

COMPUTER PROGRAMS & SYSTEMS INC

Form 10-K

March 15, 2017

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, 2016

OR  
..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
1934  
FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 000-49796

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

Delaware 74-3032373  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

6600 Wall Street, Mobile, Alabama 36695  
(Address of Principal Executive Offices) (Zip Code)  
(251) 639-8100  
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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  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

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

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

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

The aggregate market value of common stock held by non-affiliates of the registrant at June 30, 2016 was \$348,584,753.

As of March 14, 2017 the registrant had outstanding 13,533,183 shares of its common stock.

**DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:**

Portions of the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this report to the extent described herein.

---

TABLE OF CONTENTS

Item No.		Page No.
	<u>Special Note Regarding Forward-Looking Statements</u>	i
PART I		
1	<u>Business</u>	1
	<u>Overview</u>	1
	<u>Industry Dynamics</u>	1
	<u>Our Solutions</u>	3
	<u>Strategy</u>	4
	<u>Our Products and Services</u>	5
	<u>Product Development and Enhancement</u>	11
	<u>System Implementation and Training</u>	13
	<u>Customers, Sales and Marketing</u>	13
	<u>Backlog</u>	14
	<u>Competition</u>	14
	<u>Health Information Security and Privacy Practices</u>	16
	<u>Intellectual Property</u>	16
	<u>Employees</u>	16
	<u>Executive Officers</u>	16
	<u>Company Web Site</u>	17
1A.	<u>Risk Factors</u>	18
1B.	<u>Unresolved Staff Comments</u>	34
2	<u>Properties</u>	34
3	<u>Legal Proceedings</u>	34
4	<u>Mine Safety Disclosures</u>	34
PART II		
5	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	35
6	<u>Selected Financial Data</u>	36
7	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	37
7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	54
8	<u>Financial Statements and Supplementary Data</u>	55
9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	92
9A.	<u>Controls and Procedures</u>	92
9B.	<u>Other Information</u>	94
PART III		
10	<u>Directors, Executive Officers and Corporate Governance</u>	95
11	<u>Executive Compensation</u>	95
12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	95
13	<u>Certain Relationships and Related Transactions, and Director Independence</u>	95
14	<u>Principal Accountant Fees and Services</u>	95
PART IV		
15	<u>Exhibits and Financial Statement Schedules</u>	96
	<u>SIGNATURES</u>	96

\* Portions of the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this report to the extent described herein.

---

## 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 potential inability to generate sufficient cash in order to meet our debt service obligations;
- restrictions on our current and future operations because of the terms of our senior secured credit facilities;
- market risks related to interest rate changes;
- 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;
- significant charge to earnings if our goodwill or intangible assets become impaired; and
- fluctuations in quarterly financial performance due to, among other factors, timing of customer installations.

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.

## 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 2016, we generated revenues of \$267.3 million from the sale of our products and services.

#### Industry Dynamics

The healthcare industry is the largest industry in the United States economy, comprising approximately 17.8% of the U.S. gross domestic product in 2015 according to the Centers for Medicare and Medicaid Services ("CMS"). CMS estimates that by fiscal 2025, total U.S. healthcare spending will reach \$5.6 trillion, or 20.1% of the estimated U.S. gross domestic product.

Hospital services represents one of the largest categories of total healthcare expenditures, comprising approximately 31.9% of total healthcare expenditures in 2015 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



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 effect 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 (the "Budget Control Act") includes a reduction of up to 2% in federal Medicare spending, 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 that are becoming eligible for Medicare benefits at age 65, as well as states electing to expand Medicaid coverage under the provisions of the ACA. The challenges posed by this dual-threat of increased demand for Medicare and Medicaid services and downward pressure on reimbursements are further complicated by the shift away from volume-based reimbursement towards value-based reimbursement, linking reimbursement to quality measurements and outcomes. To compete in the continually changing healthcare environment, providers are increasingly using technology in order to help maximize the efficiency of their business practices, to assist in enhancing patient care, and to maintain the privacy and security of patient information. Healthcare providers are placing increased demands on their information systems to accomplish these tasks. We believe that information systems must facilitate management of patient information across administrative, financial and clinical tasks. Information systems must also effectively interface with a variety of payor organizations within the increasingly complex reimbursement environment.

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

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

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

#### Our Solutions

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 provided fully integrated, enterprise-wide information systems that allow rural and community hospitals 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 has assisted 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:

3

---

strengthens our position in providing healthcare information systems to rural and community healthcare organizations through the addition of Healthland;

introduces CPSI to the post-acute market through the addition of AHT; and

- expands the products and capabilities of TruBridge through the addition of Rycan and its suite of revenue cycle management products.

#### Strategy

Our objective is to continue to increase our share of the EHR and healthcare 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 that they are able to respond to these changes positively by enabling them to improve community health and connect providers and patients within the community and with other communities, while improving financial operations. We intend to leverage several strengths to accomplish this goal.

#### Market Share/Scale

Our 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 market of community hospitals 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. New payment models in both the government and private payer sectors are focused on payment for delivering quality outcomes and keeping patients well while still delivering financial efficiencies. These financial efficiencies are realized through the elimination of duplicate tests performed in different care settings as well as providing timely access to clinical information from other care settings, when making diagnostic decisions. Having integrated solutions across the care continuum facilitates this process for providers and healthcare organizations.

#### Solutions and Services to Address Value-Based Reimbursement

With the continued emphasis on value-based reimbursement models, data analytics has become a critical tool for 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 was expanded to encompass our post-acute care EHR product in 2016. In addition, as a founding member of the CommonWell Health Alliance, we enable healthcare organizations to identify, confirm and link patient encounters across the CommonWell network. This translates into patient data that is not only shareable within communities but across communities as well.

#### Focus on the Financial Health of Community Healthcare Providers

Given the ongoing transition to value-based reimbursement models, 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.

4

---

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.

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

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

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

#### Our Products and Services

##### Acute Care Software Systems

Through our wholly-owned subsidiaries, Evident and 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;

5

---

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 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 or fewer beds across the United States. Details regarding each platform are as follows:

#### 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.

• **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 sunseting 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.

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.

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

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

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

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. These 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, 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 caregivers in hospitals, healthcare systems and skilled nursing organizations to accelerate their revenue cycle through a suite of comprehensive, web-based solutions designed to improve financial operations and staff productivity and increase reimbursement. 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.

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

For the results of operations by segment, refer to Note 18 of the financial statements.

## 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 \$32.6 million, \$14.2 million, and \$14.6 million during the years ended December 31, 2016, 2015 and 2014, respectively.

In 2016, with the acquisition of HHI, our product development scope expanded significantly. In addition to functionality additions and enhancements across the product lines, we also focused on integration across product lines to maximize the benefit of our entire product offerings. These efforts included:

• Integration of the AHT post-acute EHR platform with both the Evident Thrive EHR and Healthland Centriq EHR;

• Integration of the Rycan product into the TruBridge services platform;

• Integration of the Evident Interface Management System into the Healthland Centriq EHR; and

• Integration of the newly developed Evident Laboratory Instrument Interface solution into the Centriq EHR.





In addition, in 2016, platform specific development efforts continued as well across our primary product lines. Highlights of these efforts by platform include:

Evident Thrive EHR

Development of an Evident Laboratory Instrument Interface solution to replace a third party product previously used;

A complete re-write of the Patient Portal application;

An on-going, focused effort on improving physician usability and workflow across the ambulatory and emergency; departments and inpatient care settings;

Localizing the product for entry into the Canadian market; and

Meeting a variety of regulatory requirements including:

Meaningful Use Stage 2 2015 Edition Certification;

Meaningful Use Stage 3 Certification; and

Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).

Healthland Centriq EHR

Development of next iteration of the Notes product;

Development of updated laboratory functionality; and

Meeting a variety of regulatory requirements including:

Meaningful Use Stage 2 2015 Edition Certification;

Meaningful Use Stage 3 Certification; and

Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).

AHT

Continued development of the new "Work Center" platform, TruBridge; and

On-going development of the Business Intelligence phase of our Analytics development project.

In 2017, with the Product Development services division operating as a CPSI corporate entity across all companies, we have identified key initiatives we will focus on strategically to best position CPSI for both short term and long term success. These initiatives are:

Physician Adoption

Continuum of Care

Financial Efficiencies

Population Health

Global Market Expansion

Many of our current development projects already fall into one of these categories. Going forward, we will continue to use these strategic initiatives to help us identify and prioritize specific development projects. While some of these projects will

12

---

be platform specific, as we move towards harmonizing our product lines we believe an increasing amount of development over time will have applicability across all our platforms.

#### System Implementation and Training

**Conversion Services.** When a customer purchases one of our systems, we convert their 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 productive day one in order to eliminate time and money wasted on the costly and inefficient task of maintaining the same data on parallel systems. Our services also relieve the hospital staff of the time-consuming burden of data conversion. The conversion process is the initial phase of our LikeMind support model.

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

#### 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 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

13

---

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,		
(In thousands)	2016	2015	2014
Sales revenues:			
Domestic	\$267,081	\$181,716	\$203,731
International <sup>(1)</sup>	191	458	1,011
	\$267,272	\$182,174	\$204,742

<sup>(1)</sup> 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 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, 2016, we had a twelve-month backlog of approximately \$26 million in connection with non-recurring system purchases and approximately \$209 million in connection with recurring payments under 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.

Competition

14

---

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;
- training provided;
- sales and marketing efforts; and
- company reputation.

We believe that we compete favorably with our competitors on these factors. 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.

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 that 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. The source code for our proprietary software is protected as a trade secret. We enter into confidentiality or license agreements with our employees, consultants and customers, and control access to and distribution of our software, documentation and other proprietary information. 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, 2016, we had approximately 2,000 employees, the substantial majority of which are located at our offices in Alabama, Louisiana, Mississippi, and Minnesota. None of our employees are covered by a collective bargaining agreement or are represented by a labor union.

#### 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 50, 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 47, 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 41, 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, beginning in March 2008. Mr. Fowler began his career with CPSI 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 36, 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.

Victor S. Schneider – Executive Vice President. Victor S. Schneider, age 58, has served as our Executive Vice President since April 2012. From December 2005 until his appointment as Executive Vice President, Mr. Schneider served as our Senior Vice President-Corporate and Business Development. 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 47, 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 CPSI 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 52, 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.

#### 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.

## 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

18

---

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.

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.

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 and avoid related reduced reimbursement rates for Medicare claims. 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.

21

---

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 HHI we incurred substantial indebtedness. As of December 31, 2016, we had approximately \$155.7 million of indebtedness, which includes \$121.9 million under our Term Loan Facility and \$33.0

million borrowed under our Revolving Credit Facility. We also have \$17.0 million of unused commitments under our Revolving Credit Facility.

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

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 December 31, 2016 was 3.875%. 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.





