

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 March 31, 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

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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 May 2, 2011, the registrant had 3,486,510 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 March 31, 2011, filed with the Securities and Exchange Commission (SEC) on May 9, 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 and six-month periods ended March 31, 2011 and 2010.

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 May 9, 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 May 9, 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 May 9, 2011.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2011 (Unaudited)	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$14,372	\$15,531
Accounts receivable, net of allowances of \$322 and \$288	12,610	12,190
Inventories	8,314	5,862
Refundable income taxes	228	721
Deferred income taxes	126	124
Other current assets	2,186	1,523
Total current assets	37,836	35,951
Property, equipment and improvements, net	920	873
Other assets:		
Intangibles, net	631	687
Deferred income taxes	903	880
Cash surrender value of life insurance	2,867	2,689
Other assets	250	299
Total other assets	4,651	4,555
Total assets	\$43,407	\$41,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$10,577	\$10,049
Deferred revenue	3,678	3,078
Pension and retirement plans	454	441
Income taxes payable	508	380
Total current liabilities	15,217	13,948
Pension and retirement plans	9,199	8,928
Capital lease obligation	24	24
Total liabilities	24,440	22,900
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par; authorized, 7,500 shares; issued and outstanding 3,485 and 3,520 shares, respectively	35	35
Additional paid-in capital	11,052	11,280
Retained earnings	13,191	12,516
Accumulated other comprehensive loss	(5,311)	(5,352)

Total shareholders' equity	18,967	18,479
Total liabilities and shareholders' equity	\$43,407	\$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 six months ended	
	March 31, 2011 (Restated)	March 31, 2010 (Restated)	March 31, 2011 (Restated)	March 31, 2010 (Restated)
Sales:				
Product	\$12,767	\$18,283	\$28,058	\$31,781
Services	4,862	4,568	10,198	8,878
Total sales	17,629	22,851	38,256	40,659
Cost of sales:				
Product	9,961	13,986	23,376	26,028
Services	3,419	3,375	6,103	6,837
Total cost of sales	13,380	17,361	29,479	32,865
Gross profit	4,249	5,490	8,777	7,794
Operating expenses:				
Engineering and development	508	430	1,018	902
Selling, general and administrative	3,310	3,411	6,685	6,468
Total operating expenses	3,818	3,841	7,703	7,370
Operating income	431	1,649	1,074	424
Other income (expense):				
Foreign exchange gain (loss)	12	(3)	8	(10)
Other income (expense), net	(13)	(13)	(30)	(26)
Total other income (expense), net	(1)	(16)	(22)	(36)
Income before income taxes	430	1,633	1,052	388
Income tax expense	144	644	377	141
Net income	\$286	\$989	\$675	\$247
Net income attributable to common shareholders	\$282	\$979	\$666	\$245
Net income per share – basic	\$0.08	\$0.28	\$0.19	\$0.07
Weighted average shares outstanding – basic	3,437	3,552	3,455	3,544
Net income per share – diluted	\$0.08	\$0.27	\$0.19	\$0.07
Weighted average shares outstanding – diluted	3,471	3,581	3,491	3,573

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, 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	—	—	—	675	—	675	\$ 675
Other comprehensive loss:							
Effect of foreign currency translation	—	—	—	—	41	41	41
Total comprehensive income							\$ 716
Stock-based compensation	—	—	46	—	—	46	
Issuance of shares under employee stock purchase plan	25	—	75	—	—	75	
Restricted stock shares issued	37	1	45	—	—	46	
Purchase of common stock	(97)	(1)	(394)	—	—	(395)	
Balance as of March 31, 2011	3,485	\$35	\$11,052	\$13,191	\$ (5,311)	\$ 18,967	

See accompanying notes to unaudited consolidated financial statements.

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

	For the six months ended	
	March 31, 2011	March 31, 2010
Cash flows from operating activities:		
Net income	\$ 675	\$ 247
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	182	200
Amortization of intangibles	56	57
Loss on disposal of fixed assets, net	3	1
Foreign exchange loss (gain)	(8)	10
Non-cash changes in accounts receivable	34	(21)
Stock-based compensation expense on stock options and restricted stock awards	92	107
Deferred income taxes	-	(60)
Increase in cash surrender value of life insurance	(41)	(41)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(202)	(7,718)
Increase in inventories	(2,442)	(705)
(Increase) decrease in refundable income taxes	502	(68)
(Increase) decrease in other current assets	(601)	175
Decrease in other assets	52	5
Increase in accounts payable and accrued expenses	386	1,445
Increase in deferred revenue	509	358
Increase in pension and retirement plans liability	83	110
Increase in income taxes payable	127	145
Decrease in other long term liabilities	-	(14)
Net cash used in operating activities	(593)	(5,767)
Cash flows from investing activities:		
Life insurance premiums paid	(137)	(64)
Purchases of property, equipment and improvements	(211)	(172)
Net cash used in investing activities	(348)	(236)
Cash flows from financing activities:		
Proceeds from issuance of shares under employee stock purchase plan	75	61
Purchase of common stock	(395)	(40)
Net cash provided by (used in) financing activities	(320)	21
Effects of exchange rate on cash	102	(636)
Net decrease in cash and cash equivalents	(1,159)	(6,618)
Cash and cash equivalents, beginning of period	15,531	18,904

