COMPUTER PROGRAMS & SYSTEMS INC
Form 10-Q
November 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2018.
¨	**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	**74-3032373**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6600 Wall Street, Mobile, Alabama	**36695**
(Address of Principal Executive Offices)	**(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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically 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 ý 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	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 ý
As of November 5, 2018, the es of the issuer’s common stock outstanding.

COMPUTER PROGRAMS AND SYSTEMS, INC.
Quarterly Report on Form 10-Q
(For the three and nine months ended September 30, 2018)
TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	September 30, 2018		December 31, 2017	
Assets				
Current assets:				
Cash and cash equivalents	$	5,175	$	520
Accounts receivable, net of allowance for doubtful accounts of $2,203 and $2,654, respectively	41,591		38,061	
Financing receivables, current portion, net	15,422		15,055	
Inventories	1,198		1,417	
Prepaid income taxes	1,129		—	
Prepaid expenses and other	5,641		2,824	
Total current assets	70,156		57,877	
Property and equipment, net	11,094		11,692	
Financing receivables, net of current portion	15,371		11,485	
Other assets, net of current portion	1,004		—	
	88,818		96,713	

Intangible assets, net				
Goodwill	140,449		140,449	
Total assets	$	326,892	$	318,216
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	5,979	$	7,620
Current portion of long-term debt	5,807		5,820	
Deferred revenue	11,115		8,707	
Accrued vacation	4,637		3,794	
Income taxes payable	—		810	
Other accrued liabilities	11,433		14,098	
Total current liabilities	38,971		40,849	
Long-term debt, net of current portion	131,718		136,614	
Deferred tax liabilities	5,011		4,667	
Total liabilities	175,700		182,130	
Stockholders' equity:				
Common stock, $0.001 par value; 30,000 shares authorized; 14,086 and 13,760 shares issued and outstanding, respectively	14		14	
Additional paid-in capital	162,381		155,078	
Accumulated deficit	(11,203)		(19,006)	

Total stockholders' equity	151,192		136,086	
Total liabilities and stockholders' equity	$	326,892	$	318,216

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Sales revenues:				
System sales and support	$ 44,425	$ 44,366	$ 132,923	$ 133,263
TruBridge	24,872	22,747	75,162	65,601
Total sales revenues	69,297	67,113	208,085	198,864
Costs of sales:				
System sales and support	19,583	19,927	57,528	59,467
TruBridge	13,590	12,806	40,501	36,326
Total costs of sales	33,173	32,733	98,029	95,793
Gross profit	36,124	34,380	110,056	103,071
Operating expenses:				
Product development	9,305	8,250	27,375	24,742
Sales and marketing	7,546	8,528	22,778	23,262
General and administrative	11,220	9,379	36,772	33,960
Amortization of acquisition-related intangibles	2,692	2,601	7,895	7,804
Total operating expenses	30,763	28,758	94,820	89,768
Operating income	5,361	5,622	15,236	13,303
Other income (expense):				
Other income	201	102	593	242
Interest expense	(1,829)	(2,062)	(5,615)	(5,807)
Total other income (expense)	(1,628)	(1,960)	(5,022)	(5,565)
Income before taxes	3,733	3,662	10,214	7,738
(Benefit) provision for income taxes	(2,016)	1,374	170	3,617

Net income	$	5,749	$	2,288	$	10,044	$	4,121
Net income per common share—basic	$	0.41	$	0.17	$	0.72	$	0.30
Net income per common share—diluted	$	0.41	$	0.17	$	0.72	$	0.30
Weighted average shares outstanding used in per common share computations:								
Basic	13,604		13,431		13,547		13,409	
Diluted	13,604		13,431		13,547		13,409	
Dividends declared per common share	$	0.10	$	0.30	$	0.30	$	0.75

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders’ Equity
Balance at December 31, 2017	13,760	$ 14	$ 155,078	$ (19,006)	$ 136,086
Net income	—	—	—	10,044	10,044
Adoption of accounting standards (Note 2)	—	—	—	1,970	1,970
Issuance of restricted stock	326	—	—	—	—
Stock-based compensation	—	—	7,303	—	7,303
Dividends	—	—	—	(4,211)	(4,211)
Balance at September 30, 2018	14,086	$ 14	$ 162,381	$ (11,203)	$ 151,192

