

COMPUTER PROGRAMS & SYSTEMS INC

Form 10-Q

May 08, 2013

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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 March 31, 2013.

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)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

74-3032373

(I.R.S. Employer  
Identification No.)

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

(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)

36695

(Zip Code)

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 May 7, 2013, there were 11,080,062 shares of the issuer's common stock outstanding.

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COMPUTER PROGRAMS AND SYSTEMS, INC.

Form 10-Q

(For the three months ended March 31, 2013)

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## PART I

## FINANCIAL INFORMATION

Item 1. Financial Statements.

COMPUTER PROGRAMS AND SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$6,805,126	\$8,912,457
Investments	10,690,060	10,674,609
Accounts receivable, net of allowance for doubtful accounts of \$1,089,000 and \$1,124,000, respectively	19,654,518	19,704,767
Financing receivables, current portion, net	15,099,643	4,618,131
Inventories	2,219,841	1,682,008
Deferred tax assets	2,743,370	2,463,567
Prepaid income taxes	—	1,809,220
Prepaid expenses and other	1,291,952	1,081,421
Total current assets	58,504,510	50,946,180
Property and equipment		
Land	2,848,276	2,848,276
Buildings and improvements	9,180,376	9,067,504
Maintenance equipment	2,071,230	2,588,452
Computer equipment	5,446,416	5,795,707
Leasehold improvements	4,004,227	3,067,756
Office furniture and equipment	3,340,796	2,845,548
Automobiles	341,387	314,905
	27,232,708	26,528,148
Less accumulated depreciation	(7,064,351)	(7,498,174)
Property and equipment, net	20,168,357	19,029,974
Financing receivables	4,762,027	7,862,833
Total assets	\$83,434,894	\$77,838,987
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$3,128,678	\$2,980,174
Deferred revenue	7,749,323	7,452,612
Accrued vacation	3,686,058	3,506,106
Income taxes payable	1,948,459	—
Other accrued liabilities	6,180,279	4,521,773
Total current liabilities	22,692,797	18,460,665
Deferred tax liabilities	1,875,641	2,176,130
Stockholders' equity:		
Common stock, \$0.001 par value; 30,000,000 shares authorized; 11,080,062 and 11,077,672 shares issued and outstanding	11,080	11,078
Additional paid-in capital	33,214,511	32,848,101
Accumulated other comprehensive income	31,436	27,693
Retained earnings	25,609,429	24,315,320
Total stockholders' equity	58,866,456	57,202,192

Total liabilities and stockholders' equity	\$83,434,894	\$77,838,987
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The accompanying notes are an integral part of these financial statements.

Table of ContentsCOMPUTER PROGRAMS AND SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended March 31,	
	2013	2012
Sales revenues:		
System sales	\$20,721,986	\$17,074,518
Support and maintenance	17,676,861	16,665,926
Business management, consulting and managed IT services	11,149,661	10,748,963
Total sales revenues	49,548,508	44,489,407
Costs of sales:		
System sales	13,250,579	11,899,244
Support and maintenance	7,238,969	6,866,720
Business management, consulting and managed IT services	6,940,019	6,456,000
Total costs of sales	27,429,567	25,221,964
Gross profit	22,118,941	19,267,443
Operating expenses:		
Sales and marketing	3,575,717	3,640,460
General and administrative	8,434,056	6,627,604
Total operating expenses	12,009,773	10,268,064
Operating income	10,109,168	8,999,379
Other income:		
Interest income	136,314	159,136
Total other income	136,314	159,136
Income before taxes	10,245,482	9,158,515
Income taxes	3,301,760	3,509,465
Net income	\$6,943,722	\$5,649,050
Net income per share—basic	\$0.63	\$0.51
Net income per share—diluted	\$0.63	\$0.51
Weighted average shares outstanding		
Basic	11,078,407	11,063,220
Diluted	11,078,407	11,063,220
Dividends declared per share	\$0.51	\$0.46

The accompanying notes are an integral part of these financial statements.

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COMPUTER PROGRAMS AND SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$6,943,722	\$5,649,050
Other comprehensive income, net of tax		
Unrealized gain on investments available for sale, net of tax	3,743	26,416
Total other comprehensive income, net of tax	3,743	26,416
Comprehensive income	\$6,947,465	\$5,675,466

The accompanying notes are an integral part of these financial statements.

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## COMPUTER PROGRAMS AND SYSTEMS, INC.

