HEALTHSTREAM INC
Form 10-Q
August 07, 2018

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, 2018

Commission File No.: 000 27701

HealthStream, Inc.

(Exact name of registrant as specified in its charter)

Tennessee	62 1443555
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
209 10th Avenue South, Suite 450 Nashville, Tennessee	37203
(Address of principal executive offices)	(Zip Code)

(615) 301 3100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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
Non-accelerated filer	(Do not check if a smaller reporting company)	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

As of August 3, 2018, there were 32,322,804 shares of the registrant's common stock outstanding.

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HEALTHSTREAM, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HEALTHSTREAM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$122,577	$ 84,768
Marketable securities	42,958	46,350
Accounts receivable, net of allowance for doubtful accounts of $1,314 and $1,979 at June 30, 2018 and December 31, 2017, respectively	30,850	36,691
Accounts receivable - unbilled	2,842	1,327
Prepaid royalties, net of amortization	13,874	16,137
Other prepaid expenses and other current assets	11,965	8,330
Current assets of discontinued operations	—	6,125
Total current assets	225,066	199,728
Property and equipment, net of accumulated depreciation of $27,171 and $24,392 at June 30, 2018 and December 31, 2017, respectively	8,770	8,092
Capitalized software development, net of accumulated amortization of $41,908 and $37,174 at June 30, 2018 and December 31, 2017, respectively	16,300	16,014
Goodwill	86,144	86,144
Customer-related intangibles, net of accumulated amortization of $20,139 and $17,033 at June 30, 2018 and December 31, 2017, respectively	56,575	59,681
Other intangible assets, net of accumulated amortization of $9,177 and $7,708 at June 30, 2018 and December 31, 2017, respectively	7,347	8,816
Deferred tax assets	—	45
Deferred commissions	12,962	—
Non-marketable equity investments	3,777	3,772
Other assets	747	754
Long-term assets of discontinued operations	—	28,073
Total assets	$417,688	$ 411,119
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		

Accounts payable and accrued expenses	$22,021	$ 16,507
Accrued royalties	10,552	12,849
Deferred revenue	64,126	64,938
Current liabilities of discontinued operations	—	6,772
Total current liabilities	96,699	101,066
Deferred tax liabilities	5,171	—
Deferred revenue, noncurrent	2,978	6,287
Other long term liabilities	652	1,048
Long-term liabilities of discontinued operations	—	2,548
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value, 75,000 shares authorized; 32,317 and 31,908 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	285,673	282,666
Retained earnings	26,548	17,542
Accumulated other comprehensive loss	(33)	(38)
Total shareholders' equity	312,188	300,170
Total liabilities and shareholders' equity	$417,688	$ 411,119

See accompanying notes to the unaudited condensed consolidated financial statements.

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HEALTHSTREAM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues, net	$57,008	$52,920	$111,866	$104,887
Operating costs and expenses:				
Cost of revenues (excluding depreciation and amortization)	23,236	21,223	45,484	42,376
Product development	6,547	6,151	12,548	11,926
Sales and marketing	8,913	9,062	17,977	18,618
Other general and administrative expenses	8,029	7,682	15,772	14,899
Depreciation and amortization	6,019	6,001	12,091	11,903
Total operating costs and expenses	52,744	50,119	103,872	99,722
Operating income	4,264	2,801	7,994	5,165
Other income, net	476	165	789	295
Income from continuing operations before income tax provision	4,740	2,966	8,783	5,460
Income tax provision	1,084	741	1,498	1,527
Income from continuing operations	3,656	2,225	7,285	3,933
Discontinued operations				
Income (loss) from discontinued operations before income tax provision	—	54	(64)	(476)
(Loss) gain on sale of discontinued operations	(1,502)	—	29,490	—
Income tax (benefit) provision	(391)	13	10,319	(95)
(Loss) income from discontinued operations	(1,111)	41	19,107	(381)
Net Income	$2,545	$2,266	$26,392	$3,552
Earnings (loss) per share – basic:				
Continuing operations	$0.11	$0.07	$0.23	$0.12
Discontinued operations	(0.03)	—	0.59	(0.01)
Earnings per share - basic	$0.08	$0.07	$0.82	$0.11
Earnings (loss) per share - diluted:				
Continuing operations	$0.11	$0.07	$0.23	$0.12
Discontinued operations	(0.03)	—	0.59	(0.01)
Earnings per share - diluted	$0.08	$0.07	$0.82	$0.11
Weighted average shares of common stock outstanding:				
Basic	32,312	31,876	32,205	31,825
Diluted	32,378	32,229	32,255	32,166

