

COMPUTER PROGRAMS & SYSTEMS INC

Form 10-K

March 18, 2019

COMPUTER PROGRAMS & SYSTEMS INC Accelerated

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

ANNUAL
REPORT
PURSUANT
TO SECTION
X 13 OR 15(D) OF
THE
SECURITIES
EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018
OR

TRANSITION
REPORT
PURSUANT
TO SECTION
" 13 OR 15(D) OF
THE
SECURITIES
EXCHANGE
ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____ TO ____.

Commission file number: 000-49796

COMPUTER PROGRAMS AND SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 74-3032373

(State or Other
Jurisdiction of
Incorporation
or
Organization) (I.R.S.
Employer
Identification
No.)

6600 Wall
Street, Mobile, 36695
Alabama

(Address of
Principal
Executive
Offices) (Zip Code)

(251) 639-8100

(Registrant's telephone number, including area code)

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

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<p>Title of Each Class</p> <p>Common Stock, par value \$.001 per share</p>	<p>Name of Each Exchange on Which Registered</p> <p>The NASDAQ Stock Market LLC</p>
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Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	Smaller reporting company	<input type="checkbox"/>
Emerging Growth Company		<input type="checkbox"/>

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 Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant at June 30, 2019, was \$1,234,567.89. As of March 11, 2019, the registrant had outstanding 12,345,678 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:

Portions of the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this report to the extent described herein.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual 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 charges 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.

For more information about the risks described above and other risks affecting us, see "Risk Factors" beginning

outlook only as of this date, and we undertake no obligation to update or revise any forward-looking statements to reflect events or developments after the date of this Annual Report.

PART I

ITEM 1. BUSINESS

Overview

approximately

During 2018, we generated revenues of \$280.4 million from the sale of our products and services.

Industry Dynamics

The healthcare industry is the largest industry in the United States economy, comprising approximately 17.9% of the U.S. gross domestic product in 2016 according to the Centers for Medicare and Medicaid Services ("CMS"). CMS estimates that by fiscal 2026, total U.S. healthcare spending will reach \$5.7 trillion, or 19.7% of the estimated U.S. gross domestic product.

Hospital services represents one of the largest categories of total healthcare expenditures, comprising approximately 32% of total healthcare expenditures in 2016 according to the CMS. According to the American Hospital Association's *AHA Hospital Statistics, 2019 Edition*, there are approximately 3,900 community hospitals in the United States that are in our target market of hospitals with fewer than 200 beds, with approximately 2,900 of those in our primary area of focus of fewer than 100 acute care beds. In addition, there is a market of small specialty hospitals that focus on discrete medical areas such as surgery, rehabilitation and long-term acute care.

Notwithstanding the size and importance of the healthcare industry within the United States economy, the industry is constantly challenged by changing economic dynamics, increased regulation and pressure to improve the quality of healthcare. These challenges are particularly significant for the hospitals in our target market due to their more limited financial and human resources and their dependency on Medicare and Medicaid populations for a substantial portion of their revenue. However, we believe healthcare providers can successfully address these issues with the help of advanced medical information systems and our suite of complementary services. Specific examples of the challenges and opportunities facing healthcare providers include the following:

Changing Economic Dynamics. The economy of the healthcare industry, although not immune to general macroeconomic conditions, is heavily impacted by legislative and regulatory initiatives of the federal and state

governments. These legislative and regulatory initiatives have a particularly significant impact on our customer base, as community hospitals typically generate a significant portion of their revenues from beneficiaries of the Medicare and Medicaid programs. Consequently, even small

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changes in these federal and state programs have a disproportionately larger effect on community hospitals as compared to larger facilities where greater portions of their revenues are typically generated from beneficiaries of private insurance programs. Medicare and Medicaid funding and reimbursements fluctuate year to year and, with the growth in healthcare costs, will continue to be scrutinized as the federal and state governments attempt to control the costs and growth of the program. The Medicaid program, which is a federal/state program managed by the individual states and dependent in part on funding from the states, also continues to experience funding issues due to the increasing cost of healthcare and limited state revenues.

Mandatory cuts in federal spending resulting from the Budget Control Act of 2011 (the "Budget Control Act") became effective in March 2013. Although Medicaid is specifically exempted from the cuts mandated by the legislation, the Budget Control Act includes a reduction of up to 2% in federal Medicare spending, which has been achieved by reduced reimbursements to healthcare providers. Additionally, the Patient Protection and Affordable Care Act, more commonly referred to as the Affordable Care Act (the "ACA"), has put into effect a number of provisions designed to reduce Medicare and Medicaid program spending by significant amounts. As the federal government seeks in the future to further limit deficit spending due to fiscal restraints, it will likely continue to cut entitlement spending programs such as Medicare and Medicaid matching grants, which will place further cost pressures on hospitals and other healthcare providers. Furthermore, federal and state budget shortfalls could lead to potential reductions in funding for Medicare and Medicaid. Further reductions in reimbursements from Medicare and Medicaid could lead to hospitals postponing expenditures on information technology.

