

COMPUTER PROGRAMS & SYSTEMS INC

Form 10-Q

November 06, 2018

COMPUTER PROGRAMS & SYSTEMS INC Accelerated

Filer9/30/20182018Q3falseCPSIFALSEFALSE0001169445--12-312,2032,6540.0010.00130,000,00030,000,00014,086,00014

yearsseven

years0.500011694452018-01-012018-09-30xbrli:shares00011694452018-11-05iso4217:USD00011694452018-09-3000011694

**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  
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, 36695  
Alabama  
(Address of  
Principal  
Executive  
Offices) (Zip Code)

(251) 639-8100

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

(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  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  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           

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

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.	<u>Financial Statements</u>	3
	<u>Condensed Consolidated Balance Sheets (Unaudited) – September 30, 2018 and December 31, 2017</u>	3
	<u>Condensed Consolidated Statements of Income (Unaudited) – Three and Nine Months Ended September 30, 2018 and 2017</u>	4
	<u>Condensed Consolidated Statement of Stockholders' Equity (Unaudited) – Nine Months Ended September 30, 2018</u>	5
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended September 30, 2018 and 2017</u>	6
	<u>Notes to Condensed</u>	7

	<u>Consolidated</u>	
	<u>Financial</u>	
	<u>Statements</u>	
	<u>(Unaudited)</u>	
	<u>Management's</u>	
	<u>Discussion and</u>	
	<u>Analysis of</u>	
Item 2.	<u>Financial</u>	<u>24</u>
	<u>Condition and</u>	
	<u>Results of</u>	
	<u>Operations</u>	
	<u>Quantitative</u>	
	<u>and Qualitative</u>	
Item 3.	<u>Disclosures</u>	<u>36</u>
	<u>about Market</u>	
	<u>Risk</u>	
Item 4.	<u>Controls and</u>	<u>37</u>
	<u>Procedures</u>	

**PART II. OTHER**  
**INFORMATION**

Item 1.	<u>Legal</u>	<u>38</u>
	<u>Proceedings</u>	
Item 1A	<u>Risk Factors</u>	<u>38</u>
	<u>Unregistered</u>	
	<u>Sales of Equity</u>	
Item 2.	<u>Securities and</u>	<u>38</u>
	<u>Use of</u>	
	<u>Proceeds</u>	
	<u>Defaults Upon</u>	
Item 3.	<u>Senior</u>	<u>38</u>
	<u>Securities</u>	
Item 4.	<u>Mine Safety</u>	<u>38</u>
	<u>Disclosures</u>	
Item 5.	<u>Other</u>	<u>38</u>
	<u>Information</u>	
Item 6.	<u>Exhibits</u>	<u>38</u>

**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
<b>Assets</b>		
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
<b>Liabilities and Stockholders' Equity</b>			
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.

3

---

**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
<b>Sales revenues:</b>				
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
<b>Costs of sales:</b>				
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
<b>Operating expenses:</b>				
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
<b>Other income (expense):</b>				
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



Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

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.

4

---

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

	Common Stock Shares	Amount	Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2017	11,376,140	\$ 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	14,086,140	\$ 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
<b>Operating Activities:</b>		
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:

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

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

<i>(In thousands)</i>	As previously reported		Reclassification		As reclassified
<b>Costs of sales:</b>					
System sales and support	\$ 56,621		\$ 2,846		\$ 59,467
<b>Operating expenses:</b>					
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:

## Three Months Ended September 30, 2018

<i>(In thousands)</i>	As reported	Balances without adoption of ASC 606	Effect of adoption increase/(decrease)
<b>Condensed Consolidated Statements of Income</b>			
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)

## Nine Months Ended September 30, 2018

<i>(In thousands)</i>	As reported	Balances without adoption of ASC 606	Effect of adoption increase/(decrease)
<b>Condensed Consolidated Statements of Income</b>			
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

<i>(In thousands)</i>	As reported	Balances without adoption of ASC 606	Effect of adoption increase/(decrease)
<b>Condensed Consolidated Balance Sheet</b>			
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.

10

---

- 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.

<i>(In thousands)</i>	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

11

---

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.

<i>(In thousands)</i>	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.

12

---

**4. PROPERTY AND EQUIPMENT**

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

<i>(In thousands)</i>	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:

<i>(In thousands)</i>	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.

13

---



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	
<i>(In thousands, except per share data)</i>	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	
	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares
Unvested restricted stock outstanding at beginning of period	309.95	38,36	184,885	\$ 54.63
Granted	148.80	222,390	32.87	

Performance share awards settled through the issuance of restricted stock	177,299 <del>4</del>		—	—	
Vested	(153,402 <del>4</del> )		(99,184)	55.75	
Unvested restricted stock outstanding at end of period	482,007	31.96	308,091	\$	38.56

---

**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	
	Weighted-Average Share Grant Date Fair Value Per Share	Shares	Weighted-Average Share Grant Date Fair Value Per Share	
Performance share awards outstanding at beginning of period	189,325	29.94	77,594	\$ 49.64
Granted	184,306		189,325	29.94

Forfeited or unearned	(11,290)		(77,594)		49.64
Performance share awards settled through the issuance of restricted stock	(177,995)		—		—
Performance share awards outstanding at end of period	184,576	30.15	189,325	\$	29.94

**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:

<i>(In thousands)</i>	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:

<i>(In thousands)</i>	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		27,948
payments to		
be received		
Less:		
allowance for	(1,248)	
losses		
Less:		
unearned	(2,997)	
income		
Receivables,	\$	23,703
net		

17

---



**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:

<i>(In thousands)</i>	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	\$ (777)	\$ —	\$ 3,244

The Company's financing receivables are comprised of a single portfolio segment, as the balances are all derived from short-term payment plan arrangements and long-term financing arrangements within our target market of community hospitals. The Company evaluates the credit quality of its financing receivables based on a combination of factors, including, but not limited to, customer collection experience, economic conditions, the customer's financial condition, and known risk characteristics impacting the respective customer base of community hospitals, the most notable of which relate to enacted and potential changes in Medicare and Medicaid reimbursement rates as community hospitals typically generate a significant portion of their revenues and related cash flows from beneficiaries of these programs. In addition to specific account identification, the Company utilizes historical collection experience to establish the allowance for credit losses. Financing receivables are written off only after the Company has exhausted all collection efforts.

Customer payments are considered past due if a scheduled payment is not received within contractually agreed upon terms. To facilitate customer collection and credit monitoring efforts, financing receivable amounts are invoiced and reclassified to trade accounts receivable when they become due, with all invoiced amounts placed on nonaccrual status. As a result, all past due amounts related to the Company's financing receivables are included in trade accounts receivable in the accompanying condensed consolidated balance sheets. The following is an analysis of the age of financing receivables amounts (excluding short-term payment plans) that have been reclassified to trade accounts receivable and were past due as of September 30, 2018 and December 31, 2017:

<i>(In thousands)</i>	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
September 30, 2018	\$ 1,272	\$ 268	\$ 414	\$ 1,954
December 31, 2017	\$ 980	\$ 171	\$ —	\$ 1,151

From time to time, the Company may agree to alternative payment terms outside of the terms of the original financing receivable agreement due to customer difficulties in achieving the original terms. In general, such alternative payment arrangements do not result in a re-aging of the related receivables. Rather, payments pursuant to any alternative payment arrangements are applied to the already outstanding invoices beginning with the oldest outstanding invoices as the payments are received.

Because amounts are reclassified to trade accounts receivable when they become due, there are no past due amounts included within financing receivables or financing receivables, net of current portion, in the accompanying condensed consolidated balance sheets.

