

PAR TECHNOLOGY CORP
Form 10-Q
May 15, 2017

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 March 31, 2017.

OR

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

For the Transition Period From _____ to _____
Commission File Number 1-09720

PAR TECHNOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	16-1434688
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
PAR Technology Park	
8383 Seneca Turnpike	
New Hartford, New York	13413-4991
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (315) 738-0600

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth 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
	Emerging Growth Company

Edgar Filing: PAR TECHNOLOGY CORP - Form 10-Q

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

As of May 11, 2017 15,797,861 shares of the registrant's common stock, \$0.02 par value, were outstanding.

TABLE OF CONTENTS
FORM 10-Q

PART I
FINANCIAL INFORMATION

Item Number		Page
Item 1.	<u>Financial Statements (unaudited)</u>	
	<u>Consolidated Statements of Operations for the three months ended March 31, 2017 and March 31, 2016</u>	1
	<u>Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2017 and March 31, 2016</u>	2
	<u>Consolidated Balance Sheets at March 31, 2017 and December 31, 2016</u>	3
	<u>Consolidated Statements of Cash Flows for three months ended March 31, 2017 and March 31, 2016</u>	4
	<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	5
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4.	<u>Controls and Procedures</u>	18
	PART II OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	19
Item 1A.	<u>Risk Factors</u>	19
Item 2.	<u>Unregistered Sales of Equity Securities And Use Of Proceeds</u>	20
Item 3.	<u>Default Upon Senior Securities</u>	20
Item 4.	<u>Mine Safety Disclosures</u>	20
Item 5.	<u>Other Information</u>	20
Item 6.	<u>Exhibits</u>	21
	<u>Signatures</u>	22
	<u>Exhibit Index</u>	23

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	For the three months ended	
	March 31,	
	2017	2016
Net revenues:		
Product	\$ 37,206	\$ 22,084
Service	14,343	11,704
Contract	14,316	21,517
	65,865	55,305
Costs of sales:		
Product	27,572	16,442
Service	9,885	8,599
Contract	12,747	19,655
	50,204	44,696
Gross margin	15,661	10,609
Operating expenses:		
Selling, general and administrative	9,610	7,542
Research and development	3,569	2,762
Amortization of identifiable intangible assets	241	241
	13,420	10,545
Operating income from continuing operations	2,241	64
Other expense, net	(248)	(70)
Interest (expense) income, net	(32)	29
Income from continuing operations before provision for income taxes	1,961	23
Provision for income taxes	(697)	(8)
Income from continuing operations	1,264	15
Discontinued operation		
Income from discontinued operations (net of tax)	183	-
Net income	\$ 1,447	\$ 15
Basic Earnings per Share:		
Income from continuing operations	0.08	0.00
Income from discontinued operations	0.01	0.00
Net income	\$ 0.09	\$ 0.00
Diluted Earnings per Share:		
Income from continuing operations	0.08	0.00
Income from discontinued operations	0.01	0.00
Net income	\$ 0.09	\$ 0.00
Weighted average shares outstanding		
Basic	15,781	15,646
Diluted	15,978	15,723

See accompanying notes to unaudited interim consolidated financial statements

Table of Contents

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	For the three months ended March 31,	
	2017	2016
Net income	\$ 1,447	\$ 15
Other comprehensive loss, net of applicable tax:		
Foreign currency translation adjustments	41	(122)
Comprehensive income (loss)	\$ 1,488	\$ (107)

