COMPUTER PROGRAMS & SYSTEMS INC
Form 10-K
March 14, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015
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 (State or Other Jurisdiction of Incorporation or Organization)	74-3032373 (I.R.S. Employer Identification No.)
6600 Wall Street, Mobile, Alabama (Address of Principal Executive Offices)	36695 (Zip Code)

(251) 639-8100
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.001 per share	The NASDAQ Stock Market LLC

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 x
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 x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of common stock held by non-affiliates of the registrant at June 30, 2015 was $507,263,446.

As of March 11, 2016 the registrant had outstanding 13,425,001 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:

Portions of the definitive Proxy Statement for the 2016 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 potential 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 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;
- our ability to successfully integrate the businesses of Healthland Inc., American HealthTech, Inc., and Rycan Technologies, Inc. with our business and the inherent risks associated with any potential future acquisitions;
- 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 losses;
- breaches of security and viruses in our systems resulting in customer claims against us and harm to our reputation;
- failure to maintain customer satisfaction through new product releases free of undetected errors or problems;
- interruptions in our power supply and/or telecommunications capabilities, including those caused by natural disaster;
- our ability to attract and retain qualified and key 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; 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 on page 18 of this Annual Report. We also caution investors that the forward-looking information described herein represents our 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.

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PART I

ITEM 1. BUSINESS

Overview

Computer Programs and Systems, Inc. ("we," "CPSI" or the "Company"), founded in 1979, is a leading provider of healthcare information technology ("IT") solutions and services for rural and community hospitals and post-acute care facilities. With our January 2016 acquisition of Healthland Holding Inc. ("HHI"), CPSI is now the parent of five companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), Healthland Inc. ("Healthland"), American HealthTech, Inc. ("AHT"), and Rycan Technologies, Inc. ("Rycan"). Our combined companies are focused on improving the health of the communities we serve, connecting healthcare communities for a better patient care experience, and improving the financial operations of our customers. The individual contributions of each of our five wholly-owned subsidiaries towards this combined focus are as follows:

- Evident, formed in April 2015, provides comprehensive electronic health record ("EHR") solutions and services for rural and community hospitals, including those solutions previously sold under the CPSI name as well as an expanded range of offerings specifically targeting rural and community healthcare organizations.
- TruBridge focuses exclusively on providing business management, consulting and managed IT services to rural and community healthcare organizations, regardless of their primary healthcare information solutions provider.
- Healthland, acquired in the acquisition of HHI, provides integrated technology solutions and services to small rural and critical access hospitals.
- AHT, acquired in the acquisition of HHI, is one of the nation's largest providers of financial and clinical technology solutions and services for post-acute care facilities.
- Rycan, acquired in the acquisition of HHI, provides revenue cycle management workflow and automation software to hospitals, healthcare systems, and skilled nursing organizations.

The combined company currently supports approximately 1,300 acute care facilities and over 3,300 post-acute care facilities with a geographically diverse customer mix within the domestic rural and community healthcare market. The company has a limited presence in the international healthcare IT marketplace after completing a new system installation in the Caribbean nation of St. Maarten during 2014.

Our target market includes rural and community hospitals with 300 or fewer acute care beds. Our primary focus within this defined target market is on hospitals with 100 or fewer acute care beds, which comprise approximately 95% of our hospital EHR customer base. In addition to our target market, we provide information technology services to other entities in the healthcare industry, such as nursing homes, home health agencies and physician clinics. During 2015, we generated revenues of $182.2 million from the sale of our products and services, excluding the products and services of HHI as the acquisition of HHI did not occur until January 2016.

Industry Dynamics

The healthcare industry is the largest industry in the United States economy, comprising approximately 17.5% of the U.S. gross domestic product in 2014 according to the Centers for Medicare and Medicaid Services ("CMS"). CMS estimates that by fiscal 2024 total U.S. healthcare spending will reach $5.4 trillion, or 19.6% of the estimated U.S. gross domestic product.

Hospital services represents one of the largest categories of total healthcare expenditures, comprising approximately 32.1% of total healthcare expenditures in 2014 according to the CMS. According to the American Hospital Association’s AHA Hospital Statistics, 2016 Edition, there are approximately 4,100 community hospitals in the United States that are in our target market of hospitals with 300 or fewer acute care beds, with approximately 2,600 of those in our primary area of focus of 100 or fewer 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

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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 rural and community hospitals typically generate a significant portion of their revenues from beneficiaries of the Medicare and Medicaid programs. Consequently, even small changes in these federal and state programs have a disproportionately larger impact on rural and community hospitals as compared to larger facilities where greater portions of their revenues are typically generated from beneficiaries of private insurance programs. Medicare funding and reimbursements fluctuate year to year and, with the growth in healthcare costs, will continue to be scrutinized as the federal government attempts 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 became effective on March 1, 2013. Although Medicaid is specifically exempted from the cuts mandated by the legislation, it includes a reduction of up to 2% in federal Medicare spending, all of which will be 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"), contains a number of provisions designed to reduce Medicare and Medicaid program spending by significant amounts, many of which are already in effect. 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. 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 rural and 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 becoming eligible for Medicare benefits at age 65 and 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 has had and should continue to have a positive impact on our business and the businesses of the rural and community hospitals that comprise our target market.

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 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

We have tailored information technology solutions that effectively address the specific needs of small and midsize hospitals. Due to their smaller operating budgets, rural and 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 rural and 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 information technology solutions meet these challenges facing rural and 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") and that collect, process, retain and report data in the primary functional areas of a hospital, from patient care to clinical processing to administration and accounting. As a key component of our complete solutions, we provide ongoing customer service through regular interaction with customers, customer user groups and extensive customer support. Further, through our wholly-owned subsidiary, TruBridge, we offer business management, consulting and managed IT services that allow customers to 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 for small and midsize hospitals, making us a partner in their initiatives to improve operations and medical care.

Our customers continually communicate with us through our support teams and through organized user groups, allowing us to continue to provide state-of-the-art solutions that meet their specific needs. By remaining sensitive and responsive to the ever-changing demands of our customers and regularly updating our products, we believe that we provide information technology solutions that meet the needs of rural and community hospitals. Our business has continued to grow because we have successfully addressed the needs of rural and community hospitals for fully integrated, enterprise-wide information systems that allow them 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 rural and community healthcare organizations. While our traditional customer base for these services has been those rural and 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 assist us in expanding the customer base for these service offerings to all rural and 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 rural and 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 rural and community healthcare providers. With the formation of Evident came the introduction of our EHR solution under the name Thrive and our unique collaborative support model under the name LikeMind.

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. We believe the acquisition of HHI and its wholly-owned subsidiaries:

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- strengthens our position in providing healthcare information systems to rural and community healthcare organizations with the addition of Healthland;
- introduces CPSI to the post-acute market with the addition of AHT; and
- expands the products and capabilities of TruBridge with the addition of Rycan and its suite of revenue cycle management products.

Strategy

Our objective is to continue to increase our share of the electronic health record ("EHR") and healthcare business management services markets for rural and community healthcare providers. The healthcare industry is in the midst of transitioning its focus from EHR implementations as a result of Meaningful Use to EHR optimization, value-based reimbursement, care coordination and interoperability. Our strategy is to position our services and solutions with rural and community healthcare providers so 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 solutions and services are used by approximately 1,300 hospitals, which represents approximately 26% of all inpatient acute care community hospitals nationally and approximately 31% of the community hospital market with 300 or fewer beds. Our post-acute care EHR is used by approximately 3,300 skilled nursing facilities, which represents a 24% market share. In 2015, our EHRs addressed more than 18 million patient encounters. We believe the size of our client base and scale of our development and client support resources is a positive factor for rural and 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 now 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. As accountable care organizations continue to increase their focus on care coordination, our ability to bridge care settings with integrated solutions will be a competitive advantage.

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 rural and 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 will be 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, rural and 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 provider employees to continue their role under our services program.

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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 currently 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.

Our Products and Services

New Products

During 2015 our development efforts focused on the completion and release of (1) an iPad application, (2) Clinical Content, and (3) IdentiReg.

- The iPad application provides users with access to our EHR system from Apple iOS devices. The initial focus is on providers, with the first function delivered through the app being access to our mobile rounding suite. This suite provides physicians with quick access to patient charts allowing for the review of patient information, vitals, medication lists, test results, problems and history. Additionally, it allows the providers to pend orders and set reminders for later tasks to be performed from a PC.
- Clinical Content works in conjunction with our existing Emergency Department suite, Multi-Disciplinary Documentation application and Thrive Provider EHR. This content provides structured specialty-specific patient care documentation using our managed entry methodology and content. Our new Content Services Department oversees the creation and maintenance of this, ensuring the product reflects on-going best practices.
- IdentiReg integrates biometric fingerprint scanners into the patient registration process. The application provides a means to positively identify individual patients and provides protection against identity theft and fraud.

Development efforts in 2016 include (1) Meaningful Use Stage 3, (2) CommonWell interoperability, and (3) expansion of data analytics.

- Final rules regarding Meaningful Use ("MU") Stage 3 for electronic health records were released in October 2015. Hospitals may begin reporting for MU Stage 3 requirements as early as January 1, 2017. The volume and complexity of changes associated with MU Stage 3 are considerable. MU Stage 3 increases the data capture requirements and use of medical vocabularies, expands Stage 2 functionality requirements, increases interoperability requirements and emphasizes greater patient engagement. To meet the requirements, new data elements and functionalities must be created and tied to the existing data structure and system functionalities in a manner that is consistent with healthcare provider workflows.
- CPSI is a participant in the CommonWell Health Alliance. The purpose of the alliance is to develop and implement an interoperability standard for the communication of patient data between disparate EHR systems. We are taking a phased approach to development. In the first phase, we developed the ability for participating customers to automatically submit a small amount of patient demographic data. This phase helped to prove the concept of the alliance and is helping to build the network of EHR systems participating in the CommonWell Health Alliance. The second and current phase of development will focus on integrating CommonWell patient engagement and enrollment into the registration process. The final phase will focus on providing healthcare providers with a means to query and retrieve clinical documentation from other CommonWell member facilities.
- We will be continuing our development efforts in data analytics in 2016. Our first pilot program focusing on predictive data modeling, scoring, categorization and classification was completed in 2015. While we continue our work on predictive analytic solutions, current market demand appears strong for business intelligence solutions. Consequently, our current development efforts are focused on dashboard software and the development of a library of financial, clinical and operational metrics to help improve outcomes and better manage hospital operations.

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Acute Care Software Systems

Through our wholly-owned subsidiaries, Evident, LLC ("Evident") and Healthland Inc. ("Healthland"), we offer healthcare information technology solutions specifically designed to cater to the specific needs of rural and community hospital organizations.

Evident

Formed in April 2015, Evident provides EHR solutions previously sold under the CPSI name as well as an expanded range of offerings targeted specifically at rural and community healthcare organizations. With the formation of Evident came the introduction of our EHR solution under the name Thrive, through which we offer a full array of software applications designed to streamline the flow of information to the primary functional areas of rural and 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 customers. Pursuant to our customer support agreements, we provide our customers with software enhancements and upgrades periodically on a when-and-if-available basis. See "Support and Maintenance Services." These enhancements enable each customer, 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;
- 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.

Our software applications within Thrive are grouped for support purposes according to the following functional categories:

- Patient Management
- Financial Accounting
- Clinical
- Patient Care
- Enterprise Applications

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 customer as a single product. New customers 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, customers may also purchase one or more of our clinical, patient care and enterprise applications. Over two-thirds of our Thrive customers have purchased a combination of applications that meet their enterprise-wide information technology needs.

The general functional categories, as well as the software applications in each of these categories, are described below.

- 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

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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.

Healthland

Our acquisition of HHI in January 2016 introduced the products and services of Healthland to our already broad suite of EHR product offerings provided through Evident. Healthland currently has two platforms that make up its collective EHR offering, primarily serving rural and community hospitals with 50 and fewer beds across the United States. Details regarding each platform are below:

Healthland Centriq®

This web-based EHR platform was brought to market in 2011 as a next-generation alternative solution to Healthland Classic and serves as Healthland's primary MU compliant platform for rural and community hospitals. The Centriq platform 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, including Long Term Care, Home Health, and Ambulatory settings, provides the end user with a powerful tool to view past and present patient information with ease. Healthland EHR platforms have achieved a 99.0% attestation rate among its clients. 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.

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- 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.

Following the completed acquisition of HHI, CPSI is committed to investing in, developing, and supporting the Centriq platform. Centriq must remain a viable solution for the Healthland 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 at least seven years.

Healthland Classic

Healthland's original EHR platform, Classic was designed specifically for both rural and community hospitals and post-acute care facilities. In 2013 and 2014, Healthland upgraded Classic to be MU Stage 2 compliant, but has since announced to its customers that Classic will not be made MU Stage 3 compliant.

Healthland continues to support the system and CPSI has committed to providing at least two years' notice before sunsetting Classic. Approximately 60 of the remaining 190 Classic customers are non-acute care facilities that are not compelled to follow or become compliant with MU standards, as there are no financial incentives available to non-acute care facilities for MU compliance. An additional 40 Classic customers have already begun the migration from Classic to Centriq, with another 25 expected to migrate in 2016. Beyond sales activity already underway, the Classic platform will no longer be offered as a new installation to prospective customers now that the acquisition of HHI has closed.

Beyond inpatient EHR, Healthland offers a suite of integrated applications for managing operations, resources, and people, in addition to ambulatory information management solutions. Such products include:

- Financial Accounting. A hospital financial accounting management solution that helps rural and 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 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.

Post-Acute Care Software Systems

Our acquisition of HHI in January 2016 also introduced CPSI to the post-acute care market through the products and services of AHT. AHT, a leading provider of integrated solutions to the post-acute care industry, was acquired by HHI in May 2013 and 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.

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- 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.

Support and Maintenance Services

Evident

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

- 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. This allows customers to communicate electronically with our support teams at any time.
- User Group. All of our Thrive customers have the opportunity to be members of our user group from which we solicit feedback regarding our products. We host a national user group meeting annually. This group meets to discuss and recommend product modifications and improvements which it then evaluates and prioritizes. Upon confirming that the desired improvements are technically feasible, we agree to allocate a significant amount of programming time each year to undertake the requested modification or improvement. The majority of our product enhancements originate from suggestions from our customers that we receive through the user group structure.
- 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 Thrive system. The benefit of these enhancements is that each customer, regardless of its original installation date, uses the most advanced Thrive 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.
- 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 (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

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patient and administrative data using TruBridge Cloud Computing Services. These customers access this information remotely through direct telecommunications connections.

- Forms and Supplies. We offer our customers the forms that they need for their patient and financial records, as well as their general office supplies. 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.

Healthland

Effective learning tools are a key factor in successful EHR adoption and clients getting the most out of a software investment. Therefore, Healthland's support approach, which focuses on learning and training, is a cornerstone to the Healthland "total solution" and a key competitive differentiator. The Healthland support offering also addresses some of the unique needs of rural and community hospitals - limited resources and staff with cross-department responsibilities and budget and time constraints - all of which require a customized approach to training and support including:

- eLearning. Engaging content that can be accessed anytime, anywhere with built-in assessments to measure content retention and comprehension.
- Virtual Classrooms. Live, on-line training to promote interaction and collaboration with a team of product experts. Plus, a set quarterly training schedule to help providers balance training needs with their core job responsibilities.
- Campus Classrooms. Live, instructor-led classes at the Healthland corporate office promoting hands-on training and interaction with peers from other client facilities.
- Online Learning Tools. Easy access to a comprehensive set of training tools including product release notes and documentation, software guides, and key reference material related to all supported products.
- User Forum and Expert Exchange. Annual user conference plus regional user group forums that allow clients to interact with peers and leverage Healthland experts to learn more about key industry issues and get their specific product questions answered.

AHT

AHT's comprehensive and integrated solution set is backed by on-going training and support 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.
- Customer 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 Customer Symposium. This forum provides clients with an opportunity 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.

Business Management, Consulting, and Managed Information Technology Services

TruBridge

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

- Business Management Services
- Consulting Services

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- Managed Information Technology Services

A brief description of each of these categories of services is as follows:

Business Management Services. Our business management services span a healthcare enterprise’s revenue cycle and provide customers with a strong alternative to in-house operations. The services leverage our deep service and technology experience and are designed to allow customers to streamline their administrative staffing while improving operational efficiencies. Our business management services include the following service offerings: Electronic Billing, Insurance Services, Statement Processing, Accounts Receivable Management, Payroll Processing, and Contract Management.

Consulting Services. Our consulting 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 services include the following service offerings: Revenue Cycle Consulting, Clinical Consulting, Medical Coding, and Information Technology Consulting.

Managed Information Technology ("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 customers to affordably maintain an advanced IT infrastructure, meet regulatory requirements, and reduce risk. Our managed IT services include the following service offerings: Cloud Computing, Internet Service Provider, Managed Network Services, Server and Storage Management, Desktop Support, Communications Solutions, Connectivity Solutions, Security Services, and Data Center Services.

Rycan

Our acquisition of HHI in January 2016 also introduced the products and services of Rycan Technologies, Inc. ("Rycan"), a leading provider of SaaS-based healthcare revenue cycle management ("RCM") solutions. Following the acquisition, and due to the versatility of healthcare RCM solutions, CPSI is working to integrate Rycan's solution set into the respective EHRs for Evident, Healthland, and AHT and integrate all of Rycan's highly complementary services into the TruBridge suite of service offerings.

Rycan empowers providers and care givers 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. Core functionalities within the Rycan product and service offerings include:

- Patient Liability Estimates. Improve patient satisfaction, maximize point-of-service collections, and equip staff with the ability to provide transparent pricing with the 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 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 contracts by prospectively pricing every claim submitted to payers, retrospectively pricing every remittance to ensure proper payment was received, and modeling proposed contract terms during payer negotiations.
- Reporting and Data Mining. Brings together a facility’s revenue cycle data to gain a better understanding of the facility's financial health by analyzing reports and utilizing interactive, drill-in graphs.

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

The following table presents our revenues by major solutions and services as a percentage of total revenues:

	Year ended December 31,		
	2015	2014	2013
Sales revenues:			
System sales	23.6 %	36.7 %	39.7 %
Support and maintenance	41.4 %	35.9 %	35.6 %
Business management, consulting and managed IT services	35.0 %	27.4 %	24.7 %
	100.0 %	100.0 %	100.0 %

System Implementation and Training

Conversion Services. When a customer purchases one of our systems, we convert its existing data to the purchased 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 customer to be immediately productive in order not to waste time and money 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 support model.

Training. In order to integrate the new system and to ensure its success, we spend approximately three to four weeks providing individualized training on-site at each customer's facility at the time of installation. We directly train all hospital users, including staff members and healthcare providers, during all hospital shifts in the use of hardware and software applications. We employ nurses, medical technicians, and providers in addition to our technical training staff in order to help us communicate more effectively with our customers during the training process. This training phase is also part of the LikeMind support model that is provided to all of our customers.

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 $14.2 million, $14.6 million, and $14.2 million during the years ended December 31, 2015, 2014 and 2013, respectively, with approximately $2.9 million, $2.9 million and $2.8 million, respectively, incurred in the development of new products and services and significant improvements to existing products or services.

Customers, Sales and Marketing

Target Markets. The target market for our acute care EHR systems consists of community hospitals of 300 or fewer acute care beds, with a primary focus on hospitals with 100 or fewer acute care beds. In the United States, there are approximately 4,100 community hospitals with 300 or fewer acute care beds, with approximately 2,600 of these having 100 or fewer 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, we have installed our systems in over 950 facilities in 49 states and the District of Columbia. Approximately 95% of our existing customers are hospitals with 100 or fewer acute care beds, while approximately 99% of our existing customers are hospitals with 200 or fewer acute care beds. The target market for our post-acute care EHR solution consists of approximately 13,750 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 to our clients and potential clients who operate these facilities in conjunction with post-acute care operations. As of the date of this filing, we have installed our post-acute care EHR solution in approximately 3,300 facilities in 49 states.

The target market for our business management, consulting and managed information technology services consists of small to mid-size hospitals in the United States. There are approximately 4,100 of these hospitals of 300 beds or less. In addition, we are now marketing our services to post-acute care facilities in the United States, of which there are approximately

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13,750. As of the date of this filing, there are 864 healthcare providers who use our business management services, 320 who use our managed information technology services, and 223 who use our consulting services.

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 300 bed market that we believe 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 customers located within the U.S. ("Domestic") and all foreign countries, in total ("International").

	Year ended December 31,		
	2015	2014	2013
Sales revenues:			
Domestic	$181,715,723	$203,730,687	$200,863,332
International[(1)]	458,161	1,011,450	—
	$182,173,884	$204,742,137	$200,863,332

(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 information technology 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 in 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 customers 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 is to leverage our EHR solutions to all 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 information technology services, we will continue to leverage our proven track record of success in accounts receivable management and private pay collections for community

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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, business management, consulting and managed IT services. As of December 31, 2015, we had a twelve-month backlog of approximately $14 million in connection with non-recurring system purchases and approximately $136 million in connection with recurring payments under support and maintenance, business management, consulting and managed IT services. The backlog amounts exclude amounts to be recognized in subsequent periods related to First Generation Meaningful Use Installment Plans (see Management's Discussion and Analysis for a detailed discussion of these arrangements). As of December 31, 2014, we had a twelve-month backlog of approximately $36 million in connection with non-recurring system purchases and approximately $123 million in connection with recurring payments under support and maintenance, business management, consulting and managed IT services.

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 customer service and satisfaction;
- ease of integration and speed of implementation;
- product price;
- cost of services offered;
- results of services engagements;
- knowledge of the healthcare industry;
- sales and marketing efforts; and
- company reputation.

Our principal competitors in the acute care EHR market are Medical Information Technology, Inc. ("Meditech"), athenahealth, Inc., Cerner Corporation and MEDHOST, Inc. These companies compete with us directly in our target market of small and midsize hospitals. They offer products and systems that are comparable to our system and address the needs of hospitals in the markets we serve.

Our secondary competitors in the acute care EHR market include McKesson Corporation, Allscripts Healthcare Solutions, Inc., and Epic Systems Corporation. These companies are significantly larger than we are, and they typically sell their products and services to larger hospitals outside of our target market. However, they will sometimes compete with us directly or, more commonly, a larger health system who uses a system from one of these companies will offer it to a smaller hospital as part of a merger or alliance.

We also face competition from providers of practice management systems, general decision support and database systems and other segment-specific applications. Any of these companies as well as other technology or healthcare companies could decide at any time to specifically target hospitals within our target market.

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Our principal competitors in the post-acute care EHR market are PointClickCare Corporation, MatrixCare, Inc. and HealthMEDX, LLC. These companies compete with us directly in our target market of long-term post-acute care facilities. They offer products and systems that are comparable to our system and address the needs of long-term care providers.

Our principal competitors in the business management, consulting and managed information technology services market are Healthcare Resource Group, Inc., Resolution Health, Inc., The Outsource Group Inc. and Patient Focus, Inc. All of these companies provide one or more of the services we offer, with their primary focus being on business management services. The services they offer are comparable in scope to the competing services we offer. These companies all focus on providing services to the healthcare market. Secondary competitors include ARx LLC, Pioneer Health Services, Inc., Citadel Outsource Group LLC and Patient Matters, LLC.

Health Information Security and Privacy Practices

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") is a federal law that affects the use, disclosure, transmission and storage of certain individually identifiable health information, referred to as "protected health information," and that was enacted for the purpose of, among other things, protecting the privacy and security of protected health information. As directed by HIPAA, the Department of Health and Human Services (the "DHHS") has promulgated standards and rules for certain electronic health transactions, code sets, data security, unique identification numbers and privacy of protected health information. HIPAA and the standards promulgated by DHHS apply to certain health plans, healthcare clearinghouses and healthcare providers (referred to as "covered entities"), which includes our hospital customers. The Health Information Technology for Economic and Clinical Health Act and its implementing regulations published in January 2013 (the "HITECH Act") significantly expand HIPAA by extending privacy and security standards to "business associates" of healthcare providers that are covered entities. Under the HITECH Act, business associates are required to establish administrative, physical and technical safeguards and are subject to direct penalties for violations. Certain of our services frequently entail us acting as a healthcare clearinghouse and/or in the capacity of a business associate to the hospitals that we serve. As a result, we are covered by the patient privacy and security standards of HIPAA and subject to oversight by DHHS. We believe that we have taken all necessary steps to comply with HIPAA, as it applies to us as a business associate, but it is important to note that DHHS could, at any time in the future, adopt new rules or modify existing rules in a manner that could require us to change our systems or operations.

