

COMPUTER PROGRAMS & SYSTEMS INC

Form 10-Q

August 11, 2006

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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 June 30, 2006.

**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)

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 Sections 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 July 31, 2006, there were 10,750,437 shares of the issuer's common stock outstanding.

COMPUTER PROGRAMS AND SYSTEMS, INC.
Form 10-Q
(For the period ended June 30, 2006)
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,163,148	\$ 11,669,690
Investments	10,398,878	10,231,446
Accounts receivable, net of allowance for doubtful accounts of \$862,000 and \$704,000 respectively	13,503,828	12,413,797
Financing receivables, current portion	1,629,479	1,168,472
Inventories	1,823,141	1,988,184
Deferred tax assets	1,330,423	1,200,637
Prepaid income taxes	36,268	268,321
Prepaid expenses	353,828	265,128
Total current assets	39,238,993	39,205,675
Property and equipment		
Land	936,026	936,026
Maintenance equipment	4,032,286	3,674,200
Computer equipment	5,899,608	5,690,497
Office furniture and equipment	1,805,907	1,626,940
Automobiles	111,394	111,394
	12,785,221	12,039,057
Less accumulated depreciation	(6,658,067)	(5,866,020)
Net property and equipment	6,127,154	6,173,037
Financing receivables	1,702,810	1,605,226
Total assets	\$ 47,068,957	\$ 46,983,938
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,436,955	\$ 2,051,195
Deferred revenue	2,670,970	3,285,678
Accrued vacation	2,042,268	1,875,365
Other accrued liabilities	2,639,866	2,685,231
Total current liabilities	8,790,059	9,897,469
Deferred tax liabilities	395,414	698,320

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Stockholders' equity:

Common stock, par value \$0.001 per share; 30,000,000 shares authorized; 10,750,437 and 10,624,901 shares issued and outstanding	10,750	10,625
Additional paid-in capital	21,573,212	20,576,268
Deferred compensation		(72,305)
Accumulated other comprehensive loss	(81,032)	(67,979)
Retained earnings	16,380,554	15,941,540
 Total stockholders' equity	 37,883,484	 36,388,149
 Total liabilities and stockholders' equity	 \$ 47,068,957	 \$ 46,983,938

See accompanying notes.

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Sales revenues:				
System sales	\$ 13,212,070	\$ 12,656,010	\$ 27,731,119	\$ 25,298,841
Support and maintenance	11,426,796	10,514,113	22,597,106	20,706,406
Outsourcing	4,345,915	3,800,328	8,193,869	7,361,783
Total sales revenues	28,984,781	26,970,451	58,522,094	53,367,030
Costs of sales:				
System sales	8,521,092	8,466,538	17,276,525	16,421,825
Support and maintenance	5,040,841	4,673,497	9,948,400	9,237,919
Outsourcing	2,459,310	2,125,152	4,682,687	4,086,557
Total costs of sales	16,021,243	15,265,187	31,907,612	29,746,301
Gross profit	12,963,538	11,705,264	26,614,482	23,620,729
Operating expenses:				
Sales and marketing	2,132,828	1,774,707	4,341,624	3,609,357
General and administrative	4,410,076	4,363,752	9,392,085	9,232,001
Total operating expenses	6,542,904	6,138,459	13,733,709	12,841,358
Operating income	6,420,634	5,566,805	12,880,773	10,779,371
Other income (expense):				
Interest income	264,048	144,619	520,758	254,435
Miscellaneous income		(59,566)		5,306
Total other income	264,048	85,053	520,758	259,741
Income before taxes	6,684,682	5,651,858	13,401,531	11,039,112
Income taxes	2,599,836	2,242,385	5,223,483	4,395,798
Net income	\$ 4,084,846	\$ 3,409,473	\$ 8,178,048	\$ 6,643,314
Net income per share basic	\$ 0.38	\$ 0.32	\$ 0.76	\$ 0.63
Net income per share diluted	\$ 0.38	\$ 0.32	\$ 0.76	\$ 0.63

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Weighted average shares outstanding				
Basic	10,750,951	10,527,568	10,728,727	10,508,813
Diluted	10,837,686	10,613,001	10,818,002	10,593,680
Dividends declared per share	\$ 0.36	\$ 0.22	\$ 0.72	\$ 0.44

See accompanying notes.

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2005	10,624,901	\$ 10,625	\$ 20,576,268	\$(72,305)	\$(67,979)	\$ 15,941,540	\$ 36,388,149
Net Income						8,178,048	8,178,048
Issuance of common stock	148,835	149	239,547				239,696
Forfeiture of restricted stock	(23,299)	(24)	24				
Unrealized loss on available for sales investments, net of tax of \$8,783					(13,053)		(13,053)
Share-based compensation			664,474				664,474
Dividends						(7,739,034)	(7,739,034)
Income tax benefit from stock option exercise			165,204				165,204
Adoption of SFAS No. 123R			(72,305)	72,305			
Balance at June 30, 2006	10,750,437	\$ 10,750	\$ 21,573,212	\$	\$(81,032)	\$ 16,380,554	\$ 37,883,484

See accompanying notes.