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Cash and cash equivalents, end of period	\$ 14,372	\$ 12,286
Supplementary cash flow information:		
Cash paid for income taxes	\$ 251	\$ 146
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 AND SIX MONTHS ENDED MARCH 31, 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, and Form 8-K/A filed on January 11, 2012.

2. Restatement

The Company has restated its Consolidated Statements of Operations for the three-month and six-month periods ended March 31, 2011 and 2010 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 and six-month periods ended March 31, 2011 or 2010.

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

	Three months ended March 31, 2011 (unaudited)			Three months ended March 31, 2010 (unaudited)		
	As reported	Restatement Adjustment	Restated	As reported	Restatement Adjustment	Restated
(Amounts in thousands except for per share data)						
Sales:						
Product	\$ 15,726	\$ (2,959)	\$ 12,767	\$ 20,551	\$ (2,268)	\$ 18,283
Services	3,483	1,379	4,862	3,370	1,198	4,568

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Total sales	19,209	(1,580)	17,629	23,921	(1,070)	22,851
Cost of sales:						
Product	12,457	(2,496)	9,961	15,960	(1,974)	13,986
Services	2,503	916	3,419	2,471	904	3,375
Total cost of sales	14,960	(1,580)	13,380	18,431	(1,070)	17,361
Gross profit	4,249	-	4,249	5,490	-	5,490
Operating expenses						
Operating expenses	3,818	-	3,818	3,841	-	3,841
Operating income	431	-	431	1,649	-	1,649
Other income (expense), net	(1)	-	(1)	(16)	-	(16)
Income before income taxes	430	-	430	1,633	-	1,633
Income tax expense	144	-	144	644	-	644
Net income	\$286	-	\$286	\$989	-	\$989
Net income per share – basic						
Net income per share – basic	\$0.08	-	\$0.08	\$0.28	-	\$0.28
Weighted average shares outstanding – basic						
Weighted average shares outstanding – basic	3,437	-	3,437	3,552	-	3,552
Net income per share – diluted						
Net income per share – diluted	\$0.08	-	\$0.08	\$0.27	-	\$0.27
Weighted average shares outstanding – diluted						
Weighted average shares outstanding – diluted	3,471	-	3,471	3,581	-	3,581

	Six months ended March 31, 2011 (unaudited)			Six months ended March 31, 2010 (unaudited)		
	As reported	Restatement Adjustment	Restated	As reported	Restatement Adjustment	Restated
(Amounts in thousands except for per share data)						
Sales:						
Product	\$33,150	\$ (5,092)	\$28,058	\$35,796	\$ (4,015)	\$31,781
Services	8,169	2,029	10,198	6,786	2,092	8,878
Total sales	41,319	(3,063)	38,256	42,582	(1,923)	40,659
Cost of sales:						
Product	27,750	(4,374)	23,376	29,576	(3,548)	26,028
Services	4,792	1,311	6,103	5,212	1,625	6,837
Total cost of sales	32,542	(3,063)	29,479	34,788	(1,923)	32,865
Gross profit	8,777	-	8,777	7,794	-	7,794
Operating expenses	7,703	-	7,703	7,370	-	7,370
Operating income	1,074	-	1,074	424	-	424
Other income (expense), net	(22)	-	(22)	(36)	-	(36)
Income before income taxes	1,052	-	1,052	388	-	388
Income tax expense	377	-	377	141	-	141
Net income	\$675	-	\$675	\$247	-	\$247
Net income per share – basic	\$0.19	-	\$0.19	\$0.07	-	\$0.07
Weighted average shares outstanding – basic	3,455	-	3,455	3,544	-	3,544
Net income per share – diluted	\$0.19	-	\$0.19	\$0.07	-	\$0.07
Weighted average shares outstanding – diluted	3,491	-	3,491	3,573	-	3,573

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 per share computations for the Company's reported net income attributable to common stockholders are as follows:

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
	(Amounts in thousands, except per share data)			
Net income	\$286	\$989	\$ 675	\$ 247
Less: Net income attributable to nonvested common stock	4	10	9	2
Net income attributable to common stockholders	282	979	666	245
Weighted average total shares outstanding – basic	3,492	3,591	3,504	3,577
Less: weighted average non-vested shares outstanding	55	39	49	33
Weighted average number of common shares outstanding – basic	3,437	3,552	3,455	3,544
Potential common shares from non-vested stock awards and the assumed exercise of stock options	34	29	36	29
Weighted average common shares outstanding – diluted	3,471	3,581	3,491	3,573
Net income per share – basic	\$0.08	\$0.28	\$ 0.19	\$ 0.07
Net income per share – diluted	\$0.08	\$0.27	\$ 0.19	\$ 0.07

All anti-dilutive securities, including stock options, are excluded from the diluted income per share computation. For the three and six months ended March 31, 2011, 208,000 and 211,000 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:

	March 31, 2011	September 30, 2010
	(Amounts in thousands)	
Raw materials	\$1,162	\$1,029
Work-in-process	808	439
Finished goods	6,344	4,394
Total	\$8,314	\$5,862

Finished goods includes inventory that has been shipped, but for which all revenue recognition criteria has not been met of approximately \$3.6 million and \$2.4 million as of March 31, 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 March 31, 2011 and September 30, 2010, respectively.

6. Accumulated Other Comprehensive Loss

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

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
	(Amounts in thousands)			
Net income	\$286	\$989	\$675	\$247
Effect of foreign currency translation	102	(297)	41	(356)
Minimum pension liability	—	—	—	—
Comprehensive income (loss)	\$388	\$692	\$716	\$(109)

The components of Accumulated Other Comprehensive Loss are as follows:

	March 31, 2011	September 30, 2010
(Amounts in thousands)		
Cumulative effect of foreign currency translation	\$ (2,092)	\$ (2,133)
Additional minimum pension liability	(3,219)	(3,219)
Accumulated Other Comprehensive Loss	\$ (5,311)	\$ (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 six months ended March 31, 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 March 31					
	Foreign	2011 U.S.	Total	Foreign	2010 U.S.	Total
(Amounts in thousands)						
Pension:						
Service cost	\$ 18	\$ 2	\$ 20	\$ 15	\$ 2	\$ 17
Interest cost	172	25	197	168	30	198
Expected return on plan assets	(126)	—	(126)	(111)	—	(111)
Amortization of:						
Prior service gain	—	—	—	—	—	—
Amortization of net gain	17	8	25	11	7	18
Net periodic benefit cost	\$ 81	\$ 35	\$ 116	\$ 83	\$ 39	\$ 122
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 Six Months Ended March 31

	2011		2010		
	Foreign	U.S.	Foreign	U.S.	Total

(Amounts in thousands)

Pension:

Service cost	\$36	\$4	\$40	\$31	\$4	\$35
Interest cost	342	50	392	345	58	403
Expected return on plan assets	(251)	—	(251)	(227)	—	(227)

Amortization of:

Prior service gain	—	—	—	—	—	—
Amortization of net gain	34	16	50	22	15	37
Net periodic benefit cost	\$161	\$70	\$231	\$171	\$77	\$248

Post Retirement:

Service cost	\$—	\$10	\$10	\$—	\$9	\$9
Interest cost	—	34	34	—	34	34
Amortization of net gain	—	24	24	—	33	33
Net periodic benefit cost	\$—	\$68	\$68	\$—	\$76	\$76

8. Segment Information

The following table presents certain operating segment information.

Three Months Ended March 31,	Systems Segment	Service and System Integration Segment				Consolidated Total
		Germany	United Kingdom	U.S.	Total	
(Amounts in thousands)						
2011						
Sales:						
Product	\$1,931	\$2,785	\$61	\$7,990	\$10,836	\$ 12,767
Service	368	3,401	364	729	4,494	4,862
Total sales	2,299	6,186	425	8,719	15,330	17,629
Profit from operations	72	39	15	305	359	431
Assets	13,335	13,150	3,847	13,075	30,072	43,407
Capital expenditures	77	11	1	11	23	100
Depreciation and amortization	21	45	7	45	97	118
2010						
Sales:						
Product	\$4,136	\$2,407	\$25	\$11,715	\$14,147	\$ 18,283
Service	432	3,056	460	620	4,136	4,568
Total sales	4,568	5,463	485	12,335	18,283	22,851
Profit from operations	1,431	47	18	153	218	1,649
Assets	13,926	10,340	4,001	13,475	27,816	41,742
Capital expenditures	5	103	4	10	117	122
Depreciation and amortization	30	44	6	50	100	130

Six Months Ended March 31,	Systems Segment	Service and System Integration Segment				Consolidated Total
		Germany	United Kingdom	U.S.	Total	
(Amounts in thousands)						
2011						