

COMPUTER PROGRAMS & SYSTEMS INC

Form 10-Q

November 07, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012.

.. **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: 000-49796

COMPUTER PROGRAMS AND SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

Delaware
(State or Other Jurisdiction of

74-3032373
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

6600 Wall Street, Mobile, Alabama
(Address of Principal Executive Offices)

36695
(Zip Code)

(251) 639-8100

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 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.

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 November 6, 2012, there were 11,077,672 shares of the issuer's common stock outstanding.

Table of Contents

COMPUTER PROGRAMS AND SYSTEMS, INC.

Form 10-Q

(For the three and nine months ended September 30, 2012)

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	3
	<u>Condensed Balance Sheets – September 30, 2012 (Unaudited) and December 31, 2011</u>	3
	<u>Condensed Statements of Income (Unaudited) – Three and Nine Months Ended September 30, 2012 and 2011</u>	4
	<u>Condensed Statements of Comprehensive Income (Unaudited) – Three and Nine Months Ended September 30, 2012 and 2011</u>	5
	<u>Condensed Statement of Stockholders’ Equity (Unaudited) – Nine Months Ended September 30, 2012</u>	6
	<u>Condensed Statements of Cash Flows (Unaudited) – Nine Months Ended September 30, 2012 and 2011</u>	7
	<u>Notes to Condensed Financial Statements (Unaudited)</u>	8
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
Item 4.	<u>Controls and Procedures</u>	28

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	30
Item 1A.	<u>Risk Factors</u>	30
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3.	<u>Defaults Upon Senior Securities</u>	30
Item 4.	<u>Mine Safety Disclosures</u>	30
Item 5.	<u>Other Information</u>	30
Item 6.	<u>Exhibits</u>	30

Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements.****COMPUTER PROGRAMS AND SYSTEMS, INC.****CONDENSED BALANCE SHEETS**

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,830,915	\$ 6,664,482
Investments	17,665,958	16,486,688
Accounts receivable, net of allowance for doubtful accounts of \$1,355,000 and \$1,276,000, respectively	23,951,837	21,521,260
Financing receivables, current portion, net	5,559,143	3,780,621
Inventories	2,288,038	1,838,937
Deferred tax assets	2,911,713	2,543,624
Prepaid income taxes	971,755	834,750
Prepaid expenses and other	1,297,052	498,172
Total current assets	60,476,411	54,168,534
Property and equipment		
Land	2,848,276	2,848,276
Buildings and improvements	8,753,603	8,779,673
Maintenance equipment	2,548,994	4,638,219
Computer equipment	5,740,279	9,391,704
Leasehold improvements	2,114,739	1,937,524
Office furniture and equipment	2,178,361	2,959,534
Automobiles	314,905	190,542
	24,499,157	30,745,472
Less accumulated depreciation	(6,725,644)	(13,326,241)
Property and equipment, net	17,773,513	17,419,231
Financing receivables	7,003,885	4,056,748
Total assets	\$ 85,253,809	\$ 75,644,513
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 3,175,570	\$ 2,469,157
Deferred revenue	7,119,602	5,589,792
Accrued vacation	3,793,842	3,211,693
Other accrued liabilities	5,359,487	5,399,996
Total current liabilities	19,448,501	16,670,638
Deferred tax liabilities	1,952,233	1,589,838
Stockholders equity:		

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

Common stock, \$0.001 par value; 30,000,000 shares authorized; 11,065,380 and 11,063,220 shares issued and outstanding	11,065	11,063
Additional paid-in capital	32,461,756	31,582,108
Accumulated other comprehensive income	30,036	7,380
Retained earnings	31,350,218	25,783,486
Total stockholders' equity	63,853,075	57,384,037
Total liabilities and stockholders' equity	\$ 85,253,809	\$ 75,644,513

See accompanying notes.