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. ("HHI"). The success of the acquisition will depend significantly on how quickly and efficiently we are able to integrate HHI with our business. Integration of a substantial business is a challenging, time-consuming and costly process and involves numerous risks, including difficulties in the assimilation of operations, services, solutions and personnel, the diversion of management's attention from other business concerns, the expansion into markets in which we have little or no direct prior experience, and the potential inability to maintain the goodwill of existing clients. Potential difficulties that we may encounter as part of the integration process, which may preclude us from fully realizing the anticipated benefits of the acquisition, including the anticipated synergies, growth opportunities and costs savings, include, among other factors:

- managing a larger company;
- the possibility of faulty assumptions underlying expectations regarding the integration process, including known and unknown liabilities in the HHI business or arising out of the integration, or assumptions around client retention;
- integrating two business cultures;
- creating uniform standards, controls, procedures, policies and information systems and minimizing the costs associated with such matters;
- integrating information systems, purchasing, accounting, finance, legal, sales, billing, payroll, and regulatory compliance functions;
- preserving client, supplier, product development, distribution, marketing, promotion and other important relationships;
- commercializing "go forward" solutions under development and increasing revenues from existing marketed solutions;
- combining the sales force territories and competencies associated with the sale of solutions and services presently sold or provided by legacy CPSI or HHI;
- integrating personnel from different businesses while maintaining focus on providing consistent, high quality solutions and client support and attracting prospective clients;
- integrating complex technologies and solutions from different businesses in a manner that is seamless to clients, and performance shortfalls as a result of the diversion of management's attention to the integration of HHI.

If management is unable to successfully integrate HHI in a manner that permits us to achieve the cost savings and operating synergies anticipated to result from the HHI acquisition, such anticipated benefits may not be realized fully or at all or may take longer to realize than expected. The significant diversion of our management's attention away from the ongoing businesses, and any difficulties encountered in the transition and integration process, could adversely affect our financial results. Moreover, the failure to achieve the anticipated benefits of HHI acquisition could result in material increases in costs or material decreases in the amount of expected revenues. Any of the above difficulties could adversely affect our ability to maintain relationships with clients, partners, suppliers and associates or our ability to achieve the anticipated benefits of the HHI acquisition, or could reduce our earnings or otherwise adversely affect our business, results of operations and financial condition.

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 HHI 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;

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., 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. 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.

27

---

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 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 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.

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.

As a result of the inherent limitations in our internal control over financial reporting, misstatements due to error or fraud may occur and not be detected.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports we file with or submit to the SEC under the Securities Exchange Act of 1934 ("Exchange Act") is accumulated and communicated to management and recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. In addition, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls.

#### **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.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired. We are required under U.S. generally accepted accounting principles ("U.S. GAAP") to test our goodwill for impairment annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant

30

---

changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends, or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates, the loss of significant customers, or divestiture of a business or asset for less than its carrying value. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management's estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a deterioration in the market, or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

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;
- 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.

In our internal control over financial reporting, we identified a material weakness. If we fail to remedy this weakness or otherwise fail to achieve and maintain effective internal control over financial reporting, this may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required under Section 404 of the Sarbanes-Oxley Act to furnish a report by management on the effectiveness of our internal control over financial reporting and to include a report by our independent auditors attesting to such effectiveness. Any failure by us to maintain effective internal control over financial reporting could adversely affect our ability to report accurately our financial condition or results of operations.

As discussed in this report under "Controls and Procedures," our management concluded that, as of December 31, 2016, we had material weaknesses in our internal control over financial reporting related to our business combination processes. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. We are actively remediating the identified material weakness, but no assurance can be given that such condition will be fully remedied in a timely fashion.



If we are unable to remediate this weakness, or otherwise to conclude that our internal control over financial reporting is effective, or if our independent auditors determine that we have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, also could restrict our future access to the capital markets.

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 and an additional campus building consisting of approximately 3,500 square feet. 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 2017, as we expect that our existing facilities will be sufficient to meet our needs until the end of 2017 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.

## 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 14, 2017, CPSI had 121 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 13,533,183 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
2016			
First Quarter	\$59.16	\$47.14	\$ 0.64
Second Quarter	54.09	37.10	0.64
Third Quarter	42.02	24.18	0.34
Fourth Quarter	26.71	18.25	0.24
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

The last reported sales price of CPSI's common stock as reported on the NASDAQ Global Select Market on March 14, 2017 was \$26.10.

## Dividends

On August 4, 2016, the Company announced that our Board of Directors adopted a variable dividend policy for the payment of quarterly dividends. The policy provides for dividends on a trailing quarterly basis in an amount based on a pre-established financial formula. During 2016, we paid quarterly dividends in the amount of \$0.64, \$0.64, \$0.34, and \$0.24, respectively, per share, compared to \$0.64 per share for each quarter during 2015. 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, available liquidity 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.

## ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except for per share data)	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>INCOME DATA:</b>					
Total sales revenues	\$267,272	\$182,174	\$204,742	\$200,863	\$183,309
Total costs of sales	129,258	87,716	90,795	89,534	90,086
Gross profit	138,014	94,458	113,947	111,329	93,223
Total operating expenses	123,639	69,372	64,360	61,085	51,946
Operating income	14,375	25,086	49,587	50,244	41,277
Total other income	(6,389 )	405	152	466	721
Income before taxes	7,986	25,491	49,739	50,710	41,998
Provision for income taxes	4,053	7,148	16,819	17,967	12,025
Net Income	\$3,933	\$18,343	\$32,920	\$32,743	\$29,973
Net income per share - basic	\$0.29	\$1.62	\$2.94	\$2.95	\$2.71
Net income per share - diluted	\$0.29	\$1.62	\$2.94	\$2.95	\$2.71
Weighted average shares outstanding:					
Basic	13,255	11,083	11,026	10,998	10,977
Diluted	13,255	11,083	11,026	10,998	10,977
Cash dividends declared per common share	\$1.86	\$2.56	\$2.28	\$2.04	\$2.84
As of December 31,					
	2016	2015	2014	2013	2012
<b>BALANCE SHEET DATA</b>					
Cash and cash equivalents	\$2,220	\$24,951	\$23,792	\$11,729	\$8,912
Working capital	13,604	57,136	63,355	51,301	32,486
Total assets	339,150	92,788	99,325	92,535	77,839
Total current liabilities	30,945	17,421	18,161	21,451	18,461
Total stockholders' equity	157,970	75,366	80,781	69,083	57,202

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 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 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, community, 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 rural and community 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 discussed in this Item under "Results of Operations by Segment" below, we now manage our operations using three operating segments, which are also our reportable segments: (1) acute care EHR, (2) post-acute care EHR and (3) TruBridge, Rycan, and other outsourcing.

Acute Care EHR

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

Post-acute Care EHR

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

TruBridge, Rycan, and Other Outsourcing

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



## Management Overview

Historically we have primarily sought revenue growth through sales of healthcare IT systems and related services to existing and new customers within our target market, a strategy that has resulted in a ten-year compounded annual growth rate in legacy revenues (i.e., revenues related to our legacy Evident and TruBridge operations) of approximately 4.5%. 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 product development activities.

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 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 substantial recurring revenue base and further expanding our ability to generate organic recurring revenue growth through additional cross-selling opportunities now available within the combined company. While the acquisition of HHI has negatively affected our net income for 2016 as a result of related transaction costs and amortization expense, we believe that the addition of HHI and its clients and products will enhance our ability to grow our business and compete in the markets that we serve.

Our business model is designed such that, as revenue growth materializes, earnings and profitability growth are naturally bolstered through increased future margin realization. Once a hospital has installed our solutions, we continue to provide support services to the customer on an ongoing basis and make available to the customer our broad portfolio of business management, consulting, and managed IT services. The provision of these services typically requires fewer resources than the initial system installation, resulting in increased overall gross margins. We also look to increase margins through cost containment measures where appropriate. For example, during 2015 we 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 in order 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 by 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 affected 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 increase demand for business management, consulting, and managed IT services as the future success of these healthcare providers is greatly dependent upon their ability to engage patient populations and to coordinate patient care across a multitude of settings, while optimizing operating efficiency along the way.

American Recovery and Reinvestment Act of 2009

While ongoing financial challenges facing healthcare organizations have affected and are expected to continue to affect 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, 2016, incentive payments totaling \$35.7 billion have been made to aid healthcare organizations 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 2016, 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 may be materially and adversely affected 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 aforementioned 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 herein as the "Health Reform Laws." This sweeping legislation implemented 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 reform 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.

#### 2016 Financial Overview

We generated revenues of \$267.3 million from the sale of our products and services during 2016, compared to \$182.2 million during 2015, an increase of 46.7% that is primarily attributed to contributions from the acquisition of HHI. Our net income decreased 78.5% from 2015, primarily due to the HHI-related transaction costs and amortization expense in the

combined amount of \$18.4 million, while cash flow from operations decreased 93.3%, due to the aforementioned transaction costs and acquisition-related investments in working capital.

**Second Generation Meaningful Use Installment Plans.** Beginning in the fourth quarter of 2012, we began offering to our customers license agreements with payment terms that provide us with greater visibility into and control over the customer's meaningful use attestation process and significantly reduce 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.

In addition to the 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. 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, we experienced a substantial increase in the prevalence of such arrangements within our system sales arrangements in 2015, a trend we expect to continue for the foreseeable future. Unlike our historical perpetual license arrangements under which the related revenue is recognized effectively upon installation, the SaaS arrangements result in revenue being recognized monthly as the services are provided over the term of the arrangement. As a result, the effect of this trend on the Company's financial statements is reduced system sales revenues during the period of installation in exchange for increased recurring periodic revenues (reflected in system sales and support 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 U.S. GAAP. Revenue from general support agreements for post-contract support services (support and maintenance) and business management, information technology management and consulting services are recognized by the Company ratably over the term of the agreement.

**System sales and support.** Revenues from system sales and support are derived from the sale of information systems and the provision of related support services, including perpetual software licenses, conversion, installation and training services, hardware and peripherals, SaaS services, forms and supplies, software application support, hardware maintenance, and continuing education. We do not recognize revenue upon the execution of a sales contract. Revenue from the sale of the perpetual software license, conversion, and installation and training services 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. 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, after which 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. Our SaaS services, which include our Cloud EHR service, are provided on a remote basis by storing and maintaining servers at our headquarters or other third-party facilities that 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 and Support. 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. 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.

