PAR TECHNOLOGY CORP
Form 10-Q
November 14, 2016

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 September 30, 2016. Commission File Number 1-9720

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 __________

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, or a smaller reporting company. See 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	Smaller Reporting Company

(Do not check if a 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 November 11, 2016 15,777,513 shares of the registrant's common stock, $0.02 par value, were outstanding.

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PART I
FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net revenues:				
Product	$ 25,757	$ 24,408	$ 69,285	$ 70,081
Service	12,620	11,611	36,128	34,687
Contract	23,115	22,041	64,042	67,438
	61,492	58,060	169,455	172,206
Costs of sales:				
Product	18,433	17,454	51,012	50,238
Service	8,969	8,491	25,787	25,499
Contract	21,490	20,395	59,002	63,058
	48,892	46,340	135,801	138,795
Gross margin	12,600	11,720	33,654	33,411
Operating expenses:				
Selling, general and administrative	8,672	6,808	23,271	20,313
Research and development	2,866	2,744	8,421	7,840
Amortization of identifiable intangible assets	241	248	724	746
	11,779	9,800	32,416	28,899
Operating income from continuing operations	821	1,920	1,238	4,512
Other (expense) income, net	(38)	128	(318)	(58)
Interest (expense)income, net	(12)	(81)	20	(252)
Income from continuing operations before provision for income taxes	771	1,967	940	4,202
Provision for income taxes	(253)	(670)	(306)	(1,470)
Income from continuing operations	518	1,297	634	2,732
Discontinued operations				
Loss on discontinued operations (net of tax)	-	(2,786)	(26)	(4,505)
Net income (loss)	$ 518	$ (1,489)	$ 608	$ (1,773)
Basic Earnings per Share:				
Income from continuing operations	0.03	0.08	0.04	0.18
Loss from discontinued operations	(0.00)	(0.18)	(0.00)	(0.29)
Net income (loss)	$ 0.03	$ (0.10)	$ 0.04	$ (0.11)
Diluted Earnings per Share:				
Income from continuing operations	0.03	0.08	0.04	0.17
Loss from discontinued operations	(0.00)	(0.18)	(0.00)	(0.29)
Net income (loss)	$ 0.03	$ (0.10)	$ 0.04	$ (0.11)
Weighted average shares outstanding				
Basic	15,770	15,589	15,670	15,549
Diluted	15,822	15,659	15,730	15,650

See accompanying Notes to Unaudited Interim Consolidated Financial Statements

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$ 518	$ (1,489)	$ 608	$ (1,773)
Other comprehensive loss, net of applicable tax:				
Foreign currency translation adjustments	(148)	(717)	(298)	(995)
Comprehensive income (loss)	$ 370	$ (2,206)	$ 310	$ (2,768)

See accompanying Notes to Unaudited Interim Consolidated Financial Statements

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PAR TECHNOLOGY CORPORATIONAND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

Assets	(Unaudited) September 30, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	$2,883	$ 8,024
Accounts receivable-net	32,848	29,530
Inventories-net	29,785	21,499
Note receivable	4,406	-
Income taxes receivable	482	-
Deferred income taxes	6,424	6,741
Other current assets	5,188	3,808
Total current assets	82,016	69,602
Property, plant and equipment - net	5,751	5,716
Note receivable	-	4,259
Deferred income taxes	11,038	11,038
Goodwill	11,051	11,051
Intangible assets - net	11,298	10,898
Other assets	3,806	3,687
Total Assets	$124,960	$ 116,251
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$170	$ 2,103
Borrowings on line of credit	4,795	-
Accounts payable	19,269	11,729
Accrued salaries and benefits	5,761	5,727
Accrued expenses	5,056	7,644
Customer deposits and deferred service revenue	11,895	10,819
Income taxes payable	-	279
Liabilities of discontinued operations	5	441
Total current liabilities	46,951	38,742
Long-term debt	426	566
Other long-term liabilities	8,802	8,883
Total liabilities	56,179	48,191
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; 17,485,622 and 17,352,838 shares issued; 15,777,513 and 15,644,729 outstanding at September 30, 2016 and December 31, 2015, respectively	350	347
Capital in excess of par value	46,161	45,753
Retained earnings	31,182	30,574
Accumulated other comprehensive loss	(3,076)	(2,778)
Treasury stock, at cost, 1,708,109 shares	(5,836)	(5,836)
Total shareholders' equity	68,781	68,060
Total Liabilities and Shareholders' Equity	$124,960	$ 116,251