The Company utilizes an aging of trade accounts receivable as the primary credit quality indicator for its financing receivables, which is facilitated by the reclassification of customer payment amounts to trade accounts receivable when they become due. The table below categorizes customer financing receivable balances (excluding short-term payment plans), none of which are considered past due, based on the age of the oldest payment outstanding that has been reclassified to trade accounts receivable:

<i>(In thousands)</i>	September 30, 2018	December 31, 2017
Stratification of uninvoiced client financing receivables based on aging of related trade accounts receivable:		
1 to 90 Days Past Due	\$ 17,029	\$ 11,300
91 to 180 Days Past Due	1,575	3,727
181 + Days Past Due	614	967
Total uninvoiced client financing receivables balances of clients with a trade accounts receivable	\$ 19,218	\$ 15,994
Total uninvoiced client financing receivables of clients with no related trade accounts receivable	5,733	4,709
Total financing receivables with contractual maturities of	7,463	9,081

one year or  
less

Less:

allowance for (1,621) (3,244)

losses

Total

financing \$ 30,793 \$ 26,540

receivables

## 10. INTANGIBLE ASSETS AND GOODWILL

Our purchased definite-lived intangible assets as of September 30, 2018 and December 31, 2017 are summarized as follows:

<i>(In thousands)</i>	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount as of December 31, 2017 and September 30, 2018	\$ 82,300	\$ 10,900	\$ 24,100	\$ 117,300
Accumulated amortization as of December 31, 2017	(12,937)	(1,682)	(5,968)	(20,587)
Net intangible assets as of December 31, 2017	69,363	9,218	18,132	96,713
Accumulated amortization for the nine months ended September 30, 2018	(4,904)	(728)	(2,263)	(7,895)
Net intangible assets as of September 30, 2018	\$ 64,459	\$ 8,490	\$ 15,869	\$ 88,818
Weighted average remaining years of useful life	10	13	6	9

The following table represents the remaining amortization of definite-lived intangible assets as of September 30, 2018:

*(In thousands)*

For the year  
ended  
December  
31,

2018	\$	2,591
2019		10,072
2020		10,066
2021		10,066
2022		10,066
Thereafter		45,957
Total	\$	88,818

19

---

The following table sets forth the change in the carrying amount of goodwill by segment for the nine months ended September 30, 2018:

<i>(In thousands)</i>	Acute Care EHR	Post-acute Care EHR	TruBridge	Total
Balance as of December 31, 2017	\$ 97,095	29,570	13,784	\$ 140,449
Goodwill impairment	\$ —	—	—	—
Balance as of September 30, 2018	\$ 97,095	\$ 29,570	\$ 13,784	\$ 140,449

Goodwill is evaluated for impairment annually on October 1, or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist.

#### **11. LONG-TERM DEBT**

Long-term debt was comprised of the following at September 30, 2018 and December 31, 2017:

<i>(In thousands)</i>	September 30, 2018	December 31, 2017
Term loan facility	\$ 103,895	\$ 115,538
Revolving credit facility	34,693	27,983
Capital lease obligation	330	565
Debt obligations	138,918	144,086
Less: unamortized debt issuance costs	(1,393)	(1,652)
Debt obligation, net	137,525	142,434
Less: current portion	(5,807)	(5,820)
Long-term debt	\$ 131,718	\$ 136,614

As of September 30, 2018, the carrying value of debt approximates the fair value due to the variable interest rate, which reflects the market rate.

#### **Credit Agreement**

In conjunction with our acquisition of HHI in January 2016, we entered into a syndicated credit agreement (the "Previous Credit Agreement") with Regions Bank ("Regions") serving as administrative agent, which provided for a \$125 million term loan facility (the "Previous Term Loan Facility") and a \$50 million revolving credit facility (the "Previous Revolving Credit Facility"). On October 13, 2017, we entered into a Second Amendment (the "Second Amendment") to refinance and decrease the aggregate principal amount of the credit facilities from \$175 million to \$162 million, which included a \$117 million term loan facility (the "Amended Term Loan Facility") and a \$45 million

revolving credit facility (the "Amended Revolving Credit Facility" and, together with the Amended Term Loan Facility, the "Amended Credit Facilities"). On February 8, 2018, we entered into a Third Amendment (the "Third Amendment") to the credit agreement (as amended, the "Amended Credit Agreement") to increase the aggregate principal amount of the Amended Credit Facilities from \$162 million to \$167 million, which includes the \$117 million Amended Term Loan Facility and a \$50 million Amended Revolving Credit Facility.

Each of the Amended Credit Facilities continues to bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) the Adjusted LIBOR rate for the relevant interest period, (2) an alternate base rate determined by reference to the greater of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate plus one percent per annum, or (3) a combination of (1) and (2). The applicable margin range for LIBOR loans and the letter of credit fee ranges from 2.0% to 3.5%. The applicable margin range for base rate loans ranges from 1.0% to 2.5%, in each case based on the Company's consolidated leverage ratio.

Principal payments with respect to the Amended Term Loan Facility are due on the last day of each fiscal quarter beginning December 31, 2017, with quarterly principal payments of approximately \$1.46 million through September 30, 2019, approximately \$2.19 million through September 30, 2021 and approximately \$2.93 million through September 30, 2022, with maturity on October 13, 2022 or such earlier date as the obligations under the Amended Credit Agreement become due and payable pursuant to the terms of the Amended Credit Agreement (the "Amended Maturity Date"). Any principal outstanding under the Amended Revolving Credit Facility is due and payable on the Amended Maturity Date.

20

---

Anticipated annual future maturities of the Amended Term Loan Facility, Amended Revolving Credit Facility, and capital lease obligation are as follows as of September 30, 2018:

(In thousands)

2018	\$	1,543
2019		6,831
2020		8,775
2021		9,506
2022		112,263
Thereafter	—	
	\$	138,918

The Amended Credit Facilities are secured pursuant to a Pledge and Security Agreement, dated January 8, 2016, among the parties identified as obligors therein and Regions, as collateral agent, on a first priority basis by a security interest in substantially all of the tangible and intangible assets (subject to certain exceptions) of the Company and certain subsidiaries of the Company, as guarantors (collectively, the “Subsidiary Guarantors”), including certain registered intellectual property and the capital stock of certain of the Company’s direct and indirect subsidiaries. Our obligations under the Amended Credit Agreement are also guaranteed by the Subsidiary Guarantors.

The Amended Credit Agreement, as amended by the Third Amendment, provides incremental facility capacity of \$50 million, subject to certain conditions. The Amended Credit Agreement includes a number of restrictive covenants that, among other things and in each case subject to certain exceptions and baskets, impose operating and financial restrictions on the Company and the Subsidiary Guarantors, including the ability to incur additional debt; incur liens and encumbrances; make certain restricted payments, including paying dividends on the Company’s equity securities or payments to redeem, repurchase or retire the Company’s equity securities (which are subject to our compliance, on a pro forma basis to give effect to the restricted payment, with the fixed charge coverage ratio and consolidated leverage ratio described below); enter into certain restrictive agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into sale and leaseback transactions; engage in transactions with affiliates; and materially alter the business we conduct. The Amended Credit Agreement requires the Company to maintain a minimum fixed charge coverage ratio of 1.25:1.00 throughout the duration of such agreement. Under the Amended Credit Agreement, the Company is required to comply with a maximum consolidated leverage ratio of 3.95:1.00 through December 31, 2017 and 3.50:1.00 from January 1, 2018 and thereafter. The Amended Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. We believe that we were in compliance with the covenants contained in the Amended Credit Agreement as of September 30, 2018.

The Amended Credit Agreement requires the Company to mandatorily prepay the Amended Credit Facilities with (i) 75% of excess cash flow (minus certain specified other payments) during each of the fiscal years ending December 31, 2017 and December 31, 2018 and (ii) 50% of excess cash flow (minus certain specified other payments) during the fiscal year ending December 31, 2019 and thereafter. The Company is permitted to voluntarily prepay the Amended Credit Facilities at any time without penalty, subject to customary “breakage” costs with respect to prepayments of LIBOR rate loans made on a day other than the last day of any applicable interest period. The excess cash flow mandatory prepayment requirement under the Amended Credit Agreement resulted in a \$7.3 million prepayment on the Amended Term Loan Facility during the first quarter of 2018 related to excess cash flow generated by the Company during 2017. This mandatory prepayment was funded by drawing down on the Amended Revolving Credit Facility, as excess cash flow generated by the Company during 2017 was primarily used to voluntarily prepay amounts due under the Amended Revolving Credit Facility.

## 12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. Management does not believe it is reasonably possible that such matters will have a material adverse effect on the Company’s financial statements.

**13. FAIR VALUE**

FASB Codification topic, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value and expands financial statement disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Codification does not require any new fair

21

---



value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. The Codification requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The accrued contingent consideration depicted below 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.

