COMPUTER PROGRAMS & SYSTEMS INC
Form 10-Q
November 07, 2013
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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, 2013.

o 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 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 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 ý 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 ý
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 ý

As of November 6, 2013, there were 11,159,142 shares of the issuer’s common stock outstanding.

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Quarterly Report on Form 10-Q
(For the three and nine months ended September 30, 2013)
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PART I
FINANCIAL INFORMATION
Item 1. Financial Statements.
COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$2,913,561	$8,912,457
Investments	10,699,265	10,674,609
Accounts receivable, net of allowance for doubtful accounts of $1,192,000 and $1,124,000, respectively	21,608,740	19,704,767
Financing receivables, current portion, net	28,932,277	4,618,131
Inventories	1,234,425	1,682,008
Deferred tax assets	2,500,198	2,463,567
Prepaid income taxes	—	1,064,515
Prepaid expenses and other	1,003,558	1,081,421
Total current assets	68,892,024	50,201,475
Property and equipment		
Land	2,848,276	2,848,276
Buildings and improvements	9,301,557	9,067,504
Maintenance equipment	2,071,230	2,588,452
Computer equipment	5,887,139	5,795,707
Leasehold improvements	4,543,559	3,067,756
Office furniture and equipment	3,566,609	2,845,548
Automobiles	341,387	314,905
	28,559,757	26,528,148
Less accumulated depreciation	(8,775,985)	(7,498,174)
Property and equipment, net	19,783,772	19,029,974
Financing receivables, net of current portion	769,219	7,862,833
Total assets	$89,445,015	$77,094,282
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,931,759	$2,980,174
Deferred revenue	10,695,093	7,452,612
Accrued vacation	3,880,667	3,506,106
Income taxes payable	537,626	—
Other accrued liabilities	5,339,301	3,777,068
Total current liabilities	23,384,446	17,715,960
Deferred tax liabilities	2,073,696	2,176,130
Stockholders' equity:		
Common stock, $0.001 par value; 30,000,000 shares authorized; 11,159,142 and 11,077,672 shares issued and outstanding	11,159	11,078
Additional paid-in capital	33,897,775	32,848,101
Accumulated other comprehensive income	15,302	27,693
Retained earnings	30,062,637	24,315,320
Total stockholders' equity	63,986,873	57,202,192

Total liabilities and stockholders' equity	$89,445,015	$77,094,282

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales revenues:				
System sales	$16,184,926	$17,560,958	$59,283,594	$52,464,069
Support and maintenance	17,996,814	16,782,149	53,411,592	50,326,970
Business management, consulting and managed IT services	12,597,904	10,830,683	36,894,310	32,603,247
Total sales revenues	46,779,644	45,173,790	149,589,496	135,394,286
Costs of sales:				
System sales	11,241,680	11,527,792	37,575,720	36,106,338
Support and maintenance	7,134,147	7,110,246	21,547,031	20,636,521
Business management, consulting and managed IT services	7,749,519	6,520,924	22,216,913	19,230,443
Total costs of sales	26,125,346	25,158,962	81,339,664	75,973,302
Gross profit	20,654,298	20,014,828	68,249,832	59,420,984
Operating expenses:				
Sales and marketing	3,286,431	3,379,258	10,997,045	10,660,546
General and administrative	6,341,999	6,644,902	22,969,561	19,845,107
Total operating expenses	9,628,430	10,024,160	33,966,606	30,505,653
Operating income	11,025,868	9,990,668	34,283,226	28,915,331
Other income:				
Interest income	113,428	261,968	386,727	610,459
Total other income	113,428	261,968	386,727	610,459
Income before taxes	11,139,296	10,252,636	34,669,953	29,525,790
Provision for income taxes	3,870,058	3,327,978	11,971,360	8,690,820
Net income	$7,269,238	$6,924,658	$22,698,593	$20,834,970
Net income per share—basic	$0.66	$0.63	$2.05	$1.88
Net income per share—diluted	$0.66	$0.63	$2.05	$1.88
Weighted average shares outstanding				
Basic	11,085,164	11,065,380	11,081,244	11,064,045
Diluted	11,085,164	11,065,380	11,081,244	11,064,045
Dividends declared per share	$0.51	$0.46	$1.53	$1.38

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$7,269,238	$6,924,658	$22,698,593	$20,834,970
Other comprehensive income(loss), net of tax				
Unrealized gain(loss) on investments available for sale, net of tax	1,383	7,065	(12,391)	22,656
Total other comprehensive income(loss), net of tax	1,383	7,065	(12,391)	22,656
Comprehensive income	$7,270,621	$6,931,723	$22,686,202	$20,857,626