See accompanying Notes to Unaudited Interim Consolidated Financial Statements

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	For the nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	$ 608	$ (1,773)
Loss from discontinued operations	26	4,505
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation, amortization and accretion	3,214	2,282
Provision for bad debts	522	426
Provision for obsolete inventory	1,891	1,256
Equity based compensation	398	487
Deferred income tax	317	(1,154)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(3,840)	(96)
Inventories	(10,177)	(418)
Income tax receivable/(payable)	(749)	(152)
Other current assets	(1,379)	1,356
Other assets	(119)	(598)
Accounts payable	7,540	(2,601)
Accrued salaries and benefits	34	104
Accrued expenses	(1,650)	(876)
Customer deposits and deferred service revenue	241	(942)
Deferred service revenue	835	701
Other long-term liabilities	(81)	(136)
Deferred tax equity based compensation	(12)	(66)
Net cash (used in) provided by operating activities-continuing operations	(2,381)	2,305
Net cash (used in) provided by operating activities-discontinued operations	(436)	(600)
Net cash (used in) provided by operating activities	(2,817)	1,705
Cash flows from investing activities:		
Capital expenditures	(1,770)	(1,484)
Capitalization of software costs	(1,949)	(1,500)
Acquisition related consideration paid	(977)	-
Net cash used in investing activities-continuing operations	(4,696)	(2,984)
Net cash used in investing activities-discontinued operations	-	(845)
Net cash used in investing activities	(4,696)	(3,829)
Cash flows from financing activities:		
Payments of long-term debt	(151)	(129)
Payments of other borrowings	(162,322)	(158,544)
Proceeds from other borrowings	167,117	156,982
Payments for deferred acquisition obligations	(2,000)	(3,000)
Proceeds of stock awards	26	-
Net cash provided by (used in) financing activities	2,670	(4,691)
Effect of exchange rate changes on cash and cash equivalents	(298)	(995)
Net decrease in cash and cash equivalents	(5,141)	(7,810)
Cash and cash equivalents at beginning of period	8,024	10,167

Cash and equivalents at end of period	2,883	2,357
Less cash and cash equivalents of discontinued operations at end of period	-	(300)
Cash and cash equivalents of continuing operations at end of period	$ 2,883	$ 2,057
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	49	163
Income taxes, net of refunds	798	152

See accompanying Notes to Unaudited Interim Consolidated Financial Statements

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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 statement 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 Company, such unaudited 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 10Q (“Quarterly Report”). Operating results for the three and nine months ended September 30, 2016 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.

On November 4, 2015, the Company entered into an asset purchase agreement (“Springer-Miller APA”), pursuant to which it sold substantially all of the assets for its hotel/spa technology business owned and operated by the Company’s indirect wholly-owned subsidiaries under PAR Springer-Miller Systems, Inc., Springer-Miller International, LLC and Springer Miller Canada, ULC (collectively “PSMS”). Accordingly, the results of operations of PSMS have been classified as discontinued operations in the Consolidated Statements of Operations and Cash Flows 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. All prior period amounts have been reclassified to conform to the current period presentation. Refer to Note 2 “Divestiture and Discontinued Operations” in these Notes to Unaudited Interim Consolidated Financial Statements for further discussion, including the terms of the transaction.

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The 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, 2015, which has been filed with the Securities and Exchange Commission (“SEC”).

Note 2 — Divestiture and Discontinued Operations

In connection with the sale of the hotel/spa technology business, the 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 which amount will be available to pay certain indemnification obligations of PSMS. The estimated fair value of the remaining portion of the note receivable, due on May 4, 2017, is approximately $4.4 million and accordingly has been reported as a current asset in PAR’s September 30, 2016 Consolidated Balance Sheet.

