PAR TECHNOLOGY CORP
Form 10-Q
August 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017.

OR

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large Accelerated Filer | Accelerated Filer |
| Non Accelerated Filer (Do not check if a smaller reporting company) | Smaller Reporting Company |
| | Emerging Growth Company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 11, 2017, 15,907,281 shares of the registrant’s common stock, $0.02 par value, were outstanding.

PAR TECHNOLOGY CORPORATION

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION



PART II
OTHER INFORMATION

Table of Contents
PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | For the three months ended June 30, 2017 | For the three months ended June 30, 2016 | For the six months ended June 30, 2017 | For the six months ended June 30, 2016 |
|---|---|---|---|---|
| Net revenues: | | | | |
| Product | $ 32,682 | $ 21,444 | $ 69,888 | $ 43,528 |
| Service | 15,034 | 11,804 | 29,377 | 23,508 |
| Contract | 14,545 | 19,410 | 28,861 | 40,927 |
| | 62,261 | 52,658 | 128,126 | 107,963 |
| Costs of sales: | | | | |
| Product | 24,389 | 16,137 | 51,961 | 32,579 |
| Service | 9,766 | 8,219 | 19,651 | 16,818 |
| Contract | 12,909 | 17,857 | 25,656 | 37,512 |
| | 47,064 | 42,213 | 97,268 | 86,909 |
| Gross margin | 15,197 | 10,445 | 30,858 | 21,054 |
| Operating expenses: | | | | |
| Selling, general and administrative | 8,917 | 7,058 | 18,527 | 14,600 |
| Research and development | 3,284 | 2,793 | 6,853 | 5,555 |
| Amortization of identifiable intangible assets | 242 | 242 | 483 | 483 |
| | 12,443 | 10,093 | 25,863 | 20,638 |
| Operating income from continuing operations | 2,754 | 352 | 4,995 | 416 |
| Other income (expense), net | 54 | (210) | (194) | (280) |
| Interest (expense) income, net | (13) | 3 | (45) | 32 |
| Income from continuing operations before provision for income taxes | 2,795 | 145 | 4,756 | 168 |
| Provision for income taxes | (818) | (45) | (1,515) | (53) |
| Net income from continuing operations | 1,977 | 100 | 3,241 | 115 |
| Discontinued operations | | | | |
| (Loss on) income from discontinued operations (net of tax) | - | (26) | 183 | (26) |
| Net income | $ 1,977 | $ 74 | $ 3,424 | $ 89 |
| Basic Earnings per Share: | | | | |
| Income from continuing operations | 0.12 | 0.01 | 0.20 | 0.01 |
| (Loss on) income from discontinued operations, net of tax | (0.00) | (0.00) | 0.01 | (0.00) |
| Net income | $ 0.12 | $ 0.01 | $ 0.21 | $ 0.01 |
| Diluted Earnings per Share: | | | | |
| Income from continuing operations | 0.12 | 0.01 | 0.20 | 0.01 |
| (Loss on) income from discontinued operations, net of tax | (0.00) | (0.00) | 0.01 | (0.00) |
| Net income | $ 0.12 | $ 0.01 | $ 0.21 | $ 0.01 |
| Weighted average shares outstanding | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | 15,919 | 15,615 | 15,893 | 15,651 |
| Diluted | 16,179 | 15,670 | 16,146 | 15,717 |

See accompanying notes to unaudited interim consolidated financial statements

1

Table of Contents

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | $ 1,977 | $ 74 | $ 3,424 | $ 89 |
| Other comprehensive loss, net of applicable tax: | | | | |
| Foreign currency translation adjustments | (197 ) | (28 ) | (156 ) | (150 ) |
| Comprehensive income (loss) | $ 1,780 | $ 46 | $ 3,268 | $ (61 ) |