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	—	—	—	—	22,698,593	22,698,593
Unrealized loss on investments held for sale, net of tax	—	—	—	(12,391)	—	(12,391)
Issuance of restricted stock	81,470	81	(81)	—	—	—
Stock-based compensation	—	—	1,059,314	—	—	1,059,314
Dividends	—	—	—	—	(16,951,276)	(16,951,276)
Income tax benefit from restricted stock dividends	—	—	46,039	—	—	46,039
Deficient tax benefit from restricted stock	—	—	(55,598)	—	—	(55,598)
Balance at September 30, 2013	11,159,142	$11,159	$33,897,775	$ 15,302	$30,062,637	$63,986,873

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

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

	Nine Months Ended September 30,	
	2013	2012
Operating Activities		
Net income	$22,698,593	$20,834,970
Adjustments to net income:		
Provision for bad debt	2,113,244	684,877
Deferred taxes	(131,370)	(16,157)
Stock based compensation	1,059,314	929,779
Deficient tax benefit from restricted stock	55,598	96,934
Income tax benefit from restricted stock dividends	(46,039)	(46,805)
Depreciation	2,561,848	2,342,203
Changes in operating assets and liabilities:		
Accounts receivable	(2,610,251)	(2,901,563)
Financing receivables	(18,627,498)	(4,939,550)
Inventories	447,583	(821,609)
Prepaid expenses and other	77,862	(798,880)
Accounts payable	(48,415)	706,413
Deferred revenue	3,242,481	1,529,810
Other liabilities	1,936,794	1,259,627
Prepaid income taxes/income taxes payable	1,592,582	(905,121)
Net cash provided by operating activities	14,322,326	17,954,928
Investing Activities		
Purchases of property and equipment	(3,315,646)	(2,323,977)
Purchases of investments	(2,723,501)	(1,146,151)
Sale of investments	2,678,760	—
Net cash used in investing activities	(3,360,387)	(3,470,128)
Financing Activities		
Dividends paid	(16,951,276)	(15,268,238)
Deficient tax benefit from restricted stock	(55,598)	(96,934)
Income tax benefit from restricted stock dividends	46,039	46,805
Net cash used in financing activities	(16,960,835)	(15,318,367)
Decrease in cash and cash equivalents	(5,998,896)	(833,567)
Cash and cash equivalents at beginning of period	8,912,457	6,664,482
Cash and cash equivalents at end of period	$2,913,561	$5,830,915
Supplemental disclosure of cash flow information		
Cash paid for interest	$—	$—
Cash paid for income taxes, net of refund	$10,569,288	$8,880,752
Reclassification of inventory to property and equipment	$—	$372,508
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 (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 and interim 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 Statements of Income.
- The former captioned item "Business management services" within the Condensed 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 and nine months ended September 30, 2012 have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the three and nine months ended September 30, 2012:

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Sales revenues:		
Support and maintenance	$(1,389,412)	$(4,378,021)
Business management, consulting and managed IT services	$1,389,412	$4,378,021
Costs of sales:		
Support and maintenance	$(791,734)	$(2,447,409)
Business management, consulting and managed IT services	$791,734	$2,447,409

Additionally, effective September 30, 2013, the Company changed its presentation of liabilities arising from unrecognized tax benefits related to uncertain tax positions. These amounts, formerly included as a component of "Other accrued liabilities" within the Condensed Consolidated Balance Sheets, are now included as a component of "Income taxes payable" or "Prepaid income taxes" (as determined by the status of the Company's overall federal and state income tax position at the respective balance sheet dates) within the Condensed Consolidated Balance Sheets. The purpose of this

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change was to present the entirety of the Company's overall federal and state income tax position under a single caption within the Condensed Consolidated Balance Sheets. Amounts presented in the accompanying Condensed Consolidated Balance Sheet at December 31, 2012 have been reclassified to conform to the current presentation. The following table provides the amounts reclassified as of December 31, 2012:

	December 31, 2012
Assets:	
Prepaid income taxes	$(744,705)
Liabilities and Stockholders' Equity	
Other accrued liabilities	$(744,705)

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") services, 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") services 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 software application support and hardware 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 three to five years.
- 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.
- Perpetual software licenses and conversion, installation and training services – The selling price of perpetual software licenses and conversion, installation and training services 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 they relate to discounts. With the exception of certain arrangements with extended payment terms that were entered into in 2012 and that are not comparable to our historical and current arrangements (see Note 8), the method of recognizing revenue for the perpetual license of the associated modules included in the arrangement, and the related conversion, installation and training services over the term the services are

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performed, is on a module by module basis as the respective conversion, installation and training for each specific module is completed, as this is representative of the pattern of provision of these services.

