PAR TECHNOLOGY CORP
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2018.
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 þ 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 þ 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 þ
Non Accelerated Filer	(Do not check if a smaller reporting company)	Smaller Reporting Company
		Emerging Growth Company

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 þ

As of May 7, 2018, 16,073,128 shares of the registrant’s common stock, $0.02 par value, were outstanding.

PAR TECHNOLOGY CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

Assets	March 31, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$5,762	$6,600
Accounts receivable-net	35,911	30,077
Inventories-net	22,394	21,746
Other current assets	5,311	4,209
Total current assets	69,378	62,632
Property, plant and equipment – net	11,015	10,755
Deferred income taxes	13,887	13,809
Goodwill	11,051	11,051
Intangible assets – net	12,418	12,070
Other assets	4,391	4,307
Total Assets	$122,140	$114,624
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$199	$195
Borrowings of line of credit	3,950	950
Accounts payable	17,537	14,332
Accrued salaries and benefits	5,396	6,275
Accrued expenses	3,784	3,926
Customer deposits and deferred service revenue	11,275	10,241
Total current liabilities	42,141	35,919
Long-term debt	133	185
Deferred service revenue	3,649	2,668
Other long-term liabilities	6,559	6,866
Total liabilities	52,482	45,638
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; 17,686,224 and 17,677,161 shares issued, 15,978,115 and 15,969,052 outstanding at March 31, 2018 and December 31, 2017, respectively	354	354
Capital in excess of par value	48,530	48,349
Retained earnings	29,617	29,549
Accumulated other comprehensive loss	(3,007)	(3,430)
Treasury stock, at cost, 1,708,109 shares	(5,836)	(5,836)
Total shareholders' equity	69,658	68,986
Total Liabilities and Shareholders' Equity	$122,140	$114,624

See accompanying notes to unaudited interim consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Net revenues:		
Product	$26,324	$37,206
Service	13,196	14,343
Contract	16,141	14,316
	55,661	65,865
Costs of sales:		
Product	19,440	27,572
Service	9,547	10,474
Contract	14,827	12,747
	43,814	50,793
Gross margin	11,847	15,072
Operating expenses:		
Selling, general and administrative	8,600	9,610
Research and development	2,868	2,980
Amortization of identifiable intangible assets	241	241
	11,709	12,831
Operating income from continuing operations	138	2,241
Other income (expense), net	49	(248)
Interest expense, net	(41)	(32)
Income from continuing operations before provision for income taxes	146	1,961
Provision for income taxes	(78)	(697)
Income from continuing operations	68	1,264
Discontinued operations		
Income from discontinued operations (net of tax)	—	183
Net income	$68	$1,447
Basic Earnings per Share:		
Income from continuing operations	0.00	0.08
Income from discontinued operations	0.00	0.01
Net income	$ 0.00	$0.09
Diluted Earnings per Share:		
Income from continuing operations	0.00	0.08
Income from discontinued operations	0.00	0.01
Net income	$ 0.00	$0.09
Weighted average shares outstanding		
Basic	15,948	15,781
Diluted	16,286	15,978

See accompanying notes to unaudited interim consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Net income	$68	$1,447
Other comprehensive income, net of applicable tax:		
Foreign currency translation adjustments	423	41
Comprehensive income	$491	$1,488

See accompanying notes to unaudited interim consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$68	$1,447
Income from discontinued operations	—	(183)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and accretion	1,062	898
Provision for bad debts	100	112
Provision for obsolete inventory	696	958
Equity based compensation	181	177
Deferred income tax	(78)	361
Changes in operating assets and liabilities:		
Accounts receivable	(5,934)	(3,932)
Inventories	(1,344)	479
Income tax receivable	—	261
Other current assets	(1,102)	(140)
Other assets	(84)	(76)
Accounts payable	3,205	773
Accrued salaries and benefits	(879)	(173)
Accrued expenses	(142)	(190)
Customer deposits and deferred service revenue	2,015	(2,007)
Other long-term liabilities	(307)	(7)
Deferred tax equity based compensation	—	12
Net cash used in operating activities	(2,543)	(1,230)
Cash flows from investing activities:		
Capital expenditures	(568)	(2,344)
Capitalization of software costs	(1,102)	(1,006)
Net cash used in investing activities	(1,670)	(3,350)
Cash flows from financing activities:		
Payments of long-term debt	(48)	(46)
Payments of other borrowings	(2,000)	(5,000)
Proceeds from other borrowings	5,000	6,000
Net cash provided by financing activities	2,952	954
Effect of exchange rate changes on cash and cash equivalents	423	41
Net decrease in cash and cash equivalents	(838)	(3,585)
Cash and cash equivalents at beginning of period	6,600	9,055
Cash and equivalents at end of period	$5,762	$5,470
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	75	6
Income taxes, net of refunds	—	39