Protecting individually identifiable health information and other sensitive data is a critical and essential function of CPSI’s software solutions. A variety of industry-standard approaches which meet or exceed regulatory requirements such as HIPAA and HITECH are employed. In order to avoid unauthorized access for the life span of this data, diverse methods of identification, authentication, authorization and encryption are utilized at various points throughout the operating system, application software and hardware. These methods and processes are shared amongst servers and other end-user devices and are complemented by change management processes and tools which allow the software change control cycle to be a formal, defined process.

Intellectual Property

We regard some aspects of our internal operations, software and documentation as proprietary, and rely primarily on a combination of contract and trade secret laws to protect our proprietary information. We believe, because of the rapid pace of technological change in the computer software industry, trade secret and copyright protection is less significant than factors such as the knowledge, ability and experience of our employees, frequent software product enhancements and the timeliness and quality of our support services. We cannot guarantee that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

We do not believe our software products or other CPSI proprietary rights infringe on the property rights of third parties. However, we cannot guarantee that third parties will not assert infringement claims against us with respect to current or future software products or that any such assertion may not require us to enter into royalty arrangements or result in costly litigation.

Employees

As of December 31, 2015, we had approximately 1,500 employees, the substantial majority of which are located at our offices in Mobile, Fairhope, and Lanett, Alabama and Monroe, Louisiana. With our acquisition of Healthland Holding Inc. on January 8, 2016, we added approximately 460 employees to our workforce, primarily located in various locations in Minnesota and in Ridgeland, Mississippi. None of our employees are covered by a collective bargaining agreement or are represented by a labor union.

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Executive Officers

The executive officers of CPSI serve at the pleasure of the Board of Directors. Set forth below is a list of the current executive officers of CPSI and a brief explanation of each individual's principal employment during the last five years.

J. Boyd Douglas – President and Chief Executive Officer. J. Boyd Douglas, age 49, has served as our President and Chief Executive Officer since May 2006. He was elected as a director in March 2002. Mr. Douglas began his career with us in August 1988 as a Financial Software Support Representative. From May 1990 until November 1994, Mr. Douglas served as Manager of Electronic Billing, and from December 1994 until June 1999, he held the position of Director of Programming Services. From July 1999 until May 2006, Mr. Douglas served as our Executive Vice President and Chief Operating Officer.

David A. Dye – Chief Growth Officer. David A. Dye, age 46, was appointed as our Chief Growth Officer in November 2015, having previously served as our Chief Financial Officer, Secretary and Treasurer from July 2010 until November 2015. Mr. Dye served as our President and Chief Executive Officer from July 1999 to May 2006. He was elected as a director in March 2002 and has served as our Chairman of the Board since May 2006. Mr. Dye began his career with CPSI in May 1990 as a Financial Software Support Representative and served in various capacities until July 1999. Mr. Dye has served as a director of Bulow Biotech Prosthetics, LLC, a company headquartered in Nashville, Tennessee that operates prosthetic clinics in the Southeastern United States, since July 2006.

Christopher L. Fowler – Chief Operating Officer and President (TruBridge). Christopher L. Fowler, age 40, was appointed as our Chief Operating Officer in November 2015 and has served as the President of TruBridge since its formation in January 2013. Prior to the formation of TruBridge, Mr. Fowler served as CPSI's Vice President – Business Management Services since March 2008. Mr. Fowler began his career with us in May 2000 as a Software Support Representative and later as a manager of Financial Software Services. From August 2004 until March 2008, Mr. Fowler served as Assistant Director and Director of Business Management Services.

Matt J. Chambless – Chief Financial Officer, Secretary and Treasurer. Matt J. Chambless, age 35, was appointed as our Chief Financial Officer, Secretary and Treasurer in November 2015, having previously served as our Director of Financial Reporting from March 2012 until November 2015. Prior to joining CPSI, Mr. Chambless served as the Accounting Manager for Northside Hospital System from May 2011 until March 2012 and as an audit professional, including an Audit Manager, for Grant Thornton, LLP from August 2004 to May 2011.

Chris Bauleke - Chief Executive Officer (Healthland). Chris Bauleke, age 49, has served as the Chief Executive Officer of Healthland since July 2013. Before joining Healthland, Mr. Bauleke gained nearly 20 years of executive leadership experience at McKesson Corporation, most recently serving as President of their RelayHealth Enterprise Intelligence business unit from 2011 until joining Healthland in July 2013.

Victor S. Schneider – Executive Vice President. Victor S. Schneider, age 57, has served as our Executive Vice President since April 2012. Prior to his appointment as Executive Vice President, Mr. Schneider served as our Senior Vice President-Corporate and Business Development since December 2005. Mr. Schneider began his career with us in June 1983 as Sales Manager. He served in that capacity until January 1997 when he was promoted to Sales Director. He served as our Vice President–Sales and Marketing from July 1999 until December 2005.

Robert D. Hinckle – Senior Vice President–Client Services. Robert D. Hinckle, age 46, served as our Vice President–Software Services from October 2004 until January 2013 and has served as our Senior Vice President – Client Services since January 2013. Since beginning his career with us in 1995 as a Financial Software Support Representative, Mr. Hinckle has worked in various positions in our Software Services Division, including Team Manager, Assistant Director and Director of that division.

Troy D. Rosser – Senior Vice President–Sales. Troy D. Rosser, age 51, has served as our Senior Vice President–Sales since January 2012, having previously served as Vice President – Sales since October 2005. Mr. Rosser began his career with us in March 1989 as a Financial Software Support Representative. In 1992, Mr. Rosser was transferred to the Sales and Marketing division where he has worked in various positions, including Sales Manager and, from October 2000 until October 2005, Director of Sales.

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Company Web Site

The Company maintains a web site at http://www.cpsi.com. The Company makes available on its web site, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, as soon as it is reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. The Company is not including the information contained on or available through its web site as a part of, or incorporating such information into, this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

These are not the only risks and uncertainties that we face. Our business, financial condition, operating results, and stock price can be materially and adversely affected by a number of factors, whether currently known or unknown, including, but not limited to, those described below. Any one or more of such factors could directly or indirectly cause our actual financial condition and operating results to vary materially from our past or anticipated future financial condition or operating results.

RISKS RELATED TO OUR INDUSTRY

There is significant uncertainty in the healthcare industry, both as a result of recently enacted legislation and changing government regulation, which may have a material adverse impact on the businesses of our hospital customers and ultimately on our business, financial condition and results of operations.

The healthcare industry is subject to changing political, economic and regulatory influences that may affect the procurement processes and operation of healthcare facilities, including our hospital customers. During the past several years, the healthcare industry has been subject to an increase in governmental regulation of, among other things, reimbursement rates and certain capital expenditures.

Recently enacted public laws reforming the U.S. healthcare system may have an impact on our business. The Patient Protection and Affordable Care Act (H.R. 3590; Public Law 111-148) (the "ACA") and The Health Care and Education Reconciliation Act of 2010 (H.R. 4872) (the "Reconciliation Act"), which amends the ACA (collectively the "Health Reform Laws"), were signed into law in March 2010. The Health Reform Laws contain various provisions which impact us and our customers. Some of these provisions have a positive impact, by expanding the use of electronic health records in certain federal programs, for example, while others, such as reductions in reimbursement for certain types of providers, have a negative impact due to fewer available resources. Increases in fraud and abuse penalties may also adversely affect participants in the healthcare sector, including us.

Among other things, the Health Reform Laws require nearly all individuals to have health insurance, provide for the expansion of Medicaid eligibility, mandate material changes to the delivery of healthcare services and reduce the reimbursement paid for such services in order to generate savings in the Medicare program. The Health Reform Laws also modify certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse.

It is likely that the Health Reform Laws will affect hospitals differently depending upon the populations they serve and their payor mix. Our target market of rural and community hospitals typically serve higher uninsured populations than larger urban hospitals and rely more heavily on Medicare and Medicaid for reimbursement. It remains to be seen whether the increase in the insured population for rural and community hospitals will be sufficient to offset actual and proposed additional cuts in Medicare and Medicaid reimbursements contained in the Health Reform Laws.

The Health Reform Laws will ultimately lead to significant changes in the healthcare system. Because not all of the administrative rules implementing the Health Reform Laws have been finalized, and because of ongoing federal fiscal budgetary pressures yet to be resolved for federal health programs, the full impact of the legislation and of further statutory and regulatory actions to reform healthcare on our business is unknown, but there can be no assurances that the legislation will not adversely impact either our operational results or the manner in which we operate our business. Healthcare industry participants may respond to the Health Reform Laws by reducing their investments or postponing investment decisions, including investments in our solutions and services.

Various legislators have announced that they intend to examine further proposals to reform certain aspects of the U.S. healthcare system. Healthcare providers may react to these proposals, and the uncertainty surrounding such proposals, by curtailing or deferring investments, including those for our systems and related services. Cost-containment measures instituted by healthcare providers as a result of regulatory reform or otherwise could result in a reduction in the allocation of capital funds. Such a reduction could have an adverse effect on our ability to sell our systems and related services. On the other hand, changes in the regulatory environment have increased and may continue to increase the needs of healthcare organizations for cost-effective data management and thereby enhance the overall market for healthcare management information systems. We cannot predict what effect, if any, such additional

proposals or healthcare reforms might have on our business, financial condition and results of operations.

As existing regulations mature and become better defined, we anticipate that these regulations will continue to directly affect certain of our products and services, but we cannot fully predict the effect at this time. We have taken steps to modify our products, services and internal practices as necessary to facilitate our compliance with the regulations, but there can be no

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assurance that we will be able to do so in a timely or complete manner. Achieving compliance with these regulations could be costly and distract management's attention and divert other company resources, and any noncompliance by us could result in civil and criminal penalties.

The healthcare industry is heavily regulated at the local, state and federal levels. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and negatively affect our business.

The healthcare industry is heavily regulated and is constantly evolving due to the changing political, legislative and regulatory landscapes. In some instances, the impact of these regulations on our business is direct to the extent that we are subject to these laws and regulations ourselves. However, these regulations also impact our business indirectly as, in a number of circumstances, our solutions, devices and services must be capable of being used by our customers in a way that complies with those laws and regulations, even though we may not be directly regulated by the specific healthcare laws and regulations. There is a significant number of wide-ranging regulations, including regulations in the areas of healthcare fraud, e-prescribing, claims processing and transmission, medical devices, the security and privacy of patient data, the ARRA meaningful use program, and interoperability standards, that may be directly or indirectly applicable to our operations and relationships or the business practices of our customers. Specific areas that are subject to increased regulation include, but are not limited to, the following:

Healthcare Fraud. Federal and state governments continue to enhance regulation of and increase their scrutiny over practices potentially involving healthcare fraud, waste and abuse by healthcare providers whose services are reimbursed by Medicare, Medicaid and other government healthcare programs. Our healthcare provider customers are subject to laws and regulations regarding fraud and abuse that, among other things, prohibit the direct or indirect payment or receipt of any remuneration for patient referrals, or arranging for or recommending referrals or other business paid for in whole or in part by these federal or state healthcare programs. Federal enforcement personnel have substantial funding, powers and remedies to pursue suspected or perceived fraud and abuse. The effect of this government regulation on our customers is difficult to predict. Many of the regulations applicable to our customers and that may be applicable to us, including those relating to marketing incentives offered in connection with medical device sales, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could broaden their applicability to us or require our customers to make changes in their operations or the way in which they deal with us. If such laws and regulations are determined to be applicable to us and if we fail to comply with any applicable laws and regulations, we could be subject to civil and criminal penalties, sanctions or other liabilities, including exclusion from government healthcare programs, which could have a material adverse effect on our business, results of operations and financial condition. Even an unsuccessful challenge by a regulatory or prosecutorial authority of our activities could result in adverse publicity, could require a costly response from us and could adversely affect our business, results of operations and financial condition.

E-Prescribing. The use of our solutions by physicians for electronic prescribing and electronic routing of prescriptions via the Surescripts network to pharmacies is governed by federal and state laws. States have differing regulations that govern the electronic transmission of certain prescriptions and prescription requirements. Standards adopted by the National Council for Prescription Drug Programs and regulations adopted by the Centers for Medicare and Medicaid Services ("CMS") related to "EPrescribing and the Prescription Drug Program" set forth implementation standards for the transmission of electronic prescriptions. These standards are detailed and broad, and cover not only routing transactions between prescribers and pharmacies, but also electronic eligibility, formulary and benefits inquiries. In general, regulations in this area can be burdensome and evolve regularly, meaning that any potential benefits to our customers from utilizing such solutions and services may be superseded by a newly-promulgated regulation that adversely affects our business model. Our efforts to provide solutions that enable our customers to comply with these regulations could be time consuming and expensive.

Claims Processing and Transmission. Our system electronically transmits medical claims by physicians to patients' payors for immediate approval and reimbursement. In addition, we offer business management services that include the manual and electronic processing and submission of medical claims by healthcare providers to patients' payors for

approval and reimbursement. Federal and state laws provide that it is a violation for any person to submit, or cause to be submitted, a claim to any payor, including, without limitation, Medicare, Medicaid and all private health plans and managed care plans, seeking payment for any service or product that overbills or bills for items that have not been provided to the patient. We have in place policies and procedures that we believe assure that all claims that are transmitted by our system and through our services are accurate and complete, provided that the information given to us by our customers is also accurate and complete. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent inaccurate claims from being submitted, we could be subject to substantial liability including, but not limited to, civil and criminal liability. Additionally, any such failure of our billing and collection services to comply with these laws and regulations could adversely affect demand for our services and could force us to expend significant capital, research and development, and other resources to address the failure.

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In most cases where we are permitted to do so, we calculate charges for our billing and collection services based on a percentage of the collections that our customers receive as a result of our services. To the extent that violations or liability for violations of these laws and regulations require intent, it may be alleged that this percentage calculation provides us or our employees with incentive to commit or overlook fraud or abuse in connection with submission and payment of reimbursement claims. CMS has stated that it is concerned that percentage-based billing services may encourage billing companies to commit or to overlook fraudulent or abusive practices.

A portion of our business involves billing Medicare claims on behalf of our clients. In an effort to combat fraudulent Medicare claims, the federal government offers rewards for reporting of Medicare fraud which could encourage others to subject us to a charge of fraudulent claims, including charges that are ultimately proved to be without merit.

As discussed below, the HIPAA security and privacy standards also affect our claims transmission services, since those services must be structured and provided in a way that supports our customers' HIPAA compliance obligations.

Regulation of Medical Devices. The United States Food and Drug Administration (the "FDA") has determined that certain of our solutions, such as our ImageLink® product, are medical devices that are actively regulated under the Federal Food, Drug and Cosmetic Act, as amended. If other of our solutions are deemed to be actively regulated medical devices by the FDA, we could be subject to extensive requirements governing pre- and post-marketing activities including pre-market notification clearance. Complying with these medical device regulations is time consuming and expensive, and our marketing and other sales activities could be subject to unanticipated and significant delays. Further, it is possible that the FDA may become more active in regulating software and medical devices that are used in the healthcare industry. If we are unable to obtain the required regulatory approvals for any such software or medical devices, our short- to long-term business plans for these solutions or medical devices could be delayed or canceled and we could face FDA refusal to grant pre-market clearance or approval of products; withdrawal of existing clearances and approvals; fines, injunctions or civil penalties; recalls or product corrections; production suspensions; and criminal prosecution. FDA regulation of our products could increase our operating costs, delay or prevent the marketing of new or existing products, and adversely affect our revenue growth.

Security and Privacy of Patient Information. Federal, state and local laws regulate the privacy and security of patient records and the circumstances under which those records may be released. These regulations govern both the disclosure and use of confidential patient medical record information and require the users of such information to implement specified security and privacy measures. United States regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply.

In the United States, HIPAA regulations require national standards for some types of electronic health information transactions and the data elements used in those transactions, security standards to ensure the integrity and confidentiality of health information, and standards to protect the privacy of individually identifiable health information. Covered entities under HIPAA, which include healthcare organizations such as our customers, and our claims processing, transmission and submission services, are required to comply with the privacy standards, transaction regulations and security regulations. Moreover, HITECH and associated regulatory requirements extend many of the HIPAA obligations, formerly imposed only upon covered entities, to business associates as well. As a business associate of our customers who are covered entities, we were in most instances already contractually required to ensure compliance with the HIPAA regulations as they pertain to the handling of covered customer data. However, the extension of these HIPAA obligations to business associates by law has created additional liability risks related to the privacy and security of individually identifiable health information.

Evolving HIPAA and HITECH-related laws or regulations could restrict the ability of our customers to obtain, use or disseminate patient information. This could adversely affect demand for our solutions and devices if they are not re-designed in a timely manner in order to meet the requirements of any new interpretations or regulations that seek to protect the privacy and security of patient data or enable our customers to execute new or modified healthcare transactions. We may need to expend additional capital and software development and other resources to modify our solutions to address these evolving data security and privacy issues. Furthermore, our failure to maintain the confidentiality of sensitive personal information in accordance with the applicable regulatory requirements could

damage our reputation and expose us to claims, fines and penalties.

Federal and state statutes and regulations have granted broad enforcement powers to regulatory agencies to investigate and enforce compliance with these privacy and security laws and regulations. Federal and state enforcement personnel have substantial funding, powers and remedies to pursue suspected or perceived violations. If we fail to comply with any applicable laws or regulations, we could be subject to civil penalties, sanctions or other liability. Enforcement investigations, even if meritless, could have a negative impact on our reputation, cause us to lose existing customers or limit our ability to attract new customers.

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ARRA Meaningful Use Program. Various federal and state government agencies are developing standards that could become mandatory for systems purchased by entities that are funded by these agencies. For example, the ARRA requires "meaningful use of certified electronic health record technology" by healthcare providers by 2015 in order to receive incentive payments. Regulations have been issued that identify standards and implementation specifications and establish the certification standards for qualifying EHR technology. Nevertheless, these standards and specifications are subject to interpretation by the entities designated to certify such technology. While a combination of our solutions has been certified as meeting both stage one and stage two standards for certified electronic health record technology, the regulatory standards to achieve certification will continue to evolve over time. We may incur increased development costs and delays in delivering solutions if we need to upgrade our software or healthcare devices to be in compliance with these varying and evolving standards. In addition, delays in interpreting these standards may result in postponement or cancellation of our customers' decisions to purchase our software solutions. If our software solutions are not compliant with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our software solutions.

Interoperability Standards. Our customers are concerned with and often require that our software and systems be interoperable with other third party healthcare information technology systems. Market forces or governmental or regulatory authorities could create software interoperability standards that would apply to our software and systems, and if our software and systems are not consistent with those standards, we could be forced to incur substantial additional development costs. For example, the HITECH Act contains interoperability standards that healthcare providers are required to adhere to in order to receive stimulus funds from the federal government under the ARRA. Compliance with these and related standards is becoming a competitive requirement and, although a combination of our solutions has been certified as meeting all such required interoperability standards to date, maintaining such compliance with these varying and evolving rules may result in increased development costs and delays in upgrading our customer software and systems. To the extent these rules are narrowly construed, subsequently changed or supplemented, or that we are delayed in achieving certification under these evolving rules for applicable products, our customers may postpone or cancel their decisions to purchase or implement our software and systems.

As it relates specifically to interoperability, during 2013 we announced our membership in CommonWell Health Alliance ("CommonWell"), a not-for-profit trade association comprised of healthcare information technology vendors devoted to the notion that patient data should be safely, securely and immediately available to patients and healthcare providers to support better care delivery, regardless of where that care occurs. CommonWell is committed to fostering standards that make this possible, and to having healthcare information technology companies embed these capabilities natively and cost effectively into their EHR systems. Despite our membership in CommonWell, there is no guarantee that we will successfully manage the interoperability of our software and systems with third-party health IT providers.

Standards for Submission of Healthcare Claims. CMS has mandated the use of new patient codes for reporting medical diagnosis and inpatient procedures, referred to as the ICD-10 codes. CMS is requiring all providers, payors, clearinghouses and billing services to utilize these ICD-10 codes when submitting claims for payment. ICD-10 codes will affect medical diagnosis and inpatient procedure coding for everyone covered by HIPAA, not just those who submit Medicare or Medicaid claims. Claims for services provided on or after October 1, 2015 must use ICD-10 codes for medical diagnosis and inpatient procedures or they will not be paid. While we have successfully implemented the use of ICD-10 codes within our products and services, the possibility exists for similar future mandates by CMS. If our products and services do not accommodate CMS mandates at any future date, customers may cease to use those products and services that are not compliant and may choose alternative vendors and products that are compliant. This could adversely impact future revenues.

Economic, market and other factors may cause a decline in spending for information technology and services by our current and prospective customers which may result in less demand for our products, lower prices and, consequently, lower revenues and a lower revenue growth rate.

The purchase of our information system involves a significant financial commitment by our customers. At the same time, the healthcare industry faces significant financial pressures that could adversely affect overall spending on healthcare information technology and services. For example, the recent economic recession and continued decrease in availability of credit, combined with actual and potential reductions in federal and state funding for Medicare and Medicaid, has caused hospitals to reduce, eliminate or postpone information technology related and other spending. To the extent spending for healthcare information technology and services declines or increases slower than we anticipate, demand for our products and services, as well as the prices we charge, could be adversely affected. Accordingly, we cannot assure you that we will be able to increase or maintain our revenues or our revenue growth rate.

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There are a limited number of hospitals in our target market. Saturation or consolidation in the healthcare industry could result in the loss of existing customers, a reduction in our potential customer base and downward pressure on the prices of our products and services.

The limited number of hospitals with 300 or fewer acute care beds in our general target market for our acute care product and service offerings, coupled with the accelerated adoption of EHRs resulting from the ARRA's EHR incentive program, has resulted in an ever narrowing market for new system installations which could materially and adversely impact our business, financial condition and operating results.

We have identified opportunities for continued growth and expansion in the form of (1) an expanded replacement market for EHRs as certain existing EHR vendors have struggled and are expected to continue to struggle with the expanding requirements of the ARRA's EHR adoption program, (2) selective expansion into English-speaking international markets, and (3) targeted expansion of the footprint for our ambulatory solutions by aggressively targeting physician practices in those communities where the local hospital is a current CPSI customer. Although we have formulated strategic responses for capitalizing on each of the identified opportunities, there is no guarantee that such responses will ultimately prove successful. Additionally, to the extent that these opportunities fail to develop or develop more slowly than expected, our business, financial condition and operating results could be materially and adversely impacted.

Furthermore, many healthcare providers have consolidated to create larger healthcare delivery enterprises with greater market power. If this consolidation continues, we could lose existing customers and could experience a decrease in the number of potential purchasers of our products and services. The loss of existing and potential customers due to industry consolidation could cause our revenue growth rate to decline.

RISKS RELATED TO OUR COMPANY

Volatility in and disruption to the global capital and credit markets and tightened lending standards may adversely affect our ability to access credit in the future, the cost of any credit obtained in the future, and the financial soundness of our customers and our business.

Domestic and international events during the last several years have resulted in volatility and disruption to the global capital and credit markets, manifested in the bankruptcy or restructuring of certain financial institutions and reduced lending activity by other financial institutions. Although certain indices and economic data have shown signs of stabilization in the United States and certain global markets, there can be no assurance that these improvements will be broad-based or sustainable. Continued or increased volatility and disruption in the global capital and credit markets may adversely affect the availability, terms and cost of credit in the future. Although we believe that our operating cash flow and financial assets will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that the continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase the costs of any future borrowing.

Our business could also be negatively impacted to the extent that our hospital customers experience disruptions resulting from tighter capital and credit markets, the recent economic recession or cuts in Medicare and Medicaid funding. As a result, hospitals may modify, delay or cancel plans to purchase our software systems or services. Additionally, if hospitals' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment of, accounts receivable owed to us. Any inability of customers to pay us for our products and services may adversely affect our earnings and cash flow.

Tightened lending standards and the absence of third-party credit has resulted in many of our hospital customers seeking financing arrangements from us to purchase our software systems and services. These financing arrangements impact our short-term operating cash flow and cash available. Should the requests for these financing arrangements continue or increase, our business could be negatively impacted by our inability to finance these arrangements. In addition, the absence of credit could negatively impact our existing financing receivables should our customers with financing arrangements be unable to meet their obligations.

Our substantial indebtedness may adversely affect our available cash flow and our ability to operate our business, remain in compliance with debt covenants and make payments on our indebtedness.

In connection with the acquisition of Healthland we incurred substantial indebtedness. As of January 8, 2016, we had approximately $150.0 million of indebtedness, which includes $125.0 million under our Term Loan Facility and $25.0 million borrowed under our Revolving Credit Facility. We also have $25.0 million of unused commitments under our Revolving Credit Facility.