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

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

	Nine Months Ended September 30,	
	2018	2017
Operating Activities:		
Net income	$ 10,044	$ 4,121
Adjustments to net income:		
Provision for bad debt	2,366	753
Deferred taxes	(231)	3,226
Stock-based compensation	7,303	5,021
Depreciation	1,416	1,945
Amortization of acquisition-related intangibles	7,895	7,804
Amortization of deferred finance costs	259	547
Changes in operating assets and liabilities:		
Accounts receivable	(4,174)	(4,358)
Financing receivables	(5,975)	(8,428)
Inventories	219	568
Prepaid expenses and other	(47)	(361)
Accounts payable	(1,641)	3,770
Deferred revenue	1,178	2,748
Other liabilities	(1,821)	1,071
Prepaid income taxes/income taxes payable	(1,939)	(110)
Net cash provided by operating activities	14,852	18,317

Investing Activities:				
Purchases of property and equipment	(818)		(464)	
Net cash used in investing activities	(818)		(464)	
Financing Activities:				
Dividends paid	(4,211)		(10,261)	
Payments of long-term debt principal	(11,877)		(4,909)	
Proceeds from revolving line of credit	7,300		2,550	
Payments of revolving line of credit	(591)		(6,500)	
Proceeds from exercise of stock options	—		1	
Net cash used in financing activities	(9,379)		(19,119)	
Increase (decrease) in cash and cash equivalents	4,655		(1,266)	
Cash and cash equivalents at beginning of period	520		2,220	
Cash and cash equivalents at end of period	$	5,175	$	954
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	5,276	$	5,151
Cash paid for income taxes, net of refund	$	2,340	$	501

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

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 (the "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 ("U.S. GAAP") have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2017 was derived from the audited consolidated balance sheet at that date. 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, 2017 and the notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation

The condensed consolidated financial statements of CPSI include the accounts of TruBridge, LLC ("TruBridge"), Evident, LLC ("Evident"), and Healthland Holding Inc. ("HHI"), all of which are wholly-owned subsidiaries of CPSI. The accounts of HHI include those of its wholly-owned subsidiaries, Healthland Inc. ("Healthland"), Rycan Technologies, Inc. ("Rycan"), and American HealthTech, Inc. ("AHT"). All significant intercompany balances and transactions have been eliminated.

Presentation

This reclassification had no effect on previously reported total sales revenues, operating income, income before taxes or net income.

Amounts presented for the three and nine months ended September 30, 2017 have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the three months ended September 30, 2017:

(In thousands)	As previously reported		Reclassification		As reclassified	
Costs of sales:						
System sales and support	$	18,832	$	1,095	$	19,927
Operating expenses:						
Product development	$	9,345	$	(1,095)	$	8,250

The following table provides the amounts reclassified for the nine months ended September 30, 2017:

(In thousands)	As previously reported		Reclassification		As reclassified	
Costs of sales:						
System sales and support	$	56,621	$	2,846	$	59,467
Operating expenses:						
Product development	$	27,588	$	(2,846)	$	24,742

2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Standards Adopted in 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes prior revenue recognition guidance. This guidance was effective for fiscal years and interim periods within those years beginning after December 15, 2017, which was effective for the Company as of the first quarter of our fiscal year ending December 31, 2018. We adopted this new accounting standard codified as Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, and the related amendments ("new revenue standard") during the first quarter of 2018 and have applied it to all contracts using the modified retrospective method, pursuant to which the cumulative effect of initially applying the new revenue standard is recognized as an adjustment to retained earnings and impacted balance sheet line items as of January 1, 2018, the date of adoption. The comparative previous period information continues to be reported under the accounting standards in effect for that period.

We completed an assessment of our systems, data, and processes that are affected by the implementation of this new revenue standard and have concluded that this standard does not significantly alter revenue recognition practices for our system sales and support and TruBridge revenue streams. The impact on our revenue recognition is limited to deferring and amortizing implementation fees over the contract life related to our Rycan revenue cycle management product, in which we previously recognized revenue as implementation was completed. Rycan implementation fees totaled $1.6 million in 2017, less than 1% of our 2017 revenues. The balance sheet impact of the deferred revenue related to these fees was an increase of $1.8 million as of the date of adoption. Also impacting deferred revenue was a decrease of $0.6 million related to previous billings which no longer required deferred recognition as of the date of adoption.