In addition to the Base Purchase Price, contingent consideration of up to $1,500,000 is payable to PAR based on the achievement of certain agreed-upon revenue and earnings targets for calendar years 2016 through 2018. As of September 30, 2016, the Company has not recorded any amount associated with this contingent consideration as it does not believe achievement of the related targets is probable.

At September 30, 2016 and December 31, 2015 there were $5,000 and $441,000 of accrued liabilities of discontinued operations recorded on the consolidated balance sheet.

During the nine months ended September 30, 2016, the Company paid a $977,000 working capital adjustment, of which $939,000 was included in accrued expenses at December 31, 2015 and the difference paid resulted in a loss (net of tax) of $26,000.

The following table summarizes the results from discontinued operations (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Operations				
Total revenues	$ -	$ 4,267	$ -	$ 13,037
Loss from discontinued operations before income taxes	$ -	$ (3,796)	$ (38)	$ (6,505)
Benefit from income taxes	-	1,010	12	2,000
Loss from discontinued operations, net of taxes	$ -	$ (2,786)	$ (26)	$ (4,505)

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Note 3 — Accounts Receivable

The Company's net accounts receivable consist of:

	(in thousands) September 30, 2016	December 31, 2015
Government segment:		
Billed	$12,958	$ 9,400
Advanced billings	(1,105)	(1,266)
	11,853	8,134
Hospitality segment:		
Accounts receivable - net	20,995	21,396
	$32,848	$ 29,530

At September 30, 2016 and December 31, 2015, the Company had recorded allowances for doubtful accounts of $1,011,370 and $875,000, respectively, against hospitality segment accounts receivable.

Note 4 — Inventories. net

Inventories are primarily used in the manufacture, maintenance and service of hospitality products. The components of inventories, net consist of the following:

	(in thousands) September 30, 2016	December 31, 2015
Finished goods	$16,049	$ 8,914
Work in process	559	263
Component parts	7,072	5,068
Service parts	6,105	7,254
	$29,785	$ 21,499

At September 30, 2016 and December 31, 2015, the Company had recorded inventory reserves of $8.7 million and $8.8 million, respectively, against hospitality inventories, which relates primarily to service parts.

Note 5 — Identifiable intangible assets and Goodwill

The Company's identifiable intangible assets, represent intangible assets acquired in connection with the Brink Software Inc. acquisition in 2014 and internally developed software costs. The Company capitalizes certain costs related to the development of computer software used in its hospitality segment. Software development costs incurred prior to establishing technological feasibility are charged to operations and are included in research and development costs. The technological feasibility of a computer software product is established when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that the product meets its design specifications including functions, features, and technical performance requirements. Software development costs incurred after establishing feasibility for software sold as a perpetual license, as defined within ASC 985-20 (Software – Costs of Software to be sold, Leased, or Marketed) and for software sold as a service, as defined within ASC-350-40 (Intangibles – Goodwill and Other – Internal – Use Software) are capitalized and amortized on a product-by-product basis when the product is available for general release to customers. Software costs capitalized within continuing operations during the three and nine months ended September 30, 2016 were $729,000 and $1,949,000, respectively. Software costs capitalized within continuing operations during the three and nine months ended September 30, 2015 were $532,000 and $1,500,000, respectively.

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Annual amortization, charged to cost of sales when the product is available for general release to customers, is computed using the greater of (a) the straight-line method over the remaining estimated economic life of the product, generally three to seven years or (b) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product. Amortization of capitalized software costs from continuing operations for the three and nine months ended September 30, 2016 were $292,000 and $825,000, respectively. Amortization of capitalized software costs from continuing operations for the three and nine months ended September 30, 2015 were $221,000 and $615,000, respectively.

Amortization of intangible assets acquired in the Brink Software Inc. acquisition for the three and nine months ended September 30, 2016 were $241,000 and $724,000, respectively. Amortization of intangible assets acquired in the Brink Software Inc. acquisition for the three and nine months ended September 30, 2015 were $248,000 and $746,000, respectively.