While legislative and regulatory initiatives are placing significant pressure on Medicare and Medicaid reimbursements, our customer base of community hospitals is also likely faced with increases in demand for Medicare and Medicaid services. We expect that the demand for Medicare and Medicaid services will increase for the foreseeable future due to the growing number of people born during the post-World War II baby boom that are becoming eligible for Medicare benefits at age 65, as well as states electing to expand Medicaid coverage under the provisions of the ACA. The challenges posed by this dual-threat of increased demand for Medicare and Medicaid services and downward pressure on reimbursements are further complicated by the shift away from volume-based reimbursement towards value-based reimbursement, linking reimbursement to quality measurements and outcomes. To compete in the continually changing healthcare environment, providers are increasingly using technology in order to help maximize the efficiency of their business practices, to assist in enhancing patient care, and to maintain the privacy and security of patient information. Healthcare providers are placing increased demands on their information systems to accomplish these tasks. We believe that information systems must facilitate management of patient information across administrative, financial and clinical tasks. Information systems must also effectively interface with a variety of payor organizations within the increasingly complex reimbursement environment.

The American Recovery and Reinvestment Act of 2009. In 2009, the U.S. federal government enacted the American Recovery and Reinvestment Act (the "ARRA"), which included the Health Information Technology for Economic and Clinical Health Act ("HITECH"). HITECH authorized the EHR incentive program, which provided significant incentive funding to physicians and hospitals that can prove they have adopted and are appropriately using technology such as our EHR solutions. The level to which healthcare providers must prove they are effectively utilizing such solutions in order to qualify for these incentives is measured through an escalating criteria designated as "meaningful use." As a result of our obtaining the required certifications and our track record with our hospital customers successfully achieving meaningful use, the ARRA continues to have a positive impact on our business and the businesses of the community hospitals that comprise our target market.

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

Continued Push for Improved Patient Care. With the increased pressure to reduce medical errors and improve patient safety, driven in part by the general shift towards value-based reimbursement, hospitals are actively seeking information technology solutions for clinical decision support. This migration toward clinical decision support solutions is further supported by the ARRA. Provisions of the ARRA offered incentives for hospitals to become meaningful users of EHRs through September 2015. Hospitals and healthcare providers that did not implement and demonstrate meaningful use of EHRs by October 1, 2014 were penalized with lower Medicare payment levels after that date.

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In the face of decreasing revenue and increasing pressure to improve patient care, healthcare providers are in need of management tools and related services that (1) increase efficiency in the delivery of healthcare services, (2) reduce medical errors, (3) effectively track the cost of delivering services so that those costs can be properly managed and (4) increase the speed and rate of reimbursement. A hospital's failure to adequately invest in a modern medical information system could result in fewer patient referrals, cost inefficiencies, lower than expected reimbursement, increased malpractice risk and possible regulatory infractions.

Despite challenging economic conditions, we believe the industry has increased and will continue to increase its adoption of information technology as a management tool, particularly as a result of the ARRA. Additionally, we believe that the industry will continue to increase its utilization of third party services that contribute to the achievement of these and other objectives necessary for success in the current environment. We believe these dynamics should allow for future revenue growth for both our information technology solutions and our complementary suite of services.

Our Solutions

Evident and AHT provide tailored IT solutions that effectively address the specific needs of small and midsize hospitals, their physician clinics, as well as skilled nursing facilities of all sizes across the U.S. Their broad offerings of software products and services collect, process, retain, and report data in the primary functional areas of these healthcare providers, from patient care to clinical processing to administration and accounting. Due to their smaller operating budgets, community hospitals have limited financial and human resources to operate manual or inefficient information systems. However, these hospitals are expected to achieve the same quality of care and regulatory compliance as larger hospitals, placing them in a particularly difficult operating environment. These pressures on the operating environments of community hospitals were increased with the passage of the ARRA in 2009 which, in addition to providing incentives to healthcare providers to achieve meaningful use of EHR, has resulted in lowered Medicare payment levels for healthcare providers that have yet to achieve meaningful use of EHR.

We believe that our acute care IT solutions meet these challenges facing community hospitals by providing fully integrated, enterprise-wide and ARRA-certified medical information systems and services that are compliant with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). Further, through our wholly-owned subsidiary, TruBridge, we offer business management, consulting and managed IT services, along with its full RCM solution, that allow our acute and post-acute care clients to outsource all or just a portion of their business office function. Consulting and other services help clients avoid some of the fixed costs of a business office and leverage our expertise and resources in helping them identify their IT objectives, define the best way to meet those requirements and manage the resulting projects and associated technologies. As a result, we are capable of providing a single-source solution to healthcare organizations, making us a partner in their initiatives to improve operations and medical care.

As a key component to providing complete solutions, we maintain strong partnerships with our clients through a variety of two-way communication channels, including our support teams, role-based user groups, client councils, client work groups, our annual National Client Conference and other organized events and venues that foster insightful and meaningful communication. By listening to our clients and staying abreast of market trends, we strive to provide the right healthcare solutions at the right time to help meet the specific business needs of acute and post-acute care organizations. Our business has continued to grow because we have successfully provided fully integrated, enterprise-wide information systems that allow community hospitals, their physician clinics and skilled nursing facilities to improve operating effectiveness, reduce costs and improve the quality of patient care.

In January 2013, we formed TruBridge as a wholly-owned subsidiary focusing exclusively on providing business management, consulting and managed IT services to community healthcare organizations. While our traditional client base for these services has been those community healthcare organizations who have selected CPSI as their single-source healthcare information solutions provider, the formation of TruBridge has allowed for an improved focus of our marketing and service delivery resources and has assisted us in expanding the client base for these service offerings to all community healthcare organizations, regardless of their primary healthcare information solutions provider.