In addition to revenue recognition, the new revenue standard impacts our consolidated financial statements with respect to the capitalization of certain commissions and contract fulfillment costs which were previously expensed as incurred. Commissions and contract fulfillment costs related to the implementation of software as a service arrangements are now capitalized and amortized over the expected life of the customer. TruBridge commissions, which are paid up to twelve months in advance, are now capitalized and amortized over the prepayment period. The balance sheet impact of the prepaid assets was an increase of $3.8 million as of the date of adoption.

Due to the aforementioned changes in assets and liabilities related to the adoption of the new revenue standard, our deferred tax liability increased $0.6 million as of the date of adoption.

In total, the adoption of ASU 2014-09 resulted in a net increase in retained earnings of $2.0 million as of the date of adoption.

In accordance with the new revenue standard requirements, the disclosures of the impact of adoption on our condensed consolidated income statements and balance sheet were as follows:

(In thousands)	Three Months Ended September 30, 2018 As reported	Balances without adoption of ASC 606	Effect of adoption increase/(decrease)
Condensed Consolidated Statements of Income			
Revenue: TruBridge	$ 24,872	$ 24,996	$ (124)
Cost of sales: System sales and support	19,583	19,530	53
Gross profit	36,124	36,301	(177)
Sales and marketing	7,546	7,389	157
Operating income	5,361	5,695	(334)
Provision for income taxes	(2,016)	(1,945)	(71)
Net income	$ 5,749	$ 6,012	$ (263)

(In thousands)	Nine Months Ended September 30, 2018 As reported	Balances without adoption of ASC 606	Effect of adoption increase/(decrease)
Condensed Consolidated Statements of Income			
Revenue: TruBridge	$ 75,162	$ 75,125	$ 37
Cost of sales: System sales and support	57,528	57,409	119
Gross profit	110,056	110,138	(82)
Sales and marketing	22,778	22,124	654
Operating income	15,236	15,972	(736)
Provision for income taxes	170	325	(155)
Net income	$ 10,044	$ 10,625	$ (581)

	September 30, 2018		
(In thousands)	As reported	Balances without adoption of ASC 606	Effect of adoption increase/(decrease)
Condensed Consolidated Balance Sheet			
Prepaid assets and other	$ 5,641	$ 3,643	$ 1,998
Other assets, net of current	1,004	—	1,004
Total assets	326,892	323,890	3,002
Deferred revenue	11,115	9,921	1,194
Deferred tax liability	5,011	4,592	419
Total liabilities	175,700	174,087	1,613
Retained earnings	$ (11,203)	$ (12,592)	$ 1,389

The effects of the changes in balance sheet accounts resulting from the adoption of the new revenue standard are primarily due to the beginning adjustments for adoption mentioned above, accompanied by incremental changes resulting from activity during the period ended September 30, 2018. Refer to Note 3 - Revenue Recognition for more information on period activity.

The new revenue standard requirements did not impact our net cash provided by or used in operating, investing, or financing cash flows on our condensed consolidated statements of cash flows, although components within changes in operating assets and liabilities were immaterially impacted by adoption.

In August 2016, the FASB issued ASU 2016-15, *Classifications of Certain Cash Receipts and Cash Payments,* which clarifies cash flow classification for eight specific issues, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance policies. This guidance was effective for fiscal years and interim periods within those years beginning after December 15, 2017, which was effective for the Company as of the first quarter of our fiscal year ending December 31, 2018. The adoption of ASU 2016-15 did not have a material effect on our financial statements.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business,* to assist an entity in evaluating when a set of transferred assets and activities is a business. The guidance was effective for fiscal years and interim periods within those years beginning after December 15, 2017, and will be applied prospectively to any transactions occurring following adoption. The adoption of ASU 2017-01 did not have a material effect on our financial statements.

New Accounting Standards Yet to be Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new guidance will require the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. This guidance will be effective for fiscal years and interim periods within those years beginning after December 15, 2018, which will be effective for the Company as of the first quarter of our fiscal year ending December 31, 2019. The Company is currently evaluating the method of adoption and potential utilization of practical expedients. The estimated impact on the financial statements of implementation of this standard is increased lease assets and lease liabilities in the range of $4 million to $6 million as of the anticipated adoption date, January 1, 2019.

3. REVENUE RECOGNITION

Revenue is recognized upon transfer of control of promised products or services to clients in an amount that reflects the consideration we expect to receive in exchange for those products and services. We enter into contracts that can include various combinations of products and services, which are generally distinct and accounted for as separate performance obligations. The Company employs the 5-step revenue recognition model under ASC 606 to: (1) identify the contract with the client, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized net of shipping charges and any taxes collected from clients, which are subsequently remitted to governmental authorities.

