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 March 31, 2019.

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number: 000-49796

COMPUTER PROGRAMS AND SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**74-3032373**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6600 Wall Street, Mobile, Alabama	**36695**
(Address of Principal Executive Offices)	**(Zip Code)**

(251) 639-8100
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value $.001 per share	CPSI	The NASDAQ Stock Market LLC

As of May 7, 2019, there were 14,355,180 shares of the issuer's common stock outstanding.

COMPUTER PROGRAMS AND SYSTEMS, INC.
Quarterly Report on Form 10-Q
(For the three months ended March 31, 2019)

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 4,409	$ 5,732
Accounts receivable, net of allowance for doubtful accounts of $2,080 and $2,124, respectively	39,434	40,474
Financing receivables, current portion, net	14,466	15,059
Inventories	1,750	1,498
Prepaid income taxes	2,275	2,120
Prepaid expenses and other	5,898	5,055
Total current assets	68,232	69,938
Property and equipment, net	10,987	10,875
Operating lease assets	5,882	—
Financing receivables, net of current portion	19,662	19,263
Other assets, net of current portion	924	995
Intangible assets, net	83,703	86,226
Goodwill	140,449	140,449
Total assets	$ 329,839	$ 327,746
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,907	$ 5,668
Current portion of long-term debt	8,597	6,486
Deferred revenue	10,899	10,201
Accrued vacation	4,347	3,929
Other accrued liabilities	9,061	12,219
Total current liabilities	39,811	38,503
Long-term debt, net of current portion	115,448	124,583
Operating lease liabilities, net of current portion	4,608	—
Deferred tax liabilities	5,731	4,877
Total liabilities	165,598	167,963
Stockholders' equity:		
Common stock, $0.001 par value; 30,000 shares authorized; 14,356 and 14,083 shares issued and outstanding, respectively	14	14
Additional paid-in capital	167,229	164,793
Accumulated deficit	(3,002)	(5,024)
Total stockholders' equity	164,241	159,783
Total liabilities and stockholders' equity	$ 329,839	$ 327,746

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

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

	Three Months Ended March 31,	
	2019	2018
Sales revenues:		
System sales and support	$ 43,247	$ 45,751
TruBridge	25,894	25,131
Total sales revenues	69,141	70,882
Costs of sales:		
System sales and support	18,337	18,417
TruBridge	13,689	13,380
Total costs of sales	32,026	31,797
Gross profit	37,115	39,085
Operating expenses:		
Product development	9,228	8,757
Sales and marketing	7,492	7,714
General and administrative	11,824	12,364
Amortization of acquisition-related intangibles	2,523	2,602
Total operating expenses	31,067	31,437
Operating income	6,048	7,648
Other income (expense):		
Other income	248	198
Interest expense	(1,804)	(1,978)
Total other income (expense)	(1,556)	(1,780)
Income before taxes	4,492	5,868
Provision for income taxes	1,048	1,901
Net income	$ 3,444	$ 3,967
Net income per common share—basic	$ 0.24	$ 0.29
Net income per common share—diluted	$ 0.24	$ 0.29
Weighted average shares outstanding used in per common share computations:		
Basic	13,656	13,475
Diluted	13,656	13,475
Dividends declared per common share	$ 0.10	$ 0.10

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

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

	Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31 ,2018	14,083	14	164,793	(5,024)	$ 159,783
Net income	—	—	—	3,444	3,444
Issuance of restricted stock	273	—	—	—	—
Stock-based compensation	—	—	2,436	—	2,436
Dividends	—	—	—	(1,422)	(1,422)
Balance at March 31, 2019	14,356	$ 14	$ 167,229	$ (3,002)	$ 164,241
Balance at December 31, 2017	13,760	$ 14	$ 155,078	$ (19,006)	$ 136,086
Net income	—	—	—	3,967	3,967
Adoption of accounting standard	—	—	—	1,970	1,970
Issuance of restricted stock	326	—	—	—	—
Stock-based compensation	—	—	1,939	—	1,939
Dividends	—	—	—	(1,394)	(1,394)
Balance at March 31, 2018	14,086	$ 14	$ 157,017	$ (14,463)	$ 142,568

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)

	Three Months Ended March 31,	
	2019	2018
Operating Activities:		
Net income	$ 3,444	$ 3,967
Adjustments to net income:		
Provision for bad debt	1,207	646
Deferred taxes	854	777
Stock-based compensation	2,436	1,939
Depreciation	361	529
Amortization of acquisition-related intangibles	2,523	2,602
Amortization of deferred finance costs	86	86
Changes in operating assets and liabilities:		
Accounts receivable	(156)	(3,004)
Financing receivables	183	(2,432)
Inventories	(251)	59
Prepaid expenses and other	(772)	(527)
Accounts payable	1,239	118
Deferred revenue	698	2,700
Other liabilities	(3,808)	(3,932)
Prepaid income taxes/income taxes payable	(156)	(403)
Net cash provided by operating activities	7,888	3,125
Investing Activities:		
Purchases of property and equipment	(473)	(60)
Net cash used in investing activities	(473)	(60)
Financing Activities:		
Dividends paid	(1,422)	(1,394)
Payments of long-term debt principal	(7,110)	(8,794)
Payments of contingent consideration	(206)	—
Proceeds from revolving line of credit	—	8,330
Net cash used in financing activities	(8,738)	(1,858)
Increase (decrease) in cash and cash equivalents	(1,323)	1,207
Cash and cash equivalents at beginning of period	5,732	520
Cash and cash equivalents at end of period	$ 4,409	$ 1,727
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,289	$ 1,841
Cash paid for income taxes, net of refund	$ 350	$ 1,527

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

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, 2018 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, 2018 and the notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Standards Adopted in 2019

In February 2016, the Financial Accounting Standards Board ("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 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. We adopted this guidance as of January 1, 2019 using the current period adjustment method. The impact on the financial statements of implementation of this standard was an increase in lease assets and lease liabilities of $4.9 million as of the adoption date, January 1, 2019. Adoption of the standard did not impact our consolidated net earnings or cash flows.