## CONDENSED CONSOLIDATED 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, 2012	11,077,672	\$ 11,078	\$ 32,848,101	\$ 27,693	\$ 24,315,320	\$ 57,202,192
Net income	—	—	—	—	6,943,722	6,943,722
Unrealized gain on investments held for sale, net of tax	—	—	—	3,743	—	3,743
Issuance of restricted stock	2,390	2	(2 )	—	—	—
Stock-based compensation	—	—	348,473	—	—	348,473
Dividends	—	—	—	—	(5,649,613 )	(5,649,613 )
Income tax benefit from restricted stock dividends	—	—	17,939	—	—	17,939
Balance at March 31, 2013	11,080,062	\$ 11,080	\$ 33,214,511	\$ 31,436	\$ 25,609,429	\$ 58,866,456

The accompanying notes are an integral part of these financial statements.



Table of ContentsCOMPUTER PROGRAMS AND SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	2013	2012
Operating Activities		
Net income	\$6,943,722	\$5,649,050
Adjustments to net income:		
Provision for bad debt	286,079	60,812
Deferred taxes	(582,529)	(219,362)
Stock based compensation	348,473	305,001
Income tax benefit from restricted stock dividends	(17,939)	(18,002)
Depreciation	850,214	819,269
Changes in operating assets and liabilities:		
Accounts receivable	147,206	(956,985)
Financing receivables	(7,763,742)	(874,908)
Inventories	(537,833)	(307,841)
Prepaid expenses and other	(210,531)	(434,507)
Accounts payable	148,504	280,840
Deferred revenue	296,711	559,461
Other liabilities	1,838,458	(24,753)
Prepaid income taxes/income taxes payable	3,775,618	3,712,581
Net cash provided by operating activities	5,522,411	8,550,656
Investing Activities		
Purchases of property and equipment	(1,988,597)	(549,083)
Purchases of investments	(9,471)	(1,037,207)
Net cash used in investing activities	(1,998,068)	(1,586,290)
Financing Activities		
Dividends paid	(5,649,613)	(5,089,081)
Income tax benefit from restricted stock dividends	17,939	18,002
Net cash used in financing activities	(5,631,674)	(5,071,079)
(Decrease) increase in cash and cash equivalents	(2,107,331)	1,893,287
Cash and cash equivalents at beginning of period	8,912,457	6,664,482
Cash and cash equivalents at end of period	\$6,805,126	\$8,557,769
Supplemental disclosure of cash flow information		
Cash paid for interest	\$—	\$—
Cash paid for income taxes, net of refund	\$—	\$5,000
Reclassification of inventory to property and equipment	\$—	\$134,893
Write-off of fully depreciated assets	\$1,222,325	\$8,687,631

The accompanying notes are an integral part of these financial statements.

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## COMPUTER PROGRAMS AND SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. BASIS OF PRESENTATION

## Basis of Presentation

The accompanying unaudited condensed consolidated 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 consolidated financial statements should be read in conjunction with the audited financial statements of Computer Programs and Systems, Inc. ("CPSI" or the "Company") for the year ended December 31, 2012 and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

## Principles of Consolidation

The condensed consolidated financial statements of CPSI include the accounts of TruBridge, LLC ("TruBridge"), a wholly-owned subsidiary of CPSI. All significant intercompany balances and transactions have been eliminated.

## Reclassifications

With the formation of TruBridge in January 2013 as a wholly-owned subsidiary of the Company focusing exclusively on providing business management, consulting and managed information technology ("IT") services to rural and community healthcare organizations, the Company's presentation of certain revenues and related costs of sales within its Condensed Consolidated Statements of Income was changed, as follows:

- The Company's consulting and managed IT services revenues and related costs of sales are now included under the caption "Business management, consulting and managed IT services" within the accompanying Condensed Consolidated Statements of Income. These amounts were formerly included as a component of "Support and maintenance" within the Condensed Consolidated Statements of Income.

- The former captioned item, "Business management services," within the Condensed Consolidated Statements of Income has been changed to "Business management, consulting and managed IT services" to reflect the additional revenue streams included under the recaptioned item as a result of the aforementioned reclassifications.

These reclassifications had no effect on previously reported total sales revenues, total costs of sales, gross profit, operating income, income before taxes or net income.

Amounts presented for the three months ended March 31, 2012 have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the three months ended March 31, 2012:

## Sales revenues:

Support and maintenance	\$(1,470,694 )
Business management, consulting and managed IT services	\$1,470,694

## Costs of sales:

Support and maintenance	\$(802,047 )
Business management, consulting and managed IT services	\$802,047

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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 perpetual software licenses, conversion, installation and training services, hardware and peripherals;

• 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, and forms and supplies; and

• Business Management, Consulting and Managed IT Services - the provision of business management services, which includes electronic billing, statement processing, payroll processing, accounts receivable management, contract management and insurance services, as well as Internet service provider ("ISP") products and consulting and managed IT services (collectively, "other professional IT services").

System Sales, Software Application Support, and Hardware Maintenance

The Company enters into contractual obligations to sell hardware, perpetual software licenses, conversion, 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 contract, which is generally