

CSP INC /MA/
Form 10-Q/A
March 02, 2012

United States

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the Quarterly Period Ended December 31, 2010.

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 .

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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, 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 January 26, 2011, the registrant had 3,491,052 shares of common stock issued and outstanding.



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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2010, filed with the Securities and Exchange Commission (SEC) on February 10, 2011 is being filed to restate our consolidated financial statements and other financial information to give effect to adjustments resulting from the identification of sales that are maintenance and support services provided by third parties where the Company is not the primary obligor for the service, which requires presentation of the revenue reported by the Company net of the cost of the services as opposed to recognition as the gross sales value of the services. We have therefore reduced the product revenue and product cost of sales by the amount of the costs associated with these services. In addition, the Company identified certain other services provided pursuant to third party contracts for which the Company is the primary obligor and reported these services correctly at the gross sales value; however these services were reported as product revenue and should have been reported as service revenue. We have therefore, reclassified both the revenue and cost of sales for these services from product revenue and product cost of sales to service revenue and service cost of sales. The adjustments made to the restated financial statements referred to above did not affect gross profit, income before taxes, net income, cash flow, total assets, total liabilities, retained earnings or total shareholder equity as of or for the quarters ended December 31, 2010 and 2009.

We have added a disclosure in Note 2 to our Consolidated Financial Statements that explains the restatement and the impact to our Consolidated Financial Statements that were originally filed. This Form 10-Q/A (Amendment No. 1) amends and restates Part I – Items 1, 2 and 4 of the February 10, 2011 filing, in each case to reflect only the adjustments described herein and the filing of restated financial statements as discussed above, and no other information in our February 10, 2011 filing is amended hereby. Except for the foregoing amended information, this Form 10-Q/A (Amendment No. 1) filing does not reflect events occurring after February 10, 2011.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,969	\$15,531
Accounts receivable, net of allowances of \$324 and \$288	11,507	12,190
Inventories	6,174	5,862
Refundable income taxes	478	721
Deferred income taxes	124	124
Other current assets	1,834	1,523
Total current assets	36,086	35,951
Property, equipment and improvements, net	882	873
Other assets:		
Intangibles, net	659	687
Deferred income taxes	868	880
Cash surrender value of life insurance	2,717	2,689
Other assets	297	299
Total other assets	4,541	4,555
Total assets	\$41,509	\$41,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$10,080	\$10,049
Deferred revenue	2,975	3,078
Pension and retirement plans	443	441
Income taxes payable	372	380
Total current liabilities	13,870	13,948
Pension and retirement plans	8,879	8,928
Capital lease obligation	24	24
Total liabilities	22,773	22,900

Commitments and contingencies

Shareholders' equity:

Common stock, \$.01 par; authorized, 7,500 shares; issued and outstanding 3,526 and 3,520 shares, respectively	35	35
Additional paid-in capital	11,209	11,280
Retained earnings	12,905	12,516
Accumulated other comprehensive loss	(5,413)	(5,352)
Total shareholders' equity	18,736	18,479
Total liabilities and shareholders' equity	\$41,509	\$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	
	December 31, 2010 (Restated)	December 31, 2009 (Restated)
Sales:		
Product	\$15,292	\$13,498
Services	5,335	4,310
Total sales	20,627	17,808
Cost of sales:		
Product	13,415	12,042
Services	2,684	3,462
Total cost of sales	16,099	15,504
Gross profit	4,528	2,304
Operating expenses:		
Engineering and development	510	472
Selling, general and administrative	3,375	3,057
Total operating expenses	3,885	3,529
Operating income (loss)	643	(1,225)
Other income (expense):		
Foreign exchange gain (loss)	(4)	(7)
Other income (expense), net	(17)	(13)
Total other income (expense), net	(21)	(20)
Income (loss) before income taxes	622	(1,245)
Income tax expense (benefit)	233	(503)
Net income (loss)	\$389	\$(742)
Net income (loss) attributable to common stockholders	\$385	\$(737)
Net income (loss) per share – basic	\$0.11	\$(0.21)

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Weighted average shares outstanding – basic	3,485	3,536
Net income (loss) per share – diluted	\$0.11	\$(0.21)
Weighted average shares outstanding – diluted	3,521	3,536

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 For the Three Months Ended December 31, 2010
 (Amounts in thousands)