## 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, 2016, expressed as a percentage of our total sales for these periods:

(In thousands)	Year ended December 31,					
	2016		2015		2014	
	Amount	% Sales	Amount	% Sales	Amount	% Sales
<b>INCOME DATA:</b>						
Sales revenues:						
System sales and support	\$197,874	74.0 %	\$118,385	65.0 %	\$148,652	72.6 %
Business management, consulting and managed IT services	69,398	26.0 %	63,789	35.0 %	56,090	27.4 %
Total sales revenues	267,272	100.0 %	182,174	100.0 %	204,742	100.0 %
Costs of sales:						
System sales and support	89,543	33.5 %	52,500	28.8 %	59,079	28.9 %
Business management, consulting and managed IT services	39,715	14.9 %	35,216	19.3 %	31,716	15.5 %
Total costs of sales	129,258	48.4 %	87,716	48.1 %	90,795	44.3 %
Gross profit	138,014	51.6 %	94,458	51.9 %	113,947	55.7 %
Operating expenses:						
Product development	32,621	12.2 %	14,229	7.8 %	14,622	7.1 %
Sales and marketing	27,194	10.2 %	18,333	10.1 %	19,720	9.6 %
General and administrative	53,642	20.1 %	36,810	20.2 %	30,018	14.7 %
Amortization of acquisition-related intangibles	10,182	3.8 %	—	— %	—	— %
Total operating expenses	123,639	46.3 %	69,372	38.1 %	64,360	31.4 %
Operating income	14,375	5.4 %	25,086	13.8 %	49,587	24.2 %
Other income (expense):						
Other income	220	0.1 %	405	0.2 %	152	0.1 %
Interest expense	(6,609)	(2.5)%	—	— %	—	— %
Total other income (expense)	(6,389)	(2.4)%	405	0.2 %	152	0.1 %
Income before taxes	7,986	3.0 %	25,491	14.0 %	49,739	24.3 %
Provision for income taxes	4,053	1.5 %	7,148	3.9 %	16,819	8.2 %
Net income	\$3,933	1.5 %	\$18,343	10.1 %	\$32,920	16.1 %

## 2016 Compared to 2015

Revenues. Total revenues for 2016 increased 46.7%, or \$85.1 million, compared to 2015. This was largely attributable to \$86.6 million of revenue contributions from the acquisition of HHI.

System sales and support revenues increased by 67.2%, or \$79.5 million. System sales and support revenues were comprised of the following for the years ended December 31, 2016 and December 31, 2015, with increases in both system sales and support mostly attributable to \$43.2 million and \$42.2 million, respectively, of revenue contributions from the acquisition of HHI.

	Year Ended	
	December 31,	
(In thousands)	2016	2015
System sales <sup>(1)</sup>	\$82,231	\$46,578
Support <sup>(1)</sup>	115,643	71,807
Total system sales and support	\$197,874	\$118,385

<sup>(1)</sup> Note these amounts differ from amounts previously reported as "System sales" and "Support and maintenance" under our prior revenue classifications as certain revenue categories (such as SaaS/Cloud EHR) that were formerly included in "Support and maintenance" revenues are now classified as a component of "System sales."

The combined \$85.4 million of revenue contributions from the acquisition of HHI were partially offset by a \$5.9 million decrease in revenues from CPSI-legacy operations, as add-on sales to existing customers for the Company's Emergency Department and Thrive Provider EHR solutions experienced a decline due to lower installation volumes during 2016. Related to the market for new system installations, CPSI-legacy operations completed financial and patient accounting system installations at 21 new hospital clients in 2016 (five of which were under Cloud EHR or other SaaS arrangements) compared to 16 during 2015 (eight of which were under Cloud EHR or other SaaS arrangements). Despite the increase in non-Cloud EHR new system installation activity, the related revenues remained relatively unchanged as the average installation value has decreased from 2015.

Business management, consulting and managed IT services revenues increased by 8.8%, or \$5.6 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 5.9%, or \$0.8 million) and accounts receivable management services (increasing 11.9%, or \$2.5 million). Additionally, the added complexity of the medical coding environment facing healthcare providers since ICD-10 became effective on October 1, 2015 has resulted in a substantial increase in demand for our medical coding services, resulting in an increase in these revenues of 79.4%, or \$1.7 million. Lastly, the acquisition of HHI contributed \$1.2 million of incremental revenues for 2016. These increases were partially offset by a decrease of 59.0%, or \$0.5 million, in health information management consulting reflecting the 2015 ICD-10 compliance deadline mentioned above.

Costs of Sales. Total costs of sales increased by 47.3%, or \$41.5 million. This increase was mostly attributable to \$42.4 million of cost of sales contributions from the acquisition of HHI. As a percentage of total revenues, costs of sales increased to 48.4% from 48.1%.

Costs of system sales and support increased by 70.5%, or \$37.0 million due mostly to \$41.0 million of costs of sales contributions from the acquisition of HHI, partially offset by a 7.6%, or \$4.0 million, decrease in costs related to CPSI-legacy operations, mostly the result of decreased payroll and related costs due to managed attrition in the trailing twelve months and decreased travel costs associated with the aforementioned decrease in add-on sales for CPSI-legacy operations. The gross margin on system sales and support decreased to 54.7% from 55.7%, primarily due to the margin profile associated with the HHI system sales and support revenues. The gross margin on system sales and support generated by HHI operations was 51.1% in 2016. Comparatively, the gross margin on system sales and support generated by CPSI-legacy operations was 56.9% during 2016, increasing slightly from 55.7% in 2015. The difference between the system sales and support gross margins of HHI operations and CPSI-legacy operations is the byproduct of a decreased support customer base for HHI compared to CPSI-legacy, resulting in a sales mix for HHI

that is more heavily weighted towards the more cost-intensive system sales revenues.

Our costs associated with business management, consulting and managed IT services increased 12.8%, or \$4.5 million, with the largest contributing factor being an increase in payroll costs of 23.6%, or \$4.9 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. The increase in payroll costs was partially offset by a decrease of 61.5%, or \$1.7 million, in temporary labor costs during 2016 due to intentional efforts to fulfill our incremental labor needs through direct hiring as opposed to contract or temporary labor. Lastly, the acquisition of HHI contributed \$0.6 million in costs during 2016. The gross margin on these services decreased to 42.8% in 2016, from 44.8% in 2015. This margin compression is primarily due to headcount growth related to our accounts receivable management services outpacing the related revenue



growth, as recent bookings have not fully converted into revenues as of December 31, 2016, but nevertheless require immediate investment in capacity.

**Product Development Costs.** Product development expense consists primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs increased 129.3%, or \$18.4 million, with nearly all of this increase related to contributions from the acquisition of HHI.

**Sales and Marketing Expenses.** Sales and marketing expenses increased 48.5%, or \$8.9 million, with the largest contributing factor being \$7.1 million of contributions from the acquisition of HHI. Additionally, payroll and related costs and travel costs associated with our CPSI-legacy operations have increased a combined \$1.8 million due to the expansion of our sales force.

**General and Administrative Expenses.** General and administrative expenses increased 45.6%, or \$16.8 million, with the largest contributing factor being \$8.2 million of transaction costs in 2016 associated with our acquisition of HHI compared to \$3.0 million in 2015. Other contributing factors were \$1.8 million increase in payroll expenses, a \$3.5 million increase in employee health expenses, a \$0.8 million increase in legal and accounting expenses, a \$0.7 million increase in retirement plan benefits, a \$1.7 million increase in rent expenses, a \$1.2 million increase in utilities, and a \$0.5 million increase due to an added user group conference, all related to the HHI acquisition. In addition, despite \$1.9 million in bad debt recoveries related to HHI pre-acquisition receivables, bad debt increased \$1.3 million in 2016 primarily due to increased accounts receivable from the inclusion of HHI and severe collectability determinations related to two customers filing bankruptcy.

**Amortization of Acquisition-Related Intangibles.** Amortization expense associated with acquisition-related intangible assets were new to the Company during 2016 as a result of the HHI acquisition, resulting in \$10.2 million of expenses.

As a percentage of total revenues, total operating expenses increased to 46.3% in 2016, compared to 38.1% in 2015.

**Total Other Income (Expense).** Total other income (expense) decreased from income of \$0.4 million during 2015 to expense of \$6.4 million during 2016, as the debt obligations entered into to facilitate the acquisition of HHI have resulted in interest expense of \$6.6 million during 2016, with no such expense during 2015, as the Company had no outstanding debt obligations during the 2015 period.

As a result of the foregoing factors, income before taxes decreased by 68.7%, or \$17.5 million, from 2015.

**Income Taxes.** Our effective income tax rates for 2016 and 2015 were 50.8% and 28.0%, respectively. During 2015, we recorded beneficial adjustments related to our reserves for uncertain tax positions due to then-recent developments in the examination by the Internal Revenue Service of our federal returns for tax years 2004 through 2009, primarily in relation to research credits claimed on those returns. These beneficial adjustments reduced the effective tax rate for 2015 by 4.8%. Comparatively, during 2016, the identification of nondeductible facilitative transaction costs has resulted in combined additional income tax expense of \$1.4 million, increasing the period's effective tax rate by 17.7%.

**Net Income.** Net income for 2016 decreased by 78.5%, or \$14.4 million, to a net income of \$3.9 million, or \$0.29 per basic and diluted share, compared with net income of \$18.3 million, or \$1.62 per basic and diluted share, for 2015.

Net income represented 1.5% of revenue for 2016, compared to 10.1% of revenue for 2015.



Results of Operations by Segment. We operate in three reportable segments: (1) Acute Care EHR, (2) Post-acute Care EHR and (3) TruBridge, Rycan, and Other Outsourcing. See Note 18 for additional information on our segment reporting. The following table presents a summary of our operating segment information for the years ending December 31, 2016 and 2015, respectively:

(In thousands)	Year Ended	
	December 31,	
	2016	2015
Sales revenues:		
Acute Care EHR	\$ 160,836	\$ 118,385
Post-acute Care EHR	29,058	—
TruBridge, Rycan, and Other Outsourcing	77,378	63,789
Total revenues	267,272	182,174
Costs of sales:		
Acute Care EHR	75,225	52,500
Post-acute Care EHR	11,362	—
TruBridge, Rycan, and Other Outsourcing	42,671	35,216
Total cost of sales	129,258	87,716
Gross profit:		
Acute Care EHR	85,611	65,885
Post-acute Care EHR	17,696	—
TruBridge, Rycan, and Other Outsourcing	34,707	28,573
Total gross profit	\$ 138,014	\$ 94,458

#### Acute Care EHR

Acute Care EHR revenues increased by 35.9%, or \$42.5 million, from 2015, due mostly to \$48.4 million of revenue contributions from the acquisition of HHI, partially offset by a \$5.9 million decrease in revenues from CPSI-legacy operations, as add-on sales to existing customers for the Company's Emergency Department and Thrive Provider EHR solutions experienced a decline due to lower installation volumes.

Acute Care EHR costs of sales increased by 43.3%, or \$22.7 million, from 2015, due mostly to \$26.7 million of costs of sales contributions from the acquisition of HHI, partially offset by a 7.6%, or \$4.0 million, decrease in costs related to CPSI-legacy operations, mostly the result of decreased payroll and related costs due to managed attrition in the trailing twelve months and decreased travel costs associated with the aforementioned decrease in add-on sales for CPSI-legacy operations.

The gross margin on Acute Care EHR revenues decreased from 55.7% during 2015 to 53.2% during 2016, mostly due to the differing margin profiles between CPSI-legacy operations and those generated by HHI operations. CPSI-legacy gross margins from Acute Care EHR revenues increased slightly from 55.7% during 2015 to 56.9% during 2016, compared to gross margins from Acute Care EHR revenues generated by HHI operations of 44.7% during 2016. The significant difference between the Acute Care EHR gross margins of HHI operations and CPSI-legacy operations is the byproduct of a significantly decreased support customer base for HHI compared to CPSI-legacy, resulting in a sales mix that is now more heavily weighted towards the more cost-intensive system sales revenues.