New Accounting Standards Yet to be Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*, which will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This guidance will be effective for fiscal years and interim periods within those years beginning after December 15, 2019, which is effective for the Company as of the first quarter of our fiscal year ending December 31, 2020. The Company is currently evaluating the impact that the implementation of this standard will have on its financial statements.

We do not believe that any other recently issued but not yet effective accounting standards, if adopted, would have a material impact on our consolidated financial statements.

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 Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, to: (1) identify the contract with the client, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

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

System Sales and Support

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

Non-recurring Revenues

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

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

Recurring Revenues

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

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

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

Refer to Note 15 - Segment Reporting, for further information, including revenue by client base (acute care or post-acute care) bifurcated by recurring and non-recurring revenue.

TruBridge

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

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

Deferred Revenue

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

(In thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 10,201	$ 9,937
Deferred revenue recorded	6,530	7,192
Less deferred revenue recognized as revenue	(5,832)	(4,492)
Ending balance	$ 10,899	$ 12,637

The deferred revenue recorded during the three months ended March 31, 2019 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 three months ended March 31, 2019 and 2018 is comprised primarily of the periodic recognition of annual renewals that were deferred until earned and deposits for future EHR installations that were deferred until earned.

Costs to Obtain and Fulfill a Contract with a Customer

Costs to obtain a contract include the commission costs related to SaaS licensing agreements, which are capitalized and amortized ratably over the expected life of the customer. As a practical expedient, we generally recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset would have been one year or less, with the exception of commissions generated from TruBridge sales. TruBridge commissions, which are paid up to twelve months in advance, are capitalized and amortized over the prepayment period. Costs to obtain a contract are expensed within sales and marketing expenses in the accompanying condensed consolidated statements of income.

Contract fulfillment costs related to the implementation of SaaS arrangements are capitalized and amortized ratably over the expected life of the customer. Costs to fulfill contracts consist of the payroll costs for the implementation of SaaS arrangements, including time for training, conversion, and installation that is necessary for the software to be utilized. Contract fulfillment costs are expensed within the caption "System sales and support - Cost of sales."

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

(In thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 3,017	$ 3,775
Costs to obtain and fulfill contracts capitalized	1,922	883
Less costs to obtain and fulfill contracts recognized as expense	(1,134)	(1,050)
Ending balance	$ 3,805	$ 3,608

Remaining Performance Obligations

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

4. PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following at March 31, 2019 and December 31, 2018:

(In thousands)	March 31, 2019	December 31, 2018
Land	$ 2,848	$ 2,848
Buildings and improvements	7,752	7,752
Computer equipment	3,099	2,766
Leasehold improvements	1,343	1,198
Office furniture and fixtures	1,934	1,938
Automobiles	18	18
Property and equipment, gross	16,994	16,520
Less: accumulated depreciation	(6,007)	(5,645)
Property and equipment, net	$ 10,987	$ 10,875

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities was comprised of the following at March 31, 2019 and December 31, 2018:

(In thousands)	March 31, 2019	December 31, 2018
Salaries and benefits	$ 4,643	$ 8,722
Severance	751	992
Commissions	687	830
Self-insurance reserves	842	1,017
Contingent consideration	—	206
Other	864	452
Operating lease liabilities, current portion	1,274	—
Other accrued liabilities	$ 9,061	$ 12,219

6. NET INCOME PER SHARE

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

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

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

(In thousands, except per share data)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	$ 3,444	$ 3,967
Less: Net income attributable to participating securities	(130)	(121)
Net income attributable to common stockholders	$ 3,314	$ 3,846
Weighted average shares outstanding used in basic per common share computations	13,656	13,475
Add: Dilutive potential common shares	—	—
Weighted average shares outstanding used in diluted per common share computations	13,656	13,475
Basic EPS	$ 0.24	$ 0.29
Diluted EPS	$ 0.24	$ 0.29

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 92,386 shares, none of which have been included in the calculation of diluted EPS for the three months ended March 31, 2019 because the related threshold award performance level has not been achieved as of March 31, 2019. 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.

Our effective tax rate for the three months ended March 31, 2019 decreased to 23.3% from 32.4% for the three months ended March 31, 2018. Our implementation of the Internal Revenue Service’s “Guidance for Allowance of the Credit for Increasing Research Activities under IRC Section 41 for Taxpayers that Expense Research and Development Costs on their Financial Statements pursuant to ASC 730,” commonly referred to as the “ASC 730 Safe Harbor Directive,” during the second half of 2018 has significantly increased our estimated research and development ("R&D") tax credits, resulting in an incremental benefit to our effective tax rate of 4.5% for the first quarter of 2019 compared to the first quarter of 2018. Additionally, we have experienced a decrease in tax shortfalls related to stock-based compensation, resulting in an incremental benefit to our effective tax rate of 4.3% for the first quarter of 2019 compared to the first quarter of 2018.

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 months ended March 31, 2019 and 2018, included in the condensed consolidated statements of income:

(In thousands)	Three Months Ended 2019	Three Months Ended 2018
Costs of sales	$ 531	$ 439
Operating expenses	1,905	1,500
Pre-tax stock-based compensation expense	2,436	1,939
Less: income tax effect	(536)	(427)
Net stock-based compensation expense	$ 1,900	$ 1,512

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, Amended and Restated 2014 Incentive Plan and 2019 Incentive Plan (the "Plans"). As of March 31, 2019, there was $14.9 million of unrecognized compensation expense related to unvested stock-based compensation arrangements granted under the Plans, which is expected to be recognized over a weighted-average period of 2.0 years.