Dividends declared per share	$—	$—	$1.00	$—

See accompanying notes to the unaudited condensed consolidated financial statements.

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HEALTHSTREAM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	Three Months Ended June 30, 2018	June 30, 2017	Six Months Ended June 30, 2018	June 30, 2017
Net income	$2,545	$ 2,266	$26,392	$ 3,552
Other comprehensive income, net of taxes:				
Unrealized (loss) gain on marketable securities	(10)	13	5	15
Total other comprehensive (loss) income	(10)	13	5	15
Comprehensive income	$2,535	$ 2,279	$26,397	$ 3,567

See accompanying notes to the unaudited condensed consolidated financial statements.

HEALTHSTREAM, INC.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

Six Months Ended June 30, 2018

(In thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2017	31,908	$282,666	$17,542	$ (38)	$ 300,170
Cumulative effect of accounting change	—	—	15,132	—	15,132
Net income	—	—	26,392	—	26,392
Comprehensive income	—	—	—	5	5
Dividends declared on common stock ($1.00 per share)	—	—	(32,518)	—	(32,518)
Stock based compensation	—	755	—	—	755
Common stock issued under stock plans, net of shares withheld for employee taxes	409	2,252	—	—	2,252
Balance at June 30, 2018	32,317	$285,673	$26,548	$ (33)	$ 312,188

See accompanying notes to the unaudited condensed consolidated financial statements.

HEALTHSTREAM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES:		
Net income	$26,392	$3,552
(Income) loss from discontinued operations	(19,107)	381
Adjustments:		
Depreciation and amortization	12,091	11,903
Stock based compensation expense	846	840
Provision for doubtful accounts	390	470
Deferred income taxes	636	416
(Gain) loss on non-marketable equity investments	(5)	5
Other	—	263
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	3,905	7,934
Prepaid royalties	1,361	1,280
Other prepaid expenses and other current assets	(6,532)	(726)
Other assets	3,336	(206)
Accounts payable and accrued expenses	(8,087)	572
Accrued royalties	(2,298)	(1,959)
Deferred revenue	3,277	(3,560)
Net cash provided by continuing operating activities	16,205	21,165
Net cash (used in) provided by discontinued operating activities	(1,003)	1,879
Net cash provided by operating activities	15,202	23,044
INVESTING ACTIVITIES:		
Proceeds from sale of discontinued operations	57,828	—
Proceeds from maturities of marketable securities	44,663	41,010
Purchases of marketable securities	(41,266)	(48,861)
Payments associated with capitalized software development	(5,094)	(4,980)
Purchases of property and equipment	(3,270)	(3,658)
Net cash provided by (used in) continuing investing activities	52,861	(16,489)
Net cash used in discontinued investing activities	(116)	(1,476)
Net cash provided by (used in) investing activities	52,745	(17,965)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,552	230
Taxes paid related to net settlement of equity awards	(300)	(392)
Payment of earn-outs related to acquisitions	(37)	—
Payment of cash dividends	(32,353)	—
Net cash used in continuing financing activities	(30,138)	(162)

Net cash used in discontinued financing activities	—	—
Net cash used in financing activities	(30,138)	(162)
Net increase in cash and cash equivalents	37,809	4,917
Cash and cash equivalents at beginning of period	84,768	49,634
Cash and cash equivalents at end of period	$122,577	$54,551

See accompanying notes to the unaudited condensed consolidated financial statements.