System Sales and Support

The Company enters into contractual obligations to sell perpetual software licenses, installation, conversion, training, hardware and software application support and hardware maintenance services to acute care and post-acute care community hospitals.

Non-recurring Revenues

• Perpetual software licenses, installation, conversion, and related training are not considered separate and distinct performance obligations due to the proprietary nature of our software and are, therefore, accounted for as a single performance obligation on a module-by-module basis. Revenue is recognized as each module's implementation is completed based on the module's stand-alone selling price ("SSP"), net of discounts. Fees for licenses, installation, conversion, and related training are typically due in three installments: (1) at placement of order, (2) upon installation of software and commencement of training, and (3) upon satisfactory completion of monthly accounting cycle or end-of-month operation by application and as applicable for each application. Often, short-term and/or long-term financing arrangements are provided for software implementations; refer to Note 9 - Financing Receivables for further information. Electronic health records ("EHR") implementations include a system warranty that terminates thirty days from the software go-live date, the date which the client begins using the system in a live environment.

• Hardware revenue is recognized separately from software licenses at the point in time it is delivered to the client. The SSP of hardware is cost plus a reasonable margin. Payment is generally due upon delivery of the hardware to the client. Standard manufacturer warranties apply to hardware.

Recurring Revenues

• Software application support and hardware maintenance services sold with software licenses and hardware are separate and distinct performance obligations. Revenue for support and maintenance services is recognized based on SSP, which is the renewal price, ratably over the life of the contract, which is generally three to five years. Payment is due monthly for support services provided.

• Subscriptions to third party content revenue is recognized as a separate performance obligation ratably over the subscription term based on SSP, which is cost plus a reasonable margin. Payment is due monthly for subscriptions to third party content.

• Software as a Service ("SaaS") arrangements for EHR software and related conversion and training services are considered a single performance obligation. Revenue is recognized on a monthly basis as the SaaS service is provided to the client over the contract term. Payment is due monthly for SaaS services provided.

Refer to Note 14 - Segment Reporting, for further information, including revenue by client base (acute care or post-acute care) bifurcated by recurring and non-recurring revenue.

TruBridge

TruBridge provides an array of business processing services ("BPS") consisting of accounts receivable management, private pay services, insurance services, medical coding, electronic billing, statement processing, payroll processing, and contract management. Fees are recognized over the period of the client contractual relationship as the services are performed based on the SSP, net of discounts. Fees for many of these services are invoiced, and revenue recognized accordingly, based on the volume of transactions or a percentage of client accounts receivable collections. Payment is due monthly for BPS with certain amounts varying based on utilization and/or volumes.

TruBridge also provides professional IT services. Revenue from professional services is recognized as the services are performed based on SSP. Payment is due monthly as services are performed.

Deferred Revenue

Deferred revenue represents amounts invoiced to clients for which the services under contract have not been completed and revenue has not been recognized, including annual renewals of certain software subscriptions and customer deposits for implementations to be performed at a later date. Revenue is recognized ratably over the life of the software subscriptions as services are provided and at the point-in-time when implementations have been completed.

(In thousands)	Nine Months Ended September 30, 2018	
Balance as of January 1, 2018	$	9,937
Deferred revenue recorded	15,847	
Less deferred revenue recognized as revenue	(14,669)	
Balance as of September 30, 2018	$	11,115

The deferred revenue recorded during the nine months ended September 30, 2018 is comprised primarily of the annual renewals of certain software subscriptions billed during the first quarter of each year and deposits collected for future

EHR installations. The deferred revenue recognized as revenue during the nine months ended September 30, 2018 is comprised primarily of the periodic recognition of annual renewals that were deferred until earned and deposits for future EHR installations that were deferred until earned.

Costs to Obtain and Fulfill a Contract with a Customer

Costs to obtain a contract include the commission costs related to SaaS licensing agreements, which are capitalized and amortized ratably over the expected life of the customer. As a practical expedient, we generally recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset would have been one year or less, with the exception of commissions generated from TruBridge sales. TruBridge commissions, which are paid up to twelve months in advance, are capitalized and amortized over the prepayment period. Costs to obtain a contract are expensed within sales and marketing expenses in the accompanying condensed consolidated statements of income. Contract fulfillment costs related to the implementation of SaaS arrangements are capitalized and amortized ratably over the expected life of the customer. Costs to fulfill contracts consist of the payroll costs for the implementation of SaaS arrangements, including time for training, conversion, and installation that is necessary for the software to be utilized. Contract fulfillment costs are expensed within

Costs to obtain and fulfill contracts related to SaaS arrangements are included within the "Prepaid expenses and other" and "Other assets, net of current portion" line items on our condensed consolidated balance sheets.