See accompanying notes to unaudited interim consolidated financial statements

Table of Contents

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

| Assets | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $3,282 | $ 9,055 |
| Accounts receivable-net | 33,807 | 30,705 |
| Inventories-net | 28,845 | 26,237 |
| Note receivable | - | 3,510 |
| Income taxes receivable | - | 261 |
| Other current assets | 4,246 | 4,027 |
| Assets of discontinued operations | - | 462 |
| Total current assets | 70,180 | 74,257 |
| Property, plant and equipment - net | 9,854 | 7,035 |
| Deferred income taxes | 16,403 | 17,417 |
| Goodwill | 11,051 | 11,051 |
| Intangible assets - net | 11,886 | 10,966 |
| Other assets | 3,833 | 3,785 |
| Total Assets | $123,207 | $ 124,511 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | $191 | $ 187 |
| Borrowings on line of credit | 1,000 | - |
| Accounts payable | 14,163 | 16,687 |
| Accrued salaries and benefits | 6,411 | 5,470 |
| Accrued expenses | 4,752 | 4,682 |
| Customer deposits and deferred service revenue | 14,513 | 19,814 |
| Total current liabilities | 41,030 | 46,840 |
| Long-term debt | 283 | 379 |
| Other long-term liabilities | 7,764 | 7,712 |
| Total liabilities | 49,077 | 54,931 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Preferred stock, $.02 par value, 1,000,000 shares authorized | - | - |
| Common stock, $.02 par value, 29,000,000 shares authorized; 17,615,390 and 17,479,454 shares issued, 15,907,281 and 15,771,345 outstanding at June 30, 2017 and December 31, 2016, respectively | 352 | 350 |
| Capital in excess of par value | 47,354 | 46,203 |
| Retained earnings | 35,598 | 32,357 |
| Accumulated other comprehensive loss | (3,338 ) | (3,494 ) |
| Treasury stock, at cost, 1,708,109 shares | (5,836 ) | (5,836 ) |
| Total shareholders' equity | 74,130 | 69,580 |
| Total Liabilities and Shareholders' Equity | $123,207 | $ 124,511 |

See accompanying notes to unaudited interim consolidated financial statements

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

| | For the six months ended June 30, 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 3,424 | $ 89 |
| (Income) loss from discontinued operations | (183) | 26 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation, amortization and accretion | 1,852 | 1,606 |
| Provision for bad debts | 315 | 397 |
| Provision for obsolete inventory | 1,528 | 970 |
| Equity based compensation | 238 | 207 |
| Deferred income tax | 1,014 | 52 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (3,417) | (329) |
| Inventories | (4,136) | (4,863) |
| Income tax receivable/(payable) | 261 | (490) |
| Other current assets | (219) | (751) |
| Other assets | (48) | (105) |
| Accounts payable | (2,524) | 4,802 |
| Accrued salaries and benefits | 941 | 137 |
| Accrued expenses | 70 | (1,488) |
| Customer deposits and deferred service revenue | (5,301) | 913 |
| Other long-term liabilities | 52 | (124) |
| Deferred tax equity based compensation | - | (9) |
| Net cash (used in) provided by operating activities-continuing operations | (6,133) | 1,040 |
| Net cash provided by (used in) operating activities-discontinued operations | 462 | (299) |
| Net cash (used in) provided by operating activities | (5,671) | 741 |
| Cash flows from investing activities: | | |
| Capital expenditures | (3,497) | (984) |
| Capitalization of software costs | (2,148) | (1,220) |
| Acquisition related consideration paid | - | (977) |
| Net cash used in investing activities | (5,645) | (3,181) |
| Cash flows from financing activities: | | |
| Payments of long-term debt | (92) | (89) |
| Payments of other borrowings | (14,150) | (107,907) |
| Proceeds from other borrowings | 15,150 | 107,907 |
| Proceeds from stock awards | 915 | 29 |
| Proceeds from note receivable | 3,794 | - |
| Net cash provided by (used in) financing activities | 5,617 | (60) |
| Effect of exchange rate changes on cash and cash equivalents | (74) | (150) |
| Net decrease in cash and cash equivalents | (5,773) | (2,650) |
| Cash and cash equivalents at beginning of period | 9,055 | 8,024 |
| Cash and equivalents at end of period | 3,282 | 5,374 |
| Less cash and cash equivalents of discontinued operations at end of period | - | - |
| Cash and cash equivalents of continuing operations at end of period | $ 3,282 | $ 5,374 |

| | | |
|---|---|---|
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | 60 | 21 |
| Income taxes, net of refunds | 56 | 551 |

See accompanying notes to unaudited interim consolidated financial statements

4

Table of Contents

PAR TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of presentation

The accompanying unaudited interim consolidated financial statements of PAR Technology Corporation (the "Company" or "PAR") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and the instructions to Form 10-Q and Article 8 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 the management, such unaudited interim consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the results for the interim periods included in this Quarterly Report on Form 10-Q ("Quarterly Report"). Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results of operations that may be expected for any future period. Certain amounts for prior periods have been reclassified to conform to the current period classification.

The preparation of unaudited interim 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 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, 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, 2016, filed with the Securities and Exchange Commission ("SEC") on April 17, 2017.