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Our substantial indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our substantial indebtedness, combined with our other financial obligations and contractual commitments, could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under such instruments;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are less highly leveraged and therefore able to take advantage of opportunities that our indebtedness prevents us from exploiting; and
- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

Any of the above listed factors could have a material adverse effect on our business, prospects, results of operations and financial condition. Furthermore, our interest expense could increase if interest rates increase because our debt bears interest at floating rates, which could adversely affect our cash flows. If we do not have sufficient earnings to service our debt, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can guarantee we will be able to do.

In addition, the Credit Agreement governing our Term Loan Facility and Revolving Credit Facility contains restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. A breach of any of these restrictive covenants, if not cured or waived, could result in an event of default that could trigger acceleration of our indebtedness and may result in the acceleration of or default under any other debt to which a cross-acceleration or cross-default provision applies, which could have a material adverse effect on our business and financial condition.

The Credit Agreement requires compliance with a consolidated leverage ratio test. In addition, the Credit Agreement requires prepayment of the outstanding indebtedness thereunder if we have certain excess cash flow, as described therein. The Credit Agreement requires us to mandatorily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility with net cash proceeds from certain financing and other transactions and beginning with the fiscal year ending December 31, 2016, 50% of excess cash flow (minus certain specified other payments), subject to a step down based on our consolidated leverage ratio.

Despite our current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt, which could exacerbate the risks associated with our substantial leverage.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, including secured indebtedness. Although the Credit Agreement governing our Term Loan Facility and Revolving Credit Facility contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. If new debt is added to our or our subsidiaries' current debt levels, the related risks that we face would be increased.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our ability to pay interest on and principal of our debt obligations principally depends upon our operating performance. As a result, prevailing economic conditions and financial, business and other factors, many of which are beyond our control, will affect our ability to make these payments.

If we do not generate sufficient cash flow from operations to satisfy our debt service obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or capital expenditures or seeking to raise additional capital. Our ability to restructure or refinance our debt, if at all, will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our

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debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt instruments may restrict us from adopting some of these alternatives. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance our obligations at all or on commercially reasonable terms, could affect our ability to satisfy our debt obligations and have a material adverse effect on our business, prospects, results of operations and financial condition.

The terms of the Credit Agreement governing our Term Loan Facility and Revolving Credit Facility may restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

Our Term Loan Facility and Revolving Credit Facility contain, and any future indebtedness of ours would likely contain, a number of restrictive covenants that impose significant operating restrictions, including restrictions on our ability to engage in acts that may be in our best long-term interests.

The Credit Agreement governing our Term Loan Facility and Revolving Credit Facility includes covenants restricting, among other things, our ability to:

•incur additional debt;
•incur liens and encumbrances;
•pay dividends on our equity securities or payments to redeem, repurchase or retire our equity securities;
•enter into 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 our affiliates; and
•materially alter the business we conduct.

The operating restrictions and covenants in these debt agreements and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. Our ability to comply with these covenants may be affected by events beyond our control, and any material deviations from our forecasts could require us to seek waivers or amendments of covenants, alternative sources of financing or reductions in expenditures. In addition, the outstanding indebtedness under our Term Loan Facility and Revolving Credit Facility is, subject to certain exceptions, secured by security interests in substantially all of our and the subsidiary guarantors' tangible and intangible assets (subject to certain exceptions). A breach of any of the restrictive covenants in the Credit Agreement governing our Term Loan Facility and Revolving Credit Facility would result in a default, and our lenders may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, or enforce and foreclose on their security interest and liquidate some or all of such pledged assets. The lenders under our Term Loan Facility and Revolving Credit Facility also have the right in these circumstances to terminate any commitments they have to provide further borrowings.

We are exposed to market risk related to interest rate changes.

We are exposed to market risk related to changes in interest rates as a result of the floating interest rates applicable to the outstanding debt under our Term Loan Facility and Revolving Credit Facility. The interest rate for the outstanding debt under our Term Loan Facility and Revolving Credit Facility as of January 8, 2016 was 3.69%. Borrowings under our Term Loan Facility and Revolving Credit Facility bear interest at a base rate, a LIBOR rate, or a combination of the two, as elected by us, plus an applicable margin. The base rate is determined by reference to the greatest of (a) the prime lending rate of Regions Bank, (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. The LIBOR rate is determined by reference to the interest rate for dollar deposits in the London interbank market for the interest period relevant to such borrowings, adjusted as set forth in the Credit Agreement. There is no cap on the maximum interest rate for borrowings under our Term Loan Facility and Revolving Credit Facility.

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If we cannot integrate our recent acquisition of Healthland Holding Inc. successfully, our business and prospects could be adversely affected.

In January 2016, we completed our acquisition of Healthland Holding Inc. ("Healthland") for approximately $252.0 million consisting of approximately $166.9 million in cash (inclusive of financing costs and seller's transaction expenses, and net of cash acquired), 1,973,880 shares of our common stock and the assumption of options exercisable for 174,972 shares of our common stock. We incurred approximately $150.0 million in indebtedness to partially finance the acquisition.

The success of the acquisition will depend significantly on how quickly and efficiently we are able to integrate Healthland with our business. Integration of a substantial business is a challenging, time-consuming and costly process. In addition to costs, successful integration of Healthland will require the dedication of significant management resources that may temporarily detract attention from our day-to-day business.

It is possible that the acquisition itself or the integration process could result in the loss of key Healthland personnel, the disruption of Healthland's business or inconsistencies or changes in its business processes or methods that could adversely affect Healthland's ability to conduct business successfully. This could in turn impede our ability to expand and profitably operate Healthland's business.

Our overall strategy contemplates the growth and profitability of Healthland. Consequently, if we cannot integrate Healthland in a timely and efficient manner, or if we are unable to expand the business and operate it profitably, the anticipated benefits of the acquisition may not be fully realized, we may not recognize the return we anticipate on our investment in Healthland and our business and prospects as a whole may be materially adversely affected.

Further, the market price of our stock may decline due to the Healthland acquisition, including if our integration of Healthland is unsuccessful, takes longer than expected or fails to achieve projected benefits to the extent anticipated by us, financial analysts or investors, or the effect of the acquisition on our post-closing financial results is otherwise not consistent with our expectations or those of our financial analysts or investors.

We may engage in future acquisitions. Such strategic acquisitions may be expensive, time consuming, and subject to other inherent risks which may jeopardize our ability to realize anticipated benefits.

We may acquire additional businesses, technologies and products if we determine that these additional businesses, technologies and products are likely to serve our strategic goals. Acquisitions, including the Healthland acquisition, have inherent risks, which may have a material adverse effect on our business, financial condition, operating results or prospects, including, but not limited to the following:

- significant acquisition and integration costs;
- failure to achieve projected synergies and performance targets;
- potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets with indefinite useful lives, which could adversely affect our results of operations and financial condition;
- using cash as acquisition currency may adversely affect interest or investment income, which may in turn adversely affect our earnings and/or earnings per share;
- difficulty in fully or effectively integrating the acquired technologies, software products, services, business practices or personnel, which would prevent us from realizing the intended benefits of the acquisition;
- failure to maintain uniform standard controls, policies and procedures across acquired businesses;
- difficulty in predicting and responding to issues related to product transition such as development, distribution and customer support;
- the possible adverse effect of such acquisitions on existing relationships with third party partners and suppliers of technologies and services;
- the possibility that staff or customers of the acquired companies might not accept new ownership and may transition to different technologies or attempt to renegotiate contract terms or relationships, including maintenance or support agreements;

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- the assumption of known and unknown liabilities;
- the possibility that the due diligence process in any such acquisition may not completely identify material issues associated with product quality, product architecture, product development, intellectual property issues, key personnel issues or legal and financial contingencies, including any deficiencies in internal controls and procedures and the costs associated with remedying such deficiencies;
- difficulty in entering geographic and/or business markets in which we have no or limited prior experience;
- diversion of management's attention from other business concerns; and
- the possibility that acquired assets become impaired, requiring us to take a charge to earnings which could be significant.

A failure to successfully integrate acquired businesses or technology in a timely manner could, for any of these reasons, have an adverse effect on our financial condition and results of operations. As a result, we may not be able to realize the expected benefits that we seek to achieve from the acquisitions, which could also affect our ability to service our debt obligations. In addition, we may be required to spend additional time or money on integration that otherwise would be spent on the development and expansion of our business.

Competition with companies that have greater financial, technical and marketing resources than we have could result in a loss of customers and/or a lowering of prices for our products, causing a decrease in our revenues and/or market share.

Our principal competitors are Meditech and MEDHOST. Meditech and MEDHOST compete with us directly in our target market of rural and community hospitals with 300 or fewer acute care beds. These companies offer products and services that are comparable to our solutions and are designed to address the needs of rural and community hospitals.

Our secondary competitors include McKesson Corporation, Epic Systems Corporation, Cerner Corporation, Quality Systems, Inc., Siemens Corporation, Prognosis Health Information Systems LLC, and athenahealth, Inc. Most of these companies are significantly larger than we are, and they typically sell their products and services to larger hospitals outside of our target market. However, they sometimes compete directly with us. We also face competition from providers of practice management systems, general decision support and database systems and other segment-specific applications, as well as from healthcare technology consultants. Any of these companies, as well as other technology or healthcare companies, could decide at any time to specifically target hospitals within our target market.

A number of existing and potential competitors are more established than we are and have greater name recognition and financial, technical and marketing resources. Products of our competitors may have better performance, lower prices and broader market acceptance than our products. We expect increased competition that could cause us to lose customers, lower our prices to remain competitive and, consequently, experience lower revenues, revenue growth and profit margins.

Our failure to develop new products or enhance current products in response to market demands could adversely impact our competitive position and require substantial capital resources to correct.

The needs of hospitals in our target market are subject to rapid change due to government regulation, trends in clinical care practices and technological advancements. As a result of these changes, our products may quickly become obsolete or less competitive. New product introductions and enhancements by our competitors that more effectively or timely respond to changing industry needs may weaken our competitive position.

We continually redesign and enhance our products to incorporate new technologies and adapt our products to ever-changing hardware and software platforms. Often we face difficult choices regarding which new technologies to adopt. If we fail to anticipate or respond adequately to technological advancements, or experience significant delays in product development or introduction, our competitive position could be negatively affected. Moreover, our failure to offer products acceptable to our target market could require us to make significant capital investments and incur higher operating costs to redesign our products, which could negatively affect our financial condition and operating results.

Our products assist clinical decision-making and related care by capturing, maintaining and reporting relevant patient data. If our products fail to provide accurate and timely information, our customers could assert claims against us that could result in substantial cost to us, harm our reputation in the industry and cause demand for our products to decline.

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We provide products that assist clinical decision-making and related care by capturing, maintaining and reporting relevant patient data. Our products could fail or produce inaccurate results due to a variety of reasons, including mechanical error, product flaws, faulty installation and/or human error during the initial data conversion. If our products fail to provide accurate and timely information, customers and/or patients could sue us to hold us responsible for losses they incur from these errors. These lawsuits, regardless of merit or outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit by contract our liability for damages arising from negligence, errors or mistakes. Despite this precaution, such contract provisions may not be enforceable or may not otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors or omissions. However, this coverage may not be sufficient to cover one or more large claims against us or otherwise continue to be available on terms acceptable to us. In addition, the insurer could disclaim coverage as to any future claim.

Breaches of security and viruses in our systems could result in customer claims against us and harm to our reputation causing us to incur expenses and/or lose customers.

In the course of our business operations, we compile and transmit confidential information, including patient health information. We have included security features in our systems that are intended to protect the privacy and integrity of this information. Despite the existence of these security features, our system may experience break-ins and similar disruptive problems that could jeopardize the security of information stored in and transmitted through the information technology networks of our customers. In addition, the other systems with which we may interface, such as the Internet and related systems, may be vulnerable to security breaches, viruses, programming errors or similar disruptive problems. Because of the sensitivity of medical information, customers could sue us for breaches of security involving our system. Also, actual or perceived security breaches in our system could harm the market perception of our products which could cause us to lose existing and prospective customers. Additionally, the effect of security breaches and related issues could disrupt our ability to perform certain key business functions and could potentially reduce demand for our products and services. Accordingly, we have expended significant resources toward establishing and enhancing the security of our related infrastructures, although no assurance can be given that these systems will be entirely free from potential breach. Maintaining and enhancing our infrastructure security may require us to expend significant capital in the future.

New products that we introduce or enhancements to our existing products may contain undetected errors or problems that could affect customer satisfaction and cause a decrease in revenues.

Highly complex software products such as ours sometimes contain undetected errors or failures when first introduced or when updates and new versions are released. Tests of our products may not detect bugs or errors because it is difficult to simulate our customers' wide variety of computing environments. Despite extensive testing, from time to time we have discovered defects or errors in our products. Defects or errors discovered in our products could cause delays in product introductions and shipments, result in increased costs and diversion of development resources, require design modifications, decrease market acceptance or customer satisfaction with our products, cause a loss of revenue, result in legal actions by our customers and cause increased insurance costs.

Our facilities are located in an area vulnerable to hurricanes and tropical storms, and the occurrence of a severe hurricane, similar storm or other natural disaster could cause damage to our facilities and equipment, which could require us to cease or limit our operations.

A significant portion of our facilities and employees are located within 30 miles of the coast of the Gulf of Mexico. Our facilities are vulnerable to significant damage or destruction from hurricanes and tropical storms. We are also vulnerable to damage from other types of disasters, including tornadoes, fires, floods and similar events. If any disaster were to occur, our ability to conduct business at our facilities could be seriously impaired or completely destroyed. This would have adverse consequences for our customers who depend on us for system support or business management, consulting and managed IT services. Also, the servers of customers who use our remote access services could be damaged or destroyed in any such disaster. This would have potentially devastating consequences to those customers. Although we have an emergency recovery plan, including back-up systems in remote locations, there can

be no assurance that this plan will effectively prevent the interruption of our business due to a natural disaster. Furthermore, the insurance we maintain may not be adequate to cover our losses resulting from any natural disaster or other business interruption.

Interruptions in our power supply and/or telecommunications capabilities could disrupt our operations, cause us to lose revenues and/or increase our expenses.

We currently have backup generators to be used as alternative sources of power in the event of a loss of power to our facilities. If these generators were to fail during any power outage, we would be temporarily unable to continue operations at

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our facilities. This would have adverse consequences for our customers who depend on us for system support, business management, and managed IT and professional services. Any such interruption in operations at our facilities could damage our reputation, harm our ability to retain existing customers and obtain new customers, and result in lost revenue and increased insurance and other operating costs.

We also have customers for whom we store and maintain computer servers containing critical patient and administrative data. Those customers access this data remotely through telecommunications lines. If our power generators fail during any power outage or if our telecommunications lines are severed or impaired for any reason, those customers would be unable to access their mission critical data causing an interruption in their operations. In such event our remote access customers and/or their patients could seek to hold us responsible for any losses. We would also potentially lose those customers, and our reputation could be harmed.

If we are unable to attract and retain qualified customer service and support personnel, our business and operating results will suffer.

Our customer service and support is a key component of our business. Most of our hospital customers have small information technology staffs, and they depend on us to service and support their systems. Future difficulty in attracting, training and retaining capable customer service and support personnel could cause a decrease in the overall quality of our customer service and support. That decrease would have a negative effect on customer satisfaction which could cause us to lose existing customers and could have an adverse effect on our new customer sales. The loss of customers due to inadequate customer service and support would negatively impact our ability to continue to grow our business.

We do not have employment or non-competition agreements with most of our key personnel, and their departure could harm our future success.

Our future success depends to a significant extent on the leadership and performance of our chief executive officer and other executive officers. We do not have employment or non-competition agreements with most of our executive officers. Therefore, they may terminate their employment with us at any time and may compete against us. The loss of the services of any of our executive officers could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to manage our growth in the new markets we may enter, our business and financial results could suffer.

Our future financial results will depend in part on our ability to profitably manage our business in new markets that we may enter. We are engaging in the strategic identification of, and competition for, growth and expansion opportunities in new markets or offerings. In order to successfully execute on these future initiatives, we will need to, among other things, manage changing business conditions and develop expertise in areas outside of our business's traditional core competencies. Difficulties in managing future growth in new markets could have a significant negative impact on our business, financial condition and results of operations.

Because we believe that proprietary rights are material to our success, misappropriation of these rights could limit our ability to compete effectively and adversely affect our financial condition.

We are heavily dependent on the maintenance and protection of our intellectual property and we rely largely on a combination of confidentiality provisions in our customer agreements, employee nondisclosure agreements, trademark and trade secret laws and other measures to protect our intellectual property. Additionally, our software is not patented or copyrighted. Although we attempt to control access to our intellectual property, unauthorized persons may attempt to copy or otherwise use our intellectual property. There can be no assurance that the legal protections and precautions we take will be adequate to prevent misappropriation of our technology or that competitors will not independently develop technologies equivalent or superior to ours. Monitoring unauthorized use of our intellectual property is difficult, and the steps we have taken may not prevent unauthorized use. If our competitors gain access to our intellectual property, our competitive position in the industry could be damaged. An inability to compete effectively could cause us to lose existing and potential customers and experience lower revenues, revenue growth and profit margins. Third parties could obtain patents that may require us to negotiate licenses to conduct our business, and the

required licenses may not be available on reasonable terms or at all. We also rely on nondisclosure agreements with certain employees, and we cannot be certain that these agreements will not be breached or that we will have adequate remedies for any breach.

If we are deemed to infringe on the intellectual property rights of third parties, we could incur unanticipated expense and be prevented from providing our products and services if we cannot obtain licenses to these rights on commercially acceptable

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terms.

We do not believe that our operations or products infringe on the intellectual property rights of others. However, there can be no assurance that others will not assert infringement or trade secret claims against us with respect to our current or future products. Many participants in the technology industry have an increasing number of patents and patent applications and have frequently demonstrated a readiness to take legal action based on allegations of patent and other intellectual property infringement. Further, as the number and functionality of our products increase, we believe we may become increasingly subject to the risk of infringement claims. If infringement claims are brought against us, these assertions could distract management. We may have to spend a significant amount of money and time to defend or settle those claims. In addition, claims against third parties from which we purchase software could adversely affect our ability to access third-party software for our systems.

If we were found to infringe on the intellectual property rights of others, we could be forced to pay significant license fees or damages for infringement. If we were unable to obtain licenses to these rights on commercially acceptable terms, we would be required to discontinue the sale of our products that contain the infringing technology. Our customers would also be required to discontinue the use of those products. We are unable to insure against this risk on an economically feasible basis. Even if we were to prevail in an infringement lawsuit, the accompanying publicity could adversely impact the demand for our products. Under some circumstances, we agree to indemnify our customers for some types of infringement claims that may arise from the use of our products.

We face the risks and uncertainties that are associated with litigation against us, which may adversely impact our marketing, distract management and have a negative impact upon our business, results of operations and financial condition.

We face the risks associated with litigation concerning the operation of our business. For example, companies in our industry, including many of our competitors, have been subject to litigation based on allegations of patent infringement or other violations of intellectual property rights. In particular, patent holding companies often engage in litigation to seek to monetize patents that they have obtained. As the number of competitors, patents and patent holding companies in our industry increases, the functionality of our products and services expands, and we enter into new geographies and markets, the number of intellectual property rights-related actions against us is likely to continue to increase. The uncertainty associated with substantial unresolved litigation may have an adverse effect on our business. In particular, such litigation could impair our relationships with existing customers and our ability to obtain new customers. Defending such litigation may result in a diversion of management's time and attention away from business operations, which could have an adverse effect on our business, results of operations and financial condition. Such litigation may also have the effect of discouraging potential acquirers from bidding for us or reducing the consideration such acquirers would otherwise be willing to pay in connection with an acquisition.

There can be no assurance that such litigation will not result in liability in excess of our insurance coverage, that our insurance will cover such claims or that appropriate insurance will continue to be available to us in the future at commercially reasonable rates.

We are dependent on the continued and unimpeded access to the Internet by us and our customers, which is not within our control.

We deliver Internet-based services and, accordingly, depend on our ability and the ability of our customers to access the Internet. This access is currently provided by third parties that have significant market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies and government-owned service providers - all of whom are outside of our control. In the event of any difficulties, outages and delays by Internet service providers, we may be impeded from providing services, resulting in a loss of potential or existing customers.

We may be subject to liability in the event we provide inaccurate claims data to payors.

We offer electronic claims submission services as part of our business management services. While we have implemented certain product features designed to maximize the accuracy and completeness of claims submissions, these features may not be sufficient to prevent inaccurate claims data from being submitted to payors. Should

inaccurate claims data be submitted to payors, we may be subject to liability claims.

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We are dependent on our licenses of rights, products and services from third parties, disruptions of which may cause us to discontinue, delay or reduce product shipments.

We are increasingly dependent upon licenses for some of the technology used in our products as well as other products and services from third-party vendors, and the costs of these licenses have increased in recent years. Most of these arrangements can be continued/renewed only by mutual consent and may be terminated for any number of reasons. We may not be able to continue using the technology, products or services made available to us under these arrangements on commercially reasonable terms or at all. As a result, we may have to discontinue, delay or reduce product shipments or services provided until we can obtain equivalent technology or services. Most of our third-party licenses are non-exclusive. Our competitors may obtain the right to use any of the business elements covered by these arrangements and use these elements to compete directly with us. In addition, if our vendors choose to discontinue providing their technology, products or services in the future or are unsuccessful in their continued research and development efforts, we may not be able to modify or adapt our own products.

RISKS RELATED TO OUR COMMON STOCK

We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance, one or more of which could adversely affect our business, financial condition, cash flows, revenue and results of operations.

Based on our reading and interpretations of relevant guidance, principles or concepts issued by, among other authorities, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and the Securities and Exchange Commission, we believe revenue received pursuant to our current sales and licensing contract terms and business arrangements have been properly recognized. However, there continue to be issued interpretations and guidance for applying the relevant standards to a wide range of sales and licensing contract terms and business arrangements that are prevalent in the software industry. Future interpretations or changes by the regulators of existing accounting standards or changes in our business practices could result in changes in our revenue recognition and/or other accounting policies and practices that could adversely affect our business, financial condition, cash flows, revenue and results of operations.

The unpredictability of our quarterly operating results may cause us to fail to meet revenues or earnings expectations which could cause the price of our common stock to fluctuate or decline.

There is no assurance that consistent quarterly growth in our business will occur. Our quarterly revenues may fluctuate and may be difficult to forecast for a variety of reasons. For example, prospective customers often take significant time evaluating our system and related services before making a purchase decision. Moreover, a prospective customer who has placed an order for our system could decide to cancel that order or postpone installation of the ordered system. If a prospective customer delays or cancels a scheduled system installation during any quarter, we may not be able to schedule a substitute system installation during that quarter. The amount of revenues that would have been generated from that installation will be postponed or lost. The possibility of delays or cancellations of scheduled system installations could cause our quarterly revenues to fluctuate.

The following factors may also affect demand for our products and services and cause our quarterly revenues to fluctuate:

- changes in customer budgets and purchasing priorities;
- the ability of our customers to obtain financing for the purchase of our products;
- the financial stability of our customers;
- the specific mix of software, hardware and services in orders from customers;
- the timing of new product announcements and product introductions by us and our competitors;
- market acceptance of new products, product enhancements and services from us and our competitors;
- product and price competition;
- our success in expanding our sales and marketing programs;
- the availability and cost of system components;
- delay of revenue recognition to future quarters due to an increase in the sales of our remote access SaaS services;

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- the length of sales cycles and installation processes;
- changes in revenue recognition or other accounting guidelines employed by us and/or established by the Financial Accounting Standards Board or other rulemaking bodies;
- accounting policies concerning the timing of recognition of revenue;
- personnel changes; and
- general market and economic factors.

Variations in our quarterly revenues may adversely affect our operating results. In each fiscal quarter, our expense levels, operating costs and hiring plans are based on projections of future revenues and are relatively fixed. Because a significant percentage of our expenses are relatively fixed, a variation in the timing of systems sales, implementations and installations can cause significant variations in operating results from quarter to quarter. As a result, we believe that interim period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, our historical operating results are not necessarily indicative of future performance for any particular period.

We currently recognize revenue pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 985-605, Software, Revenue Recognition, or ASC 985-605. ASC 985-605 summarizes the FASB’s views in applying generally accepted accounting principles to revenue recognition in financial statements. There can be no assurance that application and subsequent interpretations of this pronouncement will not further modify our revenue recognition policies, or that such modifications would not adversely affect our operating results reported in any particular quarter or year.

Due to all of the foregoing factors, it is possible that our operating results may be below the expectations of securities analysts and investors. In such event, the price of our common stock would likely be adversely affected.

Our common stock price has periodically experienced significant volatility, which could result in substantial losses for investors purchasing shares of our common stock and in litigation against us.