(In thousands)	Nine Months Ended September 30, 2018	
Balance as of January 1, 2018	$	3,775
Costs to obtain and fulfill contracts capitalized	2,356	
Less costs to obtain and fulfill contracts recognized as expense	(3,129)	
Balance as of September 30, 2018	$	3,002

Significant Judgments

Our contracts with clients often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Judgment is required to determine SSP for each distinct performance obligation. We use observable SSP for items that are sold on a stand-alone basis to similarly situated clients at unit prices within a sufficiently narrow range. For performance obligations that are sold to different clients for a broad range of amounts, or for performance obligations that are never sold on a stand-alone basis, the residual method in determining SSP is applied and requires significant judgment.

Allocating the transaction price, including estimating SSP of promised goods and services for contracts with discounts or variable consideration, may require significant judgment. Due to the short time frame of the implementation cycle, discount allocation is immaterial as revenue is recognized net of discounts within the same reporting period. In scenarios where the Company enters into a contract that includes both a software license and BPS or other services that are charged based on volume of services rendered, the Company allocates variable amounts entirely to a distinct good or service. The terms of the variable payment relate specifically to the entity’s efforts to satisfy that performance obligation.

Significant judgment is required in determining the expected life of a customer, which is the amortization period for costs to obtain and fulfill a contract that have been capitalized. The Company determined that the expected life of the customer is not materially different from the initial contract term based on the characteristics of the SaaS offering.

Remaining Performance Obligations

Disclosures regarding remaining performance obligations are not considered material as the overwhelming majority of the Company's remaining performance obligations either (a) are related to contracts with an expected duration of one year or less, or (b) exhibit revenue recognition in the amount to which the Company has the right to invoice.

4. PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following at September 30, 2018 and December 31, 2017:

(In thousands)	September 30, 2018		December 31, 2017	
Land	$	2,848	$	2,848
Buildings and improvements	8,247		8,240	
Computer equipment	4,080		3,269	
Leasehold improvements	5,001		5,001	
Office furniture and fixtures	2,865		2,865	
Automobiles	70		70	
	23,111		22,293	
Less: accumulated depreciation	(12,017)		(10,601)	
Property and equipment, net	$	11,094	$	11,692

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities was comprised of the following at September 30, 2018 and December 31, 2017:

(In thousands)	September 30, 2018		December 31, 2017	
Salaries and benefits	$	7,232	$	8,432
Severance	1,244		1,139	
Commissions	738		2,416	
Self-insurance reserves	1,024		1,024	
Contingent consideration	615		586	
Other	580		501	
Other accrued liabilities	$	11,433	$	14,098

The accrued contingent consideration depicted above represents the potential earnout incentive for former Rycan shareholders, relating to the purchase of Rycan by HHI in 2015. We have estimated the fair value of the contingent consideration based on the amount of revenue we expect to be earned by Rycan through the year ending December 31, 2018 in accordance with the purchase agreement between the parties.

6. NET INCOME PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its common stock. Basic EPS is calculated by dividing the net income attributable to stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to stockholders of the Company and the weighted average number of shares of common stock outstanding during the period for the effects of all dilutive potential common shares, including awards under stock-based compensation arrangements.

The Company's unvested restricted stock awards (see Note 8) are considered participating securities under FASB Codification topic, *Earnings Per Share*, because they entitle holders to non-forfeitable rights to dividends until the awards vest or are forfeited. When a company has a security that qualifies as a "participating security," the Codification requires the use of the two-class method when computing basic EPS. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net income to allocate to common stockholders, income is allocated to both common stock and participating securities based on their respective weighted average shares outstanding for the period, with net income attributable to common stockholders ultimately equaling net income less net income attributable to participating securities. Diluted EPS for the Company's common stock is computed using the more dilutive of the two-class method or the treasury stock method.