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 statements and the instructions to Form 10-Q and Article 10 of 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 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, 2018 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 unaudited interim consolidated financial statements requires management of the Company to make a number of estimates, judgments and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amount of revenues and expenses during the period. Primary areas where financial information is subject to the use of estimates, assumptions and the application of judgment include revenue recognition, accounts receivable, inventories, accounting for business combinations, contingent consideration, equity compensation, goodwill and intangible assets, and 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, 2017, filed with the Securities and Exchange Commission ("SEC") on March 16, 2018.

Note 2 - Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, codified as ASC Topic 606 ("ASC 606"). The FASB issued amendments to ASC 606 during 2016. ASC 606 requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and related cash flows arising from contracts with customers. ASC 606 is effective for annual and interim reporting periods beginning after December 15, 2017.

Two adoption methods are permitted under ASU 2014-09. The new standard may be adopted through either retrospective application to all periods presented in the consolidated financial statements (full retrospective) or through a cumulative effect adjustment to retained earnings at the effective date (modified retrospective). The Company adopted the new standard effective January 1, 2018 using the modified retrospective method. We reviewed significant open contracts with customers for each revenue stream.

A portion of our revenue is derived from Software as a Service (SaaS), hardware and software sales, contracts and programs. ASC 606 requires us to distinguish and measure performance obligations under customer contracts. Transaction prices are allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Performance obligations are satisfied over time as work progresses or at a point in time.

We evaluated the potential performance obligations within our Restaurant/Retail arrangements (Brink/POS, SureCheck, and PixelPoint) and evaluated whether each deliverable or promise met the ASC 606 criteria to be considered distinct performance obligations. Our revenue in the Restaurant and Retail (R&R) reportable segment is recognized at a point in time for software, manufactured or “purchased for re-sale” hardware (such as terminals, peripherals printers, card readers and other accessories), installations and “pass through licenses”. Revenue on these items are recognized when the customer obtains control of the asset. This generally occurs upon delivery and acceptance by the customer or upon installation or delivery to a third party carrier for onward delivery to customer. Additionally, revenue in the R&R reportable segment relating to subscription services for software, SaaS, Advanced Exchange, On-Site support and other services are recognized over time as the customer simultaneously receives and consumes the benefits of the Company’s performance obligations. Our support services are stand-ready obligations that are provided over the life of the contract, which typically ranges from 12 months to 60 months. We offer installation services to our customers for hardware and software for which we primarily hire third-party contractors to install the equipment on our behalf. We pay the third-party contractors an installation service fee based on an hourly rate as agreed upon between us and contractor. When third party installers are used, we determine whether the nature of our promises are performance obligations to provide the specified goods or services ourselves (principal) or to arrange for the third party to provide the goods or services (agent). In our

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customer arrangements, we are primarily responsible for fulfilling the promise to provide a good or service, we have inventory risk before the good or service is transferred to the customer, and we have discretion in establishing prices. We are the principal in the arrangement and record installation revenue on a gross basis.

At times we will offer maintenance services at different prices for customers based on the life of the service, which typically ranges from 12 to 60 months. The support services are a ‘stand-ready obligation’ satisfied over time on the basis that customer consumes and receives benefit from having access to our support resources, when and as needed, throughout the contract term. For this reason, the support services are recognized ratably over the term since we satisfy its obligation to stand ready by performing these services each day.

Our contracts typically require payment within 30 to 90 days from the shipping date or installation date, depending on our terms with the customer. We use stand-alone selling price for our direct sales hardware and software when not included as part of a bundle. For all other sales, excluding bundled sales, we use Cost Plus Margin as we sell the same good or service but at different rates to different customers. There is no standard price list used and prices are not listed in contracts.