Volatility may be caused by a number of factors including but not limited to:

- actual or anticipated quarterly variations in operating results;
- rumors about our performance, software solutions, or merger and acquisition activity;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- governmental regulatory action;
- healthcare reform measures;
- customer relationship developments;
- purchases or sales of Company stock;
- changes occurring in the markets in general;
- macroeconomic conditions, both nationally and internationally; and
- other factors, many of which are beyond our control.

Furthermore, the stock market in general, and the market for software, healthcare and high technology companies in particular, has experienced significant volatility in recent years that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of actual operating performance.

Moreover, in the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management’s attention and resources.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate campus is located on approximately 16.5 acres in Mobile, Alabama and includes approximately 135,500 square feet of office space. Our main campus headquarters building consists of approximately 66,000 square feet of office and warehouse space. We also have eleven additional smaller campus buildings consisting of approximately 6,000 square feet of office space each. Each of these smaller buildings is designed to accommodate a team of employees assigned to install and support a particular software application. We also occupy an additional campus building consisting of approximately 3,500 square feet of office space which houses our sales personnel. The Company also owns 11.3 acres of undeveloped real property adjacent to our corporate campus.

We lease the remainder of our facilities in various locations in the United States, including: Fairhope, Alabama; Frackville, Pennsylvania; Lanett, Alabama; Mobile, Alabama; and Monroe, Louisiana. In connection with our acquisition of Healthland Holding Inc. in January 2016, we assumed facility leases in: Denver, Colorado; Franklin, Tennessee; Glenwood, Minnesota; Marshall, Minnesota; Minneapolis, Minnesota; and Ridgeland, Mississippi.

We do not anticipate the need to lease additional office space in 2016, as we expect that our existing facilities will be sufficient to meet our needs until the end of 2016 and beyond.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for CPSI Common Stock

As of March 11, 2016, CPSI had 246 stockholders of record (which does not include the number of beneficial owners whose shares are held in "street" names by broker-dealers and other nominees who are the record holders) and 13,425,001 shares of common stock outstanding.

CPSI's common stock is listed on the NASDAQ Global Select Market under the symbol "CPSI." The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share for CPSI's common stock on the NASDAQ Global Select Market, and the cash dividends declared per share in each such quarter:

	High	Low	Dividends Declared Per Share
2015			
First Quarter	$62.98	$47.40	$0.64
Second Quarter	57.49	51.78	0.64
Third Quarter	56.86	41.64	0.64
Fourth Quarter	54.99	36.04	0.64
2014			
First Quarter	$71.89	$56.60	$0.57
Second Quarter	67.42	59.21	0.57
Third Quarter	66.71	57.22	0.57
Fourth Quarter	64.86	57.13	0.57

The last reported sales price of CPSI's common stock as reported on the NASDAQ Global Select Market on March 11, 2016 was $53.54.

Dividends

During 2015, we paid a quarterly dividend in the amount of $0.64 per share, compared to $0.57 per share during 2014. 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 the discretion of our Board of Directors. Our Board of Directors will 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. Additionally, the terms of our Credit Agreement restrict our ability to pay dividends. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity and Capital Resources-Credit Agreement" included herein.

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ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands except for share and per share data)				
INCOME DATA:					
Total sales revenues	$182,174	$204,742	$200,863	$183,309	$173,476
Total costs of sales	108,065	110,766	107,126	102,648	94,065
Gross profit	74,109	93,976	93,737	80,661	79,411
Total operating expenses	49,022	44,389	43,493	39,384	38,116
Operating income	25,087	49,587	50,244	41,277	41,295
Total other income	404	152	466	721	667
Income before taxes	25,491	49,739	50,710	41,998	41,962
Provision for income taxes	7,148	16,819	17,967	12,025	16,129
Net Income	$18,343	$32,920	$32,743	$29,973	$25,833
Net income per share - basic	$1.62	$2.94	$2.95	$2.71	$2.34
Net income per share - diluted	$1.62	$2.94	$2.95	$2.71	$2.34
Weighted average shares outstanding:					
Basic	11,083,403	11,025,897	10,997,890	10,976,982	10,961,245
Diluted	11,083,403	11,026,406	10,997,890	10,976,982	10,961,245
Cash dividends declared per common share	$2.56	$2.28	$2.04	$2.84	$1.44

	As of December 31,				
	2015	2014	2013	2012	2011
BALANCE SHEET DATA					
Cash and cash equivalents	$24,951	$23,792	$11,729	$8,912	$6,664
Working capital	57,136	63,355	51,301	32,486	37,498
Total assets	92,788	99,325	92,535	77,839	75,645
Total current liabilities	17,421	18,161	21,451	18,461	16,671
Total stockholders’ equity	75,366	80,781	69,083	57,202	57,384

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the "Selected Financial Data" and our financial statements and the related notes included elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under "Risk Factors" and elsewhere in this Annual Report.

Background

CPSI, founded in 1979, is a leading provider of healthcare information technology ("IT") solutions and services for rural and community hospitals and post-acute care facilities. With our January 2016 acquisition of Healthland Holding Inc. ("HHI"), CPSI is now the parent of five companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), Healthland Inc. ("Healthland"), American HealthTech, Inc. ("AHT"), and Rycan Technologies, Inc. ("Rycan"). Our combined companies are focused on helping improve the health of the communities we serve, connecting communities for a better patient care experience, and improving the financial operations of our customers. The individual contributions of each of our five wholly-owned subsidiaries towards this combined focus is as follows:

- Evident, formed in April 2015, provides comprehensive electronic health record ("EHR") solutions and services for rural and community hospitals, including those solutions previously sold under the CPSI name as well as an expanded range of offerings targeted specifically at rural and community healthcare organizations.
- TruBridge focuses exclusively on providing business management, consulting and managed IT services to rural and community healthcare organizations, regardless of their IT vendor.
- Healthland, acquired in the acquisition of HHI, provides integrated technology solutions and services to small rural and critical access hospitals.
- AHT, acquired in the acquisition of HHI, is one of the nation's largest providers of financial and clinical technology solutions and services for post-acute care facilities.
- Rycan, acquired in the acquisition of HHI, provides revenue cycle management workflow and automation software to hospitals, healthcare systems, and skilled nursing organizations.

The combined company currently supports approximately 1,300 acute care facilities and over 3,300 post-acute care facilities with a geographically diverse customer mix within the domestic rural and community healthcare market. Our customers primarily consist of rural and community hospitals with 300 or fewer acute care beds, with hospitals having 100 or fewer beds comprising approximately 95% of our hospital EHR customer base.

As the acquisition of HHI did not occur until January 2016, the historical financial results presented below do not reflect the results of HHI.

Management Overview

Historically we have primarily sought revenue growth through sales of healthcare IT systems and related services to existing and new customers within our target market. Despite an overall decline in revenues during 2015, our strategy has produced consistent revenue growth over the long term, as reflected in five- and ten-year compounded annual growth rates in revenues of approximately 3.5% and 5.3%, respectively. Important to our potential for continued long-term revenue growth is our ability to sell new and additional products and services to our existing customer base, including cross-selling opportunities presented with the acquisition of HHI. We believe that as our combined customer base grows, the demand for additional products and services, including business management, consulting and managed IT services, will also continue to grow, supporting further increases in recurring revenues. We also expect to drive revenue growth from new product development that we may generate from our research and development activities.

In January 2013, we announced the formation of TruBridge, a wholly-owned subsidiary of CPSI. TruBridge provides the business management, consulting and managed IT services that historically had been provided by CPSI, with the expectation of expanding both our service offerings and our footprint in this particular marketplace in the future. We expect this strategic initiative to allow us to more fully take advantage of the market opportunities in providing such

services by facilitating the

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expansion of our target market to include the entire rural and community hospital market, no longer limiting the market for our services to hospitals where CPSI already serves as the primary IT vendor.

In April 2015, we announced the formation of Evident, a wholly-owned subsidiary of CPSI. Evident provides electronic health record solutions previously sold under the CPSI name as well as an expanded range of offerings targeted specifically at rural and community healthcare organizations. Our objectives with the creation of Evident are to further define system and support differentiation 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 rural and community healthcare providers. With the formation of Evident came the introduction of our EHR solution under the name Thrive and our unique collaborative support model under the name LikeMind.

January 2016 marked an important milestone for CPSI, as we announced the completion of our acquisition of HHI, the first major acquisition in the Company's history. With this acquisition, CPSI now has a presence in well over 1,000 rural and community hospitals and over 3,300 post-acute care facilities, adding significantly to our already significant recurring revenue base and further expanding our ability to generate organic recurring revenue growth through additional cross-selling opportunities now available within the combined company.

Our business model is designed such that, as revenue growth materializes, earnings and profitability growth are naturally bolstered through increased future margin realization. Once a hospital has installed our solutions, we continue to provide support and maintenance services to the customer on an ongoing basis and make available to the customer our broad portfolio of business management, consulting, and managed IT services. The provision of these services typically requires fewer resources than the initial system installation, resulting in increased overall gross margins.

We also look to increase margins through cost containment measures where appropriate. For example, during 2015 we have allowed natural workforce attrition to run its course within our system implementation employee base, selectively attempting to retain or replace only those positions considered by management to be critical to our continuing needs. Additionally, during the third quarter of 2015 we instituted a one-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. Lastly, we have instituted several changes related to our employee benefits offerings, including a spousal carve-out for healthcare benefits that took effect on January 1, 2016. The acquisition of HHI in January of 2016 presents us with additional opportunities to leverage the greater operating efficiencies of the combined entity to drive further earnings and profitability growth in the future.

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 the economic cycles of our economy. Additionally, healthcare organizations with a large dependency on Medicare and Medicaid populations, such as rural and community hospitals, have been impacted by the challenging financial condition of the federal government and many state governments and government programs. Accordingly, we recognize that prospective hospital customers 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 offers the possibility of a quick return on investment. Information 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, replacing fee-for-service in part by enrolling in an advanced payment model, which

could further encourage adoption of healthcare IT and increasing 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.

American Recovery and Reinvestment Act of 2009

While ongoing financial challenges facing healthcare organizations have impacted and are expected to continue to impact the rural and community hospitals that comprise our target market, we believe that the incentives offered by the American Recovery and Reinvestment Act of 2009 (the "ARRA") for the adoption of qualifying EHRs have increased and will continue to support demand for healthcare information technology and will have a positive impact on our business prospects through at least 2017. As of December 31, 2015, incentive payments totaling $31.9 billion have been made to aid healthcare organizations

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in modernizing their operations through the acquisition and wide-spread use of healthcare information technology. Eligible hospitals could begin receiving these incentive payments in any year from 2011 through 2015, but the total incentive payment is decreased for hospitals that started receiving payments in 2014 and later. Additionally, reimbursements under Medicare have been reduced for those eligible healthcare providers that did not begin to demonstrate meaningful use of an EHR by October 1, 2014.

The accelerated adoption of EHRs resulting from the ARRA's EHR incentive program has resulted in a narrowing market for new system installations and has accelerated the purchases of incremental applications by our existing customer base to satisfy the current meaningful use rules, thereby also narrowing the market for add-on sales to existing customers for meaningful use stage two-related incremental applications. Despite these narrowing markets, we expect to continue to benefit from the ARRA's EHR incentive program in the medium-to-long term as the expanded requirements for continued eligibility for incentive payments and related payment adjustments for those healthcare providers not in compliance with meaningful use rules are expected to result in both an expanded replacement market for EHRs and additional orders from our existing customer base to purchase incremental applications necessary to satisfy such expanded requirements, particularly as the stage three meaningful use rules become effective. The stage three requirements will be optional for 2017, with all providers required to comply with the stage three requirements beginning in 2018. However, as the EHR replacement market is not likely to develop rapidly and the market for add-on sales to existing customers for incremental stage three-related applications is not likely to significantly expand until the related stage three rules become effective, our system sales revenues and profitability are expected to be materially and adversely impacted during the short-term. Although we are pursuing other strategic initiatives designed to result in system sales revenue growth in the future in the form of selective expansion into English-speaking international markets, selective expansion within the 100 to 300 bed hospital market and targeted expansion for our ambulatory solutions, there can be no guarantee that such initiatives will prove successful or will benefit the Company in a sufficiently timely fashion to offset the short-term effects of the afore-mentioned narrowing markets.

Health Care Reform

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, collectively referred to as the "Health Reform Laws." This sweeping legislation implements changes to the healthcare and health insurance industries from 2010 through 2015, requiring substantially all U.S. citizens and legal residents to have qualifying health insurance coverage starting in 2014 and providing the means by which it will be made available to them. The Health Reform Laws have had little direct impact on our internal operation and do not appear to have had a significant impact on the businesses of our hospital customers to date. However, we have not been able to determine at this point whether the ultimate impact will be positive, negative or neutral; it is likely that the Health Reform Laws will affect hospitals differently depending upon the populations they service. Rural and community hospitals typically service higher uninsured populations than larger urban hospitals and rely more heavily on Medicare and Medicaid for reimbursement. It remains to be seen whether the increase in the insured populations for rural and community hospitals, as well as the increase in Medicare and Medicaid reimbursements under the ARRA for hospitals that implement EHR technology, will be enough to offset cuts in Medicare and Medicaid reimbursements contained in the Health Reform Laws or as a result of sequestration or other federal legislation.

We believe healthcare initiatives will continue during the foreseeable future. If adopted, some aspects of previously proposed reforms, such as further reductions in Medicare and Medicaid payments, could adversely affect the businesses of our customers and thereby harm our business.

2015 Financial Overview

The aforementioned narrowing markets for new customer installations and add-on sales to existing customers for incremental stage two applications had a significant impact on our revenues, profitability, and cash generating abilities for 2015, as our gross revenues declined 11.0%, net income decreased 44.3%, and cash flow from operations decreased 20.7% from the record levels achieved in 2014. The impact of these narrowing markets has been further

exacerbated by the operating assumption utilized during the majority of 2015 by many hospitals and eligible providers of a full-year reporting period for 2015 for continued participation in the EHR incentive program. Although a three-month reporting period was permitted by CMS for all hospitals and eligible providers to report compliance with meaningful use requirements for federal fiscal 2014, hospitals and eligible providers were originally required to report compliance with meaningful use standards for full federal fiscal 2015. Although CMS finalized a rule in October 2015 shortening the 2015 reporting period to 90 days, the original rule influenced the capital expenditure budgets and purchasing decisions of many hospitals and eligible providers throughout the majority of 2015, resulting in many healthcare providers delaying the purchase of incremental applications necessary to comply with the 2015 meaningful use requirements as the opportunity to attest for the 2015 reporting year had effectively lapsed on October 1, 2014.

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As mentioned above, our operations have been significantly affected by the EHR incentives offered under the ARRA and the related reduction in Medicare reimbursement rates for those providers that failed to demonstrate meaningful use of EHR by October 1, 2014. "Meaningful use" of EHR under the ARRA refers to a set of core criteria that medical providers must meet in order to prove that they are using their EHR as an effective tool in their practice, plus additional a la carte menu items. Meaningful use is measured in three stages, with each stage representing a level of adoption of EHR. EHR incentive payments to eligible hospitals meeting the stage one criteria began in 2011. Eligible hospitals that did not meet the stage one criteria by October 1, 2013 have begun to experience a decrease in the overall incentive payments for which they are eligible under the incentive program. Providers that began participation in the incentive program in 2011 are required to meet three consecutive years of meaningful use under the stage one criteria before advancing to the stage two criteria in their fourth year, with all other providers being required to meet two years of meaningful use under the stage one criteria before advancing to the stage two criteria in their third year. In August 2014, CMS released a final rule granting flexibility to providers who were experiencing difficulties fully implementing ONC 2014 Edition EHR, effectively giving all providers the option to defer demonstrating meaningful use under the stage two criteria until the federal government's 2015 fiscal year (October 1, 2014 - September 30, 2015).

To achieve the stage one criteria, eligible hospitals are required to meet 14 core objectives and five menu objectives that they select from a total list of 10. Stage two criteria were published in September 2012 and became effective at the beginning of the federal government's 2014 fiscal year (October 1, 2013) and require eligible hospitals to meet 16 core objectives and three menu objectives to be selected from a total list of six. Most of the stage one objectives are core objectives under stage two, but the thresholds that providers must meet to satisfy these objectives for stage two have been raised. The final rule for the stage three criteria issued in October 2015 establishes a single, aligned reporting period for all providers based on the calendar year and simplifies meaningful use reporting requirements to eight objectives that focus on advanced use of EHR technology and quality improvement. The stage three criteria will be optional for 2017 and mandatory for all providers beginning in 2018.

In the first year of participation in the EHR incentive program, eligible hospitals are required to report compliance with stage one requirements for a consecutive 90-day period during the federal government's fiscal year to qualify for incentive payments. For subsequent years, the original rules required eligible hospitals to report compliance with meaningful use standards for a full EHR reporting year. However, for federal fiscal 2014 CMS permitted a one-time three-month reporting period. For eligible hospitals, this three-month reporting period is fixed to the quarter of the federal government's fiscal year. As a result of the 90-day reporting periods associated with these annual compliance periods, in order for eligible hospitals to maximize potential EHR incentive payments and avoid the aforementioned reduction in Medicare reimbursement rates for failure to demonstrate meaningful use of EHR by October 1, 2014, our financial results have been uneven during the term of the ARRA program, with system sales activity relating to the ARRA generally having been higher in the first two quarters of our fiscal year and lower in the last two quarters of our fiscal year. Although the original rules required eligible hospitals to report compliance with meaningful use standards for the full 2015 EHR reporting year, CMS issued a final rule in October 2015 to apply a similar shortened reporting period for fiscal 2015 and realign the EHR reporting period to the calendar year (as opposed to the federal fiscal year, which ended on September 30, 2015). The capital expenditure budgets and purchasing decisions of many hospitals and eligible providers for the majority of 2015 were largely influenced by operating assumptions based on the original rules, and many healthcare providers elected to delay the purchase of incremental applications necessary to comply with the 2015 meaningful use requirements as the opportunity to attest for the 2015 reporting year had effectively lapsed on October 1, 2014. Although the final rule allowing a shortened reporting period for fiscal 2015 (now aligned to the calendar year) provides some relief to healthcare providers, the adoption of this final rule in October 2015 did not significantly benefit our system sales revenues as 2015 attestations were based on EHR systems in place prior to October 1, 2015. After 2015, hospitals and eligible providers are required to attest for full calendar years, resulting in an expectation that remaining ARRA-related system sales revenues will experience some level of seasonality, with lower volumes expected in the first two quarters of our fiscal year and higher volumes in the last two

quarters of our fiscal year.

First Generation Meaningful Use Installment Plans. During 2012, we included language in certain of our customer license agreements that more evenly matched customers' anticipated cash inflows under the EHR incentive program with the necessary cash outflows for purchasing our EHR solution ("First Generation Meaningful Use Installment Plans"). Under these arrangements, a customer is required to remit to us Medicare and Medicaid incentive payments (not to exceed the remaining balance under the arrangement) received for adoption of qualifying EHRs upon receipt of such funds, with only nominal payments required until the customer's receipt of such incentive payments. If no such incentive payments are received by the customer or if such payments are not sufficient to pay the remaining balance under the arrangement, payments continue at contracted nominal amounts until the balance of the contract price is paid in full. EHR incentive payments aside, these nominal payment amounts would result in the overall duration of the payment periods significantly exceeding that of our historical financing arrangements. As a result, revenue from these arrangements is recognized as the amounts become due. As of December 31, 2015, we have remaining accumulated unrecognized revenue of $0.2 million to be recognized as the amounts

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become due under these contracts, with the entire amount due from a single customer. The final new system installation under a First Generation Meaningful Use Installment Plan was performed during the fourth quarter of 2012, and the Company does not expect to offer such payment terms going forward. As a result, aside from the anticipated recognition of the $0.2 million of accumulated unrecognized revenue as of December 31, 2015, we do not expect First Generation Meaningful Use Installment Plans to have a significant impact on our future financial statements.

Second Generation Meaningful Use Installment Plans. Beginning in the fourth quarter of 2012, we ceased offering First Generation Meaningful Use Installment Plans to our customers, opting instead for license agreements with payment terms that provide us with greater visibility into and control over the customer's meaningful use attestation process and significantly reducing the maximum timeframe over which customers must satisfy their full payment obligations in purchasing our system ("Second Generation Meaningful Use Installment Plans"). Under these arrangements, for the first two years following execution of the contract, a customer is only required to remit to us Medicare and Medicaid incentive payments (not to exceed the remaining balance under the arrangement) received for adoption of a qualifying EHR upon receipt of such funds. Upon the expiration of this two-year period, the remaining balance (if any) is required to be paid in full over a period not to exceed 12 months. As the overall payment period durations of the Second Generation Meaningful Use Installment Plans are consistent with that of our historical system sale financing arrangements, revenues under the Second Generation Meaningful Use Installment Plans are recognized upon installation of our EHR solution. Second Generation Meaningful Use Installment Plans comprised four of the 16 new system installations during 2015, compared to eight of 24 new system installations during 2014.

In addition to the First Generation Meaningful Use Installment Plans and Second Generation Meaningful Use Installment Plans discussed above, we have historically made financing arrangements available to customers on a case-by-case basis depending upon the various aspects of the proposed contract and customer attributes. These financing arrangements include other short-term payment plans and longer-term lease financing through us or third-party financing companies. Although we expect the overall demand for financing arrangements to continue for the next few years, we expect this demand to be at a lower frequency than in recent years as the demand for Second Generation Meaningful Use Installment Plans wanes due to the mechanics of the ARRA program. As a result, our financing receivables balances are expected to continue to decrease as collections of currently outstanding amounts are expected to exceed additional receivables recorded under such arrangements. For those customers 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 and as applicable for each respective application).

We have also historically made our software applications available to customers through "Software as a Service" or "SaaS" configurations, including our Cloud Electronic Health Record ("Cloud EHR") offering. These offerings are attractive to some customers because this configuration allows them to obtain access to advanced software products without a significant initial capital outlay. Although the broader enterprise software marketplace has been experiencing an increasing trend of SaaS arrangements in the past few years, this trend has been slower to develop within our market for new system installations and add-on sales to existing customers. However, 2015 reflected a substantial increase in the prevalence of such arrangements within our system sales arrangements, a trend we expect to continue for the foreseeable future. Unlike our historical perpetual license arrangements under which the related revenue is recognized effectively upon installation, the SaaS arrangements result in revenue being recognized monthly as the services are provided over the term of the arrangement. As a result, the effect of this trend on the Company's financial statements is reduced system sales revenues during the period of installation in exchange for increased recurring periodic revenues (reflected in support and maintenance revenues) over the term of the SaaS arrangement.

Revenues

The Company allocates revenue to its multiple element arrangements, including software and software-related services, based on a hierarchy of evidence to support selling prices in accordance with accounting principles generally

accepted in the United States of America ("US GAAP"). Revenue from general support agreements for post-contract support services (support and maintenance) and information technology management and consulting services are recognized by the Company ratably over the term of the agreement.

System Sales. Revenues from system sales are derived from the sale of information systems (including software, conversion and installation services, hardware and peripherals) to new customers and from the sale of new or additional products to existing customers. We do not record revenue upon the execution of a sales contract. Revenue from the sale of the software perpetual license and system installation and training is recognized on a module-by-module basis after the installation and training have been completed and the system is functioning as designed for each individual module. Revenue from the sale of hardware is recognized upon shipment of the hardware to the customer.

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Support and Maintenance. We also derive revenues from the provision of system support services, including software application support, hardware maintenance, continuing education and related services, and sales of forms and supplies. Support services are provided pursuant to a support agreement under which we provide comprehensive system support and related services in exchange for a monthly fee based on the services provided. The initial term of these contracts typically ranges from three to five years. Upon expiration of the initial term, these contracts renew automatically on a year-to-year basis thereafter until terminated. Revenues from support services are recognized in the month when these services are performed.

We provide our products to some customers utilizing the "Software as a Service" model, or "SaaS," which includes our Cloud EHR service. We provide SaaS services on a remote access basis by storing and maintaining servers at our headquarters which contain customers' patient and administrative data. Revenues from our SaaS services are recognized in the month when these services are performed.

Business Management, Consulting and Managed IT Services. Our business management services include electronic billing, insurance services, statement processing, accounts receivable management, payroll processing, and contract management. Most of these business management services are sold pursuant to one-year customer agreements, with automatic one-year renewals until terminated. Additional services include hosting, backup recovery, medical coding, IT and business improvement consulting and other consulting and managed IT services if needed. Revenues from business management, consulting and managed IT services are recognized when these services are performed.

Reference is made to Note 2 to the consolidated financial statements included herein for additional discussion of our revenue recognition policies.