#### Post-acute Care EHR

The Company's acquisition of HHI in January 2016 marked the Company's entrance into the Post-acute Care EHR marketplace and, as a result, there were no related revenues or costs of sales for 2015. Business remained relatively stable throughout 2016.

TruBridge, Rycan, and Other consulting

45

---

TruBridge, Rycan and Other Outsourcing revenues increased by 21.3%, or \$13.6 million, as compared to 2015, due mostly to \$9.2 million of revenue contributions from the acquisition of HHI. Revenues related to TruBridge-legacy operations increased 6.9%, or \$4.4 million, as compared to 2015, primarily driven by the expanding customer base for our private pay services (increasing 5.9%, or \$0.7 million, as compared to 2015) and accounts receivable management services (increasing 11.9%, or \$2.5 million, as compared to 2015) as healthcare industry dynamics are resulting in a growing population of healthcare providers seeking to alleviate themselves of the administrative burden of operating their own business office functions. Additionally, the Company has generated a \$1.7 million increase in revenues associated with medical coding services driven by the added coding complexities introduced by ICD-10, which became effective on October 1, 2015. These increases were partially offset by a decrease of 59.0%, or \$0.5 million, in health information management consulting reflecting the 2015 ICD-10 compliance deadline mentioned above.

TruBridge, Rycan and Other Outsourcing costs of sales increased by 21.2%, or \$7.5 million, as compared to 2015, as the acquisition of HHI has contributed additional costs of sales of \$4.3 million and costs of sales related to TruBridge-legacy operations have increased 9.0%, or \$3.2 million. The increased costs within TruBridge-legacy operations is primarily due to an increase in payroll costs of 23.6%, or \$4.9 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. The increase in payroll costs was partially offset by a decrease of 61.5%, or \$1.7 million, in temporary labor costs due to intentional efforts to fulfill our incremental labor needs through direct hiring as opposed to contract or temporary labor.

The gross margin on TruBridge, Rycan and Other Outsourcing revenues remained relatively flat, increasing slightly from 44.8% during 2015 to 44.9% during 2016.

#### 2015 Compared to 2014

Revenues. Total revenues decreased 11.0%, or \$22.6 million. This was largely attributed to a \$30.3 million decrease in system sales and support revenues due to the narrowing markets for new system installations and add-on sales to existing customers for stage two-related incremental applications. The decrease in system sales and support revenues was partially offset by a \$7.7 million increase in business management, consulting and managed IT services revenues due to increased demand for and market acceptance of our services coupled with selective expansion of our service offerings within these categories.

System sales and support revenues decreased by 20.4%, or \$30.3 million, with system sales revenues decreasing by 39.9%, or \$30.9 million. Due to the accelerated adoption of EHRs resulting from the ARRA's EHR incentive program, 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) 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 was partially offset by an increase in support revenues of 1.0%, or \$0.7 million, due to an increase in recurring revenues as a result of a larger customer base and an increase in support rates from contractually agreed upon CPI rate increases.

	Year Ended	
	December 31,	
(In thousands)	2015	2014
System sales <sup>(1)</sup>	\$46,578	\$77,514
Support <sup>(1)</sup>	71,807	71,138
Total system sales and support	\$118,385	\$148,652

<sup>(1)</sup> Note these amounts differ from amounts previously reported as "System sales" and "Support and maintenance" under our prior revenue classifications as certain revenue categories (such as SaaS/Cloud EHR) that were formerly included in "Support and maintenance" revenues are now classified as a component of "System sales."

Business management, consulting and managed IT services revenues increased by 13.7%, or \$7.7 million. The increase is primarily due to an expanded customer base for our private pay services (increasing 4.9%, or \$0.6 million), accounts receivable management services (increasing 28.2%, or \$4.6 million), 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) 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 3.4%, or \$3.1 million. As a percentage of revenues, costs of sales increased from 44.3% to 48.1%.

Costs of system sales and support decreased by 11.2%, or \$6.6 million. The decrease in costs of system sales and support 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. Also as a result of the lower installation volume, software licenses, hardware, and installation equipment rentals decreased by \$0.9 million. Payroll and related expenses decreased \$2.7 million, as a result of natural workforce attrition. The gross margin on system sales and support decreased to 55.7% in 2015 from 60.3% in 2014, as the significant decline in system sales revenues coupled with a heavily fixed cost structure have resulted in significant margin deterioration.

Our costs associated with business management, consulting and managed IT services increased 11.0%, or \$3.5 million, with the largest contributing factor being an increase in payroll, related payroll costs and temporary labor of \$2.5 million in order to support and develop our growing customer base and increase capacity in advance of anticipated demand. Stock-based compensation expense increased by \$0.2 million as a result of additional grants of restricted stock to our executive officers and certain key employees during the trailing twelve months. Lastly, third party statement processing costs increased \$0.8 million, due to the expansion in our customer base for private pay services and accounts receivable management services. The gross margin on these services increased to 44.8% in 2015 from 43.5% in 2014.

**Product Development Costs.** Product development costs decreased 2.7%, or \$0.4 million, from 2014 due to decreased payroll costs resulting from natural attrition.

**Sales and Marketing Expenses.** Sales and marketing expenses decreased 7.1%, or \$1.4 million. This decrease is primarily attributable to a decrease in commission expense of 27.1%, or \$2.0 million, due to decreased revenue from new system installations and add-on sales. The decrease in commission expense was partially offset by a \$0.6 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 22.7%, 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. Legal and accounting fees increased \$0.7 million due to one-time, nonrecurring expenses and stock-based compensation expense 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. These costs were 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 resulted in a \$0.8 million decrease in payroll and related expenses, as we instituted changes in our earned-time-off policy during 2015 that lowered the maximum amount of earned-time-off an employee would 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.

**Amortization of Acquisition-Related Intangibles.** Amortization expense associated with acquisition-related intangible assets were new to the Company during 2016.

As a percentage of total revenues, total operating expenses increased to 38.1% in 2015, compared to 31.4% in 2014.

**Total Other Income (Expense).** Total other income (expense) increased from income of \$0.2 million during 2014 to \$0.4 million during 2015.

As a result of the foregoing factors, income before taxes decreased by 48.7%, or \$24.2 million, from 2014.

**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.



Net Income. Net income for 2015 decreased by 44.3%, or \$14.6 million, to a net income of \$18.3 million, or \$1.62 per basic and diluted share, compared with net income of \$32.9 million, or \$2.94 per basic and diluted share, for 2014. Net income represented 10.1% of revenue for 2015, compared to 16.1% of revenue for 2014.

Results of Operations by Segment. We operate in three reportable segments: (1) Acute Care EHR, (2) Post-acute Care EHR and (3) TruBridge, Rycan, and Other Outsourcing. See Note 18 for additional information on our segment reporting. The following table presents a summary of our operating segment information for the years ended December, 2015 and 2014, respectively:

(In thousands)	Years Ended	
	December 31, 2015	December 31, 2014
Sales revenues:		
Acute Care EHR	\$118,385	\$148,652
Post-acute Care EHR	—	—
TruBridge, Rycan, and Other Outsourcing	63,789	56,090
Total revenues	182,174	204,742
Costs of sales:		
Acute Care EHR	52,500	59,079
Post-acute Care EHR	—	—
TruBridge, Rycan, and Other Outsourcing	35,216	31,716
Total cost of sales	87,716	90,795
Gross profit:		
Acute Care EHR	65,885	89,573
Post-acute Care EHR	—	—
TruBridge, Rycan, and Other Outsourcing	28,573	24,374
Total gross profit	\$94,458	\$113,947
Acute Care EHR		

Acute Care EHR revenues decreased by 20.4%, or \$30.3 million, from 2014, due mostly to a decrease of \$30.9 million in new installations partially offset by an increase in support revenue of \$0.7 million. Due to the accelerated adoption of EHRs resulting from the ARRA's EHR incentive program, 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) compared to 24 during 2014 (two of which were under Cloud EHR or other SaaS arrangements). The increase in support recurring revenues were a result of a larger customer base and an increase in support rates from contractually agreed upon CPI rate increases.

Acute Care EHR costs of sales decreased by 11.1%, or \$6.6 million. The decrease in costs 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. Also as a result of the lower installation volume, software licenses, hardware, and installation equipment rentals decreased by \$0.9 million. Payroll and related expenses decreased \$2.7 million, as a result of natural workforce attrition.

The gross margin on Acute Care EHR revenues decreased from 60.3% during 2014 to 55.7% during 2015, as the significant decline in system sales revenues coupled with a heavily fixed cost structure have resulted in significant margin deterioration.

Post-acute Care EHR

The Company's acquisition of HHI in January 2016 marked the Company's entrance into the Post-acute Care EHR marketplace and, as a result, there were no related revenues or costs of sales for 2015 and 2014.

#### TruBridge, Rycan, and Other consulting

TruBridge, Rycan and Other Outsourcing revenues increased by 13.7%, or \$7.7 million, as compared to 2014. The increase is primarily due to an expanded customer base for our private pay services (increasing 4.9%, or \$0.6 million), accounts receivable management services (increasing 28.2%, or \$4.6 million), 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) resulted in revenues of \$2.1 million during 2015 compared to only \$0.9 million in 2014.

TruBridge, Rycan and Other Outsourcing costs of sales increased by 11.0%, or \$3.5 million, with the largest contributing factor being an increase in payroll, related payroll costs and temporary labor of \$2.5 million in order to support and develop our growing customer base and increase capacity in advance of anticipated demand. Stock-based compensation expense increased by \$0.2 million as a result of additional grants of restricted stock to our executive officers and certain key employees during the trailing twelve months. Lastly, third party statement processing costs increased \$0.8 million, due to the expansion in our customer base for private pay services and accounts receivable management services.

The gross margin on TruBridge, Rycan and Other Outsourcing revenues increased from 43.5% during 2014 to 44.8% during 2015,

#### Liquidity and Capital Resources

##### Sources of Liquidity

As of December 31, 2016, our principal sources of liquidity consisted of cash and cash equivalents of \$2.2 million and our remaining borrowing capacity under the Revolving Credit Facility (as defined below) compared to \$25.0 million of cash and cash equivalents and investments of \$10.8 million as of December 31, 2015. 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" and, together with the Term Loan Facility, the "Credit Facilities"). The cash portion of the purchase price for our acquisition of HHI 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 \$15.8 million (inclusive of financing costs and seller's transaction expenses). As of December 31, 2016, we had \$154.9 million in principal amount of indebtedness outstanding under the Credit Facilities.