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HEALTHSTREAM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S X. Accordingly, condensed consolidated financial statements do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany transactions have been eliminated in consolidation. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

On February 12, 2018, the Company divested its Patient Experience ("PX") business to Press Ganey Associates, Inc. ("Press Ganey"). This sale of the PX business resulted in the Company's divestiture of the Company's patient experience solutions business segment. The Company has classified the results of its PX segment as discontinued operations in its condensed consolidated statements of income and cash flows for all periods presented. Additionally, the related assets and liabilities have been reported as assets and liabilities of discontinued operations in the Company's condensed consolidated balance sheet as of December 31, 2017. See Note 8 for additional information.

The condensed consolidated balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date and adjusted for discontinued operations as noted above but does not include all of the information and footnotes required by US GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2017 (included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 26, 2018).

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Recently Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (referred to as Accounting Standards Codification ("ASC") Topic 606, or "ASC 606"). This guidance supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition ("ASC 605"), and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. The updated guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 also includes Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, which requires deferral of incremental costs of obtaining a contract with a customer. Collectively, ASC 606 and Subtopic 340-40 are referred to as the "new standard."

The Company adopted the new standard effective January 1, 2018 utilizing the modified retrospective approach. Adoption of the new standard resulted in changes to the Company's accounting policies for revenue recognition, trade and other receivables, and deferred commissions. See Note 3 for additional information regarding ASC 606 and its impact on the Company's balance sheet and statement of income.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10), which addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The guidance, among other things, requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The Company adopted ASU 2016-01 effective January 1, 2018 on a prospective basis.

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases ("ASC 842"), which requires lessees to recognize assets and liabilities for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee is not expected to significantly change under such guidance. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2018. The Company will adopt this ASU on January 1, 2019 and is currently evaluating the impact that adoption of this ASU will have on the Company's consolidated financial position and results of operations.

In June 2016, the FASB issued ASU 2016-03, Financial Instruments—Credit Losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, ASC 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2019. The Company will adopt this ASU on January 1, 2020 and is currently evaluating the impact that adoption of this ASU will have on the Company's consolidated financial position and results of operations.

HEALTHSTREAM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. REVENUE RECOGNITION AND SALES COMMISSIONS

Adoption of ASC 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted the new standard using the modified retrospective approach applied to those contracts which were not completed as of January 1, 2018. As such, results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts continue to be reported in accordance with ASC 605.

The cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet in connection with the adoption of ASC 606 was as follows (in thousands):

Balance Sheet	Balance at December 31, 2017	ASC 606 Adjustments	Balance at January 1, 2018
Assets			
Unbilled receivables	$ 1,327	$ 31	$ 1,358
Prepaid royalties, net	16,137	(902)	15,235
Other prepaid expenses and other current assets	8,330	(2,900)	5,430
Current assets of discontinued operations	6,125	(274)	5,851
Deferred commissions	—	12,552	12,552
Deferred tax assets	45	(45)	—
Non-current assets of discontinued operations	28,073	3,166	31,239
Liabilities			
Deferred revenue, current	64,938	(4,488)	60,450
Current liabilities of discontinued operations	6,772	(1,374)	5,398
Deferred tax liabilities	—	5,205	5,205
Deferred revenue, noncurrent	6,287	(2,848)	3,439
Shareholders' equity			
Retained earnings	17,542	15,132	32,674

The impact of the adoption of ASC 606 on the Company's condensed consolidated balance sheet as of June 30, 2018 and statement of income for the three and six months ended June 30, 2018 was as follows (in thousands):

	June 30, 2018		
Balance Sheet	As reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)

Assets			
Unbilled receivables	$2,842	$2,758	$ 84
Prepaid royalties, net	13,874	15,096	(1,222)
Other prepaid expenses and other current assets	11,965	13,615	(1,650)
Deferred commissions	12,962	—	12,962
Liabilities			
Deferred revenue, current	64,126	68,764	(4,638)
Deferred revenue, noncurrent	2,978	6,125	(3,147)
Shareholders' equity			
Retained earnings	26,548	25,255	1,293

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HEALTHSTREAM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. REVENUE RECOGNITION AND SALES COMMISSIONS (continued)