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 three months ended March 31, 2019 and 2018 is as follows:

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Unvested restricted stock outstanding at beginning of period	475,132	$ 32.00	309,195	$ 38.36
Granted	133,936	30.89	148,841	30.20
Performance share awards settled through the issuance of restricted stock	138,566	29.80	177,395	29.94
Vested	(143,945)	33.81	(55,907)	54.20
Unvested restricted stock outstanding at end of period	603,689	$ 30.82	579,524	$ 32.16

Performance Share Awards

The Company grants performance share awards to executive officers and certain key employees under the Amended and Restated 2014 Incentive Plan and the 2019 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 three months ended March 31, 2019 and 2018 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Performance share awards outstanding at beginning of period	184,776	$ 30.15	189,325	$ 29.94
Granted	—	—	184,776	30.15
Adjusted for actual performance, net of forfeitures	46,176	29.80	(11,930)	29.94
Performance share awards settled through the issuance of restricted stock	(138,566)	29.80	(177,395)	29.94
Performance share awards outstanding at end of period	92,386	$ 30.50	184,776	$ 30.15

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 March 31, 2019 and December 31, 2018:

(In thousands)	March 31, 2019	December 31, 2018
Short-term payment plans, gross	$ 5,510	$ 5,773
Less: allowance for losses	(386)	(404)
Short-term payment plans, net	$ 5,124	$ 5,369

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 March 31, 2019 and December 31, 2018:

(In thousands)	March 31, 2019	December 31, 2018
Long-term financing arrangements, gross	$ 35,067	$ 34,841
Less: allowance for losses	(2,170)	(2,163)
Less: unearned income	(3,893)	(3,725)
Long-term financing arrangements, net	$ 29,004	$ 28,953

Future minimum payments to be received subsequent to March 31, 2019 are as follows:

(In thousands)	
Years Ended December 31,	
2019	$ 8,620
2020	10,456
2021	7,358
2022	5,048
2023	2,421
Thereafter	1,164
Total minimum payments to be received	35,067
Less: allowance for losses	(2,170)
Less: unearned income	(3,893)
Receivables, net	$ 29,004

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 three months ended March 31, 2019 and year ended December 31, 2018:

(In thousands)	Balance at Beginning of Period	Provision	Charge-offs	Recoveries	Balance at End of Period
March 31, 2019	$ 2,567	$ (11)	$ —	$ —	$ 2,556
December 31, 2018	$ 3,244	$ 1,691	$ (2,368)	$ —	$ 2,567

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 March 31, 2019 and December 31, 2018:

(In thousands)	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
March 31, 2019	$ 1,453	$ 252	$ 347	$ 2,052
December 31, 2018	$ 1,302	$ 210	$ 245	$ 1,757

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:

(In thousands)	March 31, 2019	December 31, 2018
Stratification of uninvoiced client financing receivables based on aging of related trade accounts receivable:		
1 to 90 Days Past Due	$ 19,133	$ 17,290
91 to 180 Days Past Due	3,285	2,247
181 + Days Past Due	823	885
Total uninvoiced client financing receivables balances of clients with a trade accounts receivable	$ 23,241	$ 20,422
Total uninvoiced client financing receivables of clients with no related trade accounts receivable	7,933	10,694
Total financing receivables with contractual maturities of one year or less	5,510	5,773
Less: allowance for losses	(2,556)	(2,567)
Total financing receivables	$ 34,128	$ 34,322

10. INTANGIBLE ASSETS AND GOODWILL

Our purchased definite-lived intangible assets as of March 31, 2019 and December 31, 2018 are summarized as follows:

(In thousands)	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount as of December 31, 2017	$ 82,300	$ 10,900	$ 24,100	$ 117,300
Accumulated amortization as of December 31, 2018	(19,476)	(2,613)	(8,985)	(31,074)
Net intangible assets as of December 31, 2018	$ 62,824	$ 8,287	$ 15,115	$ 86,226
Gross carrying amount as of December 31, 2018	$ 82,300	$ 10,900	$ 24,100	$ 117,300
Accumulated amortization as of March 31, 2019	(21,111)	(2,815)	(9,671)	(33,597)
Net intangible assets as of March 31, 2019	$ 61,189	$ 8,085	$ 14,429	$ 83,703
Weighted average remaining years of useful life	10	12	5	9

The following table represents the remaining amortization of definite-lived intangible assets as of March 31, 2019:

(In thousands)	
For the year ended December 31,	
2019	$ 7,549
2020	10,066
2021	10,066
2022	10,066
2023	10,066
Thereafter	35,890
Total	$ 83,703

The following table sets forth the change in the carrying amount of goodwill by segment for the three months ended March 31, 2019:

(In thousands)	Acute Care EHR	Post-acute Care EHR	TruBridge	Total
Balance as of December 31, 2018	$ 97,095	$ 29,570	$ 13,784	$ 140,449
Goodwill impairment	—	—	—	—
Balance as of March 31, 2019	$ 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 March 31, 2019 and December 31, 2018:

(In thousands)	March 31, 2019	December 31, 2018
Term loan facility	$ 95,404	$ 102,432
Revolving credit facility	29,693	29,693
Finance lease obligation	168	250
Debt obligations	125,265	132,375
Less: unamortized debt issuance costs	(1,220)	(1,306)
Debt obligation, net	124,045	131,069
Less: current portion	(8,597)	(6,486)
Long-term debt	$ 115,448	$ 124,583

As of March 31, 2019, 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.

Anticipated annual future maturities of the Amended Term Loan Facility, Amended Revolving Credit Facility, and capital lease obligation are as follows as of March 31, 2019:

(In thousands)		
2019	$	6,749
2020		8,775
2021		9,506
2022		100,235
2023		—
Thereafter		—
	$	125,265

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 March 31, 2019.