The following table summarizes the carrying amounts and fair value of the contingent consideration at September 30, 2018:

	Carrying Amount at	Fair Value at September 30, 2018 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In thousands)</i>	9/30/18			
Description				
Contingent consideration	\$ 615	\$ —	\$ —	\$ 615
Total	\$ 615	\$ —	\$ —	\$ 615

The following table summarizes the carrying amounts and fair value of the contingent consideration at December 31, 2017:

	Carrying Amount at	Fair Value at December 31, 2017 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In thousands)</i>	12/31/2017			
Description				
Contingent consideration	\$ 586	\$ —	\$ —	\$ 586
Total	\$ 586	\$ —	\$ —	\$ 586

The carrying amounts of other financial instruments reported in the consolidated balance sheets for current assets and current liabilities approximate their fair values because of the short-term nature of these instruments.



**14. SEGMENT REPORTING**

Our chief operating decision makers ("CODM") utilize three operating segments, "Acute Care EHR," "Post-acute Care EHR" and "TruBridge," based on our three distinct business units with unique market dynamics and opportunities. Revenues and cost of sales are primarily derived from the provision of services and sales of our proprietary software, and our CODM assess the performance of these three segments at the gross profit level. Operating expenses and items such as interest, income tax, capital expenditures and total assets are managed at a consolidated level and thus are not included in our operating segment disclosures. Our CODM group is comprised of the Chief Executive Officer, Chief Growth Officer, Chief Operating Officer, and Chief Financial Officer. Accounting policies for each of the reportable segments are the same as those used on a consolidated basis. The following table presents a summary of the revenues and gross profits of our three operating segments for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(In thousands)</i>	2018	2017	2018	2017
Revenues:				
Acute Care EHR				
Recurring revenue	\$ 27,393	\$ 27,896	\$ 83,633	\$ 84,435
Non-recurring revenue	11,514	10,865	32,664	30,850
Total Acute Care EHR revenue	38,907	38,761	116,297	115,285
Post-acute Care EHR				
Recurring revenue	4,515	5,059	14,002	15,244
Non-recurring revenue	1,003	546	2,624	2,734
Total Post-acute Care EHR revenue	5,518	5,605	16,626	17,978
TruBridge	24,872	22,747	75,162	65,601
Total revenues	\$ 69,297	\$ 67,113	\$ 208,085	\$ 198,864
Cost of sales:				
Acute Care EHR	\$ 18,086	\$ 18,163	\$ 52,812	\$ 53,667
Post-acute Care EHR	1,497	1,764	4,716	5,800
TruBridge	13,590	12,806	40,501	36,326
Total cost of sales	\$ 33,173	\$ 32,733	\$ 98,029	\$ 95,793
Gross profit:				

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

Acute Care EHR	\$ 20,821	\$ 20,598	\$ 63,485	\$ 61,618
Post-acute Care EHR	4,021	3,841	11,910	12,178
TruBridge	11,282	9,941	34,661	29,275
Total gross profit	\$ 36,124	\$ 34,380	\$ 110,056	\$ 103,071
Corporate operating expenses	\$ (30,763)	\$ (28,758)	\$ (94,820)	\$ (89,768)
Other income	201	102	593	242
Interest expense	(1,829)	(2,062)	(5,615)	(5,807)
Income before taxes	\$ 3,733	\$ 3,662	\$ 10,214	\$ 7,738

**15. SUBSEQUENT EVENTS**

**Management's  
Discussion and  
Analysis of**

**Item 2. Financial  
Condition and  
Results of  
Operations.**

You should read the following discussion and analysis of our financial condition and results of operations together with the unaudited condensed consolidated financial statements and related notes appearing elsewhere herein.

This discussion and analysis contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified generally by the use of forward-looking terminology and words such as "expects," "anticipates," "estimates," "believes," "predicts," "intends," "plans," "potential," "may," "continue," "should," "will" and words of comparable meaning. Without limiting the generality of the preceding statement, all statements in this report relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and future financial results are forward-looking statements. We caution investors that any such forward-looking statements are only predictions and are not guarantees of future performance. Certain risks, uncertainties and other factors may cause actual results to differ materially from those projected in the forward-looking statements. Such factors may include:

- overall business and economic conditions affecting the healthcare industry, including the effects of the federal healthcare reform legislation enacted in 2010, and implementing regulations, on the businesses of our hospital clients;
- government regulation of our products and services and the healthcare and health insurance industries, including changes in healthcare policy affecting Medicare and Medicaid reimbursement rates and qualifying technological standards;
- changes in customer purchasing priorities, capital expenditures and demand for information technology systems;
- saturation of our target market and hospital consolidations;
- general economic conditions, including changes in the financial and credit markets that may affect the availability and cost of credit to us or our clients;
- our substantial indebtedness, and our ability to incur additional indebtedness in the future;
- our potential inability to generate sufficient cash in order to meet our debt service obligations;
- restrictions on our current and future operations because of the terms of our senior secured credit facilities;
- market risks related to interest rate changes;
- competition with companies that have greater financial, technical and marketing resources than we have;
- failure to develop new technology and products in response to market demands;
- failure of our products to function properly resulting in claims for medical and other losses;
- breaches of security and viruses in our systems resulting in customer claims against us and harm to our reputation;
- failure to maintain customer satisfaction through new product releases free of undetected errors or problems;
- interruptions in our power supply and/or telecommunications capabilities, including those caused by natural disaster;
- our ability to attract and retain qualified client service and support personnel;
- failure to properly manage growth in new markets we may enter;
- misappropriation of our intellectual property rights and potential intellectual property claims and litigation against us;
- changes in accounting principles generally accepted in the United States of America;
- significant charge to earnings if our goodwill or intangible assets become impaired; and
- fluctuations in quarterly financial performance due to, among other factors, timing of customer installations.

Additional information concerning these and other factors that could cause differences between forward-looking statements and future actual results is discussed under the heading "Risk Factors" in our Annual Report on Form 10-K

for the year ended December 31, 2017.

## Background

approximately

We operate in three reportable segments: (1) Acute Care EHR, (2) Post-acute Care EHR and (3) TruBridge. See Note 14 to the consolidated financial statements included herein for additional information on our segment reporting.

### Acute Care EHR

Our Acute Care EHR segment consists of acute care software solutions and support sales generated by Evident.

### Post-acute Care EHR

Our Post-acute Care EHR segment consists of post-acute care software solutions and support sales generated by AHT.

### TruBridge

Our TruBridge segment primarily consists of business management, consulting and managed IT services sales generated by TruBridge and the sale of the TruBridge revenue cycle management workflow and automation software.

### **Management Overview**

Historically, we have primarily sought revenue growth through sales of healthcare IT systems and related services to existing and new clients within our target market, a strategy that has resulted in a ten-year compounded annual growth rate in legacy revenues (i.e., revenues related to our legacy Evident and TruBridge operations) of approximately 5.9% as of the end of our most recently completed fiscal year. Important to our potential for continued long-term revenue growth is our ability to sell new and additional products and services to our existing customer base, including cross-selling opportunities presented with the acquisition of Healthland Holding Inc. ("HHI"), the parent company of Healthland, AHT and Rycan Technologies, Inc. We believe that as our combined customer base grows, the demand for additional products and services, including business management, consulting and managed IT services, will also continue to grow, supporting further increases in recurring revenues. We also expect to drive revenue growth from new product development that we may generate from our research and development activities.

January 2016 marked an important milestone for CPSI, as we announced the completion of our acquisition of HHI, the first major acquisition in the Company's history. This acquisition expanded our footprint for servicing acute care facilities and introduced us to the post-acute care segment, adding significantly to our already substantial recurring revenue base and further expanding our ability to generate organic recurring revenue growth through additional cross-selling opportunities now available within the combined company. We believe that the addition of HHI and its clients and products has enhanced and will continue to enhance our ability to grow our business and compete in the

markets that we serve.