Costs of Sales

System Sales. The principal costs associated with the design, development, sale and installation of our systems are employee salaries, benefits, travel expenses, third-party software costs and certain other overhead expenses. These costs are expensed as incurred. For the sale of equipment, we incur costs to acquire these products from the respective distributors or manufacturers. The costs related to the acquisition of equipment are capitalized into inventory and expensed upon the sale of the equipment utilizing the average cost method.

Support and Maintenance. The principal costs associated with our system support and maintenance services are employee salaries, benefits, procurement costs related to forms and supplies, and certain other overhead expenses. These costs are expensed as incurred.

Business Management, Consulting and Managed IT Services. The principal cost related to our statement processing services is third party processing costs. The principal costs related to our other business management, consulting and managed IT services are employee-related expenses, such as salaries and benefits, and telecommunication fees.

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Results of Operations

The following table sets forth certain items included in our results of operations for each of the three years in the period ended December 31, 2015, expressed as a percentage of our total revenues for these periods (dollar amounts in thousands):

	Year ended December 31,					
	2015		2014		2013	
	Amount	% Revenues	Amount	% Revenues	Amount	% Revenues
INCOME DATA:						
Sales revenues:						
System sales	$42,994	23.6 %	$75,099	36.7 %	$79,792	39.7 %
Support and maintenance	75,392	41.4 %	73,553	35.9 %	71,506	35.6 %
Business management, consulting and managed IT services	63,788	35.0 %	56,090	27.4 %	49,565	24.7 %
Total sales revenues	182,174	100.0 %	204,742	100.0 %	200,863	100.0 %
Costs of sales:						
System sales	39,514	21.7 %	44,620	21.8 %	47,840	23.8 %
Support and maintenance	27,214	14.9 %	29,081	14.2 %	28,640	14.3 %
Business management, consulting and managed IT services	41,337	22.7 %	37,065	18.1 %	30,646	15.3 %
Total costs of sales	108,065	59.3 %	110,766	54.1 %	107,126	53.4 %
Gross profit	74,109	40.7 %	93,976	45.9 %	93,737	46.6 %
Operating expenses:						
Sales and marketing	12,212	6.7 %	14,370	7.0 %	14,737	7.3 %
General and administrative	36,810	20.2 %	30,019	14.7 %	28,756	14.3 %
Total operating expenses	49,022	26.9 %	44,389	21.7 %	43,493	21.6 %
Operating income	25,087	13.8 %	49,587	24.2 %	50,244	25.0 %
Other income:						
Other income	404	0.2 %	152	0.1 %	466	0.2 %
Total other income	404	0.2 %	152	0.1 %	466	0.2 %
Income before taxes	25,491	14.0 %	49,739	24.3 %	50,710	25.2 %
Provision for income taxes	7,148	3.9 %	16,819	8.2 %	17,967	8.9 %
Net income	$18,343	10.1 %	$32,920	16.1 %	$32,743	16.3 %

2015 Compared to 2014

Revenues. Total revenues decreased 11.0%, or $22.6 million. This was largely attributed to a $32.1 million decrease in system sales revenues due to the aforementioned narrowing markets for new system installations and add-on sales to existing customers for stage two-related incremental applications, further exacerbated by the aforementioned delayed purchasing decisions caused by the original (pre-October 2015) requirement for a full-year reporting period for 2015 meaningful use attestation. The decrease in system sales revenues was partially offset by a combined $9.5 million increase in support and maintenance revenues and business management, consulting and managed IT services revenues due to a larger customer base and increased applications within that customer base requiring support and maintenance services, as well as increased demand for and market acceptance of our business management, consulting and managed IT services, coupled with selective expansion of our service offerings within these service categories.

System sales revenues decreased by 42.8%, or $32.1 million. The accelerated adoption of EHRs resulting from the ARRA's EHR incentive program has resulted in a narrowing market for new system installations and has accelerated the purchase of incremental applications by our existing customer base to satisfy the current meaningful use rules, thereby narrowing the market for add-on sales to existing customers for stage two-related incremental applications. Consequently, we experienced a significant decrease in new system installations during 2015, as we completed financial and patient accounting system installations at 16 new hospital clients during 2015 (eight of which were under Cloud EHR or other SaaS arrangements, under which the related costs are all captured in the period of installation with the resulting revenue recognized ratably over the contractual term as the services are provided) compared to 24 during 2014 (two of which were under Cloud EHR or other SaaS arrangements). This decrease in the number of new system installations resulted in decreased new customer installation

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revenues of 42.5%, or $6.5 million. Similarly, add-on sales to existing customers, which accounted for 73.0% of our system sales revenues during 2015 compared to 73.3% during 2014, decreased 43.0%, or $23.7 million. Additionally, we experienced a $2.0 million decrease in revenue recognized under First Generation Meaningful Use Installment Plans. Under these arrangements, for which the related installations were completed during 2012, a substantial majority of the consideration is not received or revenue recognized until the customers successfully achieve "meaningful use" designation and receive related stage one ARRA incentive payments. These arrangements resulted in $0.2 million and $2.2 million of revenue recognized (net of additional unrecognized revenue accumulated) during 2015 and 2014, respectively.

Support and maintenance revenues increased by 2.5%, or $1.8 million, due to an increase in recurring revenues as a result of a larger customer base, an increase in support fees for add-on business sold to existing customers, and an increase in support rates from contractually agreed upon CPI rate increases.

Business management, consulting and managed IT services revenues increased by 13.7%, or $7.7 million. 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, resulting in an expanded customer base for our private pay services (increasing 4.9%, or $0.6 million) and accounts receivable management services (increasing 28.2%, or $4.6 million). Of the $4.6 million increase in revenues related to our accounts receivable management services, $1.2 million is directly attributable to a newly introduced fee arrangement with two hospital clients whereby our fees, instead of calculated as a percentage of collections, are determined as a function of our success or failure in generating periodic cash collections as compared to a mutually agreed upon, predetermined target amount. Additionally, the continued expansion and growth of our recently introduced service offerings have resulted in increased demand for our revenue cycle management consulting services and health information management consulting services (increasing a combined 43.0%, or $0.7 million), and cloud computing services (a component of managed IT services, increasing 19.3%, or $0.3 million). Lastly, the continued maturation of medical coding services (a component of consulting services), introduced in the fourth quarter of 2013, resulted in revenues of $2.1 million during 2015 compared to only $0.9 million in 2014.

Costs of Sales. Total costs of sales decreased by 2.4%, or $2.7 million. As a percentage of revenues, costs of sales increased from 54.1% to 59.3%.

Costs of system sales decreased by 11.4%, or $5.1 million. The decrease in costs of system sales was primarily due to a decrease in travel costs of 33.9%, or $3.0 million, as a result of the decrease in new system installations and add-on sales. Payroll and related expenses decreased 7.6%, or $1.8 million, as a result of natural workforce attrition. The gross margin on system sales decreased to 8.1% in 2015 from 40.6% in 2014, as the significant decline in system sales revenues coupled with a heavily fixed cost structure have resulted in significant margin deterioration. Excluding the net effect on revenue resulting from First Generation Meaningful Use Installment Plans (which were used by the Company in 2012) and the deferral of the related cost of equipment, the adjusted gross margin on system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) decreased to 7.7% in 2015 from 38.8% in 2014. The table below summarizes the major components of costs of system sales as a percentage of system sales revenues:

	Year Ended December 31,	
	2015	2014
Payroll and related expenses	51.3 %	31.8 %
Travel expenses	13.5 %	11.7 %
Cost of equipment	11.3 %	6.3 %

Excluding the net effect on revenue and cost of equipment resulting from First Generation Meaningful Use Installment Plans, payroll and related expenses, travel expense, and adjusted cost of equipment (as hereinafter defined in the "Non-GAAP Financial Measures" section below) would represent 51.6%, 13.6% and 11.3%, respectively, of adjusted system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) for 2015, compared to 32.8%, 12.1% and 6.5%, respectively, for 2014. Please see the tables set forth below under the caption

"Non-GAAP Financial Measures" for a reconciliation of each of these non-GAAP financial measures to the comparable financial measure determined in accordance with GAAP.

Costs of support and maintenance decreased 6.4%, or $1.9 million, primarily due to a decrease in server-expansion expenditures and decreased payroll and related costs as a result of natural workforce attrition. The gross margin on support and maintenance revenues increased to 63.9% in 2015 from 60.5% in 2014.

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Our costs associated with business management, consulting and managed IT services increased 11.5%, or $4.3 million, with the largest contributing factor being an increase in payroll and related costs of 11.6%, or $2.4 million, as a result of adding more employees during the trailing twelve months in order to support and develop our growing customer base and increase capacity in advance of anticipated future increases in demand. For similar reasons, we have experienced an increase in temporary labor costs of 12.2%, or $0.3 million. Stock-based compensation expense increased by $0.3 million as a result of additional grants of restricted stock to our executive officers and certain key employees during the trailing twelve months. Rent expense increased $0.1 million, mostly as a result of the opening of our Frackville, Pennsylvania location in January 2015. Commission expense increased 20.7%, or $0.5 million, as a result of increased revenues. Expenses associated with our medical coding services increased $0.2 million due to increased recruiting efforts in order to accommodate rapidly increasing demand. Lastly, third party statement processing costs increased 17.6%, or $0.8 million, due to the aforementioned expansion in our customer base for private pay services and accounts receivable management services (statement processing services are included within those respective service offerings). The gross margin on these services increased to 35.2% in 2015 from 33.9% in 2014.

Sales and Marketing Expenses. Sales and marketing expenses decreased 15.0%, or $2.2 million. This decrease is primarily attributable to a decrease in commission expense of 45.1%, or $2.5 million, due to decreased revenue from new system installations and add-on sales. The decrease in commission expense was partially offset by a $0.4 million increase in stock-based compensation expense as a result of additional grants of restricted stock to our executive officers and certain key employees during the trailing twelve months.

General and Administrative Expenses. General and administrative expenses increased 22.6%, or $6.8 million, with the largest contributing factors being $3.0 million of transaction costs incurred related to our acquisition of HHI, which was completed in January 2016, and $2.0 million of severance expense related to a one-time voluntary termination program instituted by the Company during the third quarter of 2015. Costs associated with healthcare benefits offered to our employees increased $2.0 million mostly due to increases in both the volume and severity of insurance claims made on behalf of participants in our self-insurance healthcare plan and the expanded utilization of on-site health clinics, which were added as a benefit to our employees beginning in the fourth quarter of 2013. Legal and accounting fees increased $0.7 million due to one-time, nonrecurring expenses and stock-based compensation expensed increased $0.4 million due to additional grants of restricted stock to our executive officers, certain key employees and non-employee directors during the trailing twelve months. The combined $8.1 million increase in transaction costs, severance expense, costs associated with healthcare benefits offered to our employees, legal and accounting fees, and stock-based compensation has been partially offset by a $0.5 million decrease in costs related to our incentive bonus program for certain members of management as profitability growth deteriorated from 2014 to 2015. Additionally, increased earned-time-off utilization has resulted in a $0.8 million decrease in payroll and related expenses, as we have instituted changes in our earned-time-off policy during 2015 that lower the maximum amount of earned-time-off an employee will be allowed to carry over from 2015 to 2016. This policy change provided our employees with an added incentive to fully utilize existing earned-time-off balances throughout 2015 in order to avoid forfeiture of earned-time-off at the conclusion of 2015.

As a percentage of total revenues, sales and marketing expenses, and general and administrative expenses increased to 26.9% in 2015 compared to 21.7% in 2014.

As a result of the foregoing factors, income before taxes decreased by 48.8%, or $24.2 million.

Income Taxes. Our effective income tax rate for the years ended December 31, 2015 and 2014 was 28.0% and 33.8%, respectively. This decrease in effective income tax rate was primarily due to beneficial adjustments in the amount of $1.2 million recorded during 2015 related to our reserves for uncertain tax positions, benefiting our effective tax rate by 4.8%. The federal returns for tax years 2004 through 2009 were previously under examination by the IRS, primarily in relation to research credits claimed on those returns. The IRS completed these examinations during 2015, resulting in enhanced clarity regarding the sustainability of our uncertain tax positions for all years. The completion of these examinations prompted a beneficial change in our measurement of reserves for uncertain tax positions.

2014 Compared to 2013

Revenues. Total revenues increased 1.9%, or $3.9 million. This was largely attributable to a combined $8.6 million increase in support and maintenance revenues and business management, consulting and managed IT services revenues due to a larger customer base and increased applications within that customer base requiring support and maintenance services, as well as increased demand for and market acceptance of our business management, consulting and managed IT services. The combined increase in support and maintenance revenues and business management, consulting and managed IT services revenues was partially offset by a $4.7 million decrease in system sales revenues as increased add-on sales to existing

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customers were not sufficient to fully offset a decrease in new system installation activity, compounded by a decrease in revenue recognized under First Generation Meaningful Use Installment Plans.

System sales revenues decreased by 5.9%, or $4.7 million. The accelerated adoption of EHRs resulting from the ARRA's EHR incentive program has resulted in an ever narrowing market for new system installations. Consequently, we experienced a significant decrease in new system installations during 2014, as we completed financial and patient accounting system installations at 24 new hospital clients during 2014 (two of which were under SaaS arrangements, under which the related costs are all captured in the period of installation with the resulting revenue recognized ratably over the contractual term as the services are provided) compared to 30 during 2013 (one of which was under a SaaS arrangement). This decrease in the number of new system installations, coupled with a 30.5% decrease in average installation size, resulted in decreased new customer installation revenues of 42.3%, or $12.7 million. This decrease in revenues from new customer installations was partially offset by an increase in add-on sales to existing customers of 19.1%, or $8.8 million, as a result of increased installations within our existing customer base of our physician documentation application, a critical application in achieving stage two of meaningful use criteria. In total, add-on sales to existing customers accounted for 73.3% of our system sales revenues during 2014 compared to 58.0% during 2013. Lastly, we experienced a $1.7 million decrease in revenue recognized under First Generation Meaningful Use Installment Plans. Under these arrangements, for which the related installations were completed during 2012, a substantial majority of the consideration is not received or revenue recognized until the customers successfully achieve "meaningful use" designation and receive related stage one ARRA incentive payments. These arrangements resulted in $2.2 million and $3.9 million of revenue recognized (net of additional unrecognized revenue accumulated) during 2014 and 2013, respectively. Excluding the net effect on revenue resulting from these arrangements, adjusted system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) decreased $3.0 million, or 4.0%, due to the decrease in new customer installations.

Support and maintenance revenues increased by 2.9%, or $2.0 million. Support service fees increased by 4.4%, or $3.0 million, due to an increase in recurring revenues as a result of a larger customer base, an increase in support fees for add-on business sold to existing customers, and an increase in support rates from contractually agreed upon Consumer Price Index ("CPI") rate increases. The increase in support service fees was partially offset by a 23.4%, or $0.5 million, decrease in SaaS, hosting and other fees as a result of the high volume during 2013 and 2014 of conversions of previously installed SaaS arrangements to perpetual licenses at the customers' request.

Business management, consulting and managed IT services revenues increased by 13.2%, or $6.5 million. We experienced this increase in business management, consulting and managed IT services revenues primarily as a result of an expansion of service offerings complemented by an expanding customer base for our previously existing service offerings. Of our previously existing service offerings, we have experienced growth in customer demand for accounts receivables management (increasing 10.6%, or $1.6 million) and private pay services (increasing 12.2%, or $1.3 million) as a result of more effective marketing of these services. The continued expansion and growth of our recently introduced service offerings have resulted in increased demand for our clinical consulting services (increasing 7.8%, or $0.2 million), revenue cycle management consulting services (increasing 76.7%, or $0.6 million), IT consulting services (increasing 78.1%, or $0.3 million) and cloud computing services (a component of managed IT services, increasing 42.1%, or $0.5 million). The introduction of medical coding and clinical help desk services (components of consulting services) in the fourth quarter of 2013 resulted in revenues of $1.5 million during 2014 compared to only $0.1 million in 2013. We also experienced a $0.5 million increase in reimbursed travel costs as a result of the increased utilization of our consulting resources.

Costs of Sales. Total costs of sales increased by 3.4%, or $3.6 million. As a percentage of revenues, costs of sales increased from 53.4% to 54.1%.

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Costs of system sales decreased by 6.7%, or $3.2 million. The decrease in costs of system sales was primarily due to a $2.5 million decrease in travel costs and a $1.2 million decrease in cost of equipment as a result of the decrease in new system installations, which are more travel and hardware intensive than the Company's add-on sales to existing customers. These cost decreases were partially offset by a $0.5 million increase in stock-based compensation expense as a result of additional grants of restricted stock and performance share awards to our executive officers and certain key employees during the trailing twelve months. The gross margin on system sales increased to 40.6% in 2014 from 40.0% in 2013. Excluding the net effect on revenue resulting from First Generation Meaningful Use Installment Plans (which were used by the Company in 2012) and the deferral of the related cost of equipment, the adjusted gross margin on system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) increased to 38.8% in 2014 from 37.5% in 2013. The table below summarizes the major components of costs of system sales as a percentage of system sales revenues:

	Year Ended December 31,	
	2014	2013
Payroll and related expenses	31.8 %	31.0 %
Travel expenses	11.7 %	14.1 %
Cost of equipment	6.3 %	7.3 %

Excluding the net effect on revenue and cost of equipment resulting from First Generation Meaningful Use Installment Plans, payroll and related expenses, travel expense, and adjusted cost of equipment (as hereinafter defined in the "Non-GAAP Financial Measures" section below) would represent 32.8%, 12.1% and 6.5%, respectively, of adjusted system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) for 2014 compared to 32.6%, 14.9% and 7.7%, respectively, for 2013. Please see the tables set forth below under the caption "Non-GAAP Financial Measures" for a reconciliation of each of these non-GAAP financial measures to the comparable financial measure determined in accordance with GAAP.

Costs of support and maintenance increased 1.5%, or $0.4 million, primarily due to an increase in payroll and related costs of 1.6%, or $0.4 million, due to increased personnel and standard cost of living adjustments effected during the trailing twelve months. The gross margin on support and maintenance revenues increased slightly to 60.5% in 2014 from 60.0% in 2013.

Our costs associated with business management, consulting and managed IT services increased 20.9%, or $6.4 million, due primarily to an increase in payroll and related expenses. The gross margin on these services decreased to 33.9% in 2014 from 38.2% in 2013 due to the disproportionate increase in payroll and related expenses versus revenues. Payroll and related expenses increased 18.3%, or $3.2 million, as a result of adding more employees during the trailing twelve months in order to support and develop our growing customer base and increase capacity in advance of anticipated future increases in demand. For similar reasons, we have experienced a $1.2 million increase in temporary labor costs. We also experienced a $0.8 million increase in related travel costs, primarily due to the increased volume of clinical consulting engagements and increased sales generation efforts. Lastly, stock-based compensation expense increased by $0.5 million as a result of additional grants of restricted stock and performance share awards to our executive officers and certain key employees during the trailing twelve months.

Sales and Marketing Expenses. Sales and marketing expenses decreased 2.5%, or $0.4 million. This decrease is primarily attributable to a decrease in commission expense of 18.5%, or $1.3 million, due to decreased billings for new system installations. The decrease in commission expense is partially offset by a $0.5 million increase in stock-based compensation expense as a result of additional grants of restricted stock and performance share awards to our executive officers and certain key employees during the trailing twelve months. Lastly, we experienced a $0.2 million increase in costs associated with collaborative arrangements associated with our membership in CommonWell Health Alliance, in particular relating to the development of interoperability standards for the healthcare information technology industry.

General and Administrative Expenses. General and administrative expenses increased 4.4%, or $1.3 million, with the largest contributing factor being a $0.8 million increase in stock-based compensation expense due to additional grants

of restricted stock and performance share awards to our executive officers, certain key employees and non-employee directors during the trailing twelve months. Costs associated with healthcare benefits offered to our employees increased $0.5 million primarily due to the addition of on-site healthcare clinics as an added benefit for our employees beginning in the fourth quarter of 2013. Costs associated with our defined contribution employee retirement plan increased 20.1%, or $0.4 million, due to an increased number of participants eligible for the Company's discretionary employer matching contribution. Depreciation expense increased 10.5%, or $0.3 million, as a result of capital expenditures during the trailing twelve months. Payroll and related costs increased 6.6%, or $0.3 million, due mostly to standard cost of living adjustments effected during the trailing

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twelve months. The combined $2.3 million increase in costs noted above has been mostly offset by a $1.3 million decrease in bad debt expense, mostly due to the combined factors of decreased growth in gross accounts receivable and financing receivables ("total gross receivables") during 2014 compared to 2013 and the lack of any substantial write-offs of receivables balances in 2014. Total gross receivables grew by 42.8%, or $14.5 million, during 2013, necessitating increases in our allowance for doubtful accounts and allowance for credit losses to accommodate the expanding receivables base. Comparatively, total gross receivables decreased by 8.8%, or $4.3 million, during 2014. This decreased growth in total gross receivables is due to the decreased utilization of Second Generation Meaningful Use Installment Plans in 2014 compared to 2013. Additionally, 2013 was impacted by substantial write-offs of receivable balances due from a single customer experiencing significant financial difficulty, with no such events occurring in 2014.

As a percentage of total revenues, sales and marketing expenses, and general and administrative expenses increased slightly to 21.7% in 2014 compared to 21.6% in 2013.

As a result of the foregoing factors, income before taxes decreased by 1.9%, or $1.0 million.

Income Taxes. Our effective income tax rate for the years ended December 31, 2014 and 2013 was 33.8% and 35.4%, respectively. This decrease in effective income tax rate is mostly due to the combined effects of a $0.4 million decrease in expense related to unrecognized tax benefits and a $0.2 million increase in beneficial provision-to-return adjustments. During 2013, recent developments resulting from the Internal Revenue Service's examination of our 2004 through 2006 federal tax returns (as amended), primarily as they relate to federal research and development tax credits, necessitated an increase in our reserves for uncertain tax positions for all impacted years, with a corresponding increase in the related expense related to unrecognized tax benefits. The related expense during 2014 has been limited to tax positions related to the current year, with no further developments impacting prior years. The increase in beneficial provision to return adjustments is primarily attributable to differences between credits claimed on the 2013 federal income tax return and amounts previously estimated.

Liquidity and Capital Resources

Sources of Liquidity

As of December 31, 2015, our principal sources of liquidity consisted of cash and cash equivalents and investments of $35.8 million compared to $34.5 million as of December 31, 2014. As noted previously, in January 2016 we completed our acquisition of HHI. In conjunction with the acquisition, we entered into a syndicated credit agreement (the "Credit Agreement," described further below), with Regions Bank ("Regions") serving as administrative agent, which provided for a $125 million term loan facility (the "Term Loan Facility") and a $50 million revolving credit facility (the "Revolving Credit Facility"). The cash portion of the purchase price was funded by the $125 million Term Loan Facility and $25 million borrowed under the Revolving Credit Facility, as well as available cash on hand (net of cash of the acquired entities) of $16.9 million (inclusive of financing costs and seller's transaction expenses). As a result, as of the date of this filing, our principal sources of liquidity consist of cash and cash equivalents, investments, and our remaining borrowing capacity under the Revolving Credit Facility of $25 million.

We believe that our cash and cash equivalents and investments of $35.8 million as of December 31, 2015, the future operating cash flows of the newly combined entity, and our remaining borrowing capacity under the Revolving Credit Facility, 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-K. If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations during the next twelve months, we may be required to obtain additional sources of funds through additional operational improvements, capital market transactions, asset sales or financing from third parties, a combination thereof or otherwise. We cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms.

Operating Cash Flow Activities

2015 Compared to 2014. Net cash provided by operating activities decreased 20.7%, or $8.1 million, primarily due to the aforementioned 44.3%, or $14.6 million, decrease in net income. The impact of the decreased net income on our

operating cash flows was partially muted by the timing of cash collections on previously existing Second Generation Meaningful Use Installment Plans coupled with the continued decreasing prevalence of Second Generation Meaningful Use Installment Plans within the population of system sales revenues. Although the customer demand for financing arrangements is expected to continue during the next twelve months (albeit at a lower frequency than in recent years), the waning demand for Second Generation Meaningful Use Installment Plans has resulted in more sporadic customer demand for financing arrangements. This sporadic demand for financing arrangements could result in increases in our financing receivables in future periods which,

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although offset by periodic collections of previously outstanding amounts, could temporarily have a negative impact on our net cash provided by operating activities.

2014 Compared to 2013. Net cash provided by operating activities increased 34.1%, or $9.9 million, far outpacing our 0.5% increase in net income from 2013 to 2014 and primarily results from the timing of cash collections on previously existing Second Generation Meaningful Use Installment Plans coupled with the decreasing prevalence of Second Generation Meaningful Use Installment Plans within the population of system sales revenues.