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 $7.0 million prepayment on the Amended Term Loan Facility during the first quarter of 2019 related to excess cash flow generated by the Company during 2018.

12. OPERATING LEASES

The Company leases office space in various locations in Alabama, Louisiana, Pennsylvania, Minnesota, Colorado, and Mississippi. These leases have terms expiring from 2019 through 2030 but do contain optional extension terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Supplemental balance sheet information related to operating leases was as follows:

(In thousands)	March 31, 2019
Operating lease assets:	
Operating lease assets	$ 5,882
Operating lease liabilities:	
Other accrued liabilities	$ 1,274
Operating lease liabilities, net of current portion	4,608
Total operating lease liabilities	$ 5,882
Weighted average remaining lease term in years	8
Weighted average discount rate	5.2%

Because our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. We used the incremental borrowing rate on January 1, 2019, for operating leases that commenced prior to that date.

The future minimum lease payments payable under these operating leases subsequent to March 31, 2019 are as follows:

(In thousands)	
2019	$ 886
2020	997
2021	960
2022	887
2023	844
Thereafter	2,516
Total lease payments	7,090
Less imputed interest	(1,208)
Total	$ 5,882

Total rent expense for the three months ended March 31, 2019 and 2018 was $0.6 million and $0.7 million, respectively.

Total cash paid for amounts included in the measurement of lease liabilities within operating cash flows from operating leases for the three months ended March 31, 2019 was $0.4 million.

As of March 31, 2019, we had one additional office space lease that has not yet commenced with future commitments of $1.5 million. This office space in Ridgeland, MS will replace existing office space in Jackson, MS and will commence during the third quarter of 2019.

13. 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.

14. 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 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.

As of March 31, 2019, we did not have any instruments that require fair value measurement.

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 estimated the fair value of the contingent consideration based on the amount of revenue we expected 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 December 31, 2018:

		Fair Value at December 31, 2018 Using		
(In thousands)	Carrying Amount at 12/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Contingent consideration	$ 206	$ —	$ —	$ 206
Total	$ 206	$ —	$ —	$ 206

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.

15. 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 months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(In thousands)	2019	2018
Revenues:		
Acute Care EHR		
Recurring revenue	$ 27,389	$ 28,134
Non-recurring revenue	10,059	12,048
Total Acute Care EHR revenue	37,448	40,182
Post-acute Care EHR		
Recurring revenue	4,478	4,831
Non-recurring revenue	1,321	738
Total Post-acute Care EHR revenue	5,799	5,569
TruBridge	25,894	25,131
Total revenues	$ 69,141	$ 70,882
Cost of sales:		
Acute Care EHR	$ 17,066	$ 16,756
Post-acute Care EHR	1,271	1,661
TruBridge	13,689	13,380
Total cost of sales	$ 32,026	$ 31,797
Gross profit:		
Acute Care EHR	$ 20,382	$ 23,426
Post-acute Care EHR	4,528	3,908
TruBridge	12,205	11,751
Total gross profit	$ 37,115	$ 39,085
Corporate operating expenses	$ (31,067)	$ (31,437)
Other income	248	198
Interest expense	(1,804)	(1,978)
Income before taxes	$ 4,492	$ 5,868

16. SUBSEQUENT EVENTS

On May 2, 2019, the Company announced a dividend for the second quarter of 2019 in the amount of $0.10 per share, payable on May 31, 2019, to stockholders of record as of the close of business on May 16, 2019.

On May 3, 2019, the Company closed its acquisition of iNetXperts, Corp., a Maryland corporation doing business as Get Real Health (“Get Real Health”), pursuant to a Stock Purchase Agreement dated April 23, 2019. Based in Rockville, Maryland, Get Real Health delivers technology solutions to improve patient outcomes and engagement strategies with care providers. The contemplated total aggregate consideration to be paid by the Company is $11 million, payable in cash, subject to certain adjustments after closing, plus a contingent earnout payment of up to $14 million tied to Get Real Health’s EBITDA for 2019.

Item 2. Management's Discussion and Analysis of 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 customers;
- 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 customers;
- 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;
- failure to convince customers to migrate to current or future releases of our products;
- 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, 2018.

Background

CPSI is a leading provider of healthcare solutions and services for community hospitals and other healthcare systems and post-acute care facilities. Founded in 1979, CPSI offers our products and services through three companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), and American HealthTech, Inc. ("AHT"). These combined companies are focused on improving the health of the communities we serve, connecting communities for a better patient care experience, and improving the financial operations of our clients. The individual contributions of each of these companies towards this combined focus are as follows:

- Evident, which makes up our Acute Care EHR reporting segment, provides comprehensive acute care electronic health record ("EHR") solutions, Thrive and Centriq, and related services for community hospitals and their physician clinics.
- AHT, which makes up our Post-acute Care EHR reporting segment, provides a comprehensive post-acute care EHR solution and related services for skilled nursing and assisted living facilities.
- TruBridge, our third reporting segment, focuses on providing business management, consulting, and managed IT services along with its complete revenue cycle management ("RCM") solution for all care settings, regardless of their primary healthcare information solutions provider.

Our companies currently support approximately 1,000 acute care facilities and approximately 3,300 post-acute care facilities with a geographically diverse customer mix within the domestic community healthcare market. Our clients primarily consist of community hospitals with fewer than 200 acute care beds, with hospitals having fewer than 100 beds comprising approximately 98% of our acute care EHR client base.

See Note 15 to the consolidated financial statements included herein for additional information on our three reportable segments.