In April 2015, we announced the formation of Evident, a wholly-owned subsidiary of CPSI. Evident provides EHR solutions previously sold under the CPSI name as well as an expanded range of offerings specifically targeting community healthcare organizations. Our objectives with the creation of Evident are to further differentiate our

system and support offerings in our core target market, broaden the positioning of our EHR solution and offer a new range of solutions to address current and upcoming needs of community healthcare providers. With the formation of Evident came the introduction of our EHR solution under the name Thrive.

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January 2016 marked an important milestone for CPSI, as we announced the completion of our acquisition of Healthland Holding Inc. ("HHI"), the first major acquisition in the Company's history. The acquisition of HHI and its wholly-owned subsidiaries:

- has strengthened our position in providing healthcare information systems to community healthcare organizations through the addition of Healthland Inc.'s flagship EHR solution, Centriq, now marketed under the Evident logo;
- introduced CPSI to the post-acute care market through the addition of AHT; and
- expanded the products and capabilities of TruBridge through the addition of the Rykan Technologies, Inc. suite of RCM products, now marketed under the TruBridge logo.

Strategy

Our objective is to increase the market share of our TruBridge services, aggressively pursue competitive and vulnerable EHR replacement opportunities, and differentiate our products and services on a client experience basis that enables us to sell a broader set of services into a loyal base of clients that are our advocates. The healthcare industry is in the midst of transitioning to value-based reimbursement, care coordination and interoperability. Our strategy is to position our services and solutions with community healthcare providers so that they are able to respond to these changes positively by enabling them to improve community health and connect providers and patients within the community and with other communities, while improving financial operations. We intend to leverage several strengths to accomplish this goal.

Market Share/Scale

Our acute care EHR solutions and services are used by approximately 1,000 facilities which represents approximately 19% of all inpatient acute care community hospitals nationally and approximately 26% of the market of community hospitals with fewer than 200 beds. Our post-acute care EHR solutions and services are used by approximately 3,300 skilled nursing facilities, which represents an approximately 22% market share. We believe the size of our client base and scale of our development and client support resources is a positive factor for community healthcare providers looking for a long term partner with a proven track record in meeting the unique needs of community healthcare.

EHR Solutions Across the Care Continuum

Our EHR solutions address the entire continuum of care, with systems that address the three primary care settings: ambulatory care, inpatient acute care and post-acute care. This enables providers to coordinate patient care across the major settings where care is delivered. New payment models in both the government and private payer sectors are focused on payment for delivering quality outcomes and keeping patients well while still delivering financial efficiencies. These financial efficiencies are realized through the elimination of duplicate tests performed in different care settings, as well as providing timely access to clinical information from other care settings, when making diagnostic decisions. Having integrated solutions across the care continuum facilitates this process for providers and healthcare organizations.

Solutions and Services to Address Value-Based Reimbursement

With the continued emphasis on value-based reimbursement models, data analytics has become a critical tool for community healthcare providers to enable them to shift from reactive to proactive care delivery. We currently offer business intelligence as the first facet of a three-phase approach to analytics solutions, which we plan to expand to include predictive and prescriptive analytics. Because of the complexity inherent in data analytics, we will provide services to healthcare providers to assist them with certain aspects of data modeling and data analysis.

Interoperability

We currently provide integration across our ambulatory and inpatient EHR solutions. This integration was expanded to encompass our post-acute care EHR product in 2016. In addition, as a founding member of the CommonWell Health Alliance, we enable healthcare organizations to identify, confirm and link patient encounters across the CommonWell network. This translates into patient data that is not only shareable within communities but across communities as well.

Focus on the Financial Health of Community Healthcare Providers

Given the ongoing transition to value-based reimbursement models, community healthcare providers are under more financial pressure than ever before. Our accounts receivable management services incorporate proven workflow and processes as well as industry leading revenue cycle management tools. A new aspect of many current payment models is an increasing

shift of the financial burden to the patient. Community hospitals typically underperform in private pay collections because of the nature of community healthcare but cannot afford to forego the patient portion of contributions. Through our private pay services, providers can bring in much needed private pay receipts without alienating the local community.

Our operational expertise and technology tools provide proven results in improving claim acceptance rates, accelerating payments from third party payers and increasing private pay collections. We also differentiate our services by working to maintain employment in the community by hiring local employees to continue their role under our services program.

Explore Additional Revenue Streams that Complement Existing Markets, Solutions and Services

In the EHR space, we are selling our ambulatory EHR solutions on a standalone basis with a focus on communities that already have one of our EHR solutions installed in an acute care setting. Also, we are actively pursuing expansion of our inpatient EHR product into the Canadian market through our own direct efforts and collaboration with key Canadian technology providers. In the United States EHR market, we are targeting other types of providers who have lagged behind inpatient acute care in EHR adoption such as ambulatory surgery centers, behavioral health facilities and inpatient psychiatric hospitals. In the post-acute care market, we are now providing an EHR solution for assisted living facilities in conjunction with our own post-acute care EHR for skilled nursing operators. In the services business we will continue to look for opportunities to add or increase services resulting from changing market dynamics, availability of technology or operational expertise, or changes in regulatory requirements.