Our revenue in the Government reportable segment is recognized over time as control is generally transferred continuously to our customers. Revenue generated by the Government segment is predominantly related to services provided, however revenue is also generated through the sale of materials, software, hardware, and maintenance. For the Government segment cost plus fixed fee contract portfolio, revenue is recognized over time using costs incurred to date to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, overhead and G&A expenses. Profit is recognized as the fixed fee portion of the contract as costs are incurred and invoiced. Long-term fixed price contracts and programs involve the use of various techniques to estimate total contract revenue and costs. For long-term fixed price contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract. Contract estimates are based on various assumptions to project the outcome of future events. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; and the performance of subcontractors. Revenue and profit in future periods of contract performance are recognized using the aforesaid assumptions and adjusting the estimate. Allocating the transaction price varies based on the performance obligations within a specific contract as the stand-alone selling price of the software and maintenance/support is not always discernable. Once the services provided are determined to be distinct or not distinct, we would evaluate how to allocate the transaction price. Generally, the government segment does not sell the same good or service to a similar customer and the contract performance obligations are unique to each government solicitation. The performance obligations are typically not distinct. In cases where there are distinct performance obligations, the transaction price would be allocated to each performance obligation on a standalone basis. Cost plus margin is used for the Cost Plus Fixed Fee contract portfolios, and residual is used for the Fixed Price and Time & Materials contracts portfolios.

In determining when to recognize revenue, we have evaluated the goods/services provided in all contracts and considered two scenarios, Scenario One - The performance obligation is satisfied over time and Scenario Two - the performance obligation is satisfied at a point in time. We evaluated factors suggesting the aforementioned conclusions. Generally, Scenario One applies to our portfolio of contracts. However, there may be circumstances where Scenario Two, or Scenario One and Two could apply.
We usually expect payment within 30 to 90 days from the date of service, depending on our terms with the customer. None of our contracts as of March 31, 2018, contained a significant financing component.

There was no impact to retained earnings for the quarter ended March 31, 2018 based on the adoption of ASC 606.

Performance Obligations Outstanding

Our performance obligations outstanding represent the transaction price of firm, non-cancellable orders, with expected delivery dates to customers subsequent to March 31, 2018, for which work has not yet been performed. The aggregate performance obligations attributable to each of our segments is as follows (in thousands):

	As of March 31, 2018	
	Current - under one year	Non-current - over one year
Restaurant	8,243	3,649
Government	300	—
TOTAL	8,543	3,649

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	As of December 31, 2017	
	Current - under one year	Non-current - over one year
Restaurant	6,199	2,668
Government	585	—
TOTAL	6,784	2,668

Most performance obligations over one year are related to service and support contracts, which we expect to fulfill approximately 70 percent within the next twelve months and all within 60 months.

During the three month period ended March 31, 2018, we recognized revenue of $5.7 million that was included in contract liabilities at the beginning of the period.

Disaggregated Revenue

We disaggregate revenue from contracts from customers by major product group for each of the segments as we believe it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Disaggregation of revenue for the three months ended March 31, 2018 is as follows (in thousands):

	Three months ended March 31, 2018		
	Restaurant/Retail - Point in Time	Restaurant/Retail - Over Time	Government - Over Time
Restaurant	32,164	5,857	
Grocery	753	746	
Mission Systems	—		8,334
ISR Solutions	—		7,807
TOTAL	32,917	6,603	16,141

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been less than one year or total amount of commissions immaterial. We record these costs within selling, general and administrative expenses.

We have elected to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes).

Note 3 — Divestiture and Discontinued Operations

On November 4, 2015, the Company sold substantially all of the assets of its hotel/spa technology business operated by PAR Springer-Miller Systems, Inc., Springer-Miller International, LLC, and Springer-Miller Canada, ULC (collectively, “PSMS”) pursuant to an asset purchase agreement (the “PSMS APA”) dated on even date therewith among PSMS and Gary Jonas Computing Ltd., SMS Software Holdings LLC, and Jonas Computing (UK) Ltd. (the “Purchasers”). 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 paid at the closing of the asset sale and up to $4.5 million payable 18 months following the closing (the “Holdback Amount”). On May 5, 2017, the Company received payment of $4.2 million of the Holdback Amount, the unpaid balance is reflective of a negative purchase price adjustment based on the net tangible asset calculation provided under the PSMS APA. In addition to the Base Purchase Price, contingent consideration of up to $1.5 million (the “Earn-Out”) could be received by the Company based on the achievement of certain agreed-upon revenue and earnings targets for calendar years 2017, 2018 and 2019 (up to