Note 2 — 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 2016, 2017 and 2018 (up to $500,000 per calendar year), subject to setoff for PSMS and ParTech, Inc. indemnification obligations thereunder and unresolved claims. The Company received no Earn-Out payment for calendar year 2016 and, as of June 30, 2017, the Company did not record any amount associated with calendar years 2017 and 2018, as the Company does not believe achievement of the related revenue and earnings targets is probable.

Table of Contents

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

| | (in thousands) June 30, 2017 | December, 31 2016 |
|---|---|---|
| Assets | | |
| Other current assets | $ - | $ 462 |
| Assets of discontinued operations | $ - | $ 462 |

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Operations | | | | |
| Total revenues | $ - | $ - | $ - | $ - |
| (Loss) income from discontinued operations before income taxes | $ - | $ (38 ) | $ 284 | $ (38 ) |
| Benefit from (provision for) income taxes | - | 12 | (101 ) | 12 |
| (Loss) income from discontinued operations, net of taxes | $ - | $ (26 ) | $ 183 | $ (26 ) |

Note 3 — Accounts Receivable

The Company’s net accounts receivable consists of:

| | (in thousands) June 30, 2017 | December 31, 2016 |
|---|---|---|
| Government segment: | | |
| Billed | $7,778 | $ 6,779 |
| Advanced billings | (1,662 ) | (1,599 ) |
| | 6,116 | 5,180 |
| Restaurant/Retail segment: | | |
| Accounts receivable - net | 27,691 | 25,525 |
| | $33,807 | $ 30,705 |

At June 30, 2017 and December 31, 2016, the Company had recorded allowances for doubtful accounts of $1.1 million and $0.9 million, respectively, against Restaurant/Retail segment accounts receivable.

Table of Contents

Note 4 — Inventories

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

| | (in thousands) | |
|---|---|---|
| | June 30, 2017 | December 31, 2016 |
| Finished goods | $10,912 | $ 9,423 |
| Work in process | 701 | 443 |
| Component parts | 10,623 | 10,386 |
| Service parts | 6,609 | 5,985 |
| | $28,845 | $ 26,237 |

At June 30, 2017 and December 31, 2016, the Company had recorded inventory reserves of $7.6 million and $9.2 million, respectively, against Restaurant/Retail inventories, which relates primarily to service parts.

Note 5 — Identifiable Intangible Assets and Goodwill

The Company's identifiable intangible assets represent intangible assets 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 Restaurant/Retail segment. Software development costs incurred prior to establishing technological feasibility are charged to operations and 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 functionality, 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 as a service ("SAAS"), 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 six months ended June 30, 2017 were $1.1 million and $2.1 million, respectively. Software costs capitalized within continuing operations during the three and six months ended June 30, 2016 were $0.5 million and $1.2 million, respectively.

Annual amortization, charged to cost of sales when a 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 the product bear to the total of current and anticipated future gross revenues for the product. Amortization of capitalized software costs from continuing operations for the three and six months ended June 30, 2017 were $0.4 million and $0.7 million, respectively. Amortization of capitalized software costs from continuing operations for the three and six months ended June 30, 2016 were $0.3 million and $0.5 million, respectively.

Amortization of intangible assets acquired from the Brink Software Inc. acquisition amounted to $0.2 million and $0.5 million for the three and six months ended June 30, 2017, respectively. Amortization of intangible assets acquired in the Brink Software Inc. acquisition for the three and six months ended June 30, 2016 were $0.2 million and $0.5 million, respectively.

Table of Contents

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

| | (in thousands) | | |
|---|---|---|---|
| | June 30, 2017 | December 31, 2016 | Estimated Useful Life |
| Acquired and internally developed software costs | $18,032 | $ 15,884 | 3 - 7 years |
| Customer relationships | 160 | 160 | 7 years |
| Non-competition agreements | 30 | 30 | 1 year |
| | 18,222 | 16,074 | |
| Less accumulated amortization | (6,736 ) | (5,508 ) | |
| | $11,486 | $ 10,566 | |
| Trademarks, trade names (non-amortizable) | 400 | 400 | N/A |
| | $11,886 | $ 10,966 | |

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

| | |
|---|---|
| 2017 | $1,168 |
| 2018 | 2,196 |
| 2019 | 1,722 |
| 2020 | 1,396 |
| 2021 | 1,028 |
| Thereafter | 3,976 |
| Total | $11,486 |

The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. The Company operates in two reportable business segments, Restaurant/Retail and Government. Goodwill impairment testing is performed at the reporting unit level. 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/Retail and Government reporting unit is $10.3 million and $0.7 million, respectively, at June 30, 2017 and December 31, 2016.