25

---



Our business model is designed such that, as revenue growth materializes, earnings and profitability growth are naturally bolstered through increased future margin realization. Once a hospital has installed our solutions, we continue to provide support services to the customer on an ongoing basis and make available to the customer our broad portfolio of business management, consulting, and managed IT services. The provision of these services typically requires fewer resources than the initial system installation, resulting in increased overall gross margins. We also look to increase margins through cost containment measures where appropriate as we continue to leverage opportunities for greater operating efficiencies of the combined entity. For example, during the first quarter of 2018, we further integrated our acute care product lines into a combined client support group. Using best practices of the combined companies' implementation processes, we have decreased travel costs for our acute-care installations by approximately 25%. During the fourth quarter of 2017, TruBridge eliminated approximately \$0.6 million per quarter of cloud hosting service costs for the HHI customer base by utilizing in-house resources. Also, during the first quarter of 2017 and the third quarter of 2018, we instituted a limited-time, voluntary severance program offering those employees meeting certain predetermined criteria severance packages involving continuing periodic cash payments and healthcare benefits for varying periods, depending upon the individual's years of service with the Company. Turbulence in the U.S. and worldwide economies and financial markets impacts almost all industries. While the healthcare industry is not immune to economic cycles, we believe it is more significantly affected by U.S. regulatory and national health projects than by the economic cycles of our economy. Additionally, healthcare organizations with a large dependency on Medicare and Medicaid populations, such as community hospitals, have been affected by the challenging financial condition of the federal government and many state governments and government programs. Accordingly, we recognize that prospective hospital clients often do not have the necessary capital to make investments in information technology. Additionally, in response to these challenges, hospitals have become more selective regarding where they invest capital, resulting in a focus on strategic spending that generates a return on their investment. Despite these challenges, we believe healthcare information technology is often viewed as more strategically beneficial to hospitals than other possible purchases because the technology also plays an important role in healthcare by improving safety and efficiency and reducing costs. Additionally, we believe most hospitals recognize that they must invest in healthcare information technology to meet current and future regulatory, compliance and government reimbursement requirements.

In recent years, there have been significant changes to provider reimbursement by the U.S. federal government, followed by commercial payers and state governments. There is increasing pressure on healthcare organizations to reduce costs and increase quality while replacing fee-for-service in part by enrolling in an advanced payment model. This pressure could further encourage adoption of healthcare IT and increase demand for business management, consulting, and managed IT services, as the future success of these healthcare providers is greatly dependent upon their ability to engage patient populations and to coordinate patient care across a multitude of settings, while optimizing operating efficiency along the way.

We have historically made financing arrangements available to clients on a case-by-case basis depending upon the various aspects of the proposed contract and customer attributes. These financing arrangements include short-term payment plans and longer-term lease financing through us or third-party financing companies. For those clients not seeking a financing arrangement, the payment schedule of the typical contract is structured to provide for a scheduling deposit due at contract signing, with the remainder of the contracted fees due at various stages of the installation process (delivery of hardware, installation of software and commencement of training, and satisfactory completion of a monthly accounting cycle or end-of-month operation by each respective application, as applicable).

During 2017, total financing receivables increased by \$15.5 million, which had a significant impact on operating cash flow. The increase in financing arrangements was primarily due to two reasons. First, meaningful use stage three ("MU3") installations are primarily financed through short-term payment plans. Second, competitor financing options, primarily through accounts receivables management collections and cloud EHR arrangements, have applied pressure to reduce initial customer capital investment requirements for new EHR installations, leading to the offering of long-term lease options. For the nine months ended September 30, 2018, financing receivables have increased by \$4.3 million primarily for the aforementioned reasons, which have been partially offset by cash receipts related to MU3 installations completed during 2017.

We have also historically made our software applications available to clients through "Software as a Service" or "SaaS" configurations, including our Cloud Electronic Health Record ("Cloud EHR") offering. These offerings are attractive to some clients because this configuration allows them to obtain access to advanced software products without a significant initial capital outlay. We have experienced a substantial increase in the prevalence of such SaaS arrangements for new system installations and add-on sales to existing clients since 2015, a trend we expect to continue for the foreseeable future. Unlike our historical perpetual license arrangements under which the related revenue is recognized effectively upon installation, the SaaS arrangements result in revenue being recognized monthly as the services are provided over the term of the arrangement. As a result, the effect of this trend on the Company's financial statements is reduced system sales revenues during the period of

26

---

installation in exchange for increased recurring periodic revenues (reflected in system sales and support revenues) over the term of the SaaS arrangement.

#### **American Recovery and Reinvestment Act of 2009**

While ongoing financial challenges facing healthcare organizations have impacted and are expected to continue to impact the community hospitals that comprise our target market, we believe that the reduced reimbursement under the American Recovery and Reinvestment Act of 2009 (the "ARRA") for those providers failing to adopt qualifying EHRs will continue to support demand for healthcare information technology and will have a positive impact on our business prospects through at least 2018.

While we believe that the expanded requirements for continued compliance with meaningful use rules have resulted in an expanded replacement market for EHRs, it is uncertain whether revenues generated from this replacement market will be sufficient to offset the impacts of the overall accelerated adoption and increased penetration of EHRs within our target market. As a result, our system sales revenues and profitability may be materially and adversely affected during the short-term.

Similarly, compliance with the meaningful use rules has accelerated the purchases of incremental applications by our existing clients. Consequently, our penetration rates within our existing customer base for our current menu of applications have increased significantly under the ARRA, thereby significantly narrowing the market for add-on sales to existing clients. As a result of the announcement from CMS on August 2, 2018 of a final rule changing the attestation period for 2019 and 2020 to any continuous 90-day period instead of the previously-required full year attestation period, hospitals now have until October 1, 2019 to install compliant technology in order to meet the requirements of the program during 2019, compared to a deadline of January 1, 2019 under the previous rule. While we believe that the stage three requirements of the meaningful use program (re-named "Promoting Interoperability" by such rule) provide a significant opportunity for add-on sales revenues through 2019, the delay by CMS is expected to delay some of the contract revenues we previously anticipated and there is a risk of further delays or reductions in the regulatory requirements imposed on hospitals, which could have an adverse effect on our revenues.

We are pursuing other strategic initiatives designed to result in system sales revenue growth in the future in the form of selective expansion into English-speaking international markets, selective expansion within the 100 to 200 bed hospital market, and continued development of new software applications such as our Business Intelligence solution which provides community hospital leaders valuable insight into financial, operational, and clinical data. However, there can be no guarantee that such initiatives will prove successful or will benefit the Company in a sufficiently timely fashion to offset the short-term effects of the aforementioned narrowing markets.

#### **Results of Operations**

During the nine months ended September 30, 2018, we generated revenues of \$208.1 million from the sale of our products and services, compared to \$198.9 million during the nine months ended September 30, 2017, an increase of 5% that is primarily attributed to TruBridge client growth. We view sales of TruBridge solutions within our existing EHR client base as our leading performance indicator. Our net income for the nine months ended September 30, 2018 increased by \$5.9 million to \$10.0 million from the nine months ended September 30, 2017 as a result of revenue growth accompanied with improved gross margins of 53%, a 1% increase from the first nine months of 2017. Net cash provided by operating activities decreased by \$3.5 million to \$14.9 million provided from operations during the nine months ended September 30, 2018, primarily due to a reduction of short-term liabilities and other changes in working capital.

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

The following table sets forth certain items included in our results of operations for the three and nine months ended September 30, 2018 and 2017, expressed as a percentage of our total revenues for these periods:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
(In thousands)	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
<b>INCOME DATA:</b>								
Sales revenues:								
System sales and support:								
Acute Care EHR	\$ 38,907	56.1	\$ 38,761	55.8	\$ 116,297	55.9	\$ 115,285	58.0
Post-acute Care EHR	5,518	8.0	5,605	8.4	16,626	8.0	17,978	9.0
Total System sales and support	44,425	64.1	44,366	66.1	132,923	63.9	133,263	67.0
TruBridge	24,872	35.9	22,747	33.9	75,162	36.1	65,601	33.0
Total sales revenues	69,297	100.0	67,113	100.0	208,085	100.0	198,864	100.0
Costs of sales:								
System sales and support:								
Acute Care EHR	18,086	26.1	18,163	27.1	52,812	25.4	53,667	27.0
Post-acute Care EHR	1,497	2.2	1,764	2.6	4,716	2.3	5,800	2.9
Total System sales and support	19,583	28.3	19,927	29.7	57,528	27.6	59,467	29.9
TruBridge	13,590	19.6	12,806	19.1	40,501	19.5	36,326	18.3
	33,173	47.9	32,733	48.8	98,029	47.1	95,793	48.2