Management Overview

Through much of our history, we have been able to achieve meaningful long-term revenue growth through sales of healthcare IT systems and related services to existing and new clients within our target market. Prospectively, our ability to continue to realize long-term revenue growth is largely dependent on our ability to sell new and additional products and services to our existing customer base, including cross-selling opportunities presented between our operating segments, Acute Care EHR, Post-acute Care EHR, and TruBridge. As a result, retention of existing EHR customers is a key component of our long-term growth strategy by protecting this base of potential cross-sell customers, while at the same time serving as a leading indicator of our market position and stability of revenues and cash flows.

Additionally, as we consider the long-term growth prospects of our business, we are seeking to further stabilize our revenues and cash flows and leverage TruBridge services as a growth agent in light of a relatively mature EHR marketplace. As a result, we are placing ever-increasing value in further developing our already significant recurring revenue base. As such, maintaining and growing recurring revenues are additional key components of our long-term growth strategy, aided by the aforementioned focus on customer retention, and include a renewed focus on driving demand for subscriptions for our existing technology solutions.

Our business model is designed such that, as revenue growth materializes, earnings and profitability growth are naturally bolstered through the increased margin realization afforded us by operating leverage. Once a hospital has installed our solutions, we continue to provide support services to the customer on a continuing basis and make available to the customer our broad portfolio of business management, consulting, and managed IT services, all of which contribute to recurring revenue growth. The provision of these recurring revenue services typically requires fewer resources than the initial system installation, resulting in increased overall gross margins and operating 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%. Also, during 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. Our system sales revenues are now weighted more heavily in the form of financed sales, compared to upfront and subscription payment modules. 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 2018, total financing receivables increased by $7.8 million which had a significant impact on operating cash flow. This 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 and demand for such installation has increased since late 2017. 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. We expect positive cash flows from financing receivables during 2019 as cash receipts from MU3 installations in the previous year are received.

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

On May 3, 2019, the Company closed its acquisition of iNetXperts, Corp., a Maryland corporation doing business as Get Real Health ("Get Real Health"), pursuant to a Stock Purchase Agreement dated April 23, 2019. Based in Rockville, Maryland, Get Real Health delivers technology solutions to improve patient outcomes and engagement strategies with care providers. Through this acquisition, the Company will strengthen its position in community healthcare by offering three new comprehensive patient engagement and empowerment solutions that are offered by Get Real Health. Although the acquisition is expected to be accretive to Adjusted EBITDA for fiscal year 2019, there can be no assurance that this will be the case. In addition, we expect to incur acquisition and integration costs in the second quarter of 2019, which may have a negative effect on Adjusted EBITDA for the quarter.

Results of Operations

During the three months ended March 31, 2019, we generated revenues of $69.1 million from the sale of our products and services, compared to $70.9 million during the three months ended March 31, 2018, a decrease of 2% that is primarily attributed to new EHR installations that were smaller in size compared to the first quarter of 2018 partially offset by continued 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 three months ended March 31, 2019 decreased by $0.5 million to $3.4 million from the three months ended March 31, 2018 as a result of lower Acute Care EHR system sales and support revenue leading to a gross margin of 54%, a 1% decrease from the first three months of 2018. Net cash provided by operating activities increased by $4.8 million to $7.9 million during the three months ended March 31, 2019, primarily due to more advantageous changes in working capital, most notably as it relates to accounts receivable and financing receivables.

The following table sets forth certain items included in our results of operations for the three months ended March 31, 2019 and 2018, expressed as a percentage of our total revenues for these periods:

	Three Months Ended March 31,			
	2019		2018	
(In thousands)	Amount	% Sales	Amount	% Sales
INCOME DATA:				
Sales revenues:				
System sales and support:				
Acute Care EHR	$ 37,448	54.2 %	$ 40,182	56.7 %
Post-acute Care EHR	5,799	8.4 %	5,569	7.9 %
Total System sales and support	43,247	62.5 %	45,751	64.5 %
TruBridge	25,894	37.5 %	25,131	35.5 %
Total sales revenues	69,141	100.0 %	70,882	100.0 %
Costs of sales:				
System sales and support:				
Acute Care EHR	17,066	24.7 %	16,756	23.6 %
Post-acute Care EHR	1,271	1.8 %	1,661	2.3 %
Total System sales and support	18,337	26.5 %	18,417	26.0 %
TruBridge	13,689	19.8 %	13,380	18.9 %
Total costs of sales	32,026	46.3 %	31,797	44.9 %
Gross profit	37,115	53.7 %	39,085	55.1 %
Operating expenses:				
Product development	9,228	13.3 %	8,757	12.4 %
Sales and marketing	7,492	10.8 %	7,714	10.9 %
General and administrative	11,824	17.1 %	12,364	17.4 %
Amortization of acquisition-related intangibles	2,523	3.6 %	2,602	3.7 %
Total operating expenses	31,067	44.9 %	31,437	44.4 %
Operating income	6,048	8.7 %	7,648	10.8 %
Other income (expense):				
Other income	248	0.4 %	198	0.3 %
Interest expense	(1,804)	(2.6)%	(1,978)	(2.8)%
Total other income (expense)	(1,556)	(2.3)%	(1,780)	(2.5)%
Income before taxes	4,492	6.5 %	5,868	8.3 %
Provision for income taxes	1,048	1.5 %	1,901	2.7 %
Net income	$ 3,444	5.0 %	$ 3,967	5.6 %

Three Months Ended March 31, 2019 Compared with Three Months Ended March 31, 2018

Revenues. Total revenues for the three months ended March 31, 2019 decreased by $1.7 million, or 2%, compared to the three months ended March 31, 2018.