Note 6 — Stock Based Compensation

The Company applies the fair value recognition provisions of ASC Topic 718. The Company recorded stock based compensation of $62,000 and $238,000 for the three and six months ended June 30, 2017, respectively. The Company recorded stock based compensation of $141,000 and $207,000 for the three and six months ended June 30, 2016, respectively. The amount recorded for the three and six months ended June 30, 2017 was recorded net of benefits of $10,000 and $10,000, respectively, as a result of forfeitures of unvested stock awards prior to the completion of the requisite service period and/or performance criteria.. The amount recorded for the three and six months ended June 30, 2016 was recorded net of benefits of $22,000 and $48,000, respectively, as a result of forfeitures of unvested stock awards prior to the completion of the requisite service period and /or performance criteria. At June 30, 2017, the aggregate unrecognized compensation expense related to non-vested equity awards was $0.4 million (net of estimated forfeitures), which is expected to be recognized as compensation expense in fiscal years 2017 through 2019.

For the three and six month periods ended June 30, 2017, the Company recognized compensation expense related to performance awards based on its estimate of the probability of achievement in accordance with ASC Topic 718.

8

Table of Contents

Note 7 — Net Income per share

Earnings per share are calculated in accordance with ASC Topic 260, 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 shares of common stock 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 six months ended June 30, 2017 there were no anti-dilutive stock options outstanding. For the three and six months ended June 30, 2016 there were 38,000 and 26,000 anti-dilutive stock options outstanding.

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

| | For the three months ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Net income from continuing operations | $ 1,977 | $ 100 |
| Basic: | | |
| Shares outstanding at beginning of period | 15,811 | 15,607 |
| Weighted average shares issued during the period, net | 108 | 8 |
| Weighted average common shares, basic | 15,919 | 15,615 |
| Net income from continuing operations per common share, basic | $ 0.12 | $ 0.01 |
| Diluted: | | |
| Weighted average common shares, basic | 15,919 | 15,615 |
| Dilutive impact of stock options and restricted stock awards | 260 | 55 |
| Weighted average common shares, diluted | 16,179 | 15,670 |
| Net income from continuing operations per common share, diluted | $ 0.12 | $ 0.01 |

| | For the six months ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Net income from continuing operations | $ 3,241 | $ 115 |
| Basic: | | |
| Shares outstanding at beginning of period | 15,771 | 15,645 |
| Weighted average shares issued during the period, net | 122 | 6 |
| Weighted average common shares, basic | 15,893 | 15,651 |
| Net income from continuing operations per common share, basic | $ 0.20 | $ 0.01 |
| Diluted: | | |
| Weighted average common shares, basic | 15,893 | 15,651 |
| Dilutive impact of stock options and restricted stock awards | 253 | 66 |
| Weighted average common shares, diluted | 16,146 | 15,717 |
| Net income from continuing operations per common share, diluted | $ 0.20 | $ 0.01 |

Note 8 — Contingencies

The Company is subject to legal proceedings, which arise in the ordinary course of business. Additionally, U.S. Government contract costs are subject to periodic audit and adjustment. The Company is investigating whether certain import/export and sales documentation activities at the Company's China and Singapore offices were improper and in possible violation of the U.S. Foreign Corrupt Practices Act ("FCPA") and other applicable laws and certain Company policies. The Company voluntarily notified, and is fully cooperating with, the SEC and the U.S. Department of Justice ("DOJ") of these activities. On May 1, 2017, the Company received a subpoena from the SEC for documents relating to the Company's investigation. The SEC's investigation is a non-public, fact-finding inquiry and it is not clear what action, if any, the SEC intends to take with respect to the information it gathers. If the SEC, DOJ, or other governmental agencies (including foreign governmental agencies) determine that violations of certain laws or regulations occurred, the Company could be exposed to a broad range of civil and criminal sanctions. The potential liability arising out of the China and Singapore matters or the SEC investigation cannot currently be reasonably estimated; however, the imposition of sanctions, fines or remedial measures could have a material adverse effect on the Company's business, prospects, reputation, financial condition, liquidity, results of operations or cash flows.