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form 10-Q

Total costs of sales								
Gross profit	36,124	52.1	34,380	51.2	110,056	52.9	103,071	51.8
Operating expenses:								
Product development	9,305	13.4	8,250	12.3	27,375	13.2	24,742	12.4
Sales and marketing	7,546	10.9	8,528	12.7	22,778	10.9	23,262	11.7
General and administrative	11,220	16.2	9,379	14.0	36,772	17.7	33,960	17.1
Amortization of acquisition-related intangibles	2,692	3.9	2,601	3.9	7,895	3.8	7,804	3.9
Total operating expenses	30,763	44.4	28,758	42.9	94,820	45.6	89,768	45.1
Operating income	5,361	7.7	5,622	8.4	15,236	7.3	13,303	6.7
Other income (expense):								
Other income	201	0.3	102	0.2	593	0.3	242	0.1
Interest expense	(1,829)	(2.6)	(2,062)	(3.1)	(5,615)	(2.7)	(5,807)	(2.9)
Total other income (expense)	(1,628)	(2.3)	(1,960)	(2.9)	(5,022)	(2.4)	(5,565)	(2.8)
Income before taxes	3,733	5.4	3,662	5.5	10,214	4.9	7,738	3.9
(Benefit) provision for income taxes	(2,016)	(2.9)	1,374	2.0	170	0.1	3,617	1.8
Net income	\$ 5,749	8.3	\$ 2,288	3.4	\$ 10,044	4.8	\$ 4,121	2.1

**Three Months Ended September 30, 2018 Compared with Three Months Ended September 30, 2017**

*Revenues.* Total revenues for the three months ended September 30, 2018 increased 3%, or \$2.2 million, compared to the three months ended September 30, 2017.



System sales and support revenues increased slightly compared to the third quarter 2017. System sales and support revenues were comprised of the following:

	Three Months Ended September 30,	
<i>(In thousands)</i>	2018	2017
Recurring system sales and support revenues <sup>(1)</sup>		
Acute Care EHR	\$ 27,393	\$ 27,896
Post-acute Care EHR	4,515	5,059
Total recurring system sales and support revenues	31,908	32,955
Non-recurring system sales and support revenues <sup>(2)</sup>		
Acute Care EHR	11,514	10,865
Post-acute Care EHR	1,003	546
Total non-recurring system sales and support revenues	12,517	11,411
Total system sales and support revenue	\$ 44,425	\$ 44,366

<sup>(1)</sup> Mostly comprised of support and maintenance, third-party subscriptions, and SaaS revenues.

<sup>(2)</sup> Mostly comprised of installation revenues from the sale of our acute care and post-acute care EHR solutions and related applications under a perpetual (non-subscription) licensing model.

from \$1.7 million in the third quarter 2017 to \$3.1 million in the third quarter 2018. These increases

Iting in a net increase in Acute Care EHR non-recurring revenues of \$0.6 million, or 6%. We installed our Acute Care EHR solutions at six new hospital clients during the third quarter 2018 (none under a SaaS arrangement, resulting in revenue being recognized ratably over the contractual term) compared to nine new hospital clients during the third quarter 2017 (one under a SaaS arrangement) res

EHR revenues increased by \$0.5 million, or 84%, in the third quarter 2018 as a result of increasing new installation bookings due to our aggressive efforts to make technological improvements to the AHT product line. Recurring system sales and support revenues decreased by \$1.0 million, or 3%, compared to the third quarter 2017. Acute Care EHR recurring revenues decreased \$0.5 million, or 2%, as attrition primarily from the Centriq customer base outweighed new Thrive customer growth and additional support fees for MU3-related add-on sales. Post-acute Care EHR recurring revenues decreased by \$0.5 million, or 11%, due to attrition attributed to an aggressive competitive environment as we make technological improvements to the AHT product line.

TruBridge revenues increased 9%, or \$2.1 million, compared to the third quarter 2017. Our hospital clients operate in an environment typified by rising costs and increased complexity and are increasingly seeking to alleviate themselves of the ever-increasing administrative burden of operating their own business office functions. Most notably, an expanded customer base for our accounts receivable management services resulted in an increase of \$2.1 million, or 32%, and for our medical coding services resulted in an increase of \$0.4 million, or 25%, compared to the third quarter 2017. These increases were partially offset by a \$0.4 million, or 43%, decrease in consulting services as consulting opportunities related to Thrive software add-on sales have decreased and medical coding initiatives have been completed.

*Costs of Sales.* Total costs of sales increased by 1%, or \$0.4 million, compared to the third quarter 2017. As a percentage of total revenues, costs of sales decreased to 48% in the third quarter 2018, compared to 49% in the third quarter 2017.

Costs of Acute Care EHR system sales and support decreased slightly by \$0.1 million compared to the third quarter 2017 primarily due to a \$0.7 million, or 35%, decrease in travel costs due to improved implementation techniques. This decrease was partially offset by a \$0.3 million, or 3%, increase in payroll and a \$0.3 million, or 9%, increase in third-party software costs primarily due to fees implemented for use of CPT codes by the American Medical Association ("AMA") during 2018 that are passed to the customer. The dual effect of increased revenues and the decreased costs noted above resulted in the gross margin on Acute Care EHR system sales and support increasing to 54% in the third quarter 2018, compared to 53% in the third quarter 2017.

29

---



Costs of Post-acute Care EHR system sales and support decreased by \$0.3 million, or 15%, compared to the third quarter 2017, primarily due to reduced payroll costs of \$0.2 million, or 20%, as the realization of HHI integration synergies over the trailing twelve months has resulted in reduced headcount. Hardware costs also decreased by \$0.1 million, which is consistent with decreased hardware revenue. The gross margin on Post-acute Care EHR system sales and support increased to 73% in the third quarter 2018, compared to 69% in the third quarter 2017.

Our costs associated with TruBridge sales and support increased 6%, or \$0.8 million, with the largest contributing factor being an increase in payroll and related costs of 17%, or \$1.4 million, as a result of adding more employees during the trailing twelve months in order to support and develop our growing customer base. Increased payroll was partially offset by an approximate \$0.6 million decrease in cloud hosting costs as a result of vendor consolidation during the fourth quarter 2017 for cloud services provided to the HHI customer base. The gross margin on these services was 45% in the third quarter 2018 compared to 44% in the third quarter 2017.

*Product Development.* Product development expenses consist primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs increased 13%, or \$1.1 million, compared to the third quarter 2017, as a result of increased headcount dedicated to functionality additions and enhancements across the product lines, as well as integration across product lines.

*Sales and Marketing.* Sales and marketing expenses decreased 12%, or \$1.0 million, compared to the third quarter 2017, primarily due to decreased payroll costs of 8%, or \$0.3 million, and decreased commission costs of \$0.8 million, or 26%. The decreased commission costs were primarily the result of the aforementioned decrease in new EHR installations and TruBridge bookings realized during the third quarter 2018 compared to the third quarter 2017.

*General and Administrative.* General and administrative expenses increased 20%, or \$1.8 million, compared to the third quarter 2017, primarily due to an increase in severance costs of \$0.7 million as a result of a voluntary early retirement program effective during the third quarter 2018 for select employees. In addition, there was an increase of \$0.4 million in bad debt expense, which was negatively impacted by a few of our hospital clients that have not been or may not be able to fulfill their financial obligations. There was also an increase of \$0.4 million in stock compensation expense and a \$0.2 million increase in costs related to our 401(k) match during the third quarter 2018 compared to the third quarter 2017.

*Amortization of Acquisition-Related Intangibles.* Amortization expense associated with acquisition-related intangible assets increased \$0.1 million compared to the third quarter 2017 due to the retirement of Rycan related trademarks.

All software and services previously provided under the Rycan name now are marketed under TruBridge trademarks.

*Total Operating Expenses.* As a percentage of total revenues, total operating expenses increased to 44% in the third quarter 2018, compared to 43% in the third quarter 2017.

*Total Other Income (Expense).* Total other income (expense) decreased from expense of \$2.0 million during the third quarter 2017 to expense of \$1.6 million during the third quarter 2018, as our improved leverage has resulted in more favorable interest rates on our long term debt, coupled with an increase in interest income due to the expansion of long-term payment plans offered to our clients.