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Six months ended June 30,	
	2006	2005
Operating Activities		
Net income	\$ 8,178,048	\$ 6,643,314
Adjustments to net income:		
Provision for bad debt	(73,292)	669,505
Deferred taxes	(423,910)	(103,312)
Stock based compensation	664,474	25,520
Excess tax benefit from stock based compensation	(165,204)	812,053
Depreciation	992,518	873,280
Changes in operating assets and liabilities:		
Accounts receivable	(1,016,739)	(1,779,579)
Financing receivables	(558,591)	(629,116)
Inventories	165,043	(330,809)
Prepaid expenses	(88,700)	19,337
Accounts payable	(614,240)	818,763
Deferred revenue	(614,708)	98,480
Other liabilities	121,538	140,348
Income taxes payable	397,257	(813,948)
Net cash provided by operating activities	6,963,494	6,443,836
Investing Activities		
Purchases of property and equipment	(946,635)	(1,213,297)
Purchases of investments	(189,267)	(6,198,041)
Net cash used in investing activities	(1,135,902)	(7,411,338)
Financing Activities		
Proceeds from exercise of stock options, net	239,696	1,800,843
Excess tax benefit from stock based compensation	165,204	
Dividends paid	(7,739,034)	(4,615,534)
Net cash used in financing activities	(7,334,134)	(2,814,691)
Decrease in cash and cash equivalents	(1,506,542)	(3,782,193)
Cash and cash equivalents at beginning of period	11,669,690	13,785,377
Cash and cash equivalents at end of period	\$ 10,163,148	\$ 10,003,184
Cash paid for income taxes	\$ 5,250,136	\$ 4,501,006
See accompanying notes.		

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**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 financial information and 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 Company's audited financial statements for the year ended December 31, 2005 and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

2. REVENUE RECOGNITION

The Company's revenue is generated from three sources:

- the sale of information systems, which includes software, conversion and installation services, hardware, peripherals, forms and supplies

- the provision of system support services, which includes software application support, hardware maintenance, continuing education, application service provider (ASP) products, and internet service provider (ISP) products.

- the provision of outsourcing services, which includes electronic billing, statement processing, and business office outsourcing.

Depending upon the terms of the contract, revenue is recognized in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB No. 104, *Revenue Recognition*, and the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, which states that revenue should be recognized when persuasive evidence of an agreement exists, the product or service has been delivered, fees and prices are fixed and determinable, collectibility is probable, and when all other significant obligations have been fulfilled.

License revenue in connection with license agreements for proprietary software is recognized upon delivery of the software, providing collection is considered probable, the fee is fixed or determinable, there is evidence of an arrangement, and vendor specific objective evidence (VSOE) exists with respect to any undelivered elements of the arrangement. For multiple-element arrangements, the Company recognizes revenue under the residual method as permitted by the American Institute of Certified Public Accountants Statement of Position (SOP) 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions*, whereby (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized in accordance with SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements.

Revenue derived from maintenance contracts primarily includes software application support, hardware maintenance, continuing education and related services. Maintenance contracts are typically sold for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. Maintenance revenue is recognized ratably over the term of the maintenance agreement. In situations where all or a

portion of the maintenance fee is bundled with the license fee, VSOE for maintenance is determined based on prices when sold separately.

Revenue for hardware is recognized under SAB No. 104. Under SAB No. 104, revenue is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectibility is reasonably assured. For hardware, delivery is considered to have occurred upon shipment provided that risk of loss has been transferred to the customer.

Revenue for ISP, ASP, and outsourcing services are recognized in the period in which the services are performed.

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Other accrued liabilities are comprised of the following:

	June 30, 2006	December 31, 2005
Salaries and benefits	\$ 1,786,099	\$ 1,920,861
Commissions	326,534	306,704
Self-insurance reserves	365,600	380,600
Other	161,633	77,066
	\$ 2,639,866	\$ 2,685,231

4. INVESTMENTS

The Company accounts for investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in 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 shareholder's equity. The Company's management determines the appropriate classifications of investments in fixed maturity securities at the time of acquisition and re-evaluates the classifications at each balance sheet date. The Company's investments in fixed maturity securities are classified as available-for-sale.

Investments are comprised of the following at June 30, 2006:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short term investments	\$ 123,896	\$	\$	\$ 123,896
Obligations of U.S. Treasury, U.S. government corporation and agencies	4,139,939	11,865	37,086	4,114,718
Mortgaged backed securities	445,478		11,131	434,347
Municipal obligations	800,000			800,000
Corporate bonds	5,023,314	3,913	101,310	4,925,917
	\$ 10,532,627	\$ 15,778	\$ 149,527	\$ 10,398,878

Shown below are the amortized cost and estimated fair value of securities with fixed maturities at June 30, 2006, 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 2006	\$ 4,271,465	\$ 4,196,294
Due in 2007	2,889,026	2,868,930
Due in 2008	1,810,006	1,783,235
Due thereafter	1,438,234	1,426,523
	\$ 10,408,731	\$ 10,274,982

5. NET INCOME PER SHARE

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period presented. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period presented. The difference between basic and diluted EPS is solely attributable to stock options. The Company uses the treasury stock method to calculate the impact of outstanding stock options. For the three and six month periods ended June 30, 2006, these dilutive shares were 86,735 and 89,275 respectively. For the three and six month periods ended June 30, 2005, these dilutive shares were 85,433 and 84,867 respectively.

Table of Contents**6. INCOME TAXES**

The Company accounts for income taxes using the liability method in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Deferred income taxes arise from the temporary differences in the recognition of income and expenses for tax purposes. Deferred tax assets and liabilities are comprised of the following:

	June 30, 2006	December 31, 2005
Deferred tax assets:		
Accounts receivable	\$ 336,282	\$ 274,520
Accrued vacation	796,485	731,392
Stock compensation	249,192	
Other accrued liabilities	145,414	194,725
Unrealized loss on investments	52,242	
Total deferred tax assets	 \$ 1,579,615	 \$ 1,200,637
Deferred tax liabilities:		
Deferred compensation	\$ 18,246	\$ 28,199
Depreciation	626,360	670,121
Total deferred tax liabilities	 \$ 644,606	 \$ 698,320