System sales and support revenues decreased by $2.5 million, or 5%, compared to the first quarter 2018. System sales and support revenues were comprised of the following:

	Three Months Ended March 31,	
(In thousands)	2019	2018
Recurring system sales and support revenues [1]		
Acute Care EHR	$ 27,389	$ 28,134
Post-acute Care EHR	4,478	4,831
Total recurring system sales and support revenues	31,867	32,965
Non-recurring system sales and support revenues [2]		
Acute Care EHR	10,059	12,048
Post-acute Care EHR	1,321	738
Total non-recurring system sales and support revenues	11,380	12,786
Total system sales and support revenue	$ 43,247	$ 45,751

[1] Mostly comprised of support and maintenance, third-party subscriptions, and SaaS revenues.

[2] 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 decreased by $1.4 million, or 11%, mostly due to a $2.0 million decrease in Acute Care EHR non-recurring revenues. New implementations of our Acute Care EHR solutions decreased both in number and average contract size compared to the first quarter 2018, resulting in a $1.5 million decrease in related revenues. Our Acute Care EHR solutions were installed in five new hospital clients during the first quarter 2019 compared to six during the first quarter 2018, with each period containing one installation under a SaaS arrangement, resulting in revenue being recognized ratably over the contractual term. Add-on sales for our Acute Care EHR segment remained relatively flat, as the $2.0 million decrease in MU3-related revenues was offset by a $2.1 million increase in other add-on revenues. Non-recurring Post-acute Care EHR revenues increased by $0.6 million, or 79%, in the first quarter 2019 as a result of increased bookings due to our ongoing product releases and aggressive efforts to make technological improvements to the AHT product line.

Recurring system sales and support revenues decreased by $1.1 million, or 3%, compared to the first quarter 2018. Acute Care EHR recurring revenues decreased by $0.7 million, or 3%, 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 $0.4 million, or 7%, due to attrition attributed to an aggressive competitive environment as we make technological improvements to the AHT product line.

TruBridge revenues increased 3%, or $0.8 million, compared to the first quarter 2018. 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, our insurance services line, which includes our TruBridge services, increased by $0.8 million, or 12%, due to new RCM customer growth. We have also expanded our customer base for our accounts receivable management services resulting in an increase of $0.3 million, or 4%, and our information technology management services grew by 10%, or $0.3 million. These increases were partially offset by a decrease in our medical coding services of $0.8 million, or 26%, as a few key customers have decreased their demand for these services.

Costs of Sales. Total costs of sales increased by 1%, or $0.2 million, compared to the first quarter 2018. As a percentage of total revenues, costs of sales increased to 46% in the first quarter 2019, compared to 45% in the first quarter 2018.

Costs of Acute Care EHR system sales and support increased by $0.3 million, or 2%, compared to the first quarter 2018 primarily due to a $1.0 million increase in hardware expense resulting from changes in the sales mix. This increase was partially offset by a 3%, or $0.3 million, decrease in payroll cost as headcount has been reduced and a $0.2 million decrease in third party software costs. The dual effect of decreased revenues and the increased costs noted above resulted in the gross margin on Acute Care EHR system sales and support decreasing to 54% in the first quarter 2019, compared to 58% in the first quarter 2018.

Costs of Post-acute Care EHR system sales and support decreased by $0.4 million, or 23%, compared to the first quarter 2018, primarily due to reduced payroll costs of $0.1 million, or 15%, as we have been able to continue to operate more efficiently to meet current demand. Additional decreases in software, hardware, travel, and other costs combined for an additional $0.3 million decrease. The gross margin on Post-acute Care EHR system sales and support increased to 78% in the first quarter 2019, compared to 70% in the first quarter 2018.

Our costs associated with TruBridge sales and support increased 2%, or $0.3 million, with the largest contributing factor being an increase in payroll and related costs of 4%, or $0.4 million, as a result of adding more employees during the trailing twelve months in order to support and develop our growing customer base. The gross margin on these services was 47% in the first quarter 2019 and 2018.

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 5%, or $0.5 million, compared to the first quarter 2018, primarily as a result of an increase in headcount.

Sales and Marketing. Sales and marketing expenses decreased 3%, or $0.2 million, compared to the first quarter 2018, primarily due to decreased payroll costs of 7%, or $0.2 million, based on decreased headcount.

General and Administrative. General and administrative expenses decreased 4%, or $0.5 million, as the $2.5 million in cost savings achieved through recent changes in the health benefits offered to our employees through our self-insured health plans were partially offset by increases in other expense items. Most notably, we saw a $1.1 million increase in non-recurring and transaction-related costs resulting from recent acquisition activity and other strategic initiatives. Bad debt expense increased $0.6 million, as a few of our hospital clients have not been or may not be able to fulfill their financial obligations. Lastly, stock compensation expense increased $0.3 million as a result of additional grants of stock made during the trailing twelve months.

Amortization of Acquisition-Related Intangibles. Amortization expense associated with acquisition-related intangible assets decreased $0.1 million compared to the first quarter 2018 due to the retirement of Rycan related trademarks during 2018. 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 45% in the first quarter 2019, compared to 44% in the first quarter 2018.

Total Other Income (Expense). Total other income (expense) decreased from expense of $1.8 million during the first quarter 2018 to expense of $1.6 million during the first quarter 2019, as we have reduced our interest-bearing 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 decreased by 23%, or $1.4 million, compared to the first quarter 2018.

Provision for Income Taxes. Our effective tax rate for the three months ended March 31, 2019 decreased to 23.3% from 32.4% for the three months ended March 31, 2018. Our implementation of the Internal Revenue Service's "Guidance for Allowance of the Credit for Increasing Research Activities under IRC Section 41 for Taxpayers that Expense Research and Development Costs on their Financial Statements pursuant to ASC 730," commonly referred to as the "ASC 730 Safe Harbor Directive," during the second half of 2018 has significantly increased our estimated research and development ("R&D") tax credits, resulting in an incremental benefit to our effective tax rate of 4.5% for the first quarter 2019 compared to the first quarter 2018. Additionally, we have experienced a decrease in tax shortfalls related to stock-based compensation, resulting in an incremental benefit to our effective tax rate of 4.3% for the first quarter 2019 compared to the first quarter 2018.