In an effort to expand revenue streams outside our traditional models, we have partnered with Caravan Health to form the CPSI ACOs powered by Caravan Health. Accountable Care Organizations ("ACOs") are groups of healthcare providers who come together voluntarily to give coordinated high quality care to Medicare patients. ACOs are seeing increased popularity in the United States healthcare market due to the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"). MACRA is a quality payment model adopted in 2015 to replace the Sustainable Growth Rate model for paying physicians for treating Medicare patients. Under MACRA, providers are required over time to move to Advance Alternative Payment Models that measure quality and savings and then reimburse providers on those factors based on how they compare on a percentage basis with other providers nationally. Caravan Health has an industry leading track record in establishing successful ACOs that participate in the Medicare Shared Savings Program. CPSI has partnered with Caravan to establish ACOs specific to community providers. CPSI also partners with Caravan to provide services to the ACOs at a reduced rate in return for a percentage share of the savings that are returned to the providers through their successful participation in the Medicare Shared Savings Program. Not only does this represent a potential on-going income stream to CPSI, but it also contributes to the overall financial health of the healthcare providers in the community.

Our Products and Services

Acute Care Software Systems

Through our wholly-owned subsidiary, Evident, we offer healthcare information technology solutions specifically designed to cater to the specific needs of community hospital organizations under the software solution platforms Thrive and Centriq.

Thrive

With the formation of Evident in 2015 came the introduction of our EHR solution under the name Thrive, previously sold under the CPSI name, through which we offer a full array of software applications designed to streamline the flow of information to the primary functional areas of community hospitals using one fully integrated system. We intend to continue to enhance our existing software applications and develop new applications as required by evolving industry standards and the changing needs of our clients. Pursuant to our client support agreements, we provide our clients with software enhancements and upgrades periodically on a when-and-if-available basis. See "Support and Maintenance Services." These enhancements enable each client, regardless of its original installation date, to have the benefit of the most advanced Evident products available. Evident's software applications within Thrive:

- provide automated processes that improve clinical workflow and support clinical decision-making;
- allow healthcare providers to efficiently input and easily access the most current patient medical data in order to improve quality of care and patient safety;

- integrate clinical, financial and patient information to promote efficient use of time and resources, while eliminating dependence on paper medical records;

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- provide tools that permit healthcare organizations to analyze past performance, model new plans for the future and measure and monitor the effectiveness of those plans;
- provide for rapid and cost-effective implementation, whether through the installation of an in-house system or through our Software as a Service ("SaaS") services; and
- increase the flow of information by replacing centralized data over which there is limited control with broad-based, secure access by clinical and administrative personnel to data relevant to their functional areas.

Due to the integrated nature of Thrive, our software applications are not marketed as distinct products and our sales force attempts to sell all applications to each client as a single product. New clients must purchase from us the core applications of patient management and financial accounting and all hardware necessary to run these applications. In addition to the core applications, clients may also purchase one or more of our clinical, patient care and enterprise applications. Over two-thirds of our Thrive clients have purchased a combination of applications that meet their enterprise-wide information technology needs.

Our software applications within Thrive are grouped for support purposes according to the following general functional categories described below, including the software applications in each of these categories:

•**Patient Management.** Our patient management software enables a hospital to identify a patient at any point in the healthcare delivery system and to collect and maintain patient information throughout the entire process of patient care on an enterprise-wide basis. Thrive's single database structure permits authorized hospital personnel to simultaneously access appropriate portions of a patient's record from any point on the system. Our patient management software applications include: *Registration, Patient Accounting, Health Information Management, Patient Index, Enterprise Wide Scheduling, Contract Management, and Quality Improvement.*

•**Financial Accounting.** Our financial accounting software provides a variety of business office applications designed to efficiently track and coordinate information needed for managerial decision-making. Our financial accounting software applications include: *Executive Information System, General Ledger, Accounts Payable, Payroll/Personnel, Time and Attendance, Electronic Direct Deposits, Human Resources, Budgeting, Fixed Assets, and Materials Management.*

•**Clinical.** Our clinical software automates record keeping and reporting for many clinical functions including laboratory, radiology, physical therapy, respiratory care and pharmacy. These products eliminate tedious paperwork, calculations and written documentation while allowing for easy retrieval of patient data and statistics. Our clinical software applications include: *Laboratory Information Systems, Laboratory Instrument Interfaces, Radiology Information Systems, ImageLink Picture Archiving and Communication System (PACS), Physical Therapy and Respiratory Care, and Pharmacy.*

•**Patient Care.** Our patient care applications allow hospitals to create computerized "patient files" in place of the traditional paper file systems. This software enables physicians, nurses and other hospital staff to improve the quality of patient care through increased access to patient information, assistance with projected care requirements and feedback regarding patient needs. Our software also addresses current safety initiatives in the healthcare industry such as the transition from written prescriptions and physician orders to computerized physician order entry. Our patient care software applications include: *Order Entry/Results Reporting, Point-of-Care System, Patient Acuity, ChartLink®, Computerized Physician Order Entry (CPOE), Medication Verification, Resident Assessment Instruments, Thrive Provider EHR, Outreach Client Access, Electronic Forms, Physician Documentation, and Emergency Department System.*

•**Enterprise Applications.** We provide software applications that support the products described above and are useful to all areas of the hospital. These applications include: ad hoc reporting, automatic batch and real-time system backups, an integrated fax system, archival data repository, document scanning and Microsoft Office integration, and an Application Portal. The Application Portal allows clients to access our applications remotely via Microsoft Internet Explorer and the Internet without requiring the loading of any additional client software on the accessing PC. User information and data accessed is secured with HIPAA compliant 128 bit cipher strength Secure Socket Layer (SSL) encryption. Remote access using the Application Portal results in no discernible difference to the user in software functionality.