See accompanying notes to unaudited interim consolidated financial statements

Table of Contents

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(Unaudited)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,470	\$ 9,055
Accounts receivable-net	34,241	30,705
Inventories-net	24,800	26,237
Note receivable	3,794	3,510
Income taxes receivable	-	261
Other current assets	4,350	4,027
Assets of discontinued operations	462	462
Total current assets	73,117	74,257
Property, plant and equipment - net	9,042	7,035
Deferred income taxes	17,056	17,417
Goodwill	11,051	11,051
Intangible assets - net	11,411	10,966
Other assets	3,861	3,785
Total Assets	\$ 125,538	\$ 124,511
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 189	\$ 187
Borrowings of line of credit	1,000	-
Accounts payable	17,460	16,687
Accrued salaries and benefits	5,297	5,470
Accrued expenses	4,492	4,682
Customer deposits and deferred service revenue	17,807	19,814
Total current liabilities	46,245	46,840
Long-term debt	331	379
Other long-term liabilities	7,705	7,712
Total liabilities	54,281	54,931
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, \$.02 par value, 1,000,000 shares authorized	-	-
Common stock, \$.02 par value, 29,000,000 shares authorized; 17,493,293 and 17,479,454 shares issued, 15,785,184 and 15,771,345 outstanding at March 31, 2017 and December 31, 2016, respectively	350	350
Capital in excess of par value	46,392	46,203
Retained earnings	33,804	32,357
Accumulated other comprehensive loss	(3,453)	(3,494)
Treasury stock, at cost, 1,708,109 shares	(5,836)	(5,836)
Total shareholders' equity	71,257	69,580
Total Liabilities and Shareholders' Equity	\$ 125,538	\$ 124,511

See accompanying notes to unaudited interim consolidated financial statements

Table of Contents

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the three months ended	
	March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 1,264	\$ 15
Income from discontinued operations	183	-
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation, amortization and accretion	898	777
Provision for bad debts	112	185
Provision for obsolete inventory	958	395
Equity based compensation	177	66
Deferred income tax	361	(69)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(3,932)	(4,627)
Inventories	479	(1,272)
Income tax receivable/(payable)	261	(352)
Other current assets	(323)	226
Other assets	(76)	(93)
Accounts payable	773	3,527
Accrued salaries and benefits	(173)	(442)
Accrued expenses	(190)	205
Customer deposits and deferred service revenue	(2,007)	659
Other long-term liabilities	(7)	(182)
Deferred tax equity based compensation	12	37
Net cash used in operating activities-continuing operations	(1,230)	(945)
Net cash used in operating activities-discontinued operations	-	(161)
Net cash used in operating activities	(1,230)	(1,106)
Cash flows from investing activities:		
Capital expenditures	(2,344)	(322)
Capitalization of software costs	(1,006)	(659)
Net cash used in investing activities	(3,350)	(981)
Cash flows from financing activities:		
Payments of long-term debt	(46)	(44)
Payments of other borrowings	(5,000)	(53,812)
Proceeds from other borrowings	6,000	53,812
Repurchase of common stock	-	(1)
Net cash provided by (used in) financing activities	954	(45)
Effect of exchange rate changes on cash and cash equivalents	41	(122)
Net decrease in cash and cash equivalents	(3,585)	(2,254)
Cash and cash equivalents at beginning of period	9,055	8,024
Cash and equivalents at end of period	5,470	5,770
Less cash and cash equivalents of discontinued operations at end of period	-	-
Cash and cash equivalents of continuing operations at end of period	\$ 5,470	\$ 5,770

Supplemental disclosures of cash flow information:

Edgar Filing: PAR TECHNOLOGY CORP - Form 10-Q

Cash paid during the period for:

Interest	6	8
Income taxes, net of refunds	39	420

See accompanying notes to unaudited interim consolidated financial statements

4

Table of Contents

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of presentation

The accompanying unaudited interim consolidated financial statements of PAR Technology Corporation (the “Company” or “PAR”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, they do not include all information and footnotes required by GAAP for annual financial statements. In the opinion of the management, such unaudited interim consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the results for the interim periods included in this Quarterly Report on Form 10-Q (“Quarterly Report”). Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results of operations that may be expected for any future period. Certain amounts for prior periods have been reclassified to conform to the current period classification.

The preparation of consolidated financial statements requires management of the Company to make a number of estimates, judgements and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Significant items subject to such estimates, judgements and assumptions include: the carrying amount of property, plant and equipment, identifiable intangible assets and goodwill, equity based compensation, and valuation allowances for receivables, inventories and deferred income taxes. Actual results could differ from those estimates.