Net Income. Net income for the three months ended March 31, 2019 decreased by $0.5 million to $3.4 million, or $0.24 per basic and diluted share, compared with net income of $4.0 million, or $0.29 per basic and diluted share, for the three months ended March 31, 2018. Net income represented 5% of revenue for the three months ended March 31, 2019, compared to 6% of revenue for the three months ended March 31, 2018.

Liquidity and Capital Resources

Sources of Liquidity

As of March 31, 2019, our principal sources of liquidity consisted of cash and cash equivalents of $4.4 million and our remaining borrowing capacity under the Amended Revolving Credit Facility of $20.3 million, compared to $5.7 million of cash and cash equivalents and $20.3 million of remaining borrowing capacity under the Amended Revolving Credit Facility as of December 31, 2018. 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 March 31, 2019, we had $125.1 million in principal amount of indebtedness outstanding under the Amended Credit Facilities. We believe that our cash and cash equivalents of $4.4 million as of March 31, 2019, the future operating cash flows of the combined entity, and our remaining borrowing capacity under the Amended Revolving Credit Facility of $20.3 million as of March 31, 2019, 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.

To finance the closing of the Get Real Health transaction, which occurred on May 3, 2019, the Company used a draw of approximately $11.0 million under its Amended Revolving Credit Facility. If the Company is required to make earnout payments (up to $14.0 million) after the end of 2019, the Company expects to use additional draws on its Amended Revolving Credit Facility.

Operating Cash Flow Activities

Net cash provided by operating activities increased $4.8 million, from $3.1 million provided by operations for the three months ended March 31, 2018 to $7.9 million provided by operations for the three months ended March 31, 2019. The increase in cash flows provided from operations is primarily due to more cash-advantageous changes in working capital. Working capital was a net use of cash during the first quarter 2018 in the amount of $7.4 million, compared to a net use during the first quarter 2019 of only $3.0 million. During the first quarter 2018, rapid revenue growth for TruBridge resulted in expansion of accounts receivable of approximately $3.0 million and financing receivables of approximately $2.4 million, as we were still in the early-stages of the MU3 opportunity (the sales of which have been nearly all under short-term payment plans). Conversely, modest TruBridge revenue growth during the first quarter 2019 coupled with collections on past financing receivables have greatly abated the related cash flow headwinds. As a result, these components of working capital, which combined for $5.4 million of cash flow headwinds during the first quarter 2018, were effectively cash-neutral during the first quarter 2019.

Investing Cash Flow Activities

Net cash used in investing activities increased with $0.5 million used in the three months ended March 31, 2019 compared to $0.1 million used during the three months ended March 31, 2018. We do not anticipate the need for significant capital expenditures during the remainder of 2019.

Financing Cash Flow Activities

During the three months ended March 31, 2019, our financing activities used net cash of $8.7 million, as we paid a net $7.1 million in long-term debt principal and declared and paid dividends in the amount of $1.4 million. During the three months ended March 31, 2019, we made a $7.0 million prepayment on the Amended Term Loan Facility in accordance with the excess cash flow mandatory prepayment requirements of the Amended Credit Agreement. Financing cash flow activities used $1.9 million during the three months ended March 31, 2018, primarily due to $0.5 million net paid in long-term debt principal and $1.4 million cash paid in dividends.

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 March 31, 2019, we had $95.4 million in principal amount outstanding under the Amended Term Loan Facility and $29.7 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 events of default. We believe that we were in compliance with the covenants contained in the Amended Credit Agreement as of March 31, 2019.

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 $7.0 million prepayment on the Amended Term Loan Facility during the first quarter 2019 related to excess cash flow generated by the Company during 2018.

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 March 31, 2019, we had a twelve-month backlog of approximately $17 million in connection with non-recurring system purchases and approximately $227 million in connection with recurring payments under support and maintenance, Cloud EHR contracts, and TruBridge services. As of March 31, 2018, we had a twelve-month backlog of approximately $35 million in connection with non-recurring system purchases and approximately $230 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 months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(In thousands)	2019	2018
System sales and support [1]		
Acute Care EHR	$ 8,285	$ 17,505
Post-acute Care EHR	1,431	727
Total system sales and support	9,716	18,232
TruBridge [2]	4,228	3,818
Total bookings	$ 13,944	$ 22,050

[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 first quarter 2019 decreased by $9.2 million, or 53%, from the first quarter 2018, mostly as net new installation bookings have been severely impaired by a lack of urgency on the part of prospective customers, resulting in a low volume of decisions for new system implementations. Management views this as a timing anomaly, and does not consider the quality of its pipeline to have diminished materially.

Post-acute Care EHR bookings in the first quarter 2019 increased by $0.7 million, or 97%, from the first quarter 2018, as beneficial regulatory factors have worked in tandem with our recent efforts to improve the related product functionality and usability to drive improved demand in both the net new and add-on sales enviroments.

TruBridge bookings increased $0.4 million, or 11%, as demand for the remote hosting products offered by our IT Managed Services division and the revenue cycle optimization tools offered through the TruBridge RCM solution led to increased deal-flow.

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 March 31, 2019.

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, 2018, we identified our critical accounting polices related to revenue recognition, allowance for doubtful accounts, allowance for credit losses, and estimates. There have been no significant changes to these critical accounting policies during the three months ended March 31, 2019.

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 $125.1 million of outstanding borrowings under our Amended Credit Facilities with Regions Bank at March 31, 2019. 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 March 31, 2019 would result in a change in interest expense of approximately $1.3 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 concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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 March 31, 2019 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 operating and finance leases and properly assessed the impact of the new accounting standard related to lease accounting on our financial statements to facilitate adoption on January 1, 2019. 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, 2018, 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.