SaaS, ISP, and Other Professional IT Services

The Company accounts for SaaS services 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 services 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 entered into by the Company includes a system purchase and buyout clause, and this clause specifies the total amount of the system buyout. In addition, a clause is included in the contract 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), resulting in the determination that these contracts are service contracts for which revenue 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, payroll processing, accounts receivable management services, 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 at which our customers renew as well as the rate at which the services are sold to customers when the business management services agreement is not executed within a short time frame of the system sale and support and maintenance contracts. 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, 2013	December 31, 2012
Salaries and benefits	$3,520,136	$2,155,435
Commissions	616,092	716,087
Self-insurance reserves	663,100	633,700
Other	539,973	271,846
	$5,339,301	$3,777,068

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 classification of investments in fixed income securities at the time of acquisition and re-evaluates the classification at each balance sheet date. An average cost method is used for purposes of determining the cost of investments sold.

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Investments are comprised of the following at September 30, 2013:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$2,719,151	$—	$—	$2,719,151
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,919,862	875	(194)	2,920,543
Mortgaged-backed securities	81,458	2,721	—	84,179
Corporate bonds	4,954,113	23,075	(1,796)	4,975,392
	$10,674,584	$26,671	$(1,990)	$10,699,265

Shown below are the amortized cost and estimated fair value of securities with fixed maturities at September 30, 2013, 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 2013	$3,576,082	$3,578,075
Due in 2014	4,258,383	4,269,667
Due in 2015	2,608,736	2,618,394
Due in 2016	149,925	148,950
Due thereafter	81,458	84,179
	$10,674,584	$10,699,265

Investments were comprised of the following at December 31, 2012:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$449,420	$—	$—	$449,420
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,381,313	1,031	(565)	2,381,779
Mortgaged-backed securities	93,458	2,146	—	95,604
Corporate bonds	7,705,914	53,236	(11,344)	7,747,806
	$10,630,105	$56,413	$(11,909)	$10,674,609

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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, 2013 and December 31, 2012, respectively:

	At September 30, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$282,271	$(194)	$—	$—	$282,271	$(194)
Corporate bonds	148,950	(975)	162,728	(821)	311,678	(1,796)
	$431,221	$(1,169)	$162,728	$(821)	$593,949	$(1,990)

	At December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$1,649,980	$(565)	$—	$—	$1,649,980	$(565)
Corporate bonds	243,612	(9,800)	668,748	(1,544)	912,360	(11,344)
	$1,893,592	$(10,365)	$668,748	$(1,544)	$2,562,340	$(11,909)

Our investment portfolio, including those securities in unrealized loss positions at September 30, 2013, is comprised almost entirely of investment-grade corporate and government debt securities. The Company does not intend to sell the investments that are in an unrealized loss position, and it is not likely that the Company will be required to sell any investments before recovery of their amortized cost basis. As a result, the Company has determined that the unrealized losses are deemed to be temporary impairments as of September 30, 2013. The Company believes that the unrealized losses generally are caused by liquidity discounts and increases in risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets.

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. There were no dilutive shares outstanding for the three or nine month periods ended September 30, 2013 or September 30, 2012.

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6. INCOME TAXES

The Company accounts for income taxes in accordance with FASB's Codification topic, Income Taxes. Deferred income taxes arise from the temporary differences in the recognition of income and expenses for tax purposes. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Deferred tax assets and liabilities are comprised of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Deferred tax assets:		
Accounts receivable and financing receivables	$1,076,614	$696,672
Accrued vacation	1,263,852	1,367,381
Stock-based compensation	323,088	351,850
Accrued liabilities	170,748	432,707
Total deferred tax assets	$2,834,302	$2,848,610
Deferred tax liabilities:		
Other comprehensive income	$9,279	$16,974
Depreciation	2,398,521	2,544,199
Total deferred tax liabilities	$2,407,800	$2,561,173

Significant components of the Company's income tax provision in the Condensed Consolidated Statements of Income for the nine months ended September 30 are as follows:

	2013	2012
Current provision:		
Federal	$10,396,557	$7,996,220
State	1,706,173	710,757
Deferred provision:		
Federal	(117,896)	(14,500)
State	(13,474)	(1,657)
Total income tax provision	$11,971,360	$8,690,820

The difference between income taxes at the U.S. federal statutory income tax rate of 35% and those reported in the Condensed Consolidated Statements of Income for the nine months ended September 30 is as follows:

	2013	2012
Income taxes at U.S. Federal statutory rate	$12,134,483	$10,332,605
Provision-to-return adjustments	(210,673)	(1,889,311)
State income taxes, net of federal tax effect	1,234,907	1,059,289
Domestic production activities deduction	(1,086,617)	(880,002)
Tax credits	(439,600)	—
Uncertain tax positions	389,284	13,359
Other	(50,424)	54,880
Total income tax provision	$11,971,360	$8,690,820

The provision-to-return adjustments presented above for the nine months ended September 30, 2012 are primarily related to differences between the Domestic Production Activities Deduction reported on the 2011 federal income tax return and amounts previously estimated. As a result of these provision-to-return adjustments, primarily recorded during the second quarter of 2012, our effective tax rates for the three and nine months ended September 30, 2013 are significantly higher than during the same prior year periods. Our effective tax rates for the three and nine months ended September 30, 2013 were 34.7% and 34.5%, respectively, compared to 32.5% and 29.4% for the three and nine months ended September 30, 2012.

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The Company had unrecognized tax benefits of $1,133,989 related to uncertain tax positions as of September 30, 2013 under the provisions of FASB Codification topic, Income Taxes, which is recorded in income taxes payable within the Condensed Consolidated Balance Sheet. No accrued interest or penalties for such positions is recorded as such potential amounts are considered immaterial. The federal returns for the tax years 2004 through 2009 are currently under examination by the Internal Revenue Service, primarily in relation to research credits and Domestic Production Activities Deduction amounts claimed on those returns, as amended, by the Company. The federal returns for tax years 2010 through 2012 remain open to examination, and the tax years 2006 through 2012 remain open to examination by certain other taxing jurisdictions to which the Company is subject.

7. STOCK-BASED COMPENSATION AND EMPLOYEE INCENTIVE PROGRAMS

Stock-based compensation cost 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 shows total stock-based compensation expense for the three and nine months ended September 30, 2013 and 2012, included in the Condensed Consolidated Statements of Income:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Costs of sales	$114,999	$114,999	$344,997	$344,997
Operating expenses	240,421	200,001	714,317	584,782
Pre-tax stock-based compensation expense	355,420	315,000	1,059,314	929,779
Less: income tax effect	138,614	122,850	413,132	362,614
Net stock-based compensation expense	$216,806	$192,150	$646,182	$567,165

2005 Restricted Stock Plan

On April 18, 2011, the Compensation Committee of the Board of Directors approved the grant of a total of 100,346 shares of restricted stock, effective April 18, 2011, to certain executive officers of the Company. The grant date fair value was $60.79 per share. Under the terms of the restricted stock award agreements with the executive officers, the shares of restricted stock are scheduled to vest in five equal annual installments commencing on April 18, 2012 and each April 18 thereafter, assuming that the recipient of the award continues to serve as an executive officer of the Company on each applicable vesting date. Compensation expense for this grant is being recognized on a straight-line basis over five years.

On October 31, 2012, the Compensation Committee of the Board of Directors approved the grant of a total of 12,292 shares of restricted stock, effective October 31, 2012, to two executive officers of the Company. The grant date fair value was $48.81 per share. Under the terms of the restricted stock award agreements with the executive officers, the shares of restricted stock are scheduled to vest in five equal annual installments commencing on October 31, 2013 and each October 31 thereafter, assuming that the recipient of the award continues to serve as an executive officer of the Company on each applicable vesting date. Compensation expense for this grant is being recognized on a straight-line basis over five years.

On September 25, 2013, the Compensation Committee of the Board of Directors approved the grant of a total of 79,080 shares of restricted stock, effective September 25, 2013, to certain executive officers of the Company. The grant date fair value was $57.54 per share. Under the terms of the restricted stock award agreements with the executive officers, the shares of restricted stock are scheduled to vest in four equal annual installments commencing on September 25, 2014 and each September 25 thereafter, assuming that the recipient of the award continues to serve as an executive officer of the Company on each applicable vesting date. Compensation expense for this grant is being recognized on a straight-line basis over four