We believe that our cash and cash equivalents of \$2.2 million as of December 31, 2016, the future operating cash flows of the newly combined entity, and our remaining borrowing capacity under the Revolving Credit Facility of \$17 million as of December 31, 2016, 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

2016 Compared to 2015. Net cash provided by operating activities decreased 93.3%, or \$28.8 million, from \$30.9 million provided by operations for 2015 to \$2.1 million provided by operations for 2016, primarily due to the impact of the HHI acquisition. During 2016, we invested heavily in improving the working capital of the HHI entities post-acquisition in order to normalize the aging of vendor payables and improve acquired vendor relationships, resulting in a combined cash outflow related to changes in accounts payable and other liabilities of \$12.8 million in 2016, whereas the movement of these working capital components improved operating cash flows by \$1.3 million in 2015. Additionally, the acquisition of HHI included significant deferred revenue balances at the date of acquisition, for which the subsequent revenue recognition has had no benefit to our operating cash flows. Consequently, our

operating cash flows have been negatively affected by the net impact of deferred revenue balances in the amount of \$13.7 million, compared to this impact during 2015 of \$2.1 million. Lastly, the Company has incurred \$8.2 million of transaction costs, the vast majority of which have been in cash, associated with the HHI acquisition during 2016, with only \$3.0 million of such costs during 2015.

2015 Compared to 2014. Net cash provided by operating activities decreased 20.8%, or \$8.1 million, primarily due to the previously mentioned 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, although offset by periodic collections of previously outstanding amounts, could temporarily have a negative impact on our net cash provided by operating activities.

#### Investing Cash Flow Activities

2016 Compared to 2015. Net cash used in investing activities increased to \$151.8 million in 2016 from only \$0.6 million in 2015. We utilized cash (net of cash acquired) of \$162.6 million for the acquisition of HHI during 2016, partially offset by sales of investments in available-for-sale securities of \$10.9 million in this period. Investing cash flow activities in 2015 were primarily limited to \$0.4 million of capital expenditures. 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 2017.

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.

#### Financing Cash Flow Activities

2016 Compared to 2015. During 2016, our financing activities provided net cash of \$127.0 million, as net proceeds of \$146.6 million from our new Credit Agreement were used to fund a portion of the HHI purchase price. We withdrew an additional \$10.0 million from the Revolving Credit Facility to fund the aforementioned investments in HHI working capital. We declared and paid dividends in the amount of \$25.1 million in 2016. Financing cash flow activities in 2015 were primarily limited to the payment of \$28.9 million in dividends. During 2016, our Board of Directors adopted a variable dividend policy for the payment of quarterly dividends. The policy provides for dividends on a trailing quarterly basis in an amount based on a pre-established financial formula.

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 which may decide to change or terminate the Company's dividend policy at any time. Our Board of Directors will continue to take into account such matters as general business conditions, capital needs, our financial results and such other factors as our Board of Directors may deem relevant.

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.

#### 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. As of December, 2016, we had \$121.9 million in principal amount outstanding under the Term Loan Facility and \$33 million in principal amount outstanding under the 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

50

---

frequently than every three months), in the case of LIBOR loans. Principal payments are 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 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 the Company’s equity securities or payments to redeem, repurchase or retire the Company’s equity securities (which are subject to our compliance, on a pro forma basis to give effect to the restricted payment, with the fixed charge coverage ratio and consolidated leverage ratio described below); enter into certain restrictive agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into sale and leaseback transactions; engage in transactions with affiliates; and materially alter the business we conduct. 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, as amended) of 3.50:1.0 through September 30, 2017, 3.00:1.0 from October 1, 2017 through September 30, 2018, and 2.50:1.0 thereafter. The Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. We believe that we were in compliance with the covenants contained in the Credit Agreement as of December 31, 2016.

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. As of December 31, 2016 our leverage ratio was at a level that does not require us to make mandatory repayments of cash flows. 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.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements, as defined by Item 303(a)(4) of SEC Regulation S-K, as of December 31, 2016 or December 31, 2015.

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



## Contractual Obligations

As of December 31, 2016, our material obligations requiring payments in the future are set forth below to reflect (i) our real estate lease obligations (ii) our capital lease obligations, and (iii) the Company's debt obligations under the Credit Facilities entered into on January 8, 2016 in connection with the Company's acquisition of HHI and its wholly-owned subsidiaries, and related interest payments as follows:

(In thousands)	Payment due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	\$6,351	\$1,988	\$2,740	\$862	\$761
Capital lease obligations	861	296	565	—	—
Debt obligations	154,875	6,250	21,875	126,750	—
Interest on debt obligations	21,156	5,816	10,650	4,690	—
Total contractual obligations	\$183,243	\$14,350	\$35,830	\$132,302	\$761

Interest on debt obligations for floating rate instruments, as calculated above, assumes rates in effect at December 31, 2016 remain constant.

## 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 and the provision of related support services, including perpetual software licenses, conversion, installation and training services, hardware and peripherals, SaaS services, forms and supplies, software application support, hardware maintenance, and continuing education.

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 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 11 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.

**Business combinations, including purchased intangible assets.** The Company accounts for business combinations at fair value. Acquisition costs are expensed as incurred and recorded in general and administrative expenses. Measurement period adjustments relate to adjustments to the fair value of assets acquired and liabilities assumed based on information that we should have known at the time of acquisition. All changes to purchase accounting that do not qualify as measurement period adjustments are included in current period earnings.

The fair value amount assigned to an intangible asset is based on an exit price from a market participant's viewpoint, and utilizes data such as discounted cash flow analysis and replacement cost models. We review acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the identifiable net tangible and intangible assets acquired. Goodwill is not amortized but is evaluated for impairment annually or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered to be impaired. If the carrying amount of the reporting unit exceeds its

fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment

53

---

test, used to measure the amount of impairment loss, compares the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

Critical estimates in valuing certain intangible assets and the fair value of the reporting unit during goodwill impairment tests include, but are not limited to, identifying reporting units, historical and projected customer retention rates, anticipated growth in revenue from the acquired customers, expected future cash outflows, the allocation of those cash flows to identifiable intangible assets, estimated useful lives of these intangible assets, and a probability-weighted income approach based on scenarios in estimating achievement of operating results.

Significant judgments in testing goodwill for impairment also include assigning assets and liabilities to the reporting unit and determining the fair value of each reporting unit based on management's best estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques.

Management's best estimates and assumptions are employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period.

Future business and economic conditions, as well as differences actually related to any of the assumptions, could materially affect the financial statements through impairment of goodwill or intangible assets, and acceleration of the amortization period of the purchased intangible assets, which are finite-lived assets.

#### Quantitative and Qualitative Disclosures about Market and Interest Rate Risk

Our exposure to market risk relates primarily to the potential change in the British Bankers Association London Interbank Offered Rate ("LIBOR"). We had \$154.9 million of outstanding borrowings under our Credit Facilities with Regions Bank at December 31, 2016. The Term Loan Facility and Revolving Credit Facility bear interest at a rate per annum equal to an applicable margin plus (1) the Adjusted LIBOR rate for the relevant interest period, (2) an alternate base rate determined by reference to the greatest of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate plus one percent per annum, or (3) a combination of (1) and (2). Accordingly, we are exposed to fluctuations in interest rates on borrowings under the Credit Facilities. A one hundred basis point change in interest rate on our borrowings outstanding as of December 31, 2016 would result in a change in interest expense of approximately \$1.6 million annually.

We did not have investments as of December 31, 2016. We do not utilize derivative financial instruments to manage our interest rate risks.

#### 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."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

	Page
<u>Management's Report on Internal Control Over Financial Reporting</u>	<u>56</u>
<u>Report of Grant Thornton LLP, Independent Registered Public Accounting Firm, on Internal Control Over Financial Reporting</u>	<u>57</u>
<u>Report of Grant Thornton LLP, Independent Registered Public Accounting Firm, on Consolidated Financial Statements</u>	<u>59</u>
<u>Consolidated Balance Sheets — December 31, 2016 and 2015</u>	<u>60</u>
<u>Consolidated Statements of Income — Years ended December 31, 2016, 2015 and 2014</u>	<u>61</u>
<u>Consolidated Statements of Comprehensive Income — Years ended December 31, 2016, 2015 and 2014</u>	<u>62</u>
<u>Consolidated Statements of Stockholders' Equity — Years ended December 31, 2016, 2015 and 2014</u>	<u>63</u>
<u>Consolidated Statements of Cash Flows — Years ended December 31, 2016, 2015 and 2014</u>	<u>64</u>
<u>Notes to Consolidated Financial Statements</u>	<u>66</u>
Index to Financial Statement Schedules	
<u>Schedule II — Valuation and Qualifying Accounts</u>	<u>92</u>

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

## 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, 2016. 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).

In its assessment, management identified control deficiencies in its business combination processes that constituted material weaknesses, as there is a reasonable possibility that such processes potentially would not prevent or detect a material misstatement of the Company's consolidated financial statements on a timely basis. As a result, management has concluded that our internal control over financial reporting was not effective as of December 31, 2016.

We excluded Rycan Technologies, Inc., which was included in our consolidated financial statements, from our assessment of internal control over financial reporting as of December 31, 2016 because it was acquired by the Company in a purchase business combination on January 8, 2016. The assets of Rycan Technologies, Inc. excluded from our assessment represented less than 1% of the Company's total assets as of December 31, 2016 and approximately 3% of the Company's consolidated total revenues for the year ended December 31, 2016.

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, 2016, and has also issued its report on the effectiveness of the Company's internal control over financial reporting included in this report on page 57.

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 subsidiaries (the “Company”) as of December 31, 2016, 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. Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of Rycan Technologies, Inc., a wholly-owned subsidiary, whose financial statements reflect total assets and revenues constituting approximately 1 percent and 3 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2016. As indicated in Management’s Report, Rycan Technologies, Inc. was acquired during 2016. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of Rycan Technologies, Inc.

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.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment.

Certain control deficiencies were identified in management’s processes relating to accounting for business combinations that constituted a material weakness in internal controls as there is a reasonable possibility that such processes potentially would not prevent or detect a material misstatement of the Company’s consolidated financial statements on a timely basis.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December



31, 2016, 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, 2016, and our report dated March 15, 2017 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Atlanta, Georgia  
March 15, 2017

58

---

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 (the "Company") as of December 31, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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, 2016, 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 adverse opinion thereon.