*Income Before Taxes.* As a result of the foregoing factors, income before taxes increased by 2%, or \$0.1 million, compared to the third quarter 2017.

*Provision for Income Taxes.*



*Net Income.* Net income for the three months ended September 30, 2018 increased by \$3.5 million to \$5.7 million, or \$0.41 per basic and diluted share, compared with net income of \$2.3 million, or \$0.17 per basic and diluted share, for the three months ended September 30, 2017. Net income represented 8% of revenue for the three months ended September 30, 2018, compared to 3% of revenue for the three months ended September 30, 2017.

**Nine Months Ended September 30, 2018 Compared with Nine Months Ended September 30, 2017**

*Revenues.* Total revenues for the nine months ended September 30, 2018 increased 5%, or \$9.2 million, compared to the nine months ended September 30, 2017.

System sales and support revenues decreased slightly by \$0.3 million from the nine months ended September 30, 2017. System sales and support revenues were comprised of the following:

	Nine Months Ended September 30,	
<i>(In thousands)</i>	2018	2017
Recurring system sales and support revenues <sup>(1)</sup>		
Acute Care EHR	\$ 83,633	\$ 84,435
Post-acute Care EHR	14,002	15,244
Total recurring system sales and support revenues	97,635	99,679
Non-recurring system sales and support revenues <sup>(2)</sup>		
Acute Care EHR	\$ 32,664	\$ 30,850
Post-acute Care EHR	2,624	2,734
Total non-recurring system sales and support revenues	35,288	33,584
Total system sales and support revenue	\$ 132,923	\$ 133,263

<sup>(1)</sup> Mostly comprised of support and maintenance, third-party subscriptions, and SaaS revenues.

<sup>(2)</sup> Mostly comprised of installation revenues from the sale of our acute care and

post-acute care EHR solutions and related applications under a perpetual (non-subscription) licensing model.

Non-recurring system sales and support revenues increased \$1.7 million, or 5%, primarily as year-to-date revenue contributions from MU3 implementations have outpaced the negative impact of new system implementation volatility and relative weakness in non-MU3 related add-on sales, resulting in an overall increase in Acute Care EHR non-recurring revenues of \$1.8 million, or 6%. MU3 implementations contributed \$11.1 million of Acute Care EHR non-recurring revenue during the first nine months of 2018, compared to only \$1.9 million during the first nine months of 2017. These revenue contributions were partially offset by new system implementation revenues, as we installed our Acute Care EHR solutions at fifteen new hospital clients during the nine months ended September 30, 2018 (two under a SaaS arrangement), compared to twenty-two new hospital clients during the nine months ended September 30, 2017 (three under a SaaS arrangement). The relative weakness in non-MU3 related add-on sales is the result of the Company's and clients' emphasis on MU3 certification prior to the October 1, 2019 deadline. Non-recurring Post-acute Care EHR revenues decreased slightly by \$0.1 million, or 4%, as a result of late 2017 and early 2018 slow new installation bookings due to aggressive competition. Our efforts to make technological improvements to the AHT product line have resulted in increased bookings and installations during the second and third quarters 2018.

Recurring system sales and support revenues decreased \$2.0 million, or 2%, during the nine months ended September 30, 2018. Acute Care EHR recurring revenues decreased by \$0.8 million, or 1%, as a result of 2017 price freezes for the existing customer base to ease the impact of MU3 implementation, coupled with attrition primarily from the Centriq customer base, which has outweighed new customer growth. Post-acute Care EHR recurring revenues decreased by \$1.2 million, or 8%, due to attrition attributed to the aforementioned aggressive competitive environment.

31

---

TruBridge revenues increased 15%, or \$9.6 million, compared to the nine months ended September 30, 2017. Our hospital clients operate in an environment typified by rising costs and increased complexity and are increasingly seeking to alleviate themselves of the ever-increasing administrative burden of operating their own business office functions. Most notably, an expanded customer base for our accounts receivable management services resulted in an increase of \$7.3 million, or 39%, and for our medical coding services resulted in an increase of \$3.0 million, or 78%, compared to the nine months ended September 30, 2017. Our information technology management services also increased by \$0.5 million, or 7%, primarily due to cloud computing services growth. These increases were partially offset by a \$1.2 million, or 38%, decrease in consulting services as consulting opportunities related to Thrive software add-on sales have decreased and medical coding initiatives have been completed.

*Costs of Sales.* Total costs of sales increased by 2%, or \$2.2 million, compared to the nine months ended September 30, 2017. As a percentage of total revenues, costs of sales decreased to 47% in the nine months ended September 30, 2018, compared to 48% in the nine months ended September 30, 2017.

Costs of Acute Care EHR system sales and support decreased by \$0.9 million, or 2%, compared to the nine months ended September 30, 2017, primarily due to a \$0.9 million, or 21%, decrease in equipment costs (which are minimal for MU3 implementations), and decreased travel costs of \$1.6 million, or 32%, due to improved implementation techniques, partially offset by a \$1.5 million, or 19%, increase in third-party software costs, primarily due to fees for use of CPT codes implemented by the AMA during 2018 that are passed to the customer. The dual effect of increased revenues and these beneficial cost improvements resulted in the gross margin on Acute Care EHR system sales and support increasing to 55% in the nine months ended September 30, 2018 compared to 53% in the nine months ended September 30, 2017.

Costs of Post-acute Care EHR system sales and support decreased by \$1.1 million, or 19%, compared to the nine months ended September 30, 2017 primarily due to reduced payroll costs of \$0.6 million, or 18%, as the realization of HHI integration synergies over the trailing twelve months has resulted in reduced headcount. Third-party software costs, hardware costs, and travel costs decreased by a total of \$0.5 million due to the decreased installation volume mentioned above. The gross margin on Post-acute Care EHR system sales and support increased to 72% for the nine months ended September 30, 2018, compared to 68% for the nine months ended September 30, 2017.

Our costs associated with TruBridge sales and support increased 11%, or \$4.2 million, with the largest contributing factor being an increase in payroll and related costs of 25%, or \$5.7 million, as a result of adding more employees during the trailing twelve months in order to support and develop our growing customer base. Increased payroll was partially offset by an approximate \$1.6 million decrease in cloud hosting costs primarily as a result of vendor consolidation during the fourth quarter of 2017 for cloud services provided to the HHI customer base. The gross margin on these services increased to 46% in the nine months ended September 30, 2018 compared to 45% in the nine months ended September 30, 2017.

*Product Development.* Product development expenses consist primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs increased 11%, or \$2.6 million, compared to the nine months ended September 30, 2017, as a result of increased headcount dedicated to functionality additions and enhancements across the product lines, as well as integration across product lines.

*Sales and Marketing.* Sales and marketing expenses decreased 2%, or \$0.5 million, compared to the nine months ended September 30, 2017, primarily due to a 5%, or \$0.4 million, reduction in payroll costs attributed to lower headcount.

*General and Administrative.* General and administrative expenses increased 8%, or \$2.8 million, compared to the nine months ended September 30, 2017, primarily due to a \$1.6 million increase in bad debt expense, a \$1.1 million increase in stock compensation, and a \$1.2 million increase in employee health costs during the nine months ended September 30, 2018. Bad debt was negatively impacted by a few of our hospital clients that have not been or may not be able to fulfill their financial obligations, while increased prescription drug utilization drove employee health costs higher. These notable increases were partially offset by a \$1.1 million decrease in voluntary severance program expense compared to the nine months ended September 30, 2017.

*Amortization of Acquisition-Related Intangibles.* Amortization expense associated with acquisition-related intangible assets increased \$0.1 million compared to the nine months ended 2017 due to the retirement of Rycan related

trademarks. All software and services previously provided under the Rycan name now are marketed under TruBridge trademarks.

*Total Operating Expenses.* As a percentage of total revenues, total operating expenses increased to 46% in the nine months ended 2018, compared to 45% in the nine months ended 2017.

32

---

*Total Other Income (Expense).* Total other income (expense) decreased from expense of \$5.6 million during the nine months ended September 30, 2017 to expense of \$5.0 million during the nine months ended September 30, 2018, as our improved leverage ratio has resulted in more favorable interest rates on our long-term debt, coupled with an increase in interest income due to the expansion of long-term payment plans offered to our clients.