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Total Shareholders' Equity	Comprehensive Income (loss)
Balance as of September 30, 2010	3,520	\$35	\$11,280	\$12,516	\$ (5,352)	\$ 18,479	
Comprehensive income (loss):							
Net income	—	—	—	389	—	389	\$ 389
Other comprehensive loss:							
Effect of foreign currency translation	—	—	—	—	(61)	(61)	(61)
Total comprehensive income							\$ 328
Stock-based compensation	—	—	26	—	—	26	
Issuance of shares under employee stock purchase plan	25	—	74	—	—	74	
Restricted stock shares issued	27	—	20	—	—	20	
Purchase of common stock	(46)	—	(191)	—	—	(191)	
Balance as of December 31, 2010	3,526	\$35	\$11,209	\$12,905	\$ (5,413)	\$ 18,736	

See accompanying notes to unaudited consolidated financial statements.

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

	For the three months ended	
	December 31, 2010	December 31, 2009
Cash flows from operating activities:		
Net income (loss)	\$389	\$(742)
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Depreciation and amortization	92	98
Amortization of intangibles	28	28
Foreign exchange loss (gain)	4	7
Non-cash changes in accounts receivable	36	(22)
Stock-based compensation expense on stock options and restricted stock awards	46	54
Deferred income taxes	-	(38)
Increase in cash surrender value of life insurance	(26)	(28)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	555	(3,417)
Increase in inventories	(318)	(1,235)
(Increase) decrease in refundable income taxes	234	(534)
(Increase) decrease in other current assets	(335)	351
Decrease in other assets	1	(5)
Increase in accounts payable and accrued expenses	107	2,110
Decrease in deferred revenue	(72)	(693)
Increase in pension and retirement plans liability	42	57
Increase (decrease) in income taxes payable	(7)	7
Decrease in other long term liabilities	-	(14)
Net cash provided by (used in) operating activities	776	(4,016)
Cash flows from investing activities:		
Life insurance premiums paid	(3)	(62)
Purchases of property, equipment and improvements	(111)	(50)
Net cash used in investing activities	(114)	(112)
Cash flows from financing activities:		
Proceeds from issuance of shares under employee stock purchase plan	74	62
Purchase of common stock	(191)	-
Net cash provided by (used in) financing activities	(117)	62
Effects of exchange rate on cash	(107)	(54)
Net increase (decrease) in cash and cash equivalents	438	(4,120)

Cash and cash equivalents, beginning of period	15,531	18,904
Cash and cash equivalents, end of period	\$15,969	\$14,784
Supplementary cash flow information:		
Cash paid for income taxes	\$245	\$89
Cash paid for interest	\$85	\$89

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

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, and Form 8-K/A filed on January 11, 2012.

2. Restatement

The Company has restated its Consolidated Statements of Operations for the three months ended December 31, 2010 and 2009 to reflect adjustments and reclassifications of revenue and cost of sales, in connection with the identification of sales that are maintenance and support services provided by third parties where the Company is not the primary obligor of the service, which requires presentation of the revenue reported by the Company net of the cost of the services as opposed to recognition of the gross sales value of the services. In addition, the Company identified certain other services provided pursuant to third party contracts for which the Company is the primary obligor and reported these services correctly at the gross sales value; however these services were reported as product revenue and should have been included as service revenue. We have therefore, reclassified both the revenue and cost of sales for these services from product revenue and product cost of sales to service revenue and service cost of sales.

The adjustments made to the restated financial statements referred to above did not affect gross profit, income before taxes, net income, cash flow, total assets, total liabilities, retained earnings or total shareholder equity as of or for the quarters ended December 31, 2010 and 2009.

The tables below show the impact to the statements of operations for the restated periods.

	For the three months ended					
	December 31, 2010			December 31, 2009		
	As reported	Restatement Adjustment	Restated	As reported	Restatement Adjustment	Restated
(Amounts in thousands except per share data.)						
Sales:						
Product	\$ 17,424	\$ (2,132)	\$ 15,292	\$ 15,245	\$ (1,747)	\$ 13,498
Services	4,686	649	5,335	3,416	894	4,310
Total sales	22,110	(1,483)	20,627	18,661	(853)	17,808