/s/ GRANT THORNTON LLP

Atlanta, Georgia  
March 15, 2017

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

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$2,220	\$24,951
Investments	—	10,824
Accounts receivable, net of allowance for doubtful accounts of \$2,370 and \$1,216, respectively	31,812	22,594
Financing receivables, current portion, net	5,459	10,576
Inventories	1,697	1,495
Deferred tax assets	—	2,335
Prepaid income taxes	567	427
Prepaid expenses and other	2,794	1,355
Total current assets	44,549	74,557
Property and equipment, net	13,439	14,351
Financing receivables, net of current portion	5,595	1,569
Intangible assets, net	107,118	—
Goodwill	168,449	—
Deferred tax assets	—	2,311
Total assets	\$339,150	\$92,788
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$6,841	\$4,591
Current portion of long-term debt	5,817	—
Deferred revenue	5,840	3,821
Accrued vacation	3,650	3,412
Other accrued liabilities	8,797	5,598
Total current liabilities	30,945	17,422
Long-term debt, less current portion	146,989	—
Deferred tax liabilities	3,246	—
Total liabilities	181,180	17,422
Stockholders' equity:		
Common stock, \$0.001 par value; 30,000 shares authorized; 13,533 and 11,303 shares issued and outstanding	13	11
Additional paid-in capital	147,911	44,187
Accumulated other comprehensive loss	—	(38 )
Retained earnings	10,046	31,206
Total stockholders' equity	157,970	75,366
Total liabilities and stockholders' equity	\$339,150	\$92,788

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



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

	Year ended December 31,		
	2016	2015	2014
Sales revenues:			
System sales and support	\$ 197,874	\$ 118,385	\$ 148,652
Business management, consulting and managed IT services	69,398	63,789	56,090
Total sales revenues	267,272	182,174	204,742
Costs of sales (exclusive of amortization shown separately below):			
System sales and support	89,543	52,500	59,079
Business management, consulting and managed IT services	39,715	35,216	31,716
Total costs of sales	129,258	87,716	90,795
Gross profit	138,014	94,458	113,947
Operating expenses:			
Product development	32,621	14,229	14,622
Sales and marketing	27,194	18,333	19,720
General and administrative	53,642	36,810	30,018
Amortization of acquisition-related intangibles	10,182	—	—
Total operating expenses	123,639	69,372	64,360
Operating income	14,375	25,086	49,587
Other income (expense):			
Other income	220	405	152
Interest expense	(6,609)	) —	—
Total other income (expense)	(6,389)	) 405	152
Income before taxes	7,986	25,491	49,739
Provision for income taxes	4,053	7,148	16,819
Net income	\$ 3,933	\$ 18,343	\$ 32,920
Net income per share - basic	\$ 0.29	\$ 1.62	\$ 2.94
Net income per share - diluted	\$ 0.29	\$ 1.62	\$ 2.94
Weighted average shares outstanding used in per common share computations:			
Basic	13,255	11,083	11,026
Diluted	13,255	11,083	11,026

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

COMPUTER PROGRAMS AND SYSTEMS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	\$3,933	\$18,343	\$32,920
Other comprehensive income (loss), net of tax			
Change in unrealized income with realized income on the Statement of Income	38	(18 )	(31 )
Total other comprehensive income (loss), net of tax	38	(18 )	(31 )
Comprehensive income	\$3,971	\$18,325	\$32,889

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

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

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income(Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2013	11,159	\$ 11	\$34,644	\$ 11	\$34,416	\$ 69,082
Net income	—	—	—	—	32,920	32,920
Unrealized loss on investments held for sale, net of tax	—	—	—	(31 )	—	(31 )
Issuance of restricted stock	50	—	—	—	—	—
Stock-based compensation	—	—	4,172	—	—	4,172
Dividends	—	—	—	—	(25,530 )	(25,530 )
Excess (deficit) tax benefit from share-based compensation	—	—	167	—	—	167
Balance at December 31, 2014	11,209	\$ 11	\$38,983	\$ (20 )	\$41,806	\$ 80,780
Net income	—	—	—	—	18,343	18,343
Unrealized loss on investments held for sale, net of tax	—	—	—	(18 )	—	(18 )
Issuance of restricted stock	107	—	—	—	—	—
Forfeiture of common stock	(13 )	—	—	—	—	—
Stock-based compensation	—	—	5,380	—	—	5,380
Dividends	—	—	—	—	(28,943 )	(28,943 )
Excess (deficit) tax benefit from share-based compensation	—	—	(176 )	—	—	(176 )
Balance at December 31, 2015	11,303	\$ 11	\$44,187	\$ (38 )	\$31,206	\$ 75,366
Net income	—	—	—	—	3,933	3,933
Change in unrealized income with realized income on the Statement of Income	—	—	—	38	—	38
Common stock issued as consideration for acquisition of HHI	1,974	2	89,801	—	—	89,803
Fair value of options issued as consideration for acquisition of HHI	—	—	7,213	—	—	7,213
Common stock issued upon exercise of stock options	169	—	1,134	—	—	1,134
Issuance of restricted stock	87	—	—	—	—	—
Stock-based compensation	—	—	5,366	—	—	5,366
Dividends	—	—	—	—	(25,093 )	(25,093 )
Excess (deficit) tax benefit from share-based compensation	—	—	210	—	—	210
Balance at December 31, 2016	13,533	\$ 13	\$147,911	\$ —	\$10,046	\$ 157,970

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





COMPUTER PROGRAMS AND SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Year ended December 31,		
	2016	2015	2014
Operating Activities			
Net income	\$3,933	\$18,343	\$32,920
Adjustments to net income:			
Provision for bad debt	2,259	910	582
Deferred taxes	3,672	(2,698 )	(1,552 )
Stock based compensation	5,366	5,380	4,172
(Excess) deficit tax benefit from shared-based compensation	(210 )	176	(167 )
Depreciation	3,062	3,174	3,665
Amortization of acquisition-related intangibles	10,182	—	—
Amortization of deferred finance costs	673	—	—
Changes in operating assets and liabilities (net of acquired assets and liabilities):			
Accounts receivable	(3,927 )	(166 )	(3,956 )
Financing receivables	1,514	6,500	7,406
Inventories	14	(102 )	158
Prepaid expenses and other	1,787	(419 )	(35 )
Accounts payable	(5,588 )	600	777
Deferred revenue	(13,662)	(2,070 )	(3,691 )
Other liabilities	(7,250 )	730	421
Prepaid income taxes/income taxes payable	280	518	(1,750 )
Net cash provided by operating activities	2,105	30,876	38,950
Investing Activities			
Purchases of property and equipment	(39 )	(448 )	(1,473 )
Purchase of business, net of cash received	(162,611)	—	—
Purchases of investments	—	(150 )	(50 )
Sale of investments	10,861	—	—
Net cash used in investing activities	(151,789)	(598 )	(1,523 )
Financing Activities			
Dividends paid	(25,092)	(28,943 )	(25,531 )
Proceeds from long-term debt	156,397	—	—
Payments of long-term debt principal	(5,196 )	—	—
Payments of contingent consideration	(500 )	—	—
Proceeds from exercise of stock options	1,134	—	—
Excess (deficit) tax benefit from stock-based compensation	210	(176 )	167
Net cash provided by (used in) financing activities	126,953	(29,119 )	(25,364 )
Increase (decrease) in cash and cash equivalents	(22,731)	1,159	12,063
Cash and cash equivalents at beginning of year	24,951	23,792	11,729
Cash and cash equivalents at end of year	\$2,220	\$24,951	\$23,792



COMPUTER PROGRAMS AND SYSTEMS, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)  
 (In thousands)

Supplemental disclosure of cash flow information			
Cash paid for interest	\$5,876	\$—	\$—
Cash paid for income taxes, net of refund	\$110	\$9,231	\$20,069
Supplemental disclosure of non-cash flow information:			
Fair value of common stock and options issued as consideration for acquisition of HHI	\$97,017	\$—	\$—
Reclassification of inventory to property and equipment	\$—	\$39	\$—
Write-off of fully depreciated assets	\$2,769	\$—	\$1,974
Capital lease obligation	\$933	\$—	\$—

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

COMPUTER PROGRAMS AND SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of CPSI include the accounts of TruBridge, LLC ("TruBridge"), Evident, LLC ("Evident"), and Healthland Holding Inc. ("HHI"), all of which are wholly-owned subsidiaries of CPSI. The accounts of HHI include those of its wholly-owned subsidiaries, Healthland Inc. ("Healthland"), Rycan Technologies, Inc. ("Rycan"), and American HealthTech, Inc. ("AHT"). All significant intercompany balances and transactions have been eliminated.

Presentation

Effective January 1, 2016, we adopted a revised presentation of sales revenues and the associated costs of sales in our consolidated statements of income, which we believe is better aligned with and representative of the amount and profitability of our revenue streams, as well as the way we manage our business, review our operating performance and market our products. Specifically:

The Company's sales revenues and costs of sales amounts formerly included within the captions "System sales" and "Support and maintenance" are now included within the caption "System sales and support" within the consolidated statements of income;

- The Company's product development costs formerly included within the captions of "System sales" and "Support and maintenance" within the "Costs of sales" section of the consolidated statements of income are now included within the caption "Product development" within the "Operating expenses" section of the consolidated statements of income; and

The Company's sales-facilitative costs associated with business management, consulting and managed IT services formerly included within the caption "Business management, consulting and managed IT services" within the "Costs of sales" section of the consolidated statements of income are now included within the caption "Sales and marketing" within the "Operating expenses" section of the consolidated statements of income.

These reclassifications had no effect on previously reported total sales revenues, operating income, income before taxes or net income. In addition, in 2016, we changed the rounding of our financial statements from ones to thousands.

Amounts presented for the years ending December 31, 2015 and 2014, respectively, have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the year ended December 31, 2015:

(In thousands)	As previously reported	Reclassifications	As reclassified
Sales revenues:			
System sales	\$ 42,994	\$ (42,994 )	\$ —
Support and maintenance	75,391	(75,391 )	—
System sales and support	—	118,385	118,385
Costs of sales:			
System sales	39,515	(39,515 )	—
Support and maintenance	27,214	(27,214 )	—
System sales and support	—	52,500	52,500
Business management, consulting and managed IT services	41,337	(6,121 )	35,216
Operating expenses:			
Product development	—	14,229	14,229
Sales and marketing	12,212	6,121	18,333

The following table provides the amounts reclassified for the year ended December 31, 2014:

(In thousands)	As previously reported	Reclassifications	As reclassified
Sales revenues:			
System sales	\$ 75,099	\$ (75,099 )	\$ —
Support and maintenance	73,553	(73,553 )	—
System sales and support	—	148,652	148,652
Costs of sales:			
System sales	44,620	(44,620 )	—
Support and maintenance	29,081	(29,081 )	—
System sales and support	—	59,079	59,079
Business management, consulting and managed IT services	37,066	(5,350 )	31,716
Operating expenses:			
Product development	—	14,622	14,622
Sales and marketing	14,370	5,350	19,720

#### 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 Financial Accounting Standards Board ("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.

Valuation allowance are recorded when, in the opinion of management, it is more likely than not that all or a portion of the deferred tax assets will not be realized. These valuation allowances can be impacted by changes in tax laws, changes to statutory tax rates, and future taxable income, and are based on our judgment, estimates, and assumptions.

#### 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.

#### 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.

68

---

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 costs of sales and operating expenses.

#### Goodwill

Goodwill is recorded as the difference between the aggregate consideration paid for the acquisition of a business and the fair value of the identifiable net tangible and intangible assets acquired. Goodwill is not amortized but is evaluated for impairment annually or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist. We evaluate the carrying value of our goodwill annually on October 1. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If fair value of our reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. If the carrying amount of our reporting unit exceeds its fair value, a second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the affected reporting unit's goodwill with the carrying amount of that goodwill. No impairments have been recognized.