Table of Contents**COMPUTER PROGRAMS AND SYSTEMS, INC.****CONDENSED STATEMENTS OF INCOME (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales revenues:				
System sales	\$ 17,560,958	\$ 15,998,737	\$ 52,464,069	\$ 55,198,849
Support and maintenance	18,171,561	17,195,600	54,704,991	49,563,420
Business management services	9,441,271	8,850,996	28,225,226	26,501,993
Total sales revenues	45,173,790	42,045,333	135,394,286	131,264,262
Costs of sales:				
System sales	11,527,792	10,845,521	36,106,338	36,495,557
Support and maintenance	7,901,980	6,811,164	23,083,930	19,749,941
Business management services	5,729,190	4,911,989	16,783,034	14,249,282
Total costs of sales	25,158,962	22,568,674	75,973,302	70,494,780
Gross profit	20,014,828	19,476,659	59,420,984	60,769,482
Operating expenses:				
Sales and marketing	3,379,258	3,581,073	10,660,546	10,372,305
General and administrative	6,644,902	6,257,648	19,845,107	19,629,121
Total operating expenses	10,024,160	9,838,721	30,505,653	30,001,426
Operating income	9,990,668	9,637,938	28,915,331	30,768,056
Other income:				
Interest income	261,968	181,009	610,459	492,520
Total other income	261,968	181,009	610,459	492,520
Income before taxes	10,252,636	9,818,947	29,525,790	31,260,576
Income taxes	3,327,978	3,829,842	8,690,820	11,982,156
Net income	\$ 6,924,658	\$ 5,989,105	\$ 20,834,970	\$ 19,278,420
Net income per share basic	\$ 0.63	\$ 0.54	\$ 1.88	\$ 1.75
Net income per share diluted	\$ 0.63	\$ 0.54	\$ 1.88	\$ 1.75
Weighted average shares outstanding				
Basic	11,065,380	11,063,220	11,064,045	11,023,890
Diluted	11,065,380	11,063,220	11,064,045	11,023,890
Dividends declared per share	\$ 0.46	\$ 0.36	\$ 1.38	\$ 1.08

See accompanying notes.

Table of Contents

COMPUTER PROGRAMS AND SYSTEMS, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 6,924,658	\$ 5,989,105	\$ 20,834,970	\$ 19,278,420
Other comprehensive income(loss), net of tax				
Unrealized gain(loss) on investments available for sale, net of tax	7,065	(53,124)	22,656	(48,521)
Total other comprehensive income(loss), net of tax	7,065	(53,124)	22,656	(48,521)
Comprehensive income	\$ 6,931,723	\$ 5,935,981	\$ 20,857,626	\$ 19,229,899

See accompanying notes.

Table of Contents**COMPUTER PROGRAMS AND SYSTEMS, INC.****CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (Unaudited)**

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2011	11,063,220	\$ 11,063	\$ 31,582,108	\$ 7,380	\$ 25,783,486	\$ 57,384,037
Net income					20,834,970	20,834,970
Unrealized gain on investments held for sale, net of tax				22,656		22,656
Issuance of restricted stock	2,160	2	(2)			
Stock-based compensation			929,779			929,779
Dividends					(15,268,238)	(15,268,238)
Income tax benefit from restricted stock dividends			46,805			46,805
Deficient tax benefit from restricted stock			(96,934)			(96,934)
Balance at September 30, 2012	11,065,380	\$ 11,065	\$ 32,461,756	\$ 30,036	\$ 31,350,218	\$ 63,853,075

See accompanying notes.

Table of Contents**COMPUTER PROGRAMS AND SYSTEMS, INC.****CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)**