*Income Before Taxes.* As a result of the foregoing factors, income before taxes increased by 32%, or \$2.5 million, compared to the nine months ended September 30, 2017.

*Provision for Income Taxes.*

*Net Income.* Net income for the nine months ended September 30, 2018 increased by \$5.9 million to a net income of \$10.0 million, or \$0.72 per basic and diluted share, compared with net income of \$4.1 million, or \$0.30 per basic and diluted share, for the nine months ended September 30, 2017. Net income represented 5% of revenue for the nine months ended September 30, 2018, compared to 2% of revenue for the nine months ended September 30, 2017.

## **Liquidity and Capital Resources**

### ***Sources of Liquidity***

As of September 30, 2018, our principal sources of liquidity consisted of cash and cash equivalents of \$5.2 million and our remaining borrowing capacity under the Amended Revolving Credit Facility of \$15.3 million, compared to \$0.5 million of cash and cash equivalents and \$17.0 million of remaining borrowing capacity under the Amended Revolving Credit Facility as of December 31, 2017. In conjunction with our acquisition of HHI in January 2016, we entered into the Previous Credit Agreement which provided for the \$125 million Previous Term Loan Facility and the \$50 million Previous Revolving Credit Facility. On October 13, 2017, the Company entered into the Second Amendment to refinance and decrease the aggregate principal amount of the credit facilities from \$175 million to \$162 million, which included the \$117 million Amended Term Loan Facility and the \$45 million Amended Revolving Credit Facility. On February 8, 2018, the Company entered into the Third Amendment to increase the aggregate principal amount of the Amended Credit Facilities from \$162 million to \$167 million, which includes the \$117 million Amended Term Loan Facility and a \$50 million Amended Revolving Credit Facility.

As of September 30, 2018, we had \$138.6 million in principal amount of indebtedness outstanding under the Amended Credit Facilities. We believe that our cash and cash equivalents of \$5.2 million as of September 30, 2018, the future operating cash flows of the combined entity, and our remaining borrowing capacity under the Amended Revolving Credit Facility of \$15.3 million as of September 30, 2018, taken together, provide adequate resources to fund ongoing cash requirements for the next twelve months. We cannot provide assurance that our actual cash requirements will not be greater than we expect as of the date of filing of this Form 10-Q. If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations during the next twelve months, we may be required to obtain additional sources of funds through additional operational improvements, capital market transactions, asset sales or financing from third parties, a combination thereof or otherwise. We cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms.

### ***Operating Cash Flow Activities***

Net cash provided by operating activities decreased \$3.4 million, from \$18.3 million provided by operations for the nine months ended September 30, 2017 to \$14.9 million provided by operations for the nine months ended September 30, 2018. The decrease in cash flows provided from operations is primarily due to a \$5.4 million contraction in payables and other liabilities during the nine months ended September 30, 2018 as a result of the timing of vendor and payroll payments compared to a \$4.7 million expansion during the nine months ended September 30, 2017. The \$5.9 million increase in net income was mostly offset by a combined accounts and financing receivables expansion of \$10.1 million during the nine months ended September 30, 2018. The increase in financing arrangements is primarily due to two reasons. First, meaningful use stage three installations are primarily financed through

short-term payment plans. Second, competitor financing options, primarily accounts receivables management collections and cloud EHR arrangements, have applied pressure to reduce initial customer capital investment requirements for new EHR installations, leading to the offering of long-term lease options.

33

---



### ***Investing Cash Flow Activities***

Net cash used in investing activities increased slightly with \$0.8 million used in the nine months ended September 30, 2018 compared to \$0.5 million used during the nine months ended September 30, 2017. We do not anticipate the need for significant capital expenditures during the remainder of 2018.

### ***Financing Cash Flow Activities***

During the nine months ended September 30, 2018, our financing activities used net cash of \$9.4 million, as we paid a net \$5.2 million in long-term debt principal and declared and paid dividends in the amount of \$4.2 million. During the nine months ended September 30, 2018, we made a \$7.3 million prepayment on the Amended Term Loan Facility by drawing down on the Amended Revolving Credit Facility, in accordance with the excess cash flow mandatory prepayment requirements of the Amended Credit Agreement. Financing cash flow activities used \$19.1 million during the nine months ended September 30, 2017, primarily due to \$8.9 million net paid in long-term debt principal and \$10.3 million cash paid in dividends. The decrease in dividends paid is a result of moving to a fixed dividend policy during the fourth quarter of 2017.

We believe that paying dividends is an effective way of providing an investment return to our stockholders and a beneficial use of our cash. However, the declaration of dividends by CPSI is subject to compliance with the terms of our Amended Credit Agreement and the discretion of our Board of Directors, which may decide to change or terminate the Company's dividend policy at any time. Our Board of Directors will continue to take into account such matters as general business conditions, capital needs, our financial results and such other factors as our Board of Directors may deem relevant.

### ***Credit Agreement***

As of September 30, 2018, we had \$103.9 million in principal amount outstanding under the Amended Term Loan Facility and \$34.7 million in principal amount outstanding under the Amended Revolving Credit Facility. Each of the Amended Credit Facilities continues to bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) the Adjusted LIBOR rate for the relevant interest period, (2) an alternate base rate determined by reference to the greater of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate plus one percent per annum, or (3) a combination of (1) and (2). The applicable margin range for LIBOR loans and the letter of credit fee ranges from 2.0% to 3.5%. The applicable margin range for base rate loans ranges from 1.0% to 2.5%, in each case based on the Company's consolidated leverage ratio.

Principal payments with respect to the Amended Term Loan Facility are due on the last day of each fiscal quarter beginning December 31, 2017, with quarterly principal payments of approximately \$1.46 million through September 30, 2019, approximately \$2.19 million through September 30, 2021 and approximately \$2.93 million through September 30, 2022, with maturity on October 13, 2022 or such earlier date as the obligations under the Amended Credit Agreement become due and payable pursuant to the terms of the Amended Credit Agreement (the "Amended Maturity Date"). Any principal outstanding under the Amended Revolving Credit Facility is due and payable on the Amended Maturity Date.

The Amended Credit Facilities are secured pursuant to a Pledge and Security Agreement, dated January 8, 2016, among the parties identified as obligors therein and Regions, as collateral agent, on a first priority basis by a security interest in substantially all of the tangible and intangible assets (subject to certain exceptions) of the Company and certain subsidiaries of the Company, as guarantors (collectively, the "Subsidiary Guarantors"), including certain registered intellectual property and the capital stock of certain of the Company's direct and indirect subsidiaries. Our obligations under the Amended Credit Agreement are also guaranteed by the Subsidiary Guarantors.

The Amended Credit Agreement, as amended by the Third Amendment, provides incremental facility capacity of \$50 million, subject to certain conditions. The Amended Credit Agreement includes a number of restrictive covenants that, among other things and in each case subject to certain exceptions and baskets, impose operating and financial restrictions on the Company and the Subsidiary Guarantors, including the ability to incur additional debt; incur liens and encumbrances; make certain restricted payments, including paying dividends on the Company's equity securities or payments to redeem, repurchase or retire the Company's equity securities (which are subject to our compliance, on a pro forma basis to give effect to the restricted payment, with the fixed charge coverage ratio and consolidated leverage ratio described below); enter into certain restrictive agreements; make investments, loans and acquisitions;

merge or consolidate with any other person; dispose of assets; enter into sale and leaseback transactions; engage in transactions with affiliates; and materially alter the business we conduct. The Amended Credit Agreement requires the Company to maintain a minimum fixed charge coverage ratio of 1.25:1.00 throughout the duration of such agreement. Under the Amended Credit Agreement, the Company is required to comply with a maximum consolidated leverage ratio of 3.95:1.00 through December 31, 2017 and 3.50:1.00 from January 1, 2018 and thereafter. The Amended Credit Agreement also contains customary representations and warranties, affirmative covenants and

34

---

events of default. We believe that we were in compliance with the covenants contained in the Amended Credit Agreement as of September 30, 2018.