#### Purchased Intangible Assets

Purchased intangible assets are acquired in connection with a business acquisition, and are amortized over their estimated useful lives based on the pattern of economic benefit expected from each asset. We concluded for certain purchased intangible assets that the pattern of economic benefit approximated the straight-line method, and therefore, the use of the straight-line method was appropriate, as the majority of the cash flows will be recognized ratably over the estimated useful lives and there is no degradation of the cash flows over time.

#### Business Combinations

We apply business combination accounting when we acquire a business. Business combinations are accounted for at fair value. The associated acquisition costs are expensed as incurred and recorded in general and administrative expenses; restructuring costs associated with a business combination are expenses; contingent consideration is measured at fair value at the acquisition date, with changes in fair value after the acquisition date affecting earnings; changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period affect income tax expense; and goodwill is determined as the excess of the fair value of the consideration conveyed in the acquisition over the fair value of the net assets acquired. The accounting for business combinations requires estimates and judgments as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets and liabilities acquired. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, are based on management's estimates and assumptions, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets. The results of the acquired businesses' operations are included in the Consolidated Statements of Income of the combined entity beginning on the date of the acquisition. We have applied this acquisition method to the transactions described in Note 3 - Business Combinations.

#### 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 U.S. GAAP, principally those required by the Software topic and Revenue Recognition subtopic of the FASB Codification and those prescribed by the SEC.

The Company's revenue is generated from two sources:

• System Sales and Support - the sale of information systems and the provision of system support services. The sale of information systems includes perpetual software licenses, conversion, installation and training services,



hardware and peripherals, "Software as a Service" (or "SaaS") services, and forms and supplies. System support services includes software application support, hardware maintenance, and continuing education.

Business Management, Consulting and Managed IT Services - 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").

#### System Sales and Support

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 11), 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 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.

#### Business Management, Consulting and Managed IT 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 contracts, these contracts are often executed

within a short time frame of each other. The amount of the total arrangement consideration allocated to these services is based on VSOE of fair value by

70

---

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 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.

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 is recognized as the services are performed.

#### 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.

#### Product Development Costs

Product development costs are expensed as incurred. Product development costs totaled approximately \$32.6 million, \$14.2 million, and \$14.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

#### Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was approximately \$0.2 million, \$0.2 million, and \$0.1 million for the years ended December 31, 2016, 2015 and 2014, 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 \$0.4 million, \$0.4 million, and \$0.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

#### Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is evaluated by the chief operating decision maker, which we refer to as the CODM, or decision-making group in assessing performance and making decisions regarding resource allocation. The Company has prepared operating segment information based on the manner in which management disaggregates the Company's operations for making internal operating decisions. See Note 18.

#### New Accounting Standards Adopted in 2016

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management of an entity to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about such entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable), and provide related disclosures.



ASU2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. We adopted this new guidance effective on December 31, 2016 and the adoption did not have any impact on our consolidated financial statements.

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. Refer to Note 13 for further information regarding debt issuance costs.

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 will 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. The adoption of ASU 2015-16 did 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, with early adoption permitted. The Company has chosen to early adopt ASU 2015-17 as of the first quarter of our fiscal year ending December 31, 2016 by prospectively applying the update. The adoption of ASU 2015-17 did not have a material effect 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 U.S. GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance. This guidance will be 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. We are in the very early stages of our initial assessment of our systems, data and processes that will be affected by the implementation of this new standard, having engaged third party consultants to assist in evaluating the related impact that the implementation of this standard will have on our financial statements. As a result, we are unable at this time to conclude as to whether the implementation of this standard will have a material effect on our financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The amended guidance requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The requirement would replace the current lower of cost or market evaluation. Accounting guidance is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail method. The amended guidance will be effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amended guidance should be applied prospectively with earlier application permitted. The Company is currently evaluating the impact that the implementation of this standard will have on its financial statements, but preliminary assessments have results in a conclusion that the adoption of this ASU will not have a material effect on our financial statements.



In February 2016, the FASB issued ASU 2016-02, Leases, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new guidance will require the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. This guidance will be effective for fiscal years and interim periods within those years beginning after December 15, 2018, which is effective for the Company as of the first quarter of our fiscal year ending December 31, 2019. The Company is currently evaluating the impact that the implementation of this standard will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and the classification of awards on the statement of cash flows. This guidance will be 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. ASU 2016-09 requires registrants to recognize all income tax effects of share-based awards in the statement of operations when the awards are vested or are settled, which will impact our future results of operations and earnings per share. We are not able to determine the magnitude of such an impact as it will depend on the future prices of our common stock and awards activity.

In August 2016, the FASB issued ASU 2016-15, Classifications of Certain Cash Receipts and Cash Payments, which clarifies cash flow classification for eight specific issues, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and proceeds from settlement of corporate-owned life insurance policies. This guidance will be 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.

### 3. BUSINESS COMBINATION

#### Acquisition of HHI

On January 8, 2016, we acquired all of the assets and liabilities of HHI, including its wholly-owned subsidiaries, Healthland, AHT and 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-acute care market, 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 offered by 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, were the basis for the acquisition.

Consideration for the acquisition included cash (net of cash of the acquired entities) of \$162.6 million, 1,973,880 shares of common stock of CPSI ("CPSI Common Stock"), and the assumption by CPSI of stock options that became exercisable for 174,972 shares of CPSI Common Stock. During 2015, we incurred approximately \$3.0 million of pre-tax costs in connection with the acquisition of HHI. During the year ended December 31, 2016, we incurred approximately \$8.2 million, of pre-tax acquisition costs in connection with the acquisition of HHI. Acquisition costs are included in general and administrative expenses in our consolidated statements of income.

(In thousands)	Purchase Price
Cash consideration, net of acquired cash received	\$ 162,611
Fair value of common stock and options issued as consideration	97,017
Total consideration	\$ 259,628

Our acquisition of HHI was treated as a purchase in accordance with Accounting Standards Codification (the "Codification") 805, Business Combinations, of the FASB, which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction. Our allocation of the purchase price is based on management's judgment after evaluating several factors, including a valuation assessment.



The allocation of the purchase price paid for HHI is as follows:

(In thousands)	Purchase Price Allocation
Acquired cash	\$ 5,371
Accounts receivable	5,789
Financing receivables	2,184
Inventories	216
Prepaid expenses	3,228
Property and equipment	1,263
Intangible assets	117,300
Goodwill	168,449
Accounts payable and accrued liabilities	(17,490 )
Deferred taxes, net	(4,010 )
Contingent consideration	(1,620 )
Deferred revenue	(15,681 )
Net assets acquired	\$ 264,999

The intangible assets in the table above are being amortized on a straight-line basis over their estimated useful lives. The amortization is included in amortization of acquisition-related intangibles in our consolidated statements of income. Of the goodwill acquired, \$23.3 million is expected to be tax deductible.

The fair value measurements of tangible and intangible assets and liabilities were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value measurement hierarchy (see Note 17). Level 3 inputs included, among others, discount rates that we estimated would be used by a market participant in valuing these assets and liabilities, projections of revenues and cash flows, client attrition rates and market comparables.

The gross contractual amount of accounts receivable of HHI at the date of acquisition was \$9.4 million.

Our consolidated statement of income for the year ended December 31, 2016 includes revenues of approximately \$86.6 million, and pre-tax income of approximately \$12.2 million, attributed to the acquired business since the January 8, 2016 acquisition date.

The following unaudited pro forma revenue, net income and earnings per share amounts for the years ended December 31, 2016 and 2015 give effect to the HHI acquisition as if it had been completed on January 1, 2015. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the operating results actually would have been during the periods presented had the HHI acquisition been completed during the periods presented. In addition, the unaudited pro forma financial information does not purport to project future operating results. The pro forma information does not fully reflect: (1) any anticipated synergies (or costs to achieve synergies) or (2) the impact of non-recurring items directly related to the HHI acquisition.

(In thousands, except per share data, unaudited)	Years Ended	
	December 31,	
	2016	2015
Pro forma revenues	\$270,974	\$290,071
Pro forma net income	\$8,538	\$3,484
Pro forma diluted earnings per share	\$0.64	\$0.26

Pro forma net income was calculated by adjusting the results for the applicable period to reflect (i) the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied on January 1, 2015 and (ii) adjustments to amortized revenue during fiscal 2016 and 2015 as a result of the acquisition date valuation of assumed deferred revenue. The pro forma results for each period also reflect the pro forma adjustment to



interest expense as a result of the issuance of new debt to finance the acquisition and elimination of Healthland debt in conjunction with the acquisition.

The Company incurred \$5.5 million in 2016 acquisition-related costs, which are included in general and administrative expense in the Company's statement of income for the year ended December 31, 2016, that is reflected in pro forma net income for the year ended December 31, 2015. Severance and integration costs of \$2.7 million were not included in the acquisition costs for the purpose of calculating the pro forma results.

#### 4. INVESTMENTS

The Company did not have investments at December 31, 2016. Investments were comprised of the following at December 31, 2015:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	\$ 1,269	\$ —	\$ —	\$ 1,269
Obligations of U.S. Treasury, U.S. government corporations and agencies	1,562	1	(6 )	1,557
Mortgaged-backed securities	54	1	—	55
Certificates of deposit	2,000	—	(7 )	1,993
Corporate debt securities	6,000	—	(50 )	5,950
	\$ 10,885	\$ 2	\$ (63 )	\$ 10,824

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:

(In thousands)	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	\$ 768	\$ (6 )	\$ 410	\$ —	\$ 1,178	\$ (6 )
Certificates of deposit	—	—	1,743	(7 )	1,743	(7 )
Corporate debt securities	2,566	(26 )	3,234	(24 )	5,800	(50 )
	\$ 3,334	\$ (32 )	\$ 5,387	\$ (31 )	\$ 8,721	\$ (63 )

#### 5. PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following at December 31, 2016 and 2015:

(In thousands)	2016	2015
Land	\$ 2,848	\$ 2,848
Buildings and improvements	9,432	9,432
Maintenance equipment	802	1,231
Computer equipment	5,174	4,798
Leasehold improvements	5,007	4,753
Office furniture and fixtures	3,591	4,336
Automobiles	335	335
	27,189	27,733
Less: accumulated depreciation	(13,750 )	(13,382 )
Property and equipment, net	\$ 13,439	\$ 14,351

## 6. OTHER ACCRUED LIABILITIES

Other accrued liabilities were comprised of the following at December 31, 2016 and 2015:

(In thousands)	2016	2015
Salaries and benefits	\$5,397	\$2,292
Severance	337	1,569
Commissions	518	434
Self-insurance reserves	887	883
Contingent consideration	1,120	—
Other	538	420
	\$8,797	\$5,598

The accrued contingent consideration depicted above represents the potential earnout incentive for former Rycan shareholders related to the purchase of Rycan by HHI in 2015. We have estimated the fair value of the contingent consideration based on the amount of revenue we expect to be earned by Rycan through the year ending December 31, 2018.

