
Interest cost	518	74	592	504	87	591
Expected return on plan assets	(379)	—	(379)	(333)	—	(333)
Amortization of:						
Prior service gain	—	—	—	—	—	—
Amortization of net gain	52	23	75	33	22	55
Net periodic benefit cost	\$ 245	\$ 105	\$ 350	\$ 248	\$ 116	\$ 364
Post Retirement:						
Service cost	\$ —	\$ 15	\$ 15	\$ —	\$ 14	\$ 14
Interest cost	—	51	51	—	52	52
Amortization of net gain	—	35	35	—	48	48
Net periodic benefit cost	\$ —	\$ 101	\$ 101	\$ —	\$ 114	\$ 114

7. Segment Information

The following table presents certain operating segment information.

Three Months Ended June 30,	Systems Segment	Service and System Integration Segment				Consolidated Total
		Germany	United Kingdom	U.S.	Total	
(Amounts in thousands)						
2011						
Sales:						
Product	\$ 1,323	\$ 3,996	\$ 68	\$ 11,029	\$ 15,093	\$ 16,416
Service	152	2,151	347	615	3,113	3,265
Total sales	1,475	6,147	415	11,644	18,206	19,681
Profit (loss) from operations	(810)	63	15	461	539	(271)
Assets	12,508	13,699	3,890	11,333	28,922	41,430
Capital expenditures	10	12	9	7	28	38
Depreciation and amortization	24	46	7	46	99	123

2010						
Sales:						
Product	\$ 313	\$ 2,801	\$ -	\$ 20,639	\$ 23,440	\$ 23,753
Service	1,741	1,787	356	931	3,074	4,815
Total sales	2,054	4,588	356	21,570	26,514	28,568
Profit (loss) from operations	55	(159)	(35)	797	603	658
Assets	14,111	9,114	3,704	17,626	30,444	44,555
Capital expenditures	10	58	15	33	106	116
Depreciation and amortization	27	37	7	52	96	123

Nine Months Ended June 30,	Systems Segment	Service and System Integration Segment				Consolidated Total
		Germany	United Kingdom	U.S.	Total	
(Amounts in thousands)						
2011						
Sales:						
Product	\$ 3,563	\$ 12,556	\$ 140	\$ 33,307	\$ 46,003	\$ 49,566
Service	2,036	6,506	1,043	1,849	9,398	11,434
Total sales	5,599	19,062	1,183	35,156	55,401	61,000
Profit (loss) from operations	(624)	213	-	1,214	1,427	803
Assets	12,508	13,699	3,890	11,333	28,922	41,430
Capital expenditures	142	59	12	36	107	249
Depreciation and amortization	66	138	21	137	296	362

2010						
Sales:						
Product	\$ 4,842	\$ 10,500	\$ 49	\$ 44,158	\$ 54,707	\$ 59,549

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Service	2,234	6,282	1,201	1,884	9,367	11,601
Total sales	7,076	16,782	1,250	46,042	64,074	71,150
Profit from operations	191	(111)	(21)	1,023	891	1,082
Assets	14,111	9,114	3,704	17,626	30,444	44,555
Capital expenditures	25	193	24	46	263	288
Depreciation and amortization	90	116	20	154	290	380

Profit (loss) from operations is sales less cost of sales, engineering and development, selling, general and administrative expenses but is not affected by either non-operating charges/income or by income taxes. Non-operating charges/income consists principally of investment income and interest expense. All intercompany transactions have been eliminated.

The following table lists customers from which the Company derived revenues in excess of 10% of total revenues for the three and nine month periods ended June 30, 2011 and 2010.

	For the Three Months Ended				For the Nine Months Ended			
	June 30, 2011		June 30, 2010		June 30, 2011		June 30, 2010	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
(Dollar amounts in millions)								
Vodafone	\$1.5	8 %	\$1.1	4 %	\$6.6	11 %	\$6.0	8 %
Verio	\$4.7	24 %	\$9.8	34 %	\$9.5	16 %	\$17.6	25 %
Atos	\$2.2	11 %	\$0.5	2 %	\$4.5	7 %	\$2.3	3 %

8. Fair Value Measures

Assets and Liabilities measured at fair value on a recurring basis are as follows:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Fair Value Measurements Using			Total Balance	Gain or (loss)
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
As of June 30, 2011 (Amounts in thousands)						
Assets:						
Money Market funds	\$					