Investing Cash Flow Activities

2015 Compared to 2014. Net cash used in investing activities decreased to $0.6 million in 2015 from $1.5 million in 2014. We used cash for the purchase of $0.4 million of property and equipment during 2015, mostly related to increasing storage capacity at our off-site server locations and the continued build-out of our new location in Frackville, Pennsylvania. During 2014, we used cash for the purchase of $1.5 million of property and equipment, mostly related to renovation projects at our corporate campus in Mobile, Alabama. We believe that our existing physical facilities provide us with ample infrastructure to continue and grow our existing operations and, as such, we do not anticipate the need for significant capital expenditures during 2016.

2014 Compared to 2013. Net cash used in investing activities decreased to $1.5 million in 2014 from $3.7 million in 2013 as we completed the build-out of our new facility in Fairhope, Alabama during 2013, coupled with the lack of any major capital expenditure projects of similar scale during 2014.

Financing Cash Flow Activities

2015 Compared to 2014. Net cash used in financing activities increased to $29.1 million in 2015 from $25.4 million in 2014. We declared and paid dividends in the aggregate amount of $28.9 million during 2015 compared to $25.5 million in 2014, as we increased our dividend rate 12.3% to $0.64 per share from $0.57 per share. 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 Credit Agreement and the discretion of our Board of Directors. 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.

2014 Compared to 2013. Net cash used in financing activities increased to $25.4 million in 2014 from $22.5 million in 2014. We declared and paid dividends in the aggregate amount of $25.5 million during 2014 compared to $22.6 million in 2013, as we increased our dividend rate 11.8% to $0.57 per share from $0.51 per share.

Days Sales Outstanding

Our days sales outstanding, which represents the average collection time for accounts receivable, for the years 2015, 2014 and 2013 were 47, 43, and 38 days, respectively. This increase in days sales outstanding from 2014 to 2015 and 2013 to 2014 is primarily attributable to the continued decreased utilization of Second Generation Meaningful Use Installment Plans in 2015 compared to 2014 and in 2014 compared to 2013, resulting in a greater percentage of sales dollars entering accounts receivable. Despite this increase in days sales outstanding, we have not experienced a significant deterioration within the overall agings of our accounts receivable.

Credit Agreement

As noted above, in conjunction with our acquisition of HHI in January 2016, we entered into a Credit Agreement which provided for a $125 million Term Loan Facility and a $50 million Revolving Credit Facility.

The Term Loan Facility bears 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 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). The applicable margin will range from 2.25% to 3.50% for LIBOR loans and 1.25% to 2.50% for base rate loans, in each case based on our consolidated leverage ratio (as defined in the Credit Agreement). Interest on the outstanding principal of the Term Loan Facility will be payable on the last day of each month, in the case of each base rate loan, and on the last day of each interest period (but no less frequently than every three months), in the case of

LIBOR loans. Principal payments will be due on the last day of each fiscal quarter beginning March 31, 2016, with quarterly principal payments of approximately $0.8 million in 2016, approximately $1.6 million in 2017, approximately $2.3 million in 2018, approximately $3.1 million in 2019 and approximately $3.9 million

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in 2020, with the remainder due at maturity on January 8, 2021 or such earlier date as the obligations under the Credit Agreement become due and payable pursuant to the terms of the Credit Agreement (the "Maturity Date").
Borrowings under the Revolving Credit Facility 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 or (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. The applicable margin will range from 2.25% to 3.50% for LIBOR loans and 1.25% to 2.50% for base rate loans, in each case based on our consolidated leverage ratio. Interest on borrowings under the Revolving Credit Facility is payable on the last day of each month, in the case of each base rate loan, and on the last day of each interest period (but no less frequently than every three months), in the case of LIBOR loans. The Revolving Credit Facility includes a $5 million swingline sublimit, with swingline loans bearing interest at the alternate base rate plus the applicable margin. Any principal outstanding under the Revolving Credit Facility is due and payable on the Maturity Date.
The Term Loan Facility and amounts borrowed under the Revolving Credit Facility 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 (the "Security Agreement"), 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 Credit Agreement are also guaranteed by the Subsidiary Guarantors.
The Credit Agreement provides incremental facility capacity of $50 million, subject to certain conditions. The 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 its equity securities or payments to redeem, repurchase or retire its 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 its affiliates; and materially alter the business it conducts. In addition, the Company is required to comply with a minimum fixed charge coverage ratio of 1.25:1.0 throughout the duration of the Credit Agreement and a maximum consolidated leverage ratio (as defined in the Credit Agreement) of 3.50:1.0 through September 30, 2016, 3.00:1.0 from October 1, 2016 through September 30, 2017, and 2.50:1.0 thereafter. The Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default.
The Credit Agreement requires the Company to mandatorily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility with (i) 100% of net cash proceeds from certain sales and dispositions, subject to certain reinvestment rights, (ii) 100% of net cash proceeds from certain issuances or incurrences of additional debt, (iii) 50% of net cash proceeds from certain issuances or sales of equity securities, subject to a step down to 0% if the Company's consolidated leverage ratio is no greater than 2.50:1.0, and (iv) beginning with the fiscal year ending December 31, 2016, 50% of excess cash flow (minus certain specified other payments), subject to a step down to 0% of excess cash flow if the Company's consolidated leverage ratio is no greater than 2.50:1.0. The Company is permitted to voluntarily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility 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.
Non-GAAP Financial Measures
We have included in the discussion under the captions "2015 Compared to 2014" and "2014 Compared to 2013" above financial measures that were not prepared in accordance with US GAAP. Any analysis of non-GAAP financial measures should be made only in conjunction with results presented in accordance with US GAAP. Below, we define

each of these non-GAAP financial measures, provide a reconciliation of each non-GAAP financial measure to the most directly comparable financial measure calculated in accordance with US GAAP, and discuss the reasons that we believe this information is useful to management and may be useful to investors.

We use the non-GAAP financial measures "adjusted gross margin on system sales," "adjusted cost of equipment," and "adjusted system sales." Management believes these non-GAAP financial measures provide our Board of Directors, investors, potential investors, securities analysts and others with useful information to evaluate our performance because they exclude the impact of unrecognized revenue, recognized revenue and related deferral of cost of equipment resulting from our use of First Generation Meaningful Use Installment Plans. First Generation Meaningful Use Installment Plans were new to the Company in

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2012, resulting in the Company not having sufficient experience with comparable arrangements to establish evidence of a standard business practice of historically collecting under the original payment terms of such contracts without making concessions. As a result, the provisions of the Software topic and Revenue Recognition subtopic of the FASB Accounting Standards Codification resulted in a conclusion that the fee was not fixed or determinable and, as a result, the revenue is to be recognized as the amounts become due. Because the timing of our recognition of revenue under First Generation Meaningful Use Installment Plans is not related to any remaining obligation on the part of the Company, the Company and our Board of Directors use these non-GAAP financial measures to evaluate our performance relative to other periods. We believe that the most directly comparable US GAAP measures to adjusted gross margin on system sales, adjusted cost of equipment, and adjusted system sales are gross margin on system sales, cost of equipment, and system sales, respectively.

Set forth below are reconciliations of adjusted gross margin on system sales, adjusted cost of equipment, and adjusted system sales to the comparable financial measures calculated in accordance with US GAAP (dollar amounts in thousands):

Adjusted Gross Margin on System Sales

	Year ended December 31,		
	2015	2014	2013
Gross margin on system sales	$3,479	$30,479	$31,953
Add: Unrecognized revenue accumulated related to First Generation Meaningful Use Installment Plans	—	11	597
Less: Revenue recognized related to First Generation Meaningful Use Installment Plans	(246)	(2,243)	(4,488)
Less: Deferred cost of equipment related to First Generation Meaningful Use Installment Plans	—	—	—
Add: Amortization of deferred cost of equipment related to First Generation Meaningful Use Installment Plans	40	47	416
Adjusted gross margin on system sales	$3,273	$28,294	$28,478

Adjusted Cost of Equipment

	Year ended December 31,		
	2015	2014	2013
Cost of equipment	$4,850	$4,734	$5,836
Add: Deferred cost of equipment related to First Generation Meaningful Use Installment Plans	—	—	—
Less: Amortization of deferred cost of equipment related to First Generation Meaningful Use Installment Plans	(40)	(47)	(416)
Adjusted cost of equipment	$4,810	$4,687	$5,420

Adjusted System Sales

	Year ended December 31,		
	2015	2014	2013
System sales	$42,994	$75,099	$79,792
Add: Unrecognized revenue accumulated related to First Generation Meaningful Use Installment Plans	—	11	597
Less: Revenue recognized related to First Generation Meaningful Use Installment Plans	(246)	(2,243)	(4,488)
Adjusted system sales	$42,748	$72,867	$75,901

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Contractual Obligations

As of December 31, 2015, our real estate leases were the only material contractual obligations requiring payments in the future. Our payments under these leases subsequent to December 31, 2015, are set forth below:

	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	$4,044,572	$ 737,656	$1,143,390	$1,005,675	$1,157,851

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2015 or December 31, 2014.

Critical Accounting Policies

General. Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We are required to make some estimates and judgments that affect the preparation of these financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, but actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition. We generate revenue from the following sources:

- The sale of information systems, which includes perpetual software licenses, conversion, installation and training services, hardware and peripherals;
- The provision of system support services, which includes software application support, hardware maintenance, continuing education, Software as a Service (or "SaaS") products, and forms and supplies; and
- The provision of business management services, which includes electronic billing, statement processing, payroll processing, accounts receivable management, contract management and insurance services, as well as Internet service provider ("ISP") services and consulting and managed IT services (collectively, "other professional IT services").

We recognize revenue in accordance with the accounting principles required by the Software topic and Revenue Recognition subtopic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification") and those prescribed by the Securities and Exchange Commission, as well as the accounting principles relevant to multiple-element arrangements in the Revenue Recognition topic and Multiple-Element Arrangements subtopic of the Codification. These standards require that four basic criteria must be met before revenues can be recognized: (1) persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. The recognition of revenue pursuant to these criteria involves estimates and judgments regarding:

1) The allocation of total arrangement consideration to the various elements of our multiple-element arrangements, including, for certain elements, estimates and judgments regarding vendor-specific objective evidence ("VSOE") of fair value, which we base on either the price charged when the same element is sold separately or the price established by management having the relevant authority to do so, for an element not yet sold separately. VSOE calculations are updated and reviewed regularly depending on the nature of the product or service. We base VSOE for the related undelivered elements on either renewals or stand-alone sales as appropriate.
2) Our determination that total fees for our products and services are fixed or determinable, which we base on signed contracts and orders.
3) Our assessment that collection of amounts due is reasonably assured, which we base on our standard payment terms and collection history.

Risks associated with these estimates and judgments and the effects thereof include: (1) if VSOE of fair value of any undelivered element does not exist, all revenue is deferred until VSOE of fair value of the undelivered element is established or the element has been delivered and (2) if the fees are not fixed or determinable, or if collection is not reasonably assured, then the revenue recognized in various periods will be less than amounts that would have been otherwise recognizable using the

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residual method provided under the Codification. See Note 2 to the financial statements for further discussion of our revenue recognition policies.

Although we believe that our approach to estimates and judgments regarding revenue recognition is reasonable, actual results could differ and we may be exposed to increases or decreases in revenue that could be material.

Allowance for Doubtful Accounts. Trade accounts receivable are stated at the amount the Company expects to collect and do not bear interest. The collectability of trade receivable balances is regularly evaluated based on a combination of factors such as customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment patterns, resulting in the establishment of general reserves. Additionally, if it is determined that a customer will be unable to fully meet its financial obligation, such as in the case of a bankruptcy filing or other material event impacting its business, a specific reserve for bad debt may be recorded to reduce the related receivable to the amount expected to be recovered.

Although we believe that our approach to estimates and judgments regarding our allowance for doubtful accounts is reasonable, actual results could differ and we may be exposed to increases or decreases in required reserves that could be material.

Allowance for Credit Losses. The Company has sold information and patient care systems to certain healthcare providers under short-term payment plans and sales-type leases. The Company establishes an allowance for credit losses for these financing receivables based on the historical level of customer defaults under such financing arrangements. Additionally, if it is determined that a customer will be unable to meet its financial obligation, such as in the case of a bankruptcy filing or other material event impacting its business, a specific reserve may be recorded to reduce the related receivable to the amount expected to be recovered. Reference is made to Note 10 to the financial statements for further information about our financing receivables.

Although we believe that that our approach to estimates and judgments regarding our allowance for credit losses is reasonable, actual results could differ and we may be exposed to increases or decreases in required reserves that could be material.

Estimates. The Company uses estimates to record certain transactions and liabilities. These estimates are generally based on management’s best judgment, past experience, and utilization of third party services such as actuarial and other expert services. Because these estimates are subjective and variable, actual results could differ significantly from these estimates. Significant estimates included in our financial statements include those for self-insurance reserves under our health insurance plan, reserves for uncertain tax positions, bad debt and credit allowances, legal liability exposure or lack thereof, and accrued expenses.

Quantitative and Qualitative Disclosures about Market and Interest Rate Risk

Our exposure to market risk as of December 31, 2015 related primarily to the potential change in the value of our investment portfolio as a result of fluctuations in interest rates. The primary purpose of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing risk of loss. As of December 31, 2015, our investment portfolio consisted of a variety of financial instruments, primarily including, but not limited to, money market securities and high quality government and corporate obligations. It is our intent to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We do not hold financial instruments for trading or other speculative purposes. The securities in our investment portfolio are classified as available-for-sale and, consequently, are recorded on our balance sheet at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive (loss) income in stockholders’ equity.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates.

We believe that the market risk arising from our holdings of these financial instruments is minimal. Due to the conservative allocation of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio. Additionally, since we believe we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a

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sudden change in market interest rates on our investment portfolio. We do not utilize derivative financial instruments to manage our interest rate risks.

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of December 31, 2015 and 2014.

	Aggregate Fair Value		Weighted Average Interest Rate	
	2015	2014	2015	2014
Cash and Cash Equivalents:				
Cash and cash equivalents	$24,950,617	$23,791,748	— %	— %
Short-Term Investments:(1)				
Accrued income	$51,803	$61,371	— %	— %
Money market funds	1,217,375	33,224	0.28 %	0.07 %
Obligations of the U.S. Treasury, U.S government corporations and agencies	789,640	1,116,703	0.38 %	1.93 %
Corporate debt securities	626,075	1,987,945	2.17 %	1.92 %
Total short-term investments	$2,684,893	$3,199,243		
Long-Term Investments:(2)				
Obligations of the U.S. Treasury, U.S government corporations and agencies	$767,568	$904,083	1.35 %	0.36 %
Mortgage backed securities	55,100	69,532	1.88 %	1.63 %
Certificates of deposit	1,993,192	1,975,245	1.85 %	1.85 %
Corporate debt securities	5,322,936	4,555,023	2.36 %	2.33 %
Total long-term investments	$8,138,796	$7,503,883		

(1) Reflects instruments with a contractual maturity of less than one year.

(2) Reflects instruments with a contractual maturity of one year or more.

As of December 31, 2015, the Company had no borrowings and, therefore, was not subject to interest rate risks related to debt instruments. However, as noted previously, the Company entered into a Credit Agreement on January 8, 2016 and, as of the date of this filing, is now exposed to interest rate risk on the related borrowings, primarily with regard to changes in U.S. interest rates and changes in LIBOR. Based on our outstanding indebtedness under the Credit Agreement on January 8, 2016 of $150 million and the related contractual principal payment amounts and dates, an increase in LIBOR of 1.0% would cause a corresponding increase in our anticipated 2016 annual interest expense of approximately $1.7 million.

Recent Accounting Pronouncements

Reference is made to Note 2 to the consolidated financial statements for a discussion of accounting pronouncements that have been recently issued which we have not yet adopted.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained in Item 7 herein under the heading "Quantitative and Qualitative Disclosures about Market and Interest Rate Risk."

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Index to Financial Statement Schedules

All other schedules to the financial statements required by Article 9 of Regulation S-X are not applicable and therefore have been omitted.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Computer Programs and Systems, Inc.'s ("CPSI") internal control over financial reporting is designed 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. CPSI's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of CPSI;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of CPSI are being made only in accordance with authorizations of management and directors of CPSI; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of CPSI's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of CPSI's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on our assessment and those criteria, management believes that CPSI maintained effective internal control over financial reporting as of December 31, 2015.

The independent registered public accounting firm, Grant Thornton LLP, has audited the consolidated financial statements of the Company as of and for the year ended December 31, 2015, and has also issued its report on the effectiveness of the Company's internal control over financial reporting included in this report on page 55.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING
Board of Directors and Stockholders
Computer Programs and Systems, Inc.:

We have audited the internal control over financial reporting of Computer Programs and Systems, Inc. (a Delaware corporation) and its subsidiaries (collectively, the "Company") as of December 31, 2015, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2015, and our report dated March 14, 2016 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 14, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS
Board of Directors and Stockholders
Computer Programs and Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Computer Programs and Systems, Inc. (a Delaware corporation) and its subsidiaries (collectively, the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 8. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Programs and Systems, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2016 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 14, 2016

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COMPUTER PROGRAMS AND SYSTEMS, INC.
Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$24,950,617	$23,791,748
Investments	10,823,689	10,703,126
Accounts receivable, net of allowance for doubtful accounts of $1,216,000 and $1,253,000, respectively	22,594,069	23,101,575
Financing receivables, current portion, net	10,576,154	18,111,633
Inventories	1,494,859	1,431,560
Deferred tax assets	2,335,112	2,318,988
Prepaid income taxes	426,818	1,120,487
Prepaid expenses and other	1,356,101	936,915
Total current assets	74,557,419	81,516,032
Property and equipment, net	14,350,669	17,038,619
Financing receivables, net of current portion	1,569,179	770,169
Deferred tax assets	2,310,606	—
Total assets	$92,787,873	$99,324,820
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$4,590,660	$3,990,368
Deferred revenue	3,820,526	5,890,431
Accrued vacation	3,411,868	3,930,778
Other accrued liabilities	5,598,401	4,349,207
Total current liabilities	17,421,455	18,160,784
Deferred tax liabilities	—	383,050
Stockholders' equity:		
Common stock, $0.001 par value; 30,000,000 shares authorized; 11,302,688 and 11,208,879 shares issued and outstanding	11,303	11,209
Additional paid-in capital	44,186,771	38,983,350
Accumulated other comprehensive loss	(37,678)	(19,337)
Retained earnings	31,206,022	41,805,764
Total stockholders' equity	75,366,418	80,780,986
Total liabilities and stockholders' equity	$92,787,873	$99,324,820

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
Consolidated Statements of Income

	Year ended December 31,		
	2015	2014	2013
Sales revenues:			
System sales	$42,993,672	$75,099,075	$79,792,563
Support and maintenance	75,391,633	73,552,764	71,505,736
Business management, consulting and managed IT services	63,788,579	56,090,298	49,565,033
Total sales revenues	182,173,884	204,742,137	200,863,332
Costs of sales:			
System sales	39,514,513	44,620,446	47,839,794
Support and maintenance	27,213,840	29,080,564	28,639,891
Business management, consulting and managed IT services	41,337,010	37,065,515	30,646,789
Total costs of sales	108,065,363	110,766,525	107,126,474
Gross profit	74,108,521	93,975,612	93,736,858
Operating expenses:			
Sales and marketing	12,212,241	14,369,752	14,737,440
General and administrative	36,809,998	30,019,270	28,755,477
Total operating expenses	49,022,239	44,389,022	43,492,917
Operating income	25,086,282	49,586,590	50,243,941
Other income:			
Other income	404,832	152,419	466,678
Total other income	404,832	152,419	466,678
Income before taxes	25,491,114	49,739,009	50,710,619
Provision for income taxes	7,147,728	16,818,730	17,967,381
Net income	$18,343,386	$32,920,279	$32,743,238
Net income per share - basic	$1.62	$2.94	$2.95
Net income per share - diluted	$1.62	$2.94	$2.95
Weighted average shares outstanding used in per common share computations:			
Basic	11,083,403	11,025,897	10,997,890
Diluted	11,083,403	11,026,406	10,997,890

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2015	2014	2013
Net income	$18,343,386	$32,920,279	$32,743,238
Other comprehensive loss, net of tax			
Unrealized loss on investments available for sale, net of tax	(18,341)	(30,705)	(16,325)
Total other comprehensive loss, net of tax	(18,341)	(30,705)	(16,325)
Comprehensive income	$18,325,045	$32,889,574	$32,726,913

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
Consolidated Statements of Stockholders' Equity

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income(Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2012	11,077,672	$11,078	$32,848,101	$ 27,693	$24,315,320	$57,202,192
Net income	—	—	—	—	32,743,238	32,743,238
Unrealized loss on investments held for sale, net of tax	—	—	—	(16,325)	—	(16,325)
Issuance of restricted stock	81,470	81	(81)	—	—	—
Stock-based compensation	—	—	1,699,128	—	—	1,699,128
Dividends	—	—	—	—	(22,642,438)	(22,642,438)
Income tax benefit from restricted stock dividends	—	—	74,939	—	—	74,939
Income tax benefit from restricted stock	—	—	21,813	—	—	21,813
Balance at December 31, 2013	11,159,142	$11,159	$34,643,900	$ 11,368	$34,416,120	$69,082,547
Net income	—	—	—	—	32,920,279	32,920,279
Unrealized loss on investments held for sale, net of tax	—	—	—	(30,705)	—	(30,705)
Issuance of restricted stock	49,737	50	(50)	—	—	—
Stock-based compensation	—	—	4,172,174	—	—	4,172,174
Dividends	—	—	—	—	(25,530,635)	(25,530,635)
Income tax benefit from restricted stock dividends	—	—	140,571	—	—	140,571
Income tax benefit from restricted stock	—	—	26,755	—	—	26,755
Balance at December 31, 2014	11,208,879	$11,209	$38,983,350	$ (19,337)	$41,805,764	$80,780,986
Net income	—	—	—	—	18,343,386	18,343,386
Unrealized loss on investments held for sale, net of tax	—	—	—	(18,341)	—	(18,341)
Issuance of restricted stock	106,694	107	(107)	—	—	—
Forfeiture of common stock	(12,885)	(13)	13	—	—	—

Stock-based compensation	—	—	5,379,716	—	—	5,379,716
Dividends	—	—	—	—	(28,943,128)	(28,943,128)
Income tax benefit from restricted stock dividends	—	—	74,660	—	—	74,660
Deficient tax benefit from restricted stock	—	—	(250,861)	—	—	(250,861)
Balance at December 31, 2015	11,302,688	$11,303	$44,186,771	$ (37,678)	$31,206,022	$75,366,418

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
Consolidated Statements of Cash Flows

	Year ended December 31,		
	2015	2014	2013
Operating Activities			
Net income	$18,343,386	$32,920,279	$32,743,238
Adjustments to net income:			
Provision for bad debt	909,878	581,943	1,911,480
Deferred taxes	(2,698,540)	(1,551,828)	(67,848)
Stock based compensation	5,379,716	4,172,174	1,699,128
Deficient (excess) tax benefit from restricted stock	250,861	(26,755)	(21,813)
Income tax benefit from restricted stock dividends	(74,660)	(140,571)	(74,939)
Depreciation	3,174,241	3,665,414	3,429,053
Changes in operating assets and liabilities:			
Accounts receivable	(166,073)	(3,956,206)	(974,145)
Financing receivables	6,500,170	7,406,071	(14,766,789)
Inventories	(102,180)	157,113	93,335
Prepaid expenses and other	(419,186)	(35,687)	180,193
Accounts payable	600,292	776,654	233,540
Deferred revenue	(2,069,905)	(3,690,926)	2,128,745
Other liabilities	730,284	421,143	575,668
Prepaid income taxes/income taxes payable	517,468	(1,750,262)	1,958,368
Net cash provided by operating activities	30,875,752	38,948,556	29,047,214
Investing Activities			
Purchases of property and equipment	(447,410)	(1,472,661)	(3,630,451)
Purchases of investments	(150,144)	(50,023)	(2,733,109)
Sale of investments	—	—	2,678,760
Net cash used in investing activities	(597,554)	(1,522,684)	(3,684,800)
Financing Activities			
Dividends paid	(28,943,128)	(25,530,635)	(22,642,438)
(Deficient) excess tax benefit from restricted stock	(250,861)	26,755	21,813
Income tax benefit from restricted stock dividends	74,660	140,571	74,939
Net cash used in financing activities	(29,119,329)	(25,363,309)	(22,545,686)
Increase in cash and cash equivalents	1,158,869	12,062,563	2,816,728
Cash and cash equivalents at beginning of year	23,791,748	11,729,185	8,912,457
Cash and cash equivalents at end of year	$24,950,617	$23,791,748	$11,729,185
Supplemental disclosure of cash flow information			
Cash paid for interest	$—	$—	$—
Cash paid for income taxes	$9,231,214	$20,068,807	$16,236,693
Reclassification of inventory to property and equipment	$38,881	$—	$—
Write-off of fully depreciated assets	$—	$1,974,025	$2,360,563

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. NATURE OF OPERATIONS

Computer Programs and Systems, Inc. ("CPSI" or the "Company") is a healthcare information technology solutions provider which was formed and commenced operations in 1979. The Company provides, on an integrated basis, enterprise-wide clinical management, access management, patient financial management, health information management, strategic decision support, resource planning management and enterprise application integration solutions to healthcare organizations throughout the United States. Additionally, CPSI provides other information technology solutions, including business management services, remote hosting, networking technologies and other related services. The Company operates in a single segment reporting to the chief executive officer, based on the criteria of the Segment Reporting topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of CPSI and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents can include time deposits and certificates of deposit with original maturities of three months or less that are highly liquid and readily convertible to a known amount of cash. These assets are stated at cost, which approximates market value, due to their short duration or liquid nature.