Centriq

During 2018, the products and services formerly offered under the Healthland logo, including Centriq and Classic, were brought into the Evident product family. The Centriq platform was brought to market in 2011 and is designed to be an intuitive user interface that is easy for clinicians to use and attractive to both patients and clinicians. Additionally, as a web-based platform, users are able to connect to the system from any device that is connected to the Internet. Ease of use combined with Centriq's ability to centralize data from various care areas provide the end user with a powerful tool to view past and present patient information with ease. Key Centriq capabilities include:

- Computerized Practitioner Order Entry ("CPOE")**. The cornerstone of inpatient EHR systems, CPOE promotes user adoption by including medication interaction alerts, access to relevant laboratory results, duplicate order checking, customizable order sets and protocols, and order templates containing pre-populated screens.
 - Clinical Documentation**. This system securely enables a patient's caregivers to view the vital signs, intake-output values, progress notes, and nursing tasks that are entered into the patient's EHR.
 - Emergency Department**. This system expedites and simplifies registration, patient tracking, order management, assessments, and other activities in a fast-paced environment.
 - Laboratory**. This system automates routine tasks such as lab order processing and tracking, enabling the practitioner to focus on the results and ultimately better patient care.
 - Radiology**. This application delivers faster turnaround times and enhanced communications among caregivers by automatically processing radiology orders, managing and tracking images, and generating reports.
 - Pharmacy**. This application helps pharmacies manage all aspects of medication verification and dispensing, including order coordination, interaction checks, administration, and charging.
 - Financial Accounting**. A hospital financial accounting management solution that helps community hospitals gain better insight and perspective on their costs.
 - Patient Management**. An accounting system to better manage patient information and automate the hospital billing process.
 - Ambulatory Software Solutions**. Enables clinicians to focus on providing high-quality patient care by streamlining the management of patient data.
- Each system or application offers a broad set of features and functionalities that can help clinics reduce costs, increase revenue, and improve administrative and clinical staff efficiency, all while enhancing patient care and safety. CPSI is committed to investing in, developing, and supporting the Centriq platform. Centriq must remain a viable solution for the Centriq clients we serve. Therefore, we have committed to our clients consistent delivery of product and regulatory enhancements, including a fully certified Centriq solution for MU Stage 3, for a _____ ars after the acquisition date.

Classic

Classic, which is the legacy platform offered by Healthland, was designed specifically for both community hospitals and post-acute care facilities. In 2013 and 2014, Classic was upgraded to be MU Stage 2 compliant, but it was announced to its clients that Classic would not be made MU Stage 3 compliant.

Post-acute Care Software Systems

CPSI entered into the post-acute care market with the acquisition of AHT in January 2016. AHT, a leading provider of integrated solutions to the post-acute care industry, offers software solutions that promote data-driven clinical and financial outcomes for the customers they serve. AHT's comprehensive, long-term care management solutions include:

• **Care Management.** This integrated offering helps manage the delivery of quality care, collect and report on resident information, and manage compliance risk. Core modules include: *Work Center, Clinical, Smart Charting Order Administration (Point of Care), Quality Assurance, Therapy Tracking, Supplies Tracking, and Disease State Management.*

• **Financial and Enterprise Management.** This comprehensive set of financial solutions enables customers to improve cash flow and better manage costs. Core modules include: *Accounts Payable, General Ledger, Payroll, Financial Management, Trust Funds, and Enterprise Management.*

Acute Care Support and Maintenance Services

Evident

After a customer installs Thrive or Centriq, we provide software application support, hardware maintenance, continuing education and related services pursuant to a support agreement using our collaborative support model. The following describes services provided to customers using Thrive and Centriq:

• **Total System Support.** We believe the quality of continuing customer support is one of the most critical considerations in the selection of an information system provider. We provide hardware, technical and software support for all aspects of our system, which gives us the flexibility to take the necessary course of action to resolve any issue. Unlike our competitors who use third-party services for hardware and software support, we provide a single, convenient and efficient resource for all of our customers' system support needs. In order to minimize the impact of a system problem, we train our customer service personnel to be technically proficient, courteous and prompt. Because a properly functioning information system is crucial to a hospital's operations, our support teams are available 24 hours per day to assist customers with any problem that may arise. Customers can also use the Internet to directly access our support system.

• **National Client Conference.** All of our customers have the opportunity to attend our annual National Client Conference. CPSI hosts this conference to provide our customers educational sessions, product demonstrations, and one-on-one time with application experts. The conference also allows important time for networking among customers and CPSI staff across all business platforms.

• **Continuing Education.** Effective learning tools are a key factor in successful EHR adoption and allowing clients to get the most out of a software investment. Therefore, ongoing learning and training is a cornerstone to our "total solution" and a key competitive differentiator. Our ongoing learning and training offerings also address some of the unique needs of community hospitals - limited resources and staff with cross-department responsibilities and budget and time constraints - all of which require a customized approach to learning and training. To meet these needs, Evident offers customers with online content that can be accessed at any time, scheduled online interactive classroom presentations, on-campus training at our facilities in Mobile, Alabama and Minneapolis, Minnesota, educational sessions during user group conferences, and scheduled regional training sessions.

• **Software Releases.** We are committed to providing our customers with software and technology solutions that will continue to meet their information system needs. To accomplish this purpose, we continually work to enhance and improve our application programs. As part of this effort, for each customer covered under our general support agreement, we provide software updates as they become available at no additional cost. We design these enhancements to be seamlessly integrated into each customer's existing system. The benefit of these enhancements is that each customer, regardless of its original installation date, uses the most advanced software available. Through this process, we can keep our customers up-to-date with the latest operational innovations in the healthcare industry as well as with changing governmental regulatory requirements. Another benefit of this "one system" concept is that our customer service teams can be more effective in responding to customer needs because they maintain a complete understanding of and familiarity with the one system that all customers use.