	Nine Months Ended September 30,	
	2012	2011
Operating Activities		
Net income	\$ 20,834,970	\$ 19,278,420
Adjustments to net income:		
Provision for bad debt	684,877	1,669,533
Deferred taxes	(16,157)	(995,898)
Stock based compensation	929,779	623,223
Deficient (excess) tax benefit from restricted stock	96,934	(62,569)
Income tax benefit from restricted stock dividends	(46,805)	(28,177)
Depreciation	2,342,203	1,767,592
Changes in operating assets and liabilities:		
Accounts receivable	(2,901,563)	3,076,274
Financing receivables	(4,939,550)	(1,631,215)
Inventories	(821,609)	(489,021)
Prepaid expenses and other	(798,880)	71,786
Accounts payable	706,413	30,095
Deferred revenue	1,529,810	491,095
Other liabilities	541,640	1,460,924
Prepaid income taxes	(187,134)	(1,062,639)
Net cash provided by operating activities	17,954,928	24,199,423
Investing Activities		
Purchases of property and equipment	(2,323,977)	(1,006,757)
Purchases of investments	(1,146,151)	(3,151,265)
Net cash used in investing activities	(3,470,128)	(4,158,022)
Financing Activities		
Dividends paid	(15,268,238)	(11,912,154)
Excess (deficient) tax benefit from restricted stock	(96,934)	62,569
Income tax benefit from restricted stock dividends	46,805	28,177
Net cash used in financing activities	(15,318,367)	(11,821,408)
(Decrease) increase in cash and cash equivalents	(833,567)	8,219,993
Cash and cash equivalents at beginning of period	6,664,482	2,939,839
Cash and cash equivalents at end of period	\$ 5,830,915	\$ 11,159,832
Supplemental disclosure of cash flow information		
Cash paid for interest	\$	\$
Cash paid for income taxes, net of refund	\$ 8,880,752	\$ 14,006,222
Reclassification of inventory to property and equipment	\$ 372,508	\$ 263,777
Write-off of fully depreciated assets	\$ 8,687,631	\$
See accompanying notes.		

Table of Contents

COMPUTER PROGRAMS AND SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are considered of a normal recurring nature. Quarterly results of operations are not necessarily indicative of annual results.

Certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited condensed financial statements should be read in conjunction with the audited financial statements of Computer Programs and Systems, Inc. (the Company) for the year ended December 31, 2011 and the notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

2. REVENUE RECOGNITION

The Company recognizes revenue in accordance with accounting principles generally accepted in the United States of America, principally those required by the *Software* topic and *Revenue Recognition* subtopic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) and those prescribed by the SEC.

The Company s revenue is generated from three sources:

System Sales the sale of information systems, which includes software licenses, conversion and installation services, hardware, peripherals, forms and supplies;

Support and Maintenance the provision of system support services, which includes software application support, hardware maintenance, continuing education, Software as a Service (or SaaS) products, Internet service provider (ISP) products, and information technology management and professional services; and

Business Management Services the provision of business management services, which includes electronic billing, statement processing, payroll processing, accounts receivable management, contract management and insurance services.

System Sales, Software Application Support, and Hardware Maintenance

The Company enters into contractual obligations to sell hardware, perpetual software licenses, installation and training services, and support and maintenance services. On average, the Company is able to complete a system installation in three to four weeks. The methods employed by the Company to recognize revenue, which are discussed by element below, achieve results materially consistent with the provisions of Accounting Standards Update (ASU) 2009-13, *Multiple-Deliverable Revenue Arrangements*, due to the relatively short period during which there are multiple undelivered elements, the relatively small amount of non-software related elements in the system sale arrangements, and the limited number of contracts in-process at the end of each reporting period. The Company recognizes revenue on the elements noted above as follows:

Software application support and hardware maintenance we have established vendor-specific objective evidence (VSOE) of the fair value of our software application support and hardware maintenance services by reference to the price our customers are required to pay for the services when sold separately via renewals. Support and maintenance revenue is recognized on a straight-line basis over the term of the maintenance contracts, which is generally three to five years.

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

Hardware we recognize revenue for hardware upon shipment. The selling price of hardware is based on management's best estimate of selling price, which consists of cost plus a targeted margin.

Software licenses and installation and training the selling price of software licenses and installation and training is based on management's best estimate of selling price. In determining management's best estimate of selling price, we consider the following: (1) competitor pricing, (2) supply and demand of installation staff, (3) overall economic conditions, and (4) our pricing practices as it relates to discounts. With the exception of those arrangements with extended payment terms that are not comparable to our historical arrangements (see Note 8), the method of recognizing revenue for the perpetual license of the associated modules included in the arrangement and the related installation and training services over the term the services are performed is on a module by module basis as the respective installation and training for each specific module is completed as this is representative of the pattern of provision of these services.