2.1	Stock Purchase Agreement, dated April 23, 2019, by and among Computer Programs and Systems, Inc., iNetXperts, Corp., the Sellers named therein, and the Sellers' Representative (filed as Exhibit 2.1 to CPSI's Current Report on Form 8-K dated April 24, 2019 and incorporated herein by reference)
2.2	First Amendment to Stock Purchase Agreement, dated May 2, 2019, by and among Computer Programs and Systems, Inc., iNetXperts, Corp., the Sellers named therein, and the Sellers' Representative
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)
3.3	Amendment to Amended and Restated Bylaws (filed as Exhibit 3.1 to CPSI's Current Report on Form 8-K dated January 22, 2019 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 March 31, 2019

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COMPUTER PROGRAMS AND SYSTEMS, INC.	
May 8, 2019	By:	/s/ J. Boyd Douglas
		J. Boyd Douglas
		President and Chief Executive Officer
May 8, 2019	By:	/s/ Matt J. Chambless
		Matt J. Chambless
		Chief Financial Officer

Exhibit 2.2

FIRST AMENDMENT TO

STOCK PURCHASE AGREEMENT

This First Amendment to Stock Purchase Agreement (this "Amendment"), is entered into as of May 2, 2019 (the "Amendment Date") but effective as of the Execution Date, by and between iNetXperts, Corp., a Maryland corporation doing business as Get Real Health (the "Company"), Computer Programs and Systems, Inc., a Delaware corporation ("Buyer"), the stockholders of the Company listed on Schedule A to the Agreement (as defined below) (each a "Seller" and, collectively, "Sellers"), and Kevin M. Plessner, not as a Seller but in his capacity as a representative of Sellers (the "Sellers Representative").

RECITALS

WHEREAS, the Parties entered into that certain Stock Purchase Agreement, dated as of April 23, 2019 (the "Agreement"); and

WHEREAS, the Parties desire to amend the Agreement as set forth in this Amendment in accordance with Section 11.4 of the Agreement.

AGREEMENT

NOW, THEREFORE, the Parties, intending to be legally bound, hereby agree as follows:

1. Rules of Construction. Capitalized terms used but not defined in this Amendment have the meanings given to such terms in the Agreement. References to a Section, Annex or Schedule mean a Section of, or an Annex to, the Agreement or a Schedule to the Seller Disclosure Letter, respectively.

2. Amendments. Section 2.2(b) of the Agreement is hereby deleted and replaced with the following:

> (b) The Earnout Payment, if any, shall be earned and paid in accordance with Annex B. Each Securityholder shall be eligible to receive payment of such Securityholder's pro rata portion of the Earnout Payment, if any; provided, however, and notwithstanding anything in this Agreement, including Annex B, to the contrary, TELUS is not entitled to receive any portion of the Earnout Payment unless the amount of the Earnout Payment is such that TELUS would have received a greater amount of Transaction Consideration had it converted its shares to Common Stock prior to the Closing (and in such an event TELUS shall be entitled to receive the amount of the Earnout Payment necessary to provide TELUS with the amount of Transaction Consideration it would have received had it, in fact, so converted its shares).

3. Effect on Agreement. Except as provided in this Amendment, the Agreement is unchanged and remains in full force and effect. The provisions set forth in this Amendment shall be deemed to be and shall be construed as part of the Agreement to the same extent as if fully set forth verbatim therein. All references in the Agreement or any other agreements, instruments and documents executed and delivered in connection therewith to the Agreement shall be deemed to refer to the Agreement as amended hereby. This Amendment shall be subject to the general provisions contained in Article XI of the Agreement, which are hereby incorporated by reference herein.

4. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same instrument. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

[*Signature page follows.*]

IN WITNESS WHEREOF, the Parties have executed, or caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the Execution Date.

THE COMPANY:

iNetXperts, Corp. doing business as Get Real Health

By: /s/ Robin Wiener
Name: Robin Wiener
Title: CEO

[Signature Page to First Amendment to Stock Purchase Agreement – The Company]

BUYER:

Computer Programs and Systems, Inc.

By: /s/ J. Boyd Douglas
Name: J. Boyd Douglas
Title: President and Chief Executive Officer

[Signature Page to First Amendment to Stock Purchase Agreement – Buyer]

SELLERS:

/s/ Mark Heaney
Mark Heaney

/s/ Robin Wiener
Robin Wiener

/s/ Jason Harmon
Jason Harmon

/s/ Rajesh CKR
Rajesh CKR

/s/ Manoj Sreenilayam
Manoj Sreenilayam

/s/ Alison Hoffman
Alison Hoffman

/s/ Chunmin Ren
Chunmin Ren

/s/ Christina Hendricks
Christina Hendricks

/s/ Romain Gallais
Romain Gallais

/s/ Kelly Grey
Kelly Grey

TELUS Corporation

By: /s/ Rich Osborn

Name: Rich Osborn

Title: Managing Partner, TELUS Ventures

SELLERS REPRESENTATIVE:

/s/ Kevin M. Plessner
Kevin M. Plessner, solely in his capacity as the Sellers' Representative

Exhibit 31.1

CERTIFICATION

I, J. Boyd Douglas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Computer Programs and Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ J. Boyd Douglas
J. Boyd Douglas
President and Chief
Executive Officer

Exhibit 31.2

CERTIFICATION

I, Matt J. Chambless, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Computer Programs and Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Matt J. Chambless

Matt J. Chambless

Chief Financial Officer

Exhibit 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Computer Programs and Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), J. Boyd Douglas, President and Chief Executive Officer of the Company, and Matt J. Chambless, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2019

/s/ J. Boyd Douglas
J. Boyd Douglas
President and Chief
Executive Officer

/s/ Matt J. Chambless
Matt J. Chambless
Chief Financial Officer