Table of Contents

Note 9 — Segment and Related Information

The Company is organized in two reportable business segments, Restaurant/Retail and Government. The Company's chief operating decision maker is the Company's Chief Executive Officer. Management views the Restaurant/Retail and Government segments separately in operating its business, as the products and services are different for each segment. The Restaurant/Retail segment offers integrated solutions to restaurants and retail, including in the fast casual, quick serve and table service restaurant categories, and speciality retail outlets. These offerings include industry leading hardware and cloud and on-premise software applications utilized at the point-of-sale, back of store and corporate office and includes the Brink cloud-based point-of-sale software. This segment also offers customer support including field service, installation, and twenty-four-hour telephone support and depot repair. With our SureCheck solution, we continue to expand our business into big box retailers, grocery stores and contract food management organizations. The Government segment performs complex technical studies, analysis, and experiments, develops innovative solutions, and provides on-site engineering in support of advanced defense, security, and aerospace systems. This segment also provides expert on-site services for operating and maintaining U.S. Government-owned communication assets.

Information noted as "Other" primarily relates to the Company's corporate, home office operations.

Information as to the Company's segments is set forth below. Amounts below exclude discontinued operations.

| | (in thousands) For the three months ended June 30, | | (in thousands) For the six months ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | |
| Restaurant/Retail | $ 47,716 | $ 33,248 | $ 99,265 | $ 67,036 |
| Government | 14,545 | 19,410 | 28,861 | 40,927 |
| Total | $ 62,261 | $ 52,658 | $ 128,126 | $ 107,963 |
| Operating income: | | | | |
| Restaurant/Retail | $ 1,795 | $ (800) | $ 4,161 | $ (1,300) |
| Government | 1,587 | 1,496 | 3,098 | 3,303 |
| Other | (628) | (344) | (2,264) | (1,587) |
| | 2,754 | 352 | 4,995 | 416 |
| Other income (loss), net | 54 | (210) | (194) | (280) |
| Interest (expense) income, net | (13) | 3 | (45) | 32 |
| Income before provision for income taxes | $ 2,795 | $ 145 | $ 4,756 | $ 168 |
| Depreciation, amortization and accretion: | | | | |
| Restaurant/Retail | $ 821 | $ 756 | $ 1,595 | $ 1,488 |
| Government | 4 | 10 | 11 | 19 |
| Other | 129 | 63 | 246 | 99 |
| Total | $ 954 | $ 829 | $ 1,852 | $ 1,606 |
| Capital expenditures including software costs: | | | | |
| Restaurant/Retail | $ 1,256 | $ 702 | $ 2,331 | $ 1,650 |
| Government | 7 | 32 | 7 | 39 |
| Other | 1,033 | 489 | 3,307 | 515 |
| Total | $ 2,296 | $ 1,223 | $ 5,645 | $ 2,204 |

| | | | | |
|---|---|---|---|---|
| Revenues by country: | | | | |
| United States | $ 57,621 | $ 47,571 | $ 119,188 | $ 97,790 |
| Other Countries | 4,640 | 5,087 | 8,938 | 10,173 |
| Total | $ 62,261 | $ 52,658 | $ 128,126 | $ 107,963 |

Table of Contents

The following table represents identifiable assets by business segment. Amounts below exclude discontinued operations.

| | (in thousands) | |
|---|---|---|
| | June 30, 2017 | December 31, 2016 |
| Restaurant/Retail | $87,553 | $ 87,672 |
| Government | 7,613 | 6,504 |
| Other | 28,041 | 29,873 |
| Total | $123,207 | $ 124,049 |

The following table represents assets by country based on the location of the assets. Amounts below exclude discontinued operations.

| | (in thousands) | |
|---|---|---|
| | June 30, 2017 | December 31, 2016 |
| United States | $107,293 | $ 110,369 |
| Other Countries | 15,914 | 13,680 |
| Total | $123,207 | $ 124,049 |

The following table represents Goodwill by reporting unit. Amounts below exclude discontinued operations.

| | (in thousands) | |
|---|---|---|
| | June 30, 2017 | December 31, 2016 |
| Restaurant/Retail | $10,315 | $ 10,315 |
| Government | 736 | 736 |
| Total | $11,051 | $ 11,051 |

Table of Contents

Customers comprising 10% or more of the Company's total revenues, excluding discontinued operations, are summarized as follows:

| | For the three months ended June 30, | | For the six months ended June 30 , | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Hospitality segment: | | | | |
| McDonald's Corporation | 36 % | 24 % | 40 % | 21 % |
| Yum! Brands, Inc. | 14 % | 10 % | 13 % | 11 % |
| Government segment: | | | | |
| U.S. Department of Defense | 23 % | 37 % | 23 % | 38 % |
| All Others | 27 % | 29 % | | |