Purchasing a new information technology system requires the expenditure of a substantial amount of capital and other resources, and many customers are concerned that these systems will become obsolete as technology changes. Our

periodic product updates eliminate our customers' concerns about system obsolescence. We believe providing this benefit is a strong incentive for potential customers to select our products over the products of our competitors.

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- **Hardware Replacement.** As part of our general support agreements, we are also committed to promptly replacing malfunctioning system hardware in order to minimize the effect of operational interruptions. By offering all hardware used in our system, we believe we are better able to meet and address all of the information technology needs of our customers.

- **Cloud Electronic Health Record (Cloud EHR).** In some circumstances, we offer Cloud EHR services to customers via remote access telecommunications. Cloud EHR is a "Software as a Service" (or "SaaS") configuration and is in essence a subscription to access and use application software maintained by CPSI in a cloud environment for a monthly fee. Under this configuration, a customer is able to obtain access to an advanced EHR without a significant initial capital outlay. We store and maintain all Cloud EHR customers' critical patient and administrative data using TruBridge Cloud Computing Services. These customers access this information remotely through direct telecommunications connections.

- **Forms and Supplies.** In addition to our support services, we offer our customers the standard and customized forms that they need for their patient and financial records, as well as the supplies necessary to support the operation of their server and peripheral equipment. Furnishing these forms and supplies helps us to achieve our objective of being a one-source solution for a hospital's complete healthcare information system requirements.

Post-acute Care Support and Maintenance Services

AHT's comprehensive and integrated solution set is backed by ongoing training and support by AHT to ensure that clients can maximize their software investment. This is demonstrated by:

- **Experienced and Dedicated Support Representatives.** Seasoned experts assigned to each client site that not only understand the challenges in the post-acute care industry, but know how to best address them. This includes proactive education on the key regulatory changes and requirements before they impact business operations.

- **Client Portal and Training.** Instant, on-line access to the most up-to-date industry information impacting long-term care, plus a vast array of product training opportunities.

- **Client Enhancement Council.** Access to a community of peers along with a robust set of resources and knowledge to help clients get the most out of their AHT investment.

- **Annual Client Symposium.** An opportunity for clients to share best practices, gain industry insight on key topics impacting post-acute care providers, network with peers, and learn more about current and future AHT product and service offerings.

TruBridge

We offer complementary services through TruBridge, our wholly-owned subsidiary, which can be grouped into the following categories:

- **Revenue Cycle Management Products.** TruBridge RCM solutions empower providers and caregivers in hospitals, healthcare systems and skilled nursing organizations to accelerate their revenue cycle through a suite of comprehensive, web-based solutions designed to improve financial operations and staff productivity and increase reimbursement. Our RCM products include the following offerings:

- **Patient Liability Estimates.** Improve patient satisfaction, maximize point-of-service collections, and equip staff with the ability to provide transparent pricing with the Patient Liability Estimate ("PLE") module.

- **Eligibility Verification.** Reduce claim denials and carrier rejections by performing on-demand eligibility look-ups, assuring the care provided is covered.

- **Claim Scrubbing and Submission.** A powerful claim management solution for submitting, validating, and processing a healthcare facility's claims with ease and with a high quality of edits.

Remittance Management. Remittance advice can be effortlessly gathered and managed with the Electronic Remittance Advice ("ERA") Retrieval and Remittance Management modules, simplifying workflow and involvement.

Denial/Audit Management. Equips healthcare facilities with the tools necessary to combat denied and audited claims, assisting organizations in recovering lost revenue.

Contract Management. Allows healthcare facilities to take control over complex healthcare

•Consulting and Business Management Services. Our consulting and business management services are designed to help healthcare organizations by assessing their needs, setting goals, and creating an action plan to achieve those goals, and, if needed, implementing the action plan. Many of our professional consultants possess decades of experience and all are skilled in adopting new technologies, redesigning processes, educating staff, and providing interim or on-going management services. Our consulting and business management services include the following service offerings: Consulting, Business Intelligence, Staffing, and Administrative.

•Managed IT Services. Our managed IT services provide a range of services designed to meet the IT needs of community healthcare enterprises. The pace of technological change can be overwhelming. Our services allow clients to affordably maintain an advanced IT infrastructure, meet regulatory requirements, and reduce risk. Our managed IT services include the following service offerings: Cloud Services, Backup and Recovery, Collaboration and Connectivity, Security Services, Systems Management, and Help Desk.

For additional details on our products, service, and support offerings, visit www.evident.com (Evident), www.healthtech.net (AHT), and www.trubridge.com (TruBridge).

For the results of operations by segment, refer to Note 17 of the consolidated financial statements included herein.

Product Development and Enhancement

The healthcare information technology industry is characterized by rapid technological change requiring us to continually make investments to update, enhance and improve our products and services. These investments have resulted in total expenditures related to our Product Development Services division of approximately \$36.4 million, \$33.7 million, and \$29.1 million during the years ended December 31, 2018, 2017 and 2016, respectively.