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Cost of sales:						
Product	15,293	(1,878)	13,415	13,616	(1,574)	12,042
Services	2,289	395	2,684	2,741	721	3,462
Total cost of sales	17,582	(1,483)	16,099	16,357	(853)	15,504
Gross profit	4,528	-	4,528	2,304	-	2,304
Operating expenses	3,885	-	3,885	3,529	-	3,529
Operating income (loss)	643	-	643	(1,225)	-	(1,225)
Other expense, net	(21)	-	(21)	(20)	-	(20)
Income (loss) before income taxes	622	-	622	(1,245)	-	(1,245)
Income tax expense (benefit)	233	-	233	(503)	-	(503)
Net income	\$ 389	-	\$ 389	\$ (742)	-	\$ (742)
Net income (loss) per share – basic	\$ 0.11	-	\$ 0.11	\$ (0.21)	-	\$ (0.21)
Weighted average shares outstanding – basic	3,485	-	3,485	3,536	-	3,536
Net income (loss) per share – diluted	\$ 0.11	-	\$ 0.11	\$ (0.21)	-	\$ (0.21)
Weighted average shares outstanding – diluted	3,521	-	3,521	3,536	-	3,536

3. 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.

4. 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 (loss) per share computations for the Company's reported net income attributable to common stock holders are as follows:

	For the three months ended	
	December 31, 2010	December 31, 2009
	(Amounts in thousands except per share data)	
Net income (loss)	\$389	\$(742)
Less: Net income (loss) attributable to nonvested common stock	4	(5)
Net income (loss) attributable to common stockholders	\$385	\$(737)
Weighted average total shares outstanding – basic	3,527	3,562
Less: weighted average non-vested shares outstanding	42	26
Weighted average number of common shares outstanding – basic	3,485	3,536
Potential common shares from non-vested stock awards and the assumed exercise of stock options	36	-
Weighted average common shares outstanding – diluted	3,521	3,536
Net income (loss) per share – basic	\$0.11	\$(0.21)
Net income (loss) per share – diluted	\$0.11	\$(0.21)

For the three months ended December 31, 2010, earnings per share were \$0.11 for both basic and diluted. For the three months ended December 31, 2009, the loss per share attributable to unvested shares was \$0.21 per share.

All anti-dilutive securities, including stock options, are excluded from the diluted income per share computation. For the three months ended December 31, 2010 and 2009, 213,000 and 286,000 options, respectively, were excluded from the diluted income per share calculation because their inclusion would have been anti-dilutive.

5. Inventories

Inventories consist of the following:

	December 31, 2010	September 30, 2010
	(Amounts in thousands)	
Raw materials	\$ 1,285	\$ 1,029
Work-in-process	606	439
Finished goods	4,283	4,394
Total	\$6,174	\$5,862

Finished goods includes inventory that has been shipped, but for which all revenue recognition criteria has not been met of approximately \$2.3 million and \$2.4 million as of December 31, 2010 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 December 31, 2010 and September 30, 2010, respectively.

6. Accumulated Other Comprehensive Loss

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

	For the Three Months Ended	
	December 31, 2010	December 31, 2009
	(Amounts in thousands)	
Net income (loss)	\$ 389	\$ (742)
Effect of foreign currency translation	(61)	(59)
Minimum pension liability	—	—
Comprehensive income (loss)	\$ 328	\$ (801)

The components of Accumulated Other Comprehensive Loss are as follows:

	December 31, 2010	September 30, 2010
	(Amounts in thousands)	
Cumulative effect of foreign currency translation	\$(2,194)	\$(2,133)
Additional minimum pension liability	(3,219)	(3,219)
Accumulated Other Comprehensive Loss	\$(5,413)	\$(5,352)

7.

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 three months ended December 31, 2010.

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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 December 31					
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Service cost	\$18	\$2	\$20	\$16	\$2	\$18
Interest cost	170	25	195	177	29	206
Expected return on plan assets	(125)	—	(125)	(116)	—	(116)
Amortization of:						
Prior service gain	—	—	—	—	—	—
Amortization of net (gain) loss	17	8	25	11	8	19
Net periodic benefit cost	\$80	\$35	\$115	\$88	\$39	\$127
Post Retirement:						
Service cost	\$—	\$5	\$5	\$—	\$5	\$5
Interest cost	—	17	17	—	17	17
Amortization of net (gain) loss	—	12	12	—	16	16
Net periodic benefit cost	\$—	\$34	\$34	\$—	\$38	\$38

8. Segment Information

The following table presents certain operating segment information.

Three Months Ended December 31,	Service and System Integration Segment	
	Systems Segment	United Kingdom
	Germany	