The components of identifiable intangible assets, excluding discontinued operations, are:

	(in thousands) September 30, 2016	December 31, 2015	Estimated Useful Life
Acquired and internally developed software costs	$22,375	$ 12,725	3 - 7 years
Customer relationships	160	160	7 years
Non-compete agreement	30	30	1 year
	22,565	12,915	
Less accumulated amortization	(11,667)	(2,417)	
	$10,898	$ 10,498	
Trademarks, trade names (non-amortizable)	400	400	N/A
Total Intangible Assets, net	$11,298	$ 10,898	

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The expected future amortization of these intangible assets assuming straight-line amortization of capitalized software costs and acquisition related intangibles is as follows (in thousands):

2016	$557
2017	2,135
2018	1,970
2019	1,534
2020	1,328
Thereafter	3,374
Total	$10,898

The Company tests goodwill for impairment on an annual basis on the first day of the fourth quarter or more often if events or circumstances indicate that there may be impairment. The Company operates in two reportable business segments, hospitality and government. Goodwill impairment testing is performed at the sub-segment level (referred to as a reporting unit). The two reporting units within continuing operations utilized by the Company for its impairment testing are: restaurant and government. Goodwill is assigned to a specific reporting unit at the date the goodwill is initially recorded. Once goodwill has been assigned to a specific reporting unit, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill. The amount of goodwill carried by the restaurant and government reporting units is $10.3 million and $0.8 million, respectively, at both September 30, 2016 and December 31, 2015.

Note 6 — Stock Based Compensation

The Company applies the fair value recognition provisions of ASC Topic 718 Stock-Based Compensation. The Company recorded stock based compensation of $190,000 and $398,000 for the three and nine months ended September 30, 2016, respectively. The Company recorded stock based compensation of $214,000 and $487,000 for the three and nine months ended September 30, 2015, respectively. The amount recorded for the three and nine months ended September 30, 2016 was recorded net of benefits of $0 and $48,000, respectively, as a result of forfeitures of unvested stock awards prior to the completion of the requisite service period. The amount recorded for the three and nine months ended September 30, 2015 was recorded net of benefits of $3,000 and $186,000, respectively, as a result of forfeitures of unvested stock awards prior to the completion of the requisite service period. At September 30, 2016, the aggregate unrecognized compensation expense related to non-vested equity awards was $1,262,000 (net of estimated forfeitures), which is expected to be recognized as compensation expense in fiscal years 2016 through 2019.

During the first nine months of 2016, the Company granted a total of 300,829 equity awards under the 2015 Equity Incentive Plan. Included within the equity grants were 117,500 performance based restricted stock awards which vest upon achievement of annual performance metrics, based on the Company’s performance in fiscal years 2016, 2017 and 2018, and continued service for a period of three years from grant.

For the three and nine month period ended September 30, 2016, the Company recognized compensation expense related to performance awards based on its estimate of the probability of achievement in accordance with ASC Topic 718.

Note 7 — Net Income (loss) per share

Earnings per share are calculated in accordance with ASC Topic 260 (Earnings per Share), which specifies the computation, presentation and disclosure requirements for earnings per share (EPS). It requires the presentation of basic and diluted EPS. Basic EPS excludes all dilution and is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the three and nine months ended September 30, 2016 there were 914,000 and 470,000 anti-dilutive stock options outstanding. For the three and nine months ended September 30, 2015 there were 1,006,000 and 1,060,000 anti-dilutive stock options outstanding.

The following is a reconciliation of the weighted average shares outstanding for the basic and diluted EPS computations (in thousands, except share and per share data):

	For the three months ended September 30,	
	2016	2015
Income from continuing operations	$ 518	$ 1,297
Basic:		
Shares outstanding at beginning of period	15,770	15,585
Weighted average shares issued (cancelled) during the period, net	-	4
Weighted average common shares, basic	15,770	15,589
Income from continuing operations per common share, basic	$ 0.03	$ 0.08
Diluted:		
Weighted average common shares, basic	15,770	15,589
Dilutive impact of stock options and restricted stock awards	52	70
Weighted average common shares, diluted	15,822	15,659
Income from continuing operations per common share, diluted	$ 0.03	$ 0.08

	For the nine months ended September 30,	
	2016	2015
Income from continuing operations	$ 634	$ 2,732
Basic:		
Shares outstanding at beginning of period	15,645	15,592
Weighted average shares issued (cancelled) during the period, net	25	(43