	Three Months Ended June 30,2018		
Income Statement	As reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Revenue, net	$57,008	$56,552	$ 456
Costs and expenses			
Cost of revenues (excluding depreciation and amortization)	23,236	22,983	253
Sales and marketing	8,913	9,049	(136)
Operating income	4,264	3,925	339
Income from continuing operations before income tax provision	4,740	4,401	339
Income tax provision	1,084	1,001	83
Income from continuing operations	3,656	3,400	256
Net income	2,545	2,289	256

	Six Months Ended June 30,2018		
Income Statement	As reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Revenue, net	$111,866	$111,418	$ 448
Costs and expenses			
Cost of revenues (excluding depreciation and amortization)	45,484	45,164	320
Sales and marketing	17,977	19,590	(1,613)
Operating income	7,994	6,253	1,741
Income from continuing operations before income tax provision	8,783	7,042	1,741
Income tax provision	1,498	1,050	448
Income from continuing operations	7,285	5,992	1,293
Net income	26,392	25,099	1,293

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for transferring those goods or services.

Revenue is recognized based on the following five step model:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The following table represents our revenues included in continuing operations from contracts with customers disaggregated by revenue source for the three and six months ended June 30, 2018 (in thousands). Sales taxes are excluded from revenues.

	Three Months Ended June 30,2018			Six Months Ended June 30, 2018		
	Workforce	Provider		Workforce	Provider	
Segments	Solutions	Solutions	Consolidated	Solutions	Solutions	Consolidated
Subscription/SaaS services	$45,743	$ 8,667	$ 54,410	$89,444	$ 17,700	$ 107,144
Professional services	1,225	1,373	2,598	2,471	2,251	4,722
Total revenues	$46,968	$ 10,040	$ 57,008	$91,915	$ 19,951	$ 111,866

HEALTHSTREAM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. REVENUE RECOGNITION AND SALES COMMISSIONS (continued)

Subscription/SaaS services revenues primarily consist of fees that provide customers access to one or more of our SaaS-based platforms and/or courseware subscriptions, with routine customer support. Revenue is generally recognized over time over the contract term beginning on the date that the service is made available to the customer. Subscription/SaaS contracts are generally one to five years in length, billed annually, semi-annually, quarterly, or monthly in advance, and are non-cancelable.

Professional services revenues primarily consist of fees for implementation services, custom courseware development, as well as training. The majority of our professional services contracts are billed in advance based on a fixed price basis, and revenue is recognized over time as the services are performed. For both subscription/SaaS services and professional services, the time between billing the customer and when performance obligations are satisfied is not significant.

Our contracts with customers often contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The contract price, which represents transaction price, is allocated to the separate performance obligations on a relative standalone selling price basis. We generally determine standalone selling prices based on the standard list price for each product, taking into consideration certain factors, including contract length and the number of subscribers within the contract.

We receive payments from customers based on billing schedules established in our contracts. Accounts receivable - unbilled represent contract assets related to our conditional right to consideration for subscription/SaaS and professional services contracts where performance has occurred under the contract. Accounts receivable are primarily comprised of trade receivables that are recorded at the invoice amount, net of an allowance for doubtful accounts, when the right to consideration becomes unconditional.

Other receivables, which are included within Accounts Receivable, include receivables from certain content partners and are not material. For the three months ended June 30, 2018, the Company did not recognize any impairment losses on receivables and contract assets arising from the Company’s contracts with customers, compared to $270,000 for the three months ended June 30, 2017. For the six months ended June 30, 2018 and 2017, the Company recognized $390,000 and $470,000 in impairment losses on receivables and contract assets arising from the Company’s contracts with customers.

Deferred revenue represents contract liabilities that are recorded when cash payments are received or are due in advance of our satisfaction of performance obligations. During the three and six months ended June 30, 2018, we recognized approximately $33.8 million and $48.0 million of revenue from amounts included in deferred revenues at the beginning of the period. As of June 30, 2018, approximately $365 million of revenue is expected to be recognized from remaining performance obligations under contract with customers. We expect to recognize revenue on approximately 48% of these remaining performance obligations over the next 12 months, with the remaining amounts recognized thereafter.