In 2018, our continued focus on delivering shared solutions to the acute and post-acute care markets through a suite of services integrated with our core platforms resulted in deliveries of shared product updates in areas such as:

- Clinical Quality Measure Reporting
- CommonWell Patient and Person Management
- MyCPSI – Client Support System
- Business Intelligence
- Notes

We also delivered platform specific updates including:

- Evident Thrive EHR
 - Platform and infrastructure updates
 - Ongoing localization activities for the non-U.S. markets
 - Ongoing, focused effort on improving physician usability and workflow across the ambulatory, emergency department and inpatient care settings
 - Added support for health care surveys

Improved scheduling capabilities
Workflows related to antibiotic stewardship
Improved report builder and scheduler capabilities
Added support for new medication capabilities provided through integration with SureScripts:
Medication adherence
Medication history
Electronic prior authorization

- Evident Centriq EHR

Added support for the CommonWell network
Updates to core infrastructure dependencies and additional updates necessary to improve system performance
Improvements to workflows related to provider use cases, health maintenance, and patient communications
Additional support for health information exchange
Additional support for state prescription drug monitoring programs
Additional modules from the ONC CEHRT capabilities list related to reporting to specialized registries focused on:
Antimicrobial use and resistance
Electronic case reports for public health
Cancer case reports

- AHT

Software feature additions which enhanced the following:
Stabilization of AHT 17
New user experience
Communication Center – providing communication capabilities spanning multiple formats such as instant messaging and secure texting
Referral and documentation exchange workflows, including clinical document architecture, fax and scanned document support
Inbound radiology and laboratory order result workflows
Updated reporting capabilities including ETL processes to support the CPSI Business Intelligence offering
Updates to the MDS requirements
Insurance plan enhancements
Value-based purchasing
Bar code medication administration

- TruBridge RCM

Updated insurance claim editor to modern web presentation technologies
Updated insurance claim workflows to add prioritization capabilities
Added support for electronic Medicare appeals submissions
Workflow improvements in regards to posting of electronic remittance advice
Continued updates to provide deeper integrations with CPSI EHR systems
Update to Patient Liability Estimator to increase estimate accuracy
Added and improved EDI connectivity to reduce costs and provide better information to customers on submitted claims
Made necessary changes to support migration to the TruBridge Cloud environment to reduce costs and improve management of both performance and availability

Product Management

Early in 2019, we began to apply new product management principles throughout our organization to better utilize our valuable resources and maximize value creation and innovation. We formally announced our product management

team in November 2018. This team is responsible for launching products, providing industry insight and identifying emerging segments within our target markets. By focusing on the right workflows, aligning the appropriate stakeholders and establishing clear roles and responsibilities, CPSI can make better product decisions faster. The key tenets of product management are being the best stewards of our resources and enabling growth.

By working with the various internal stakeholders (product development, marketing, sales and support), as well as external stakeholders (customers, industry subject matter experts), the product management team takes new product and service

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ideas and creates a business case for each of the initiatives. We have created a Provider Council, Nursing Council and CFO Council to assist with these efforts as well.

The goals of the product management team are to understand our customers and identify the value of various ideas, by considering customer retention and satisfaction, support and training impact and revenue potential. The initiatives become part of our initiative portfolio and are evaluated against each other. We use this view of the portfolio to manage risks within the portfolio and allow us to create the most value for each investment we make. We are experiencing successes with this approach, as evidenced by increased product innovation and related momentum.

System Implementation and Training

Conversion Services. When a client purchases or leases one of our systems, we convert their existing data to the new system. Our knowledge of hospital data processing, in conjunction with extensive in-house technical expertise, allows us to accomplish this task in a cost effective manner. When we install a new system, the data conversion has already occurred so that the system is immediately operational. Our goal is for each client to be productive day one in order to eliminate time and money wasted on the costly and inefficient task of maintaining the same data on parallel systems. Our services also relieve the hospital staff of the time-consuming burden of data conversion. The conversion process is the initial phase of our LikeMind client experience.

Training. In order to integrate the new system and to ensure its success, we spend approximately sixteen weeks providing individualized training at each client's facility prior to the go-live date. We provide hardware and software application training for all hospital users, including staff members and healthcare providers, during all hospital shifts. We employ nurses, medical technicians, and providers along with our technical training staff in order to help us communicate more effectively with our clients during the training process. This training phase is also part of the LikeMind client experience that is provided to all of our clients.

Clients, Sales and Marketing

Target Markets. The target market for our acute care EHR systems consists of community hospitals with fewer than 200 acute care beds, with a primary focus on hospitals with fewer than 100 acute care beds. In the United States, there are approximately 3,900 community hospitals with fewer than 200 acute care beds, with approximately 2,900 of these having fewer than 100 acute care beds. In addition, we market our products to small specialty hospitals in the United States that focus on discrete medical areas such as behavioral health, surgery, rehabilitation and long-term acute care. As of the date of the filing of this Annual Report on Form 10-K, approximately 1,000 acute care facilities across the United States. Approximately 98% of our existing acute care clients are hospitals with fewer than 100 acute care beds, while approximately 99% of our existing acute care clients are hospitals with fewer than 200 acute care beds.

The target market for our post-acute care EHR solution consists of over 15,000 long-term care and skilled nursing facilities in the United States. In addition, through a strategic relationship with Medtelligent, we are able to market an EHR for assisted living facilities creating add-on sales opportunities in our direct client base and new sales opportunities across the broader senior living market. As of the date of this filing, we have our post-acute care EHR solution installed in approximately 3,300 facilities across the United States.