The following is a calculation of the basic and diluted EPS for the Company's common stock, including a reconciliation between net income and net income attributable to common stockholders:

	Three Months Ended				Nine Months Ended			
(In thousands, except per share data)	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
Net income	$	5,749	$	2,288	$	10,044	$	4,121
Less: Net income attributable to participating securities	(197)		(55)		(338)		(94)	
Net income attributable to common stockholders	$	5,552	$	2,233	$	9,706	$	4,027
Weighted average shares outstanding used in basic per common share computations	13,604		13,431		13,547		13,409	
Add: Dilutive potential common shares	—		—		—		—	
Weighted average shares outstanding used in diluted per common share computations	13,604		13,431		13,547		13,409	
Basic EPS	$	0.41	$	0.17	$	0.72	$	0.30
Diluted EPS	$	0.41	$	0.17	$	0.72	$	0.30

During 2018, performance share awards were granted to certain executive officers and key employees of the Company that will result in the issuance of time-vesting restricted stock if the predefined performance criteria are met. The awards provide for an aggregate target of 184,776 shares, none of which have been included in the calculation of diluted EPS for the three and nine months ended September 30, 2018 because the related threshold award performance level has not been achieved as of September 30, 2018. See Note 8 - Stock-based Compensation for more information.

7. INCOME TAXES

The Company determines the tax provision for interim periods using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

8. STOCK-BASED COMPENSATION

Stock-based compensation expense is measured at the grant date based on the fair value of the award, and is recognized as an expense over the employee's or non-employee director's requisite service period.

The following table details total stock-based compensation expense for the three and nine months ended September 30, 2018 and 2017, included in the condensed consolidated statements of income:

	Three Months Ended		Nine Months Ended	
(In thousands)	2018	2017	2018	2017
Costs of sales	$ 566	$ 492	$ 1,590	$ 1,235
Operating expenses	2,044	1,562	5,713	3,786
Pre-tax stock-based compensation expense	2,610	2,054	7,303	5,021
Less: income tax effect	(574)	(801)	(1,607)	(1,958)
Net stock-based compensation expense	$ 2,036	$ 1,253	$ 5,696	$ 3,063

The Company's stock-based compensation awards are in the form of restricted stock and performance share awards granted pursuant to the Company's 2012 Restricted Stock Plan for Non-Employee Directors and Amended and Restated 2014 Incentive Plan (the "Plans").

Restricted Stock

The Company grants restricted stock to executive officers, certain key employees and non-employee directors under the Plans with the fair value of the awards representing the fair value of the common stock on the date the restricted stock is granted. Shares of restricted stock generally vest in equal annual installments over the applicable vesting period, which ranges from one to three years. The Company records expenses for these grants on a straight-line basis over the applicable vesting periods. Shares of restricted stock may also be issued pursuant to the settlement of performance share awards, for which the Company records expenses in the manner described in the "Performance Share Awards" section below.

A summary of restricted stock activity (including shares of restricted stock issued pursuant to the settlement of performance share awards) under the Plans during the nine months ended September 30, 2018 and 2017 is as follows:

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Unvested restricted stock outstanding at beginning of period	309,195	$ 38.36	184,885	$ 54.63
Granted	148,804	31.20	222,390	32.87

Performance share awards settled through the issuance of restricted stock	177,294 39.5		—	—	
Vested	(153,401) 42.8		(99,184)	55.75	
Unvested restricted stock outstanding at end of period	482,007 $	31.96	308,091	$	38.56

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Performance Share Awards

The Company grants performance share awards to executive officers and certain key employees under the Amended and Restated 2014 Incentive Plan. The number of shares of common stock earned and issuable under each award is determined at the end of each one-year or three-year performance period, based on the Company's achievement of performance goals predetermined by the Compensation Committee of the Board of Directors at the time of grant. The three-year performance share awards include a modifier to the total number of shares earned based on the Company's total shareholder return ("TSR") compared to an industry index. If certain levels of the performance objective are met, the award results in the issuance of shares of restricted stock or common stock corresponding to such level. One-year performance share awards are then subject to time-based vesting pursuant to which the shares of restricted stock vest in equal annual installments over the applicable vesting period, which is generally three years. Three-year performance share awards result in the issuance of shares of common stock that are not subject to time-based vesting at the conclusion of the three-year performance period if earned.