Sales Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. The Company’s sales commission plans include multiple payments, including initial payments in the period a customer contract is obtained and subsequent payments either 15 or 27 months after the initial payment. Under ASC 606, costs to acquire contracts with customers, such as the initial sales commission payment, are capitalized and amortized consistent with the pattern of revenue recognition, whereas subsequent sales commission payments which require a substantive performance condition of the employee are expensed ratably through the payment date. In contrast, under ASC 605, initial sales commission payments were expensed in the period earned. Under ASC 606, the initial commission payments are capitalized in the period a customer contract is obtained and are amortized consistent with the transfer of the goods or services to the customer over the expected period of benefit. The capitalized contract cost is included in Deferred commissions in the accompanying condensed consolidated balance sheet. The expected period of benefit is the contract term, except when the commission payment is expected to provide economic benefit to the Company for a period longer than the contract term, such as for new customer or incremental sales where renewals are expected and renewal commissions are not commensurate with initial commissions. Non-commensurate commissions are amortized over the greater of the contract term or technological obsolescence period of approximately three years. The Company recorded amortization of deferred commissions of approximately $1.9 million and $3.7 million for the three and six months ended June 30, 2018 respectively, which is included in Sales and marketing expenses in the accompanying condensed consolidated statements of income.

HEALTHSTREAM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. INCOME TAXES

Income taxes are accounted for using the asset and liability method, whereby deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities measured at tax rates that will be in effect for the year in which the differences are expected to affect taxable income.

During the three months ended June 30, 2018 and 2017, the Company recorded a provision for income taxes from continuing operations of approximately $1.1 million and $741,000, respectively. During both the six months ended June 30, 2018 and 2017, the Company recorded a provision for income taxes from continuing operations of approximately $1.5 million. The Company's effective tax rate for continuing operations for the six months ended June 30, 2018 and 2017 was 17% and 28%, respectively. During the six months ended June 30, 2018 and 2017, the Company recorded excess tax benefits primarily from stock option exercises of approximately $663,000 and $419,000, respectively, as a component of the provision for income taxes. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes, and the effect of various permanent tax differences.

5. STOCKHOLDERS' EQUITY

Dividends on Common Stock

On February 12, 2018, the Company's Board of Directors declared a $1.00 per common share special cash dividend, which was paid on April 3, 2018 to shareholders of record on March 6, 2018.

Stock Based Compensation

The Company has stock awards outstanding under two stock incentive plans: the Company's 2016 Omnibus Incentive Plan and 2010 Stock Incentive Plan. The Company accounts for its stock based compensation plans using the fair-value based method for costs related to share based payments, including stock options and restricted share units ("RSUs"). During the six months ended June 30, 2018, the Company issued 83,168 RSUs, subject to service-based time vesting, with a weighted average grant date fair value of $24.70 per share, measured based on the closing fair market value of the Company's stock on the date of grant. During the six months ended June 30, 2017, the Company issued 86,727 RSUs, subject to service-based time vesting, with a weighted average grant date fair value of $23.54 per share, measured based on the closing fair market value of the Company's stock on the date of grant.

During the three months ended June 30, 2018, the Company issued 70,000 performance-based RSUs, the vesting of which occurs over a five year period and is contingent upon continued service and achieving certain performance criteria established by the Compensation Committee on an annual basis. None of the performance criteria for these awards had been established as of June 30, 2018.

Total stock based compensation expense recorded for the three and six months ended June 30, 2018 and 2017, which is recorded within continuing operations in the condensed consolidated statements of income, is as follows (in thousands):

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2018	2017	2018	2017
Cost of revenues (excluding depreciation and amortization)	$ 10	$ 8	$18	$22
Product development	72	67	145	131
Sales and marketing	50	72	82	134
Other general and administrative	295	289	601	553
Total stock based compensation expense	$ 427	$ 436	$846	$840

6. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net income available to common shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income available to common shareholders for the period by the weighted average number of potentially dilutive common and common