The expanded target market for our TruBridge services consists of small to mid-size hospitals in the United States. There are approximately 5,000 of these hospitals with fewer than 500 beds. As of the date of this filing, there are over 200 healthcare providers who use our accounts receivable management or private pay services, approximately 550 providers who use our managed IT services, and approximately 600 providers who use our RCM solutions. In addition, we are now marketing our services to post-acute care facilities, of which there are over 15,000 in the United States.

In the acute care provider market, we are now actively marketing our EHR system in Canada. We have established business relationships with key Canadian technology providers which we believe will be a significant factor in penetrating the Canadian market. We have concluded our evaluation of the unique requirements of the Canadian healthcare system and are actively working on incorporating the necessary changes into our Thrive acute care EHR product. Domestically, we are actively selling our ambulatory EHR system on a stand-alone basis, with a focus on physician practices located in the same communities as our client hospitals. We believe this would include a significant number of unique physician practices.

Our goals in the inpatient hospital market are threefold: (1) target those hospitals under 100 beds in the United States that we believe are currently using a vendor that we have determined is vulnerable based on a variety of factors, (2) continue our efforts to expand into the Canadian market through active marketing efforts and establishing business relationships with Canadian information technology providers, and (3) selectively target hospitals in the 100 to 200 bed market that we believe

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offer a reasonable chance of sales success based on size, location and other factors. Our goal in the ambulatory market is to aggressively target physician practices in those communities where the local hospital is a current CPSI client. Our goal in the post-acute care market is to continue to target both individual facilities as well as larger multi-facility corporate entities. In addition, we intend to extend our penetration into the post-acute care market by offering an assisted living facility EHR solution that we believe will broaden the appeal of our solutions to those operators who offer multiple care settings in their organizations.

The following table presents our revenues generated from clients located within the U.S. ("Domestic") and all foreign countries, in total ("International").

Year ended December 31,			
(In 2018 thousands)	2017	2016	
Sales revenues:			
Domestic	\$ 280,182	\$ 276,510	\$ 267,081
International ⁽¹⁾	417	191	
	\$ 280,411	\$ 276,927	\$ 267,272

⁽¹⁾ *International sales revenues for all periods presented are related to a single foreign country, the Caribbean nation of St. Maarten.*

Sales Staff. We have dedicated sales organizations in all three business lines: acute care EHR, post-acute care EHR and business management, consulting and managed IT services. Many of our sales personnel are hired from within the Company and have previous experience in client support roles. We believe this experience positions them to more effectively sell our products and services within our target markets. Our sales organizations are generally divided into four areas; sales management, new client sales, existing client sales and sales support staff. New client sales staff are typically organized based on geographic territories, though we also have sales personnel that focus on national accounts in our post-acute EHR business due to the number of national chain operators in that market. Our sales representatives who sell to existing clients have assigned clients within their territory, which is also geographically based. Some sales representatives in our services areas are assigned specifically to cross-sell services into our acute care EHR and post-acute care EHR client bases. A significant portion of the compensation for all sales personnel except for administrative support staff is commission based.

Marketing Strategy. Our corporate marketing strategy positions CPSI as a healthcare solutions company serving community healthcare organizations through our family of healthcare information technology ("HCIT") companies. Our EHR software and services address providers across the care continuum, with a primary focus on the community healthcare market. We believe our ability to serve ambulatory, acute and post-acute care settings with our products will be especially appealing as new reimbursement models force the coordination of care by healthcare providers. Our ability to connect patients to care providers within their community and across communities through our own products and interoperability development, including our membership in the CommonWell Health Alliance, sets us apart from other competitors in our market. We also believe as the EHR market in the acute care environment transitions from implementation to optimization that our data analytics solutions will be a key differentiator for our EHR solutions. Our goal is to position ourselves as partners to community healthcare providers as they move to a more proactive care model based on the use of data analytics and patient engagement tools.

With regard to business management, consulting and managed IT services, we will continue to leverage our proven track record of success in accounts receivable management and private pay collections for community healthcare providers. With the increasing complexity of reimbursement requirements and a global shift in healthcare towards an increase in patient financial responsibility, the ability of our services business to bring expertise and best practice operational efficiencies to bear is a significant competitive advantage. In consulting services, the added complexity brought about by the transition to the ICD-10 code set has created a significant demand for our coding services. Our strategy is to leverage any services engagement, whether business, IT or consulting, into opportunities to cross-sell

other services to the client.

Backlog

Backlog consists of revenues we reasonably expect to recognize over the next twelve months under existing contracts. 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. As of December 31, 2018, we had a twelve-month backlog of approximately \$21 million in connection with non-recurring system purchases (excluding approximately \$8 million of contracted backlog for which fulfillment is not reasonably expected within the next twelve months) and approximately onnection with

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recurring payments under support and maintenance, and TruBridge. As of December 31, 2017, we had a twelve-month backlog of approximately \$31 million in connection with non-recurring system purchases and approximately \$223 million in connection with recurring payments under support and maintenance, and TruBridge.

Competition

The market for our products and services is competitive, and we expect additional competition from established and emerging companies in the future. Our market is characterized by rapidly changing technology, global shifts in the healthcare system, evolving user needs and impactful regulatory and reimbursement changes. We believe the principal competitive factors that hospitals and post-acute care providers consider when choosing between us and our competitors are:

- product features, functionality and performance;
- range of services offered;
- level of client service and satisfaction;
- ease of integration and speed of implementation;
- product price;
- cost of services offered;