In the event that the Company's financial performance meets the predetermined targets for the performance objectives of the one-year and three-year performance share awards, the Company will issue each award recipient the number of shares of restricted stock or common stock, as applicable, equal to the target award specified in the individual's underlying performance share award agreement. In the event the financial results of the Company exceed the predetermined targets, additional shares up to the maximum award may be issued. In the event the financial results of the Company fall below the predetermined targets, a reduced number of shares may be issued. If the financial results of the Company fall below the threshold performance levels, no shares will be issued. The total number of shares issued for the three-year performance share award may be increased, decreased, or unchanged based on the TSR modifier described above.

The recipients of performance share awards do not receive dividends or possess voting rights during the performance period and, accordingly, the fair value of the one-year performance share awards is the quoted market value of CPSI's common stock on the grant date less the present value of the expected dividends not received during the relevant period. The TSR modifier applicable to the three-year performance share awards is considered a market condition and therefore is reflected in the grant date fair value of the award. A Monte Carlo simulation has been used to account for this market condition in the grant date fair value of the award.

Expense of one-year performance share awards is recognized using the accelerated attribution (graded vesting) method over the period beginning on the date the Company determines that it is probable that the performance criteria will be achieved and ending on the last day of the vesting period for the restricted stock issued in satisfaction of such awards. Expense of three-year performance share awards is recognized using ratable straight-line amortization over the three-year performance period. In the event the Company determines it is no longer probable that the minimum performance level will be achieved, all previously recognized compensation expense related to the applicable awards is reversed in the period such a determination is made.

A summary of performance share award activity under the 2014 Incentive Plan during the nine months ended September 30, 2018 and 2017 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Performance share awards outstanding at beginning of period	189,325	$ 29.94	77,594	$ 49.64
Granted	184,376	30.15	189,325	29.94

Forfeited or unearned	(11,230)		29.94	(77,594)		49.64
Performance share awards settled through the issuance of restricted stock	(177,995)		29.54	—		—
Performance share awards outstanding at end of period	184,376	$	30.15	189,325	$	29.94

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9. FINANCING RECEIVABLES

Short-Term Payment Plans

The Company provides fixed monthly payment arrangements ("short-term payment plans") over terms ranging from three to twelve months for meaningful use stage three and other add-on software installations. As a practical expedient, we do not adjust the amount of consideration recognized as revenue for the financing component as unearned income when we expect payment within one year or less. These receivables, included in the current portion of financing receivables, were comprised of the following at September 30, 2018 and December 31, 2017:

(In thousands)	September 30, 2018		December 31, 2017	
Short-term payment plans, gross	$	7,463	$	9,081
Less: allowance for losses	(373)		(638)	
Short-term payment plans, net	$	7,090	$	8,443

Long-Term Financing Arrangements

Additionally, the Company provides financing for purchases of its information and patient care systems to certain healthcare providers under long-term financing arrangements expiring in various years through 2025. Under long-term financing arrangements, the transaction price is adjusted by a discount rate that reflects market conditions that would be used for a separate financing transaction between the Company and licensee at contract inception, and takes into account the credit characteristics of the licensee and market interest rates as of the date of the agreement. As such, the amount of fixed fee revenue recognized at the beginning of the license term will be reduced by the calculated financing component. As payments are received from the licensee, the Company recognizes a portion of the financing component as interest income, reported as other income in the condensed consolidated statements of income. These receivables typically have terms from two to seven years.

The components of these receivables were as follows at September 30, 2018 and December 31, 2017:

(In thousands)	September 30, 2018		December 31, 2017	
Long-term financing arrangements, gross	$	27,948	$	22,968
Less: allowance for losses	(1,248)		(2,606)	
Less: unearned income	(2,997)		(2,265)	
Long-term financing arrangements, net	$	23,703	$	18,097

Future minimum payments to be received subsequent to September 30, 2018 are as follows:

(In thousands)

Years Ended December 31,		
2018	$	2,787
2019	8,719	
2020	6,127	
2021	4,887	
2022	3,437	
Thereafter	1,991	
Total minimum payments to be received	27,948	
Less: allowance for losses	(1,248)	
Less: unearned income	(2,997)	
Receivables, net	$	23,703

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Credit Quality of Financing Receivables and Allowance for Credit Losses

The following table is a roll-forward of the allowance for financing credit losses for the nine months ended September 30, 2018 and year ended December 31, 2017:

(In thousands)	Balance at Beginning of Period	Provision	Charge-offs	Recoveries	Balance at End of Period
September 30, 2018	$ 3,244	$ 1,723	$ (3,346)	$ —	$ 1,621
December 31, 2017	$ 2,198	$ 1,823			