The Amended Credit Agreement requires the Company to mandatorily prepay the Amended Credit Facilities with (i) 75% of excess cash flow (minus certain specified other payments) during each of the fiscal years ending December 31, 2017 and December 31, 2018 and (ii) 50% of excess cash flow (minus certain specified other payments) during the fiscal year ending December 31, 2019 and thereafter. The Company is permitted to voluntarily prepay the Amended Credit Facilities at any time without penalty, subject to customary “breakage” costs with respect to prepayments of LIBOR rate loans made on a day other than the last day of any applicable interest period. The excess cash flow mandatory prepayment requirement under the Amended Credit Agreement resulted in a \$7.3 million prepayment on the Amended Term Loan Facility during the first quarter of 2018 related to excess cash flow generated by the Company during 2017. This mandatory prepayment was funded by drawing down on the Amended Revolving Credit Facility, as excess cash flow generated by the Company during 2017 was primarily used to voluntarily prepay amounts due under the Amended Revolving Credit Facility.

### Backlog

Backlog consists of revenues we reasonably expect to recognize over the next twelve months under all existing contracts, including those with remaining performance obligations that have original expected durations of one year or less and those with fees that are variable in which we estimate future revenues. The revenues to be recognized may relate to a combination of one-time fees for system sales and recurring fees for support and maintenance and TruBridge services. As of September 30, 2018, we had a twelve-month backlog of approximately \$41 million in connection with non-recurring system purchases and approximately \$220 million in connection with recurring payments under support and maintenance, Cloud EHR contracts, and TruBridge services. As of September 30, 2017, we had a twelve-month backlog of approximately \$41 million in connection with non-recurring system purchases and approximately \$220 million in connection with recurring payments under support and maintenance and TruBridge services.

### Bookings

Bookings is a key operational metric used by management to assess the relative success of our sales generation efforts, and were as follows for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In 2018 thousands)	2017	2018	2017	
System sales and support <sup>(1)</sup>				
Acute Care EHR	10,699	\$ 20,413	\$ 44,276	\$ 59,327
Post-acute Care EHR	844	833	2,625	3,871
Total system sales and support	11,543	21,246	46,901	63,198
	7,302	10,632	17,492	25,925

## TruBridge

(2)

Total bookings	18,845	\$	31,878	\$	64,393	\$	89,123
-------------------	--------	----	--------	----	--------	----	--------

(1) Generally calculated as the total contract price (for system sales) and annualized contract value (for support).

(2) Generally calculated as the total contract price (for non-recurring, project-related amounts) and annualized contract value (for recurring amounts).

Acute Care EHR bookings in the third quarter 2018 decreased \$9.7 million, or 48%, compared to the third quarter 2017, and in the nine months ended September 30, 2018 decreased \$15.1 million, or 25%, compared to the nine months ended September 30, 2017, mostly due to the demand dynamics related to the Company's MU3 software applications. Bookings during the three and nine months ended September 30, 2017 were heavily influenced by the then-deadline of January 1, 2018 for hospital compliance with the stage three rules. Since that time, CMS had adopted rules in August 2018 that effectively delay the deadline for compliance to October 1, 2019. While we do not believe these events significantly alter the total opportunity presented by MU3, it has impacted our periodic bookings results by naturally extending the sales cycle.

Post-acute Care EHR bookings in the third quarter 2018 were relatively flat, compared to the third quarter 2017, and decreased \$1.2 million, or 32%, compared to the nine months ended September 30, 2017. New business opportunities for this segment, which consist solely of the operations of AHT, have suffered as a result of increased competition and underinvestment in AHT's product offerings (particularly prior to our acquisition of AHT as part of the January 2016 acquisition of HHI), making functionality and usability comparisons less favorable for AHT. Although management has formulated a strategy and enacted

35

steps to improve the related product functionality and usability and is confident that such measures will translate into improved future bookings performance (and, eventually, revenue growth), there can be no guarantee that this strategy will be successful. During the fourth quarter of 2017, the anticipated attrition of significant customer accounts and a product development acceleration investment plan in our Post-acute Care EHR software led management to record a goodwill impairment of \$28.0 million against our Post-acute Care EHR reporting unit as of December 31, 2017. We continue to execute on our TruBridge strategy by moving up-market into larger healthcare facilities while expanding the scope of our relationships with new and existing clients by increasing revenue-generating touchpoints within those facilities. Our initial success in that endeavor has resulted in bookings volatility as our periodic bookings are heavily influenced by low-volume, high-value deals. Such large, enterprise client wins resulted in TruBridge bookings for the first three quarters of 2017 that were some of the highest in TruBridge history at that time, with bookings for the remainder of 2017 being heavily influenced by large, enterprise client wins. Absent any such large, enterprise client wins during the first three quarters of 2018, TruBridge bookings experienced a normalization that resulted in a decrease from the first three quarters of 2017. We continue to see demand for TruBridge's products and services that alleviate administrative burden on our clients and allow them to take advantage of our specialized capabilities. Particularly strong demand exists for TruBridge's accounts receivable management and medical coding services.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements, as defined by Item 303(a)(4) of SEC Regulation S-K, as of September 30, 2018.

The Company has other lease rights and obligations that it accounts for as operating leases that may be reclassified as balance sheet arrangements under accounting pronouncements recently finalized by the FASB.

**Critical Accounting Policies and Estimates**

Our Management Discussion and Analysis is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make subjective or complex judgments that may affect the reported financial condition and results of operations. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported values of assets, liabilities, revenues, expenses and other financial amounts that are not readily apparent from other sources. Actual results may differ from these estimates and these estimates may differ under different assumptions or conditions. We continually evaluate the information used to make these estimates as our business and the economic environment changes.

In our Annual Report on Form 10-K for the year ended December 31, 2017, we identified our critical accounting policies related to revenue recognition, allowance for doubtful accounts, allowance for credit losses, and estimates.

During the first quarter of 2018, we adopted the new accounting standard codified as Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, and all related amendments 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. Refer to Note 2 - Recent Accounting Pronouncements of the Notes to Financial Statements (Part 1, Item 1 of this Form 10-Q) for further discussion.

There have been no other significant changes to these critical accounting policies during the nine months ended September 30, 2018.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our exposure to market risk relates primarily to the potential change in the British Bankers Association London Interbank Offered Rate ("LIBOR"). We had \$138.6 million of outstanding borrowings under our Amended Credit

Facilities with Regions Bank at September 30, 2018. The Amended Term Loan Facility and Amended Revolving Credit Facility bear interest at a rate per annum equal to an applicable margin plus (1) the Adjusted LIBOR rate for the relevant interest period, (2) an alternate base rate determined by reference to the greatest of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate plus one percent per annum, or (3) a combination of (1) and (2). Accordingly, we are exposed to fluctuations in interest rates on borrowings under the Amended Credit Facilities. A one hundred basis point change in interest rate on our borrowings outstanding as of September 30, 2018 would result in a change in interest expense of approximately \$1.4 million annually.

We did not have investments and do not utilize derivative financial instruments to manage our interest rate risks.

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations to the effectiveness of any system of disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been prevented or detected on a timely basis. Even disclosure controls and procedures determined to be effective can only provide reasonable assurance that their objectives are achieved.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer

*Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate adoption on January 1, 2018. There were no significant changes to our internal controls over financial reporting due to the adoption of the new standard.

**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, we are involved in routine litigation that arises in the ordinary course of business. We are not currently involved in any claims outside the ordinary course of business that are material to our financial condition or results of operations.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Not Applicable.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**



3.1 Certificate of  
Incorporation  
(filed as Exhibit  
3.4 to CPSI's  
Registration  
Statement on  
Form S-1  
(Registration  
No. 333-84726)  
and incorporated  
herein by  
reference)

3.2 Amended and  
Restated Bylaws  
(filed as Exhibit 3  
to CPSI's Current  
Report on Form  
8-K dated  
October 28, 2013  
and incorporated  
herein by  
reference)

31.1 Certification of  
the Chief  
Executive Officer  
pursuant to Rule  
13a-14(a), as  
adopted pursuant  
to Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002

31.2 Certification of  
the Chief  
Financial Officer  
pursuant to Rule  
13a-14(a), as  
adopted pursuant  
to Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002

32.1 Certifications of  
the Chief  
Executive Officer  
and Chief  
Financial Officer

pursuant to 18  
U.S.C.  
Section 1350, as  
adopted pursuant  
to Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002

101 Interactive Data  
Files for CPSI's  
Form 10-Q for  
the period ended  
September 30,  
2018

38

---