Investments

The Company accounts for investments in accordance with FASB Codification topic, Investments – Debt and Equity Securities. Accordingly, investments are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders’ equity. The Company’s management determines the appropriate classifications of investments in fixed maturity securities at the time of acquisition and re-evaluates the classifications at each balance sheet date. An average cost method is used for purposes of determining the cost of investments sold.

Income Taxes

We account for income taxes in accordance with FASB Codification topic, Income Taxes. Under this topic, deferred income taxes are determined utilizing the asset and liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of assets and liabilities. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We recognize interest and penalties accrued related to unrecognized tax benefits in the consolidated statements of income as a component of the provision for income taxes.

We also make a provision for uncertain income tax positions in accordance with the Income Taxes Codification topic. These provisions require that a tax position taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The topic also requires that changes in judgment that result in subsequent recognition, derecognition, or change in a measurement date of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the interim period in which the change occurs.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at the amount the Company expects to collect and do not bear interest. The Company establishes a general allowance for doubtful accounts based on collections history. In the case of a bankruptcy filing or other similar event indicating the collectability of specific customer accounts is no longer

probable, a specific reserve for bad debt may be recorded to reduce the related receivable to the amount expected to be recovered.

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Financing Receivables

Financing receivables are comprised of short-term payment plans and sales-type leases. Short-term payment plans are stated at the amount the Company expects to collect and do not bear interest. Sales-type leases are initially recorded at the present value of the related minimum lease payments, computed at the interest rate implicit in the lease, and are presented net of unearned income. Unearned income is amortized over the lease term to produce a constant periodic rate of return on the net investment in the lease (the interest method).

An allowance for credit losses has been established for our financing receivables based on the historical level of customer defaults under such arrangements. In the case of a bankruptcy filing or other similar event indicating the collectability of specific customer accounts is no longer probable, a specific reserve may be recorded to reduce the related receivable to the amount expected to be recovered. Customer payments are considered past due if a scheduled payment is not received within contractually agreed upon terms, with amounts reclassified to accounts receivable when they become due. As a result, we evaluate the credit quality of our financing receivables on an ongoing basis utilizing an aging of receivables and write-offs, customer collection experience, the customer’s financial condition and known risk characteristics impacting the respective customer base, as well as existing economic conditions, to determine if any further allowance is necessary. Amounts are specifically charged off once all available means of collection have been exhausted.

Inventories

Inventories are stated at lower of cost or market using the average cost method. The Company’s inventories are comprised of computer equipment, forms and supplies. For cash flow presentation, inventory used by the Company and capitalized as property and equipment is shown as a change in inventory.

Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation. Additions and improvements to property and equipment that materially increase productive capacity or extend the life of an asset are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. Upon retirement or other disposition of such assets, the related costs and accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation expense is computed using the straight-line method over the asset’s useful life, which is generally 5 years for computer equipment, furniture, and fixtures and 30 years for buildings. Leasehold improvements are depreciated over the shorter of the asset’s useful life or the remaining lease term. The Company reviews for the possible impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Depreciation expense is reported in the consolidated statements of income as a component of support and maintenance costs and operating expenses.

Deferred Revenue

Deferred revenue represents amounts received from customers under licensing agreements and implementation fees for which the revenue recognition process has not been completed.

Revenue Recognition

The Company recognizes revenue in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), principally those required by the Software topic and Revenue Recognition subtopic of the Codification and those prescribed by the Securities and Exchange Commission (the "SEC").

The Company's revenue is generated from three sources:

- System Sales - the sale of information systems, which includes perpetual software licenses, conversion, installation and training services, hardware and peripherals;
- Support and Maintenance - the provision of system support services, which includes software application support, hardware maintenance, continuing education, "Software as a Service" (or "SaaS") services, and forms and supplies; and
- Business Management, Consulting and Managed IT Services - the provision of business management services, which includes electronic billing, statement processing, payroll processing, accounts receivable management,

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contract management and insurance services, as well as Internet service provider ("ISP") services and consulting and managed IT services (collectively, "other professional IT services").

System Sales, Software Application Support and Hardware Maintenance

The Company enters into contractual obligations to sell perpetual software licenses, conversion, installation and training services, hardware and software application support and hardware maintenance services. On average, the Company is able to complete a system installation in three to four weeks. The methods employed by the Company to recognize revenue, which are discussed by element below, achieve results materially consistent with the provisions of Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, due to the relatively short period during which there are multiple undelivered elements, the relatively small amount of non-software related elements in the system sale arrangements, and the limited number of contracts in-process at the end of each reporting period. The Company recognizes revenue on the elements noted above as follows:

- Perpetual software licenses and conversion, installation and training services – The selling price of perpetual software licenses and conversion, installation and training services is based on management’s best estimate of selling price. In determining management’s best estimate of selling price, we consider the following: (1) competitor pricing, (2) supply and demand of installation staff, (3) overall economic conditions, and (4) our pricing practices as they relate to discounts. With the exception of certain arrangements with extended payment terms that were entered into in 2012 and that are not comparable to our historical or current arrangements (see Note 10), the method of recognizing revenue for the perpetual license of the associated modules included in the arrangement, and the related conversion, installation and training services over the term the services are performed, is on a module by module basis as the related perpetual licenses are delivered and the respective conversion, installation and training for each specific module is completed, as this is representative of the pattern of provision of these services.
- Hardware – We recognize revenue for hardware upon shipment. The selling price of hardware is based on management’s best estimate of selling price, which consists of cost plus a targeted margin.
- Software application support and hardware maintenance – We have established vendor-specific objective evidence ("VSOE") of the fair value of our software application support and hardware maintenance services by reference to the price our customers are required to pay for the services when sold separately via renewals. Support and maintenance revenue is recognized on a straight-line basis over the term of the maintenance contract, which is generally three to five years.

SaaS, ISP and Other Professional IT Services

The Company accounts for SaaS arrangements in accordance with the requirements of the Hosting Arrangement section under the Software topic and Revenue Recognition subtopic of the Codification. The Codification states that the software elements of SaaS services should not be accounted for as a hosting arrangement "if the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software." Each SaaS contract entered into by the Company includes a system purchase and buyout clause, and this clause specifies the total amount of the system buyout. In addition, a clause is included in the contract which states that should the system be bought out by the customer, the customer would be required to enter into a general support agreement (for post-contract support services) for the remainder of the original SaaS term. Accordingly, the Company has concluded that SaaS customers do not have the right to take possession of the system without significant penalty (i.e., the purchase price of the system), resulting in the determination that these contracts are service contracts for which revenue is recognized when the services are performed.

The Company will occasionally provide ISP and other professional IT services. Depending on the nature of the services provided, these services may be considered software elements or non-software elements. The selling price of services considered to be software elements is based on VSOE of the fair value of the services by reference to the price our customers are required to pay for the services when sold separately. The selling price of services considered to be non-software elements is based on third-party evidence of selling price of similar services. Revenue from these elements are recognized as the services are performed.

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Business Management Services

Business management services consist of electronic billing, statement processing, payroll processing, accounts receivable management, contract management and insurance services. While business management service arrangements are contracts separate from the system sale and support and maintenance contracts, these contracts are often executed within a short time frame of each other. The amount of the total arrangement allocated to these services is based on VSOE of fair value by reference to the rate at which our customers renew as well as the rate at which the services are sold to customers when the business management services agreement is not executed within a short time frame of the system sale and support and maintenance contracts. If VSOE of fair value does not exist for these services, we allocate arrangement consideration based on third-party evidence ("TPE") of selling price or, if neither VSOE nor TPE is available, estimated selling price. Because the pricing is transaction based (per unit pricing), customers are billed and revenue recognized as services are performed based on transaction levels.

Stock-Based Compensation

The Company accounts for stock-based compensation according to the provisions of FASB Codification topic, Compensation – Stock Compensation, which establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as an expense over the employee's or non-employee director's requisite service period.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs totaled approximately $2,896,000, $2,866,000 and $2,761,000 for the years ended December 31, 2015, 2014 and 2013, respectively. Research and development costs are included in costs of support and maintenance in the accompanying consolidated statements of income.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was approximately $206,000, $93,000 and $97,000 for the years ended December 31, 2015, 2014 and 2013, respectively, and is recorded in sales and marketing expenses in the accompanying consolidated statements of income.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and included in general and administrative expenses and costs of business management, consulting and managed IT services. Shipping and handling costs totaled approximately $363,000, $571,000 and $491,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates.

New Accounting Standards Adopted in 2015

There were no new standards required to be adopted during the year ended December 31, 2015 that had or will have a material impact on our financial statements.

New Accounting Standards Yet to be Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue and to develop a common revenue standard for US GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, which is effective for the Company as of the first quarter of our fiscal year ending December 31, 2018. The Company is currently evaluating the impact that the implementation of this standard will have on its financial statements.

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In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under this guidance, an entity will present such costs in the balance sheet as a reduction of the related debt liability rather than as an asset. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, which is effective for the Company as of the first quarter of our fiscal year ending December 31, 2016. Early adoption is permitted for all entities for financial statements that have not been previously issued. We have evaluated ASU 2015-03 and determined that its adoption will not have a material effect on our financial position or earnings.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, that eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new standard should be applied prospectively to measurement period adjustments that occur after the effective date. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, which is effective for the Company as of the first quarter of our fiscal year ending December 31, 2016. We have evaluated ASU 2015-16 and determined that its adoption will not have a material effect on our financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The standard eliminates the current requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, which is effective for the Company as of the first quarter of our fiscal year ending December 31, 2017. The Company is currently evaluating the impact that the implementation of this standard will have on its financial statements.

3. INVESTMENTS

Investments were comprised of the following at December 31, 2015:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$1,269,178	$—	$—	$1,269,178
Obligations of U.S. Treasury, U.S. government corporations and agencies	1,561,937	887	(5,616)	1,557,208
Mortgaged-backed securities	53,755	1,345	—	55,100
Certificates of deposit	2,000,000	225	(7,033)	1,993,192
Corporate debt securities	5,999,590	34	(50,613)	5,949,011
	$10,884,460	$2,491	$(63,262)	$10,823,689

Shown below are the amortized cost and estimated fair value of securities with fixed maturities at December 31, 2015, by contract maturity date. Actual maturities may differ from contractual maturities because issuers of certain securities retain early call or prepayment rights.

	Amortized Cost	Fair Value
Due in 2016	$2,687,853	$2,684,892
Due in 2017	506,705	504,122
Due in 2018	3,033,559	3,015,233
Due in 2019	4,072,262	4,041,545
Due thereafter	584,081	577,897
	$10,884,460	$10,823,689

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Investments were comprised of the following at December 31, 2014:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$94,595	$—	$—	$94,595
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,017,250	3,885	(349)	2,020,786
Mortgaged-backed securities	66,982	2,550	—	69,532
Certificates of deposit	2,000,000	—	(24,755)	1,975,245
Corporate debt securities	6,555,485	8,826	(21,343)	6,542,968
	$10,734,312	$15,261	$(46,447)	$10,703,126

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2015 and December 31, 2014, respectively:

	At December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$767,569	$(5,453)	$409,906	$(163)	$1,177,475	$(5,616)
Certificates of deposit	—	—	1,742,968	(7,033)	1,742,968	(7,033)
Corporate debt securities	2,565,909	(25,976)	3,234,530	(24,637)	5,800,439	(50,613)
	$3,333,478	$(31,429)	$5,387,404	$(31,833)	$8,720,882	$(63,262)
	At December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$904,083	$(349)	$—	$—	$904,083	$(349)
Certificates of deposit	1,975,245	(24,755)	—	—	1,975,245	(24,755)
Corporate debt securities	3,975,432	(21,220)	149,838	(123)	4,125,270	(21,343)
	$6,854,760	$(46,324)	$149,838	$(123)	$7,004,598	$(46,447)

Our investment portfolio, including those securities in unrealized loss positions at December 31, 2015, is comprised almost entirely of investment-grade corporate and government debt securities and certificates of deposit with large financial institutions. Although it is likely that certain of the investments that are in an unrealized loss position will be sold before recovery of their amortized cost basis, the resulting realized loss upon sale is not expected to be material. As a result, the Company has determined that the unrealized losses are deemed to be temporary impairments as of December 31, 2015. The Company believes that the unrealized losses generally are caused by liquidity discounts and increases in risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets.

4. PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following at December 31, 2015 and 2014:

	2015	2014
Land	$2,848,276	$2,848,276
Buildings and improvements	9,432,234	9,422,696
Maintenance equipment	1,230,714	1,230,714
Computer equipment	4,798,031	4,668,006
Leasehold improvements	4,753,386	4,680,233
Office furniture and fixtures	4,335,474	4,061,899
Automobiles	334,398	334,398
	27,732,513	27,246,222
Less: accumulated depreciation	(13,381,844)	(10,207,603)
Property and equipment, net	$14,350,669	$17,038,619

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities were comprised of the following at December 31, 2015 and 2014:

	2015	2014
Salaries and benefits	$2,291,623	$2,782,862
Severance	1,568,920	—
Commissions	434,605	504,952
Self-insurance reserves	883,600	668,800
Other	419,653	392,593
	$5,598,401	$4,349,207

The accrued severance costs depicted above are new for the Company beginning in the third quarter of 2015 and relate solely to the Company's one-time, voluntary severance program extended to certain employees during the third quarter of 2015.

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.

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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:

	2015	2014	2013
Basic EPS			
Numerator			
Net income	$18,343,386	$32,920,279	$32,743,238
Less: Net income attributable to participating securities	(373,276)	(499,270)	(298,939)
Net income attributable to common stockholders	$17,970,110	$32,421,009	$32,444,299
Denominator			
Weighted average shares outstanding used in basic per common share computations	11,083,403	11,025,897	10,997,890
Basic EPS	$1.62	$2.94	$2.95
Diluted EPS			
Numerator			
Net income attributable to common stockholders	$17,970,110	$32,421,009	$32,444,299
Reallocation of net income attributable to participating securities	—	5	—
Net income attributable to common stockholders for diluted EPS	$17,970,110	$32,421,014	$32,444,299
Denominator			
Weighted average shares outstanding used in basic per common share computations	11,083,403	11,025,897	10,997,890
Weighted average effect of dilutive securities:			
Performance share awards	—	509	—
Weighted average shares outstanding used in diluted per common share computations	11,083,403	11,026,406	10,997,890
Diluted EPS	$1.62	$2.94	$2.95

7. INCOME TAXES

The Company accounts for income taxes in accordance with the FASB’s Codification topic, Income Taxes. These provisions require a company to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements.

We applied these provisions to all tax positions for which the statute of limitations remained open. A reconciliation of the beginning and ending amount of unrecognized tax benefits for uncertain tax positions, included as a component of "Income taxes payable" or "Prepaid income taxes" (as determined by the status of the Company's overall federal and state income tax position at the respective balance sheet dates) within the consolidated balance sheets, is as follows:

	2015	2014
Beginning balance	$1,455,871	$1,317,977
Additions based on tax positions related to the current year	—	112,492
Additions for tax positions of prior years	—	25,402
Reductions for tax positions of prior years	(1,455,871)	—
Ending balance	$—	$1,455,871

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The Company's uncertain tax positions have historically been limited to the uncertainty regarding the eventual sustainability of federal research and development tax credits claimed on historical federal returns. The federal returns for tax years 2004 through 2009 were previously under examination by the Internal Revenue Service ("IRS"), primarily in relation to such credits claimed on those returns. The IRS completed these examinations during 2015, resulting in enhanced clarity regarding the sustainability of our uncertain tax positions for all years. The completion of these examinations prompted a beneficial change in our measurement of reserves for uncertain tax positions. As a result, as of December 31, 2015, there is no amount of unrecognized tax benefits that, if recognized, would affect the tax rate.

The federal returns for tax years 2012 through 2014 remain open to examination, and the tax years 2012 through 2014 remain open to examination by certain other taxing jurisdictions to which the Company is subject.

Deferred income taxes arise from the temporary differences in the recognition of income and expenses for tax purposes. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Deferred tax assets and liabilities were comprised of the following at December 31, 2015 and 2014:

	2015	2014
Deferred tax assets:		
Accounts receivable and financing receivables	$729,494	$879,094
Accrued vacation	725,543	1,158,764
Stock-based compensation	1,783,880	1,133,986
Deferred revenue	25,334	105,554
Accrued severance (see Note 5)	611,879	—
Accrued liabilities and other	242,863	175,575
Transaction costs	1,166,170	—
Other comprehensive income	23,091	11,851
Total deferred tax assets	$5,308,254	$3,464,824
Deferred tax liabilities:		
Depreciation	$662,536	$1,528,886
Total deferred tax liabilities	$662,536	$1,528,886

Significant components of the income tax provision for the years ended December 31, 2015, 2014 and 2013 were as follows:

	2015	2014	2013
Current provision:			
Federal	$8,576,285	$15,546,110	$15,437,727
State	1,269,983	2,824,448	2,597,502
Deferred provision:			
Federal	(2,421,766)	(1,392,666)	(60,890)
State	(276,774)	(159,162)	(6,958)
Total income tax provision	$7,147,728	$16,818,730	$17,967,381

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The difference between income taxes at the U.S. federal statutory income tax rate of 35% and those reported in the consolidated statements of income for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Income taxes at U.S. federal statutory rate	$8,921,890	$17,408,653	$17,748,717
Provision-to-return adjustments	(293,335)	(464,049)	(217,206)
State income tax, net of federal tax effect	944,052	1,772,595	1,824,908
Domestic production activities deduction	(669,869)	(1,606,060)	(1,423,425)
Tax credits	(413,665)	(596,807)	(502,400)
Uncertain tax positions	(1,218,833)	137,894	573,272
Other	(122,512)	166,504	(36,485)
Total income tax provision	$7,147,728	$16,818,730	$17,967,381

Our effective tax rates for the years ended December 31, 2015, 2014 and 2013 were 28.04%, 33.81% and 35.43%, respectively. The significantly reduced effective tax rate for the year ended December 31, 2015 (when compared to both 2014 and 2013) is mostly due to beneficial adjustments recorded during 2015 related to our reserves for uncertain tax positions. As stated previously, the federal returns for tax years 2004 through 2009 had previously been under examination by the IRS, primarily in relation to research credits claimed on those returns. The IRS completed these examinations during 2015, consequently resulting in enhanced clarity regarding the sustainability of our uncertain tax positions for all years. The completion of these examinations prompted a change in our measurement of reserves for uncertain tax positions that benefited our effective tax rate by approximately 4.8% during 2015.

8. STOCK-BASED COMPENSATION

The Company's stock-based compensation awards are in the form of restricted stock and performance share awards made pursuant to the Company's 2005 Restricted Stock Plan, 2012 Restricted Stock Plan for Non-Employee Directors, and 2014 Incentive Plan (the "Plans"). Stock-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as an expense over the employee’s or non-employee director’s requisite service period. As of December 31, 2015, there were a total of 417,073 shares of common stock reserved under the Plans for issuance under future share-based payment arrangements.

The following table details total stock-based compensation expense for the years ended December 31, 2015, 2014 and 2013, included in the consolidated statements of income:

	2015	2014	2013
Costs of sales	$2,013,867	$1,648,311	$601,377
Operating expenses	3,365,849	2,523,863	1,097,751
Pre-tax stock-based compensation expense	5,379,716	4,172,174	1,699,128
Less: income tax effect	(2,098,089)	(1,627,148)	(662,660)
Net (after tax) stock-based compensation expense	3,281,627	2,545,026	1,036,468

As of December 31, 2015, there was $6,360,668 of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Plans, which is expected to be recognized over a weighted-average period of 1.67 years.

Cash flows resulting from excess or deficient tax benefits are required to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for the vested portion of restricted stock awards that are in excess of the deferred tax asset attributable to stock compensation costs for such restricted stock awards. Conversely, deficient tax benefits are realized tax benefits from tax deductions for the vested portion of restricted stock awards that are less than the deferred tax asset attributable to stock compensation costs for such restricted stock awards. As a result, excess (deficient) tax benefits of $(250,861), $26,755 and $21,813 have been classified as financing cash inflows (outflows) for the years ended December 31, 2015, 2014 and 2013, respectively. In addition to tax benefits related to the vested portion of restricted stock awards, the Company also pays dividends on unvested restricted stock which resulted in excess tax benefits of $74,660, $140,571 and $74,939 for the years ended December 31, 2015, 2014 and 2013, respectively, which are classified as cash inflows from financing activities.

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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 five years. The Company records expenses for these grants on a straight-line basis over the applicable vesting periods.

A summary of restricted stock activity under the Plans during the years ended December 31, 2015, 2014 and 2013 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested stock outstanding at January 1, 2013	94,729	$ 59.12
Granted	81,470	57.39
Vested	(22,525)	59.48
Forfeited	—	—
Nonvested stock outstanding at December 31, 2013	153,674	$ 58.15
Granted	49,737	61.63
Performance share awards converted to restricted stock	—	—
Vested	(43,195)	58.48
Forfeited	—	—
Nonvested stock outstanding at December 31, 2014	160,216	$ 59.14
Granted	60,850	51.85
Performance share awards converted to restricted stock	45,844	60.28
Vested	(62,628)	59.30
Forfeited	(12,885)	58.06
Nonvested stock outstanding at December 31, 2015	191,397	$ 57.12

Performance Share Awards

In 2014, the Company began to grant performance share awards to executive officers and certain key employees under the 2014 Incentive Plan. The number of shares of common stock earned and issuable under the award is determined at the end of each 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. If certain levels of the performance criteria are met, the award results in the issuance of shares of restricted stock corresponding to such level, which shares 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 for restricted stock issued pursuant to performance share awards.

In the event that the Company's financial performance meets the predetermined target for the performance criteria, the Company will issue each award recipient the number of restricted shares 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 target, additional shares up to the maximum award may be issued. In the event the financial results of the Company fall below the predetermined target, a reduced number of shares may be issued. If the financial results of the Company fall below the threshold performance level, no shares will be issued.

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 performance share awards is the quoted market value of the Company stock on the grant date less the present value of the expected dividends not received during the relevant period.

Expense 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. 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.

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A summary of performance share award activity under the 2014 Incentive Plan for the year ended December 31, 2015 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Shares	Weighted-Average Grant-Date Fair Value
Performance share awards outstanding at December 31, 2013	—	$ —
Granted	46,541	60.28
Performance share awards converted to restricted stock	—	—
Performance share awards outstanding at December 31, 2014	46,541	$ 60.28
Granted	52,364	49.29
Forfeited or unearned	(3,590)	51.42
Performance share awards converted to restricted stock	(45,844)	60.28
Performance share awards outstanding at December 31, 2015	49,471	$ 49.29

9. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with credit-worthy, high-quality financial institutions.

The Company’s customer base is concentrated in the healthcare industry. Customers are located throughout the United States. The Company requires no collateral or other security to support customer accounts receivable. An allowance for doubtful accounts has been established for potential credit losses based on historical collection experience.

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

10. FINANCING RECEIVABLES

Short-Term Payment Plans

The Company has sold information and patient care systems to certain healthcare providers under Second Generation Meaningful Use Installment Plans (see below) with maximum contractual terms of three years and expected terms of less than one year and other arrangements requiring fixed monthly payments over terms ranging from 3 to 12 months ("Fixed Periodic Payment Plans"). These receivables, collectively referred to as short-term payment plans and included in the current portion of financing receivables, were comprised of the following on December 31, 2015 and 2014:

	2015	2014
Second Generation Meaningful Use Installment Plans, gross	$9,372,065	$15,554,900
Fixed Periodic Payment Plans, gross	454,472	2,239,817
Short-term payment plans, gross	$9,826,537	$17,794,717
Less: allowance for losses	(491,327)	(889,736)
Less: unearned income	—	—
Short-term payment plans, net	$9,335,210	$16,904,981

The significant decrease in amounts due under short-term payment plans from December 31, 2014 to December 31, 2015 is due to those factors described under the caption "Second Generation Meaningful Use Installment Plans" below.

