CSP INC /MA/
Form 10-Q
May 24, 2017
United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO x SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2017 TRANSITION REPORT PURSUANT TO o 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 04-2441294
(State of incorporation) (I.R.S. Employer Identification No.)
175 Cabot Street - Suite 210
Lowell, Massachusetts 01854
(978) 954-5038
(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 x No o.

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

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 o Accelerated filer o

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

Emerging growth company o

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. o

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

As of May 5, 2017, the registrant had 3,921,083 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)

| A SSETS | March 31, 2017 (Unaudited | 2016 | 80, |
|--|---------------------------------|----------------------------|-----|
| ASSETS Current assets: | | | |
| Cash and cash equivalents Accounts receivable, net of allowances of \$270 and \$240 Unbilled accounts receivable | \$ 11,038 23,364 954 | \$ 13,103 18,997 567 | |
| Inventories, net | 6,489 | 5,580 | |
| Deferred costs | 1,718 | 635 | |
| Deferred income taxes | 1,331 | 1,331 | |
| Other current assets | 1,435 | 1,586 | |
| Total current assets | 46,329 | 41,799 | |
| Property, equipment and improvements, net | 1,553 | 1,680 | |
| Other assets: | | | |
| Intangibles, net | 227 | 287 | |
| Deferred costs | 26 | 18 | |
| Deferred income taxes | 1,668 | 1,723 | |
| Cash surrender value of life insurance | 3,216 | 3,015 | |
| Other assets | 178 | 185 | |
| Total other assets | 5,315 | 5,228 | |
| Total assets | \$ 53,197 | \$ 48,707 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 14,548 | \$ 11,932 | |
| Deferred revenue | 7,277 | 4,704 | |
| Pension and retirement plans | 518 | 581 | |
| Income taxes payable | 53 | 166 | |
| Total current liabilities | 22,396 | 17,383 | |
| Pension and retirement plans | 12,977 | 13,441 | |
| Other long term liabilities | 225 | 228 | |
| Total liabilities | 35,598 | 31,052 | |
| Commitments and contingencies | | | |
| Shareholders' equity: | | | |
| Common stock, \$.01 par value per share; authorized, 7,500 shares; issued and outstanding | 40 | 39 | |
| 3,918 and 3,821 shares, respectively | | | |
| Additional paid-in capital | 13,278 | 12,924 | |
| Retained earnings | 16,150 | 16,623 | |
| Accumulated other comprehensive loss | (11,869 | (11,931 |) |

Total shareholders' equity 17,599 17,655
Total liabilities and shareholders' equity \$53,197 \$48,707

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except for per share data)

| | ended | | For the six months ended | |
|--|---------------------|----------|--------------------------|----------|
| | March 31, March 31, | | | |
| | 2017 | 2016 | 2017 | 2016 |
| Sales: | | | | |
| Product | \$18,684 | \$20,972 | \$33,322 | \$37,975 |
| Services | 6,632 | 6,167 | 11,910 | 12,840 |
| Total sales | 25,316 | 27,139 | 45,232 | 50,815 |
| Cost of sales: | | | | |
| Product | 15,878 | 17,054 | 28,103 | 31,290 |
| Services | 3,743 | 3,752 | 6,982 | 8,002 |
| Total cost of sales | 19,621 | 20,806 | 35,085 | 39,292 |
| Gross profit | 5,695 | 6,333 | 10,147 | 11,523 |
| Operating expenses: | | | | |
| Engineering and development | 573 | 790 | 1,169 | 1,589 |
| Selling, general and administrative | 4,500 | 4,665 | 8,458 | 8,713 |
| Total operating expenses | 5,073 | 5,455 | 9,627 | 10,302 |
| Operating income | 622 | 878 | 520 | 1,221 |
| Other income (expense): | | | | |
| Foreign exchange gain (loss) | 28 | (103) | 82 | (63) |
| Other expense, net | (11) | (14) | (21) | (26) |
| Total other income (expense) | 17 | (117) | 61 | (89) |
| Income before income taxes | 639 | 761 | 581 | 1,132 |
| Income tax expense | 211 | 258 | 196 | 346 |
| Net income | \$428 | \$503 | \$385 | \$786 |
| Net income attributable to common stockholders | \$410 | \$480 | \$357 | \$756 |
| Net income per share – basic | \$0.11 | \$0.13 | \$0.10 | \$0.21 |
| Weighted average shares outstanding – basic | 3,724 | 3,609 | 3,697 | 3,589 |
| Net income per share – diluted | \$0.11 | \$0.13 | \$0.09 | \$0.20 |
| Weighted average shares outstanding – diluted | 3,847 | 3,730 | 3,807 | 3,728 |

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Amounts in thousands)

| | For the three months ended March March 3 2017 2016 | For the six months ended 1, March March 2016 |
|---|--|--|
| Net income | \$428 \$ 503 | \$385 \$ 786 |
| Other comprehensive income: | | |
| Foreign currency translation gain adjustments | (76) 125 | 62 123 |
| Other comprehensive income (loss) | (76) 125 | 62 123 |
| Total comprehensive income | \$352 \$ 628 | \$447 \$ 909 |

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY For the Six Months Ended March 31, 2017: (Amounts in thousands, except per share data)

| | Shares | Amoun | Additional t Paid-in Capital | Retained | Accumulated other comprehensive loss | Total Shareholders' Equity |
|---|--------|-------|------------------------------------|----------|--------------------------------------|----------------------------------|
| Balance as of September 30, 2016 | 3,821 | \$ 39 | \$ 12,924 | \$16,623 | \$ (11,931) | \$ 17,655 |
| Net income | | _ | _ | 385 | _ | 385 |
| Other comprehensive income | _ | | _ | _ | 62 | 62 |
| Exercise of stock options | 5 | | 15 | _ | _ | 15 |
| Stock-based compensation | _ | | 249 | | _ | 249 |
| Restricted stock cancellation | (8) | _ | _ | | _ | _ |
| Restricted stock issuance | 89 | 1 | | | | 1 |
| Issuance of shares under employee stock purchase plan | 11 | _ | 90 | _ | | 90 |
| Cash dividends on common stock (\$0.22 per share |) — | | | (858) | _ | (858) |
| Balance as of March 31, 2017 | 3,918 | \$ 40 | \$ 13,278 | \$16,150 | \$ (11,869) | \$ |