Table of Contents***SaaS, ISP, and Other Professional IT Services***

The Company accounts for SaaS contracts in accordance with the requirements of the *Hosting Arrangement* section under the *Software* topic and *Revenue Recognition* subtopic of the Codification. The Codification states that the software elements of SaaS products should not be accounted for as a hosting arrangement if the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. Each SaaS contract includes a system purchase and buyout clause, and this clause specifies the total amount of the system buyout. In addition, a clause is included which states that should the system be bought out by the customer, the customer would be required to enter into a general support agreement (for post-contract support services) for the remainder of the original SaaS term. Accordingly, the Company has concluded that SaaS customers do not have the right to take possession of the system without significant penalty (i.e., the purchase price of the system), and thus SaaS revenue of the Company falls within the scope of the *Hosting Arrangement* section of the Codification. In accordance with SEC regulations, revenue for SaaS arrangements is recognized when the services are performed.

The Company will occasionally provide ISP and other professional IT services. We consider these services to be non-software elements. The selling price of these services is based on third-party evidence of selling price of similar services. Revenue from this element is recognized as the services are performed.

Business Management Services

Business management services consist of electronic billing services, statement processing services, accounts receivable management services, payroll processing, contract management and insurance services. While business management service arrangements are contracts separate from the system sale and support and maintenance contracts, these contracts are sometimes executed within a short time frame of each other. The selling price of these services is based on VSOE of fair value by reference to the rate our customers renew as well as the rate the services are sold to customers when the business management services agreement is not executed within a short time frame. Because the pricing is transaction based (per unit pricing), customers are billed and revenue recognized as services are performed based on transaction levels.

3. OTHER ACCRUED LIABILITIES

Other accrued liabilities are comprised of the following:

	September 30, 2012	December 31, 2011
Salaries and benefits	\$ 3,023,488	\$ 3,257,663
Commissions	532,552	503,172
Self-insurance reserves	588,800	793,378
Unrecognized tax benefit	744,705	731,346
Other	469,942	114,437
	\$ 5,359,487	\$ 5,399,996

4. INVESTMENTS

The Company accounts for investments in accordance with FASB Codification topic, *Investments – Debt and Equity Securities*. Accordingly, investments are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. The Company's management determines the appropriate classifications of investments in fixed income securities at the time of acquisition and re-evaluates the classifications at each balance sheet date.

Table of Contents

Investments are comprised of the following at September 30, 2012:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short term investments (cash and accrued income)	\$ 1,329,411	\$	\$	\$ 1,329,411
Obligations of U.S. Treasury, U.S. government corporations and agencies	6,682,054	4,599	14,761	6,671,892
Mortgaged-backed securities	95,543	2,691		98,234
Corporate bonds	9,502,151	76,148	11,878	9,566,421
	\$ 17,609,159	\$ 83,438	\$ 26,639	\$ 17,665,958

Shown below are the amortized cost and estimated fair value of securities with fixed maturities at September 30, 2012, by contract maturity date. Actual maturities may differ from contractual maturities because issuers of certain securities retain early call or prepayment rights.

	Amortized Cost	Fair Value
Due in 2012	\$ 3,076,209	\$ 3,074,535
Due in 2013	6,278,453	6,303,621
Due in 2014	5,763,761	5,771,632
Due in 2015	2,395,193	2,417,936
Due thereafter	95,543	98,234
	\$ 17,609,159	\$ 17,665,958

Investments were comprised of the following at December 31, 2011:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short term investments (cash and accrued income)	\$ 1,577,190	\$	\$	\$ 1,577,190
Obligations of U.S. Treasury, U.S. government corporations and agencies	5,944,885	11,369	364	5,955,890
Mortgaged-backed securities	100,620	2,212		102,832
Corporate bonds	8,851,895	32,971	34,090	8,850,776
	\$ 16,474,590	\$ 46,552	\$ 34,454	\$ 16,486,688

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at September 30, 2012 and December 31, 2011, respectively:

	At September 30, 2012				Fair Value	Total Unrealized Losses
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses		
Obligations of U.S. Treasury, U.S. government corporations and agencies	\$ 1,634,233	\$ 1,947	\$ 841,472	\$ 12,814		