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Sales-Type Leases

Additionally, the Company leases its information and patient care systems to certain healthcare providers under sales-type leases expiring in various years through 2020. These receivables typically have terms from two to five years, bear interest at various rates, and are usually collateralized by a security interest in the underlying assets. Since the Company has a history of successfully collecting amounts due under the original payment terms of these extended payment arrangements without making any concessions to its customers, the Company satisfies the requirement for revenue recognition. The Company's history with these types of extended payment term arrangements supports management's assertion that revenues are fixed and determinable and collection is probable.

The components of these lease receivables were as follows on December 31:

	2015	2014
Sales-type leases, gross	$3,239,511	$2,152,218
Less: allowance for losses	(163,052)	(111,450)
Less: unearned income	(266,336)	(63,947)
Sales-type leases, net	$2,810,123	$1,976,821

Future minimum lease payments to be received subsequent to December 31, 2015 are as follows:

2016	$1,497,303
2017	1,021,503
2018	364,118
2019	315,346
2020	41,241
Thereafter	—
Total minimum lease payments to be received	3,239,511
Less unearned income	(266,336)
Net lease receivables	$2,973,175

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 years ended December 31, 2015 and 2014:

	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
December 31, 2015	$1,001,186	$236,298	$(583,105)	$—	$654,379
December 31, 2014	$1,365,190	$(349,280)	$(14,724)	$—	$1,001,186

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 sales-type leasing arrangements within our target market of rural and 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 rural and community hospitals, the most notable of which relate to enacted and potential changes in Medicare and Medicaid reimbursement rates as rural and 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. The Company has been successful in collecting its financing receivables and considers the credit quality of such arrangements to be good, especially as the underlying assets act as collateral for the receivables.

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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 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 December 31, 2015 and December 31, 2014:

	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
December 31, 2015	$250,749	$66,117	$29,284	$346,150
December 31, 2014	$161,160	$16,978	$10,072	$188,210

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 the financing receivables or the financing receivables, current portion, net amounts in the accompanying 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:

	December 31, 2015	December 31, 2014
Customer balances with amounts reclassified to trade accounts receivable that are:		
1 to 90 Days Past Due	$515,352	$361,303
91 to 180 Days Past Due	230,037	349,721
181+ Days Past Due	—	27,500
Total customer balances with past due amounts reclassified to trade accounts receivable	$745,389	$738,524
Total customer balances with no past due amounts reclassified to trade accounts receivable	2,227,786	1,349,747
Total financing receivables with contractual maturities of one year or less	9,826,537	17,794,717
Less allowance for losses	(654,379)	(1,001,186)
Total financing receivables	$12,145,333	$18,881,802

First Generation Meaningful Use Installment Plans

During 2012, the Company entered into multiple customer license agreements with payment terms requiring the customer to remit to the Company incentive payments (not to exceed the remaining balance of the contract price) received under the American Recovery and Reinvestment Act of 2009 (the "ARRA") for adoption of qualifying electronic health records ("EHRs"), with only nominal payment amounts required until the customer's receipt of such incentive payments ("First Generation Meaningful Use Installment Plans"). If no such incentive payments are received by the customer or if such payments are not sufficient to pay the remaining balance under the arrangement, payments continue at contracted nominal amounts until the balance of the contract price is paid in full. Because of the significant difference in the underlying economics of these arrangements compared to our historical financing

receivables, management determined that these arrangements were not comparable to historical arrangements. In accordance with the Software topic and Revenue Recognition subtopic of the Codification, the Company recognizes revenue related to these arrangements as the amounts

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become due. Anticipated future cash flows from these First Generation Meaningful Use Installment Plans are excluded from the Company's financing receivables and deferred revenue in the accompanying consolidated balance sheets.

Second Generation Meaningful Use Installment Plans

Beginning in the fourth quarter of 2012, we ceased offering First Generation Meaningful Use Installment Plans to our customers, opting instead for license agreements with payment terms that provide us with greater visibility into and control over the customer's meaningful use attestation process and significantly reducing the maximum timeframe over which customers must satisfy their full payment obligations in purchasing our system ("Second Generation Meaningful Use Installment Plans"). As the overall payment period durations of the Second Generation Meaningful Use Installment Plans are consistent with that of our historical system sale financing arrangements, revenues under the Second Generation Meaningful Use Installment Plans are recognized upon installation of our EHR solution. Although these arrangements provide for a maximum payment term of three years, management has determined the expected term for these arrangements to be less than one year due to (a) historical collection patterns of required EHR incentive payment amounts and (b) the estimated significance of those amounts, the receipt of which is expected to result in minimal or no remaining balance for the related arrangements. As a result, all related amounts are included as a component of financing receivables, current portion, net in the accompanying consolidated balance sheets and as a component of short-term payment plans within this Note 10.

The reduction of incentive amounts available in each successive year under the ARRA's EHR incentive program has naturally resulted in these arrangements losing their economic appeal to both the Company and our customers, resulting in decreased demand from our customers for Second Generation Meaningful Use Installment Plans and a decreased willingness on our part to finance the purchase of our solutions through such arrangements. This decreased demand, coupled with payments received under such arrangements during the year ended December 31, 2015, has resulted in the overall significant decrease in our financing receivables balance related to short-term payment plans from December 31, 2014 to December 31, 2015.

11. BENEFIT PLANS

In January 1994, the Company adopted the CPSI 401(k) Retirement Plan that covers all eligible employees of the Company who have completed one year of service. The plan allows eligible employees to contribute up to 60% of their pre-tax earnings up to the statutory limit prescribed by the Internal Revenue Service. The Company matches a discretionary amount determined by the Board of Directors. The Company contributed approximately $2,218,000, $2,183,000 and $2,020,000 to the plan for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company provides certain health and medical benefits to eligible employees, their spouses and dependents pursuant to a benefit plan funded by the Company. Each participating employee contributes to the Company's costs associated with such benefit plan. The Company's obligation to fund this benefit plan and pay for these benefits is limited through the Company's purchase of an insurance policy from a third-party insurer. The amount established as a reserve is intended to recognize the Company's estimated obligations with respect to its payment of claims and claims incurred but not yet reported under the benefit plan. Management believes that the recorded liability for medical self-insurance at December 31, 2015 and 2014 is adequate to cover the losses and claims incurred, but these reserves are based on estimates and the amount ultimately paid may be more or less than such estimates.

12. OPERATING LEASES

The Company leased during 2015 office space in various locations in Alabama, Louisiana, and Pennsylvania. These leases have terms expiring from 2016 through 2024 but do contain optional extension terms.

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The future minimum lease payments payable under these operating leases subsequent to December 31, 2015 are as follows:

2016	$737,656
2017	597,980
2018	545,410
2019	539,710
2020	465,965
Thereafter	1,157,851
	$4,044,572

Total rent expense for the years ended December 31, 2015, 2014, and 2013 was $1,032,561, $934,223, and $882,215, respectively.

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 topic 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 topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

The fair values of the Company's available-for-sale securities are based on matrix pricing for the periods ended December 31, 2015 and 2014, which uses observable market-based inputs (such as benchmark yields) in addition to quoted prices in active markets to derive fair values. As a result, these inputs are classified as Level 2 within the fair value hierarchy. We generally apply fair value techniques on a non-recurring basis associated with (1) valuing potential impairment loss related to financing receivables accounted for pursuant to Codification topic, Leases, and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to Codification topic, Property, Plant and Equipment, when events or circumstances indicate a possible impairment.

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The following table summarizes the carrying amounts and fair values of certain assets and liabilities at December 31, 2015 and December 31, 2014:

	Carrying Amount at 12/31/2015	Fair Value at December 31, 2015 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Available-for-sale securities				
Short-term investments (money market funds and accrued income)	$1,269,178	$—	$1,269,178	$—
Mortgage backed securities	55,100	—	55,100	—
Certificates of deposit	1,993,192	—	1,993,192	—
Obligations of U.S. Treasury, U.S. government corporations and agencies	1,557,208	—	1,557,208	—
Corporate debt securities	5,949,011	—	5,949,011	—
Total available-for-sale securities	$10,823,689	$—	$10,823,689	$—

	Carrying Amount at 12/31/2014	Fair Value at December 31, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Available-for-sale securities				
Short-term investments (money market funds and accrued income)	$94,595	$—	$94,595	$—
Mortgage backed securities	69,532	—	69,532	—
Certificates of deposit	1,975,245	—	1,975,245	—
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,020,786	—	2,020,786	—
Corporate debt securities	6,542,968	—	6,542,968	—
Total available-for-sale securities	$10,703,126	$—	$10,703,126	$—

Accrued income in the above tables represents earnings due and payable to our investment portfolio at any point in time but not yet received.

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

15. SUBSEQUENT EVENTS

Declaration of Dividends

On January 28, 2016, the Company announced a dividend for the first quarter of 2016 in the amount of $0.64 per share. The dividend was paid on February 26, 2016 to stockholders of record as of the close of business on February 11, 2016.

Acquisition of Healthland Holding Inc.

On January 8, 2016, we acquired substantially all of the assets and assumed certain liabilities of Healthland Holding Inc. ("HHI"), including its wholly-owned subsidiaries, Healthland Inc. ("Healthland"), American HealthTech, Inc. ("AHT"), and Rycan Technologies, Inc. ("Rycan"). Healthland provides electronic health records ("EHR") and clinical information management solutions to over 350 hospital customers. AHT is a provider of clinical and financial solutions in the post-

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acute care space, serving over 3,300 skilled nursing facilities. Rycan offers SaaS-based revenue cycle management workflow and automation software to over 290 hospital customers.

We believe the acquisition of HHI:

- strengthens our position in providing healthcare information systems to community healthcare organizations with approximately 1,200 combined hospital customers;
- introduces CPSI to the post-acute care market; and
- expands the products and capabilities of TruBridge with the addition of Rycan and its suite of revenue cycle management software products.

These factors, combined with the synergies and economies of scale expected from combining the operations of CPSI and HHI, are the basis for the acquisition.

Consideration for the acquisition included cash (net of cash of the acquired entities) of $166.9 million (inclusive of financing costs and seller's transaction expenses), 1,973,880 shares of common stock of CPSI ("CPSI Common Stock"), and options assumed by CPSI that were exercisable for 174,972 shares of CPSI Common Stock. During 2015, we incurred approximately $2,990,000 of pre-tax costs in connection with the acquisition, which are included in general and administrative expenses in our consolidated statements of income.

Our acquisition of HHI will be treated as a purchase in accordance with ASC 805, Business Combinations, which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction. Due to the timing of the acquisition subsequent to our 2015 fiscal year-end, certain disclosures, including the preliminary allocation of purchase price, have been omitted from this Annual Report on Form 10-K because the initial accounting for the business combination is incomplete as of the filing date. We intend to include necessary disclosures in our Quarterly Report on Form 10-Q for our first fiscal quarter of 2016.

The operating results of HHI will be combined with our operating results subsequent to the purchase date of January 8, 2016.

Credit Agreement

In conjunction with our acquisition of HHI on January 8, 2016, we entered into a syndicated credit agreement on the same date (the "Credit Agreement"), with Regions Bank ("Regions") serving as administrative agent, which provided for a $125,000,000 term loan facility (the "Term Loan Facility") and a $50,000,000 revolving credit facility ("Revolving Credit Facility"). The cash portion of the purchase price was partially funded by the $125,000,000 Term Loan Facility and $25,000,000 borrowed under the Revolving Credit Facility.

The Term Loan Facility bears 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). Interest on the outstanding principal of the Term Loan Facility will be payable on the last day of each month, in the case of each base rate loan, and on the last day of each interest period (but no less frequently than every three months), in the case of LIBOR loans. Principal payments will be due on the last day of each fiscal quarter beginning March 31, 2016, with the remainder due at maturity on January 8, 2021 (the "Maturity Date"). Anticipated annual future maturities of the Term Loan Facility and Revolving Credit Facility are as follows:

2016	$3,125,000
2017	6,250,000
2018	9,375,000
2019	12,500,000
2020	15,625,000
Thereafter	103,125,000
	$150,000,000

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Borrowings under the Revolving Credit Facility bear interest at a rate similar to that of the Term Loan Facility, with interest payment dates similar to that of the Term Loan Facility. The Revolving Credit Facility includes a $5 million swingline sublimit, with swingline loans bearing interest at the alternate base rate plus the applicable margin. Any principal outstanding under the Revolving Credit Facility is due and payable on the Maturity Date.

The Term Loan Facility and amounts borrowed under the Revolving Credit Facility 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 (the "Security Agreement"), 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 Credit Agreement are also guaranteed by the Subsidiary Guarantors.

The Credit Agreement provides incremental facility capacity of $50 million, subject to certain conditions. The 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 its equity securities or payments to redeem, repurchase or retire its equity securities; enter into certain restrictive agreements; make investments, loans and acquisitions; merge or consolidate with any other entity; dispose of assets; enter into sale and leaseback transactions; engage in transactions with its affiliates; and materially alter the business it conducts. In addition, the Company is required to comply with a minimum fixed charge coverage ratio throughout the duration of the Credit Agreement and a maximum consolidated leverage ratio. The Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. The Credit Agreement requires the Company to mandatorily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility with (i) 100% of net cash proceeds from certain sales and dispositions, subject to certain reinvestment rights, (ii) 100% of net cash proceeds from certain issuances or incurrences of additional debt, (iii) 50% of net cash proceeds from certain issuances or sales of equity securities, subject to a step down to 0% if the Company's consolidated leverage ratio is no greater than 2.50:1.0, and (iv) beginning with the fiscal year ending December 31, 2016, 50% of excess cash flow (minus certain specified other payments), subject to a step down to 0% of excess cash flow if the Company's consolidated leverage ratio is no greater than 2.50:1.0. The Company is permitted to voluntarily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility 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.

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16. QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The following table presents a summary of our results of operations for our eight most recent quarters ended December 31, 2015. The information for each of these quarters is unaudited and has been prepared on a basis consistent with the audited financial statements. This information includes all adjustments, consisting only of normal recurring adjustments, we consider necessary for fair presentation of this information when read in conjunction with the audited financial statements and related notes. Our operating results have varied on a quarterly basis and may fluctuate significantly in the future.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands except for share and per share data)			
Year Ended December 31, 2015				
Sales revenues	$46,239	$47,087	$44,618	$44,230
Gross profit	19,306	19,676	17,611	17,516
Operating income	7,834	8,386	4,261	4,605
Net income	5,508	5,904	3,539	3,392
Net income per share				
Basic	$0.49	$0.52	$0.31	$0.30
Diluted	0.49	0.52	0.31	0.30
Year Ended December 31, 2014				
Sales revenues	$52,094	$53,053	$53,327	$46,268
Gross profit	24,435	25,179	25,260	19,102
Operating income	11,987	14,069	14,175	9,356
Net income	7,715	9,106	9,355	6,744
Net income per share				
Basic	$0.69	$0.81	$0.83	$0.60
Diluted	0.69	0.81	0.83	0.60

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SCHEDULE II
COMPUTER PROGRAMS AND SYSTEMS, INC.
VALUATION AND QUALIFYING ACCOUNTS

Description		Balance at beginning of period	Additions charged to cost and expenses (1)	Deductions (2)	Balance at end of period
Allowance for doubtful accounts deducted from accounts receivable in the balance sheet	2013	$1,124,000	$602,000	$(601,000)	$1,125,000
	2014	$1,125,000	$931,000	$(803,000)	$1,253,000
	2015	$1,253,000	$674,000	$(711,000)	$1,216,000

(1) Adjustments to allowance for change in estimates.
(2) Uncollectible accounts written off, net of recoveries.

Description		Balance at beginning of period	Additions charged to cost and expenses (1)	Deductions (2)	Balance at end of period
Allowance for credit losses deducted from financing receivables in the balance sheet	2013	$662,315	$1,309,160	$(606,285)	$1,365,190
	2014	$1,365,190	$(349,280)	$(14,724)	$1,001,186
	2015	$1,001,186	$236,298	$(583,105)	$654,379

(1) Adjustments to allowance for change in estimates.
(2) Uncollectible accounts written off, net of recoveries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Management's Annual Report on Internal Control Over Financial Reporting
This report is included in Item 8 on page 54 and is incorporated herein by reference.
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting
This report is included in Item 8 on page 55 and is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION.

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a Code of Business Conduct and Ethics applicable to all of our directors, officers (including our Chief Executive Officer and senior financial officers) and employees. We have also adopted a separate code of ethics with additional guidelines and responsibilities applicable to our Chief Executive Officer and senior financial officers, known as the Code of Ethics for CEO and Senior Financial Officers. Copies of the Code of Business Conduct and Ethics and the Code of Ethics for CEO and Senior Financial Officers are available on CPSI's web site at www.cpsi.com in the "Corporate Information" section under "Corporate Governance."

Other information required by this Item regarding executive officers is included in Part I of this Form 10-K under the caption "Executive Officers" in accordance with Instruction 3 of the Instructions to Paragraph (b) of Item 401 of Regulation S-K.

Other information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes the securities that have been authorized for issuance as of December 31, 2015 under our 2005 Restricted Stock Plan, 2012 Restricted Stock Plan for Non-Employee Directors and 2014 Incentive Plan. All of these plans were previously approved by CPSI's stockholders. These plans are described in Note 8 of the notes to the consolidated financial statements.

	Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by stockholders	-0-	N/A	417,073	(1)
Equity compensation plans not approved by stockholders	N/A	N/A	N/A	
Total	-0-		417,073	(1)

(1) Represents (i) 5,040 shares of common stock issuable pursuant to our 2005 Restricted Stock Plan, (ii) 82,763 shares of common stock issuable pursuant to our 2012 Restricted Stock Plan for Non-Employee Directors, and (iii) 329,270 shares of common stock issuable pursuant to our 2014 Incentive Plan. We do not intend to use the 2005 Restricted Stock Plan to make any future grants of restricted stock.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) and (c) – Financial Statements and Financial Statement Schedules.

Financial Statements: The Financial Statements and related Financial Statements Schedule of CPSI are included herein in Part II, Item 8.

(a)(3) and (b) – Exhibits.

The exhibits listed on the Exhibit Index beginning on page 87 of this Form 10-K are filed herewith or are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this the 14th day of March, 2016.

COMPUTER PROGRAMS AND SYSTEMS, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ J. Boyd Douglas J. Boyd Douglas	President, Chief Executive Officer and Director (principal executive officer)	March 14, 2016
/s/ Matt J. Chambless Matt J. Chambless	Chief Financial Officer (principal financial officer)	March 14, 2016
/s/ David A. Dye David A. Dye	Chairman of the Board and Director, Chief Growth Officer	March 14, 2016
/s/ James B. Britain James B. Britain	Vice President – Finance and Controller (principal accounting officer)	March 14, 2016
/s/ W. Austin Mulherin, III W. Austin Mulherin, III	Director	March 14, 2016
/s/ William R. Seifert, II William R. Seifert, II	Director	March 14, 2016
/s/ John C. Johnson John C. Johnson	Director	March 14, 2016
/s/ Charles P. Huffman Charles P. Huffman	Director	March 14, 2016

/s/ A. Robert Outlaw, Jr. A. Robert Outlaw, Jr.	Director	March 14, 2016

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Exhibit Index

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of November 25, 2015, by and among Computer Programs and Systems, Inc., HHI Merger Sub I, Inc., HHI Merger Sub II, Inc., Healthland Holding Inc. and AHR Holdings, LLC (filed as Exhibit 2.1 to the CPSI's Current Report on Form 8-K dated December 1, 2015 and incorporated herein by reference)
2.2	Amendment to Agreement and Plan of Merger and Reorganization, dated as of January 8, 2016, by and among Computer Programs and Systems, Inc., Healthland Holding, Inc. and AHR Holdings, LLC (filed as Exhibit 2.2 to the CPSI's Current Report on Form 8-K dated January 8, 2016 and incorporated herein by reference)
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)
10.1	Form of Indemnity Agreement entered into by CPSI and each of its non-employee directors (filed as Exhibit 10.1 to CPSI's Quarterly Report on Form 10-Q for the period ended September 30, 2002 and incorporated herein by reference)
10.2	Real Property Lease Agreement, dated September 14, 2009 between CPSI and 3725 Airport Boulevard, LP (filed as Exhibit 10.1 to CPSI's Quarterly Report on Form 10-Q for the period ended September 30, 2009 and incorporated herein by reference)
10.3	First Amendment to Real Property Lease Agreement, dated October 9, 2009, between CPSI and 3725 Airport Boulevard, LP (filed as Exhibit 10.2 to CPSI's Quarterly Report on Form 10-Q for the period ended September 30, 2009 and incorporated herein by reference)
10.4	Real Property Lease Agreement, dated March 19, 2012, between CPSI and Fairhope Group, LLC (filed as Exhibit 10.6 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.5*	Amendment and Restatement of the Computer Programs and Systems, Inc. 2005 Restricted Stock Plan (filed as Exhibit 10.6 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2005 and incorporated herein by reference)
10.6*	Form of Five-Year Restricted Stock Award Agreement under the Amended and Restated 2005 Restricted Stock Plan (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated January 30, 2006 and incorporated herein by reference)
10.7*	

	Form of Four-Year Restricted Stock Award Agreement under the Amended and Restated 2005 Restricted Stock Plan (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated September 25, 2013 and incorporated herein by reference)
10.8*	Computer Programs and Systems, Inc. Amended and Restated 2012 Restricted Stock Plan for Non-Employee Directors (filed as Exhibit 10.16 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2013 and incorporated herein by reference)
10.9*	Form of Restricted Stock Award Agreement under the Amended and Restated 2012 Restricted Stock Plan for Non-Employee Directors (filed as Exhibit 10.2 to CPSI's Quarterly Report on Form 10-Q for the period ended June 30, 2012 and incorporated herein by reference)
10.10*	Computer Programs and Systems, Inc. 2014 Incentive Plan (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated May 16, 2014 and incorporated herein by reference)
10.11*	Form of Performance Share Award Agreement under the 2014 Incentive Plan (filed as Exhibit 10.2 to CPSI's Current Report on Form 8-K dated May 16, 2014 and incorporated herein by reference)
10.12*	Form of Performance-Based Cash Bonus Award Agreement under the 2014 Incentive Plan (filed as Exhibit 10.3 to CPSI's Current Report on Form 8-K dated May 16, 2014 and incorporated herein by reference)
10.13*	Form of Restricted Stock Award Agreement under the 2014 Incentive Plan (filed as Exhibit 10.4 to CPSI's Current Report on Form 8-K dated May 16, 2014 and incorporated herein by reference)

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10.14*	Healthland Holding Inc. (f/k/a Dairyland Healthcare Solutions Holding Corp) Stock Incentive Plan (filed as Exhibit 99.1 to CPSI's Registration Statement on Form S-8 (Registration No. 333-208915) and incorporated herein by reference)
10.15*	Commission Program for Victor S. Schneider (filed as Exhibit 10.9 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.16*	Commission Program for Troy D. Rosser (filed as Exhibit 10.10 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.17*	Employment Agreement, dated as of July 8, 2013, by and between Healthland Holdings Inc. and Chris Bauleke
10.18	Credit Agreement, dated as of January 8, 2016, by and among Computer Programs and Systems, Inc., certain of its subsidiaries, as guarantors, certain lenders named therein, and Regions Bank, as administrative agent and collateral agent (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated January 8, 2016 and incorporated herein by reference)
10.19	Pledge and Security Agreement, dated as of January 8, 2016, by and among the parties identified as Obligors therein and Regions Bank, as collateral agent (filed as Exhibit 10.2 to CPSI's Current Report on Form 8-K dated January 8, 2016 and incorporated herein by reference)
10.20	Investor Agreement, dated as of January 8, 2016, by and among Computer Programs and Systems, Inc., Francisco Partners II, L.P., Francisco Partners Parallel Fund II, L.P., and AHR Holdings, LLC. (filed as Exhibit 10.3 to CPSI's Current Report on Form 8-K dated January 8, 2016 and incorporated herein by reference)
10.21	Support Agreement, dated as of November 25, 2015, by and among Computer Programs and Systems, Inc., HHI Merger Sub I, Inc., HHI Merger Sub II, Inc., AHR Holdings, LLC, Francisco Partners II, L.P., and Francisco Partners Parallel Fund II, L.P. (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated December 1, 2015 and incorporated herein by reference)
21.1	Subsidiaries of the registrant
23.1	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-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)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certifications of 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 Annual Report on Form 10-K for the period ended December 31, 2015

* Management compensation plan or arrangement