The unaudited interim consolidated financial statements and related notes should be read in conjunction with the Company’s audited Consolidated Financial Statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, which has been filed with the Securities and Exchange Commission (“SEC”).

Table of Contents

Note 2 — Divestiture and Discontinued Operations

On November 4, 2015, ParTech, Inc. (“PTI”), a wholly owned subsidiary of PAR Technology Corporation, PAR Springer-Miller Systems, Inc. (“PSMS”), Springer-Miller International, LLC (“SMI”), and Springer-Miller Canada, ULC (“SMC”) (PTI, PSMS, SMI and SMC are collectively referred to herein as the “Group”), entered into an asset purchase agreement (the “APA”) with Gary Jonas Computing Ltd., SMS Software Holdings LLC, and Jonas Computing (UK) Ltd. (the “Purchasers”), for the sale of substantially all of the assets of PSMS. Accordingly, the results of operations of PSMS have been classified as discontinued operations in the Consolidated Statements of Operations (unaudited) and Consolidated Statements of Cash Flows (unaudited) in accordance with Accounting Standards Codification (“ASC”) ASC 205-20 (Presentation of Financial Statements – Discontinued Operations). Additionally, the assets and associated liabilities have been classified as discontinued operations in the Consolidated Balance Sheets (unaudited). Total consideration to be received from the sale is \$16.6 million in cash (the “Base Purchase Price”), with \$12.1 million received at the time of closing and \$4.5 million receivable eighteen months after the closing date, a portion of such amount to be available for the payment of certain indemnification obligations of the Group and/or adjusted based on the net tangible asset calculation, as defined in the APA. The estimated fair value of the remaining portion of the note receivable, less any estimated working capital adjustments, due on May 5, 2017 was approximately \$3.8 million and is included in current assets in the Company’s Consolidated Balance Sheets (unaudited). During 2017, the Company increased the receivable by \$284,000 based on the terms of the net tangible asset calculation as the working capital shortfall was less than previously estimated.

In addition to the Base Purchase Price, contingent consideration of up to \$1.5 million could be received by the Company based on the achievement of certain agreed-upon revenue and earnings targets for calendar years 2016 through 2018, as set forth in the APA. As of March 31, 2017, the Company had not recorded any amount associated with this contingent consideration as we do not believe achievement of the related targets is probable.

Summarized financial information for the Company’s discontinued operations is as follows (in thousands):

	March 31, December, 31 (in thousands)	
	2017	2016
Assets		
Other current assets	\$ 462	\$ 462
Assets of discontinued operation	\$ 462	\$ 462
Liabilities		
Accrued salaries and benefits	\$ -	\$ -
Liabilities of discontinued operation	\$ -	\$ -

Summarized financial information for the Company’s discontinued operations is as follows (in thousands):

	March 31, (in thousands)	
	2017	2016
Total revenues	\$ -	\$ -
Income from discontinued operations before income taxes	\$ 284	\$ -
Income taxes	(101)	-
Income from discontinued operations, net of taxes	\$ 183	\$ -

During the three months ended March 31, 2017, the Company recognized income on discontinued operations of \$0.2 million (net of tax) mainly due to an increase of the note receivable. The increase of the note receivable is reflected in the Company's earnings for 2017 and will be increased by the amount the Company received on May 5, 2017.

Table of Contents

Note 3 — Accounts Receivable

The Company's net accounts receivable consist of:

	(in thousands)	
	March 31, 2017	December 31, 2016
Government segment:		
Billed	\$7,821	\$ 6,779
Advanced billings	(2,239)	(1,599)
	5,582	5,180
Restaurant/Retail segment:		
Accounts receivable - net	28,659	25,525
	\$34,241	\$ 30,705

At March 31, 2017 and December 31, 2016, the Company had recorded allowances for doubtful accounts of \$0.9 million and \$0.9 million, respectively, against Restaurant/Retail segment accounts receivables.

Note 4 — Inventories

Inventories are primarily used in the manufacture, maintenance and service of Restaurant/Retail products. The components of inventories (net) consist of the following:

(in thousands)