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

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

(In thousands, except for per share data)	2016	2015	2014
<b>Basic EPS</b>			
Numerator			
Net income	\$3,933	\$18,343	\$32,920
Less: Net income attributable to participating securities	(38 )	(373 )	(499 )
Net income attributable to common stockholders	\$3,895	\$17,970	\$32,421
<b>Denominator</b>			
Weighted average shares outstanding used in basic per common share computations	13,255	11,083	11,026
Basic EPS	\$0.29	\$1.62	\$2.94
<b>Diluted EPS</b>			
Numerator			
Net income attributable to common stockholders	\$3,895	\$17,970	\$32,421
Reallocation of net income attributable to participating securities	—	—	—
Net income attributable to common stockholders for diluted EPS	\$3,895	\$17,970	\$32,421
<b>Denominator</b>			
Weighted average shares outstanding used in basic per common share computations	13,255	11,083	11,026
Weighted average effect of dilutive securities:			
Performance share awards	—	—	—
Weighted average shares outstanding used in diluted per common share computations	13,255	11,083	11,026
Diluted EPS	\$0.29	\$1.62	\$2.94

## 8. 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:

(In thousands)	2016	2015
Beginning balance	\$ —	—\$1,456
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years	—	—
Reductions for tax positions of prior years	—	(1,456 )
Ending balance	\$ —	—\$—



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, 2016, there is no amount of unrecognized tax benefits that, if recognized, would affect the tax rate.

The federal returns for tax years 2013 through 2015 remain open to examination, and the tax years 2012 through 2015 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, 2016 and 2015:

(In thousands)	2016	2015
Deferred tax assets:		
Accounts receivable and financing receivables	\$1,392	\$729
Accrued vacation	1,022	726
Stock-based compensation	1,678	1,784
Deferred revenue	894	25
Accrued severance	75	612
Accrued liabilities and other	1,002	243
Transaction costs	—	1,166
Other comprehensive income	23	23
Credits	349	—
Net operating loss	26,689	—
Deferred tax assets	33,124	5,308
Less: Valuation allowance	1,624	—
Total deferred tax assets	\$31,500	\$5,308
Deferred tax liabilities:		
Intangibles	34,696	\$—
Depreciation	50	662
Total deferred tax liabilities	\$34,746	\$662
Total deferred tax asset/(liability)	\$(3,246)	\$4,646

Significant components of the income tax provision for the years ended December 31, 2016, 2015 and 2014 were as follows:

(In thousands)	2016	2015	2014
Current provision:			
Federal	\$(72 )	\$8,576	\$15,546
State	453	1,270	2,825
Deferred provision:			
Federal	4,144	(2,421 )	(1,393 )
State	(472 )	(277 )	(159 )
Total income tax provision	\$4,053	\$7,148	\$16,819

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, 2016, 2015 and 2014 are as follows:

(In thousands)	2016	2015	2014
Income taxes at U.S. federal statutory rate	\$2,795	\$8,922	\$17,409
Provision-to-return adjustments	325	(293 )	(464 )
State income tax, net of federal tax effect	5	944	1,773
Domestic production activities deduction	—	(670 )	(1,606 )
Tax credits	(349 )	(414 )	(597 )
Uncertain tax positions	—	(1,219 )	138
Transaction costs	1,312	—	—
Other	(35 )	(122 )	166
Total income tax provision	\$4,053	\$7,148	\$16,819

Our effective tax rates for the years ended December 31, 2016, 2015 and 2014 were 50.75%, 28.04% and 33.81%, respectively. Our effective tax rate for the year ended December 31, 2016 was uncharacteristically high, primarily due to permanent non-deductible acquisition transaction costs of \$3.8 million. The significantly reduced effective tax rate for the year ended December 31, 2015 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.

We have federal net operating loss carryforwards related to the acquisition of HHI of \$82.9 million and \$70.5 million at January 8, 2016 and December 31, 2016, respectively, which expire at various dates from 2028 to 2035. We have state net operating loss carryforwards related to the acquisition of HHI of \$47.6 million and \$46.5 million at January 8, 2016 and December 31, 2016, respectively, which expire at various dates from 2017 and 2035.

Realization of deferred tax assets associated with the state net operating loss carryforward is dependent upon generating sufficient taxable income prior to their expiration. We believe it is more likely than not that the benefit from certain state NOL carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance on the deferred tax assets related to these state NOL carryforwards of \$1.6 million at January 8, 2016 and December 31, 2016.

## 9. 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, 2016, there were a total of 351,437 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, 2016, 2015 and 2014, included in the consolidated statements of income:

(In thousands)	2016	2015	2014
Costs of sales	\$1,396	\$1,447	\$1,264
Operating expenses	3,970	3,933	2,908
Pre-tax stock-based compensation expense	5,366	5,380	4,172
Less: income tax effect	(2,093 )	(2,098 )	(1,627 )
Net (after tax) stock-based compensation expense	\$3,273	\$3,282	\$2,545

As of December 31, 2016, there was \$5.5 million 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 1.58 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. In addition to tax benefits related to the vested portion of restricted stock awards, the Company also pays dividends on unvested restricted stock. As a result, excess (deficient) tax benefits of approximately \$210,000, \$(176,000), \$167,000, have been classified as financing cash inflows (outflows) for the years ended December 31, 2016, 2015 and 2014, respectively.

#### 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, 2016, 2015 and 2014 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested stock outstanding at January 1, 2014	153,674	\$ 58.15
Granted	49,737	61.63
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
Granted	86,984	52.21
Vested	(93,496 )	57.48
Forfeited	—	—
Nonvested stock outstanding at December 31, 2016	184,885	\$ 54.63

#### 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.

A summary of performance share award activity under the 2014 Incentive Plan for the years ended December 31, 2016, 2015, and 2014, 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 January 1, 2014	—	\$ —
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
Granted	77,594	49.64
Forfeited or unearned	(49,471)	49.29
Performance share awards outstanding at December 31, 2016	77,594	\$ 49.64

#### 10. 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.

#### 11. 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, 2016 and 2015:

(In thousands)	2016	2015
Second Generation Meaningful Use Installment Plans, gross	\$3,080	\$9,372
Fixed Periodic Payment Plans, gross	1,988	454
Short-term payment plans, gross	5,068	9,826
Less: allowance for losses	(1,796 )	(491 )
Less: unearned income	—	—
Short-term payment plans, net	\$3,272	\$9,335

The significant decrease in amounts due under short-term payment plans from December 31, 2015 to December 31, 2016 is due to those factors described under the caption "Second Generation Meaningful Use Installment Plans" below.

#### 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 2023. These receivables typically have terms from two to seven 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:

(In thousands)	2016	2015
Sales-type leases, gross	\$8,981	\$3,239
Less: allowance for losses	(402 )	(163 )
Less: unearned income	(797 )	(266 )
Sales-type leases, net	\$7,782	\$2,810

Future minimum lease payments to be received subsequent to December 31, 2016 are as follows:

(In thousands)	
2017	\$2,836
2018	2,003
2019	1,495
2020	1,342
2021	818
Thereafter	487
Total minimum lease payments to be received	8,981
Less allowance for losses	(402 )
Less unearned income	(797 )
Net lease receivables	\$7,782

#### 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, 2016 and 2015:

(In thousands)	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
December 31, 2016	\$ 654	\$ 1,762	\$ (218 )	\$	—\$ 2,198
December 31, 2015	\$ 1,001	\$ 236	\$ (583 )	\$	—\$ 654

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.

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, 2016 and December 31, 2015:

(In thousands)	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
December 31, 2016	\$ 228	\$ 31	\$ 34	\$ 293
December 31, 2015	\$ 251	\$ 66	\$ 29	\$ 346

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:

(In thousands)	December 31, 2016	December 31, 2015
Customer balances with amounts reclassified to trade accounts receivable that are:		
1 to 90 Days Past Due	\$6,167	\$ 515
91 to 180 Days Past Due	550	230
181+ Days Past Due	273	—
Total customer balances with past due amounts reclassified to trade accounts receivable	\$6,990	\$ 745
Total customer balances with no past due amounts reclassified to trade accounts receivable	1,194	2,228
Total financing receivables with contractual maturities of one year or less	5,068	9,826



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

Less allowance for losses	(2,198 )	(654 )
Total financing receivables	\$11,054	\$12,145

83

---

#### 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 recognized revenue related to these arrangements as the amounts become due. 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. As of the year ending December 31, 2016, all anticipated cash flows from these First Generation Meaningful Use Installment Plans have been collected.

#### 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 11.

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, 2016, has resulted in the overall significant decrease in our financing receivables balance related to short-term payment plans from December 31, 2015 to December 31, 2016.

## 12. INTANGIBLE ASSETS AND GOODWILL

Our purchased definite-lived intangible assets as of December 31, 2016 are summarized as follows:

(In thousands)	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount	\$ 82,300	\$ 10,900	\$ 24,100	\$ 117,300
Accumulated amortization	(6,398 )	(832 )	(2,952 )	(10,182 )
Net intangible assets	\$ 75,902	\$ 10,068	\$ 21,148	\$ 107,118
Weighted average remaining years of useful life	12	14	7	11

The following table represents the remaining amortization of definite-lived intangible assets as of December 31, 2016:

(In thousands)

For the year ended December 31,

2017	\$ 10,406
2018	10,406
2019	10,112
2020	10,106
2021	10,066
Due thereafter	56,022
Total	\$ 107,118

The following table sets forth the change in the carrying amount of goodwill by segment for the year ended December 31, 2016:

(In thousands)	Acute Care EHR	Post-acute Care EHR	TruBridge, Ryman, and Other Outsourcing	Total
Balance as of December 31, 2015	\$—	\$—	\$—	\$—
Goodwill acquired	97,095	57,570	13,784	168,449
Balance as of December 31, 2016	\$97,095	\$ 57,570	\$ 13,784	\$ 168,449

## 13. LONG-TERM DEBT

There was no long-term debt at December 31, 2015. Long-term debt was comprised of the following at December 31, 2016:

(In thousands)	December 31, 2016
Term loan facility	\$ 121,875
Revolving credit facility	33,000
Capital lease obligation	861
Debt obligations	155,736
Less: debt issuance costs	(2,930 )
Debt obligation, net	152,806
Less: current portion	(5,817 )
Long-term debt	\$ 146,989

As of December 31, 2016, the carrying value of debt approximates the fair value due to the variable interest rate. 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 for HHI 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 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. Principal payments are 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, Revolving Credit Facility, and capital lease obligation are as follows as of December 31, 2016:

(In thousands)	
2017	\$6,546
2018	9,690
2019	12,750
2020	15,625
2021	111,125
Thereafter	—
	\$ 155,736

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. As of December 31, 2016, we believe that we were in compliance with all debt covenants contained in the Credit Agreement.

#### 14. 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 \$2.8 million, \$2.2 million, and \$2.2 million to the plan for the years ended December 31, 2016, 2015 and 2014, 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, 2016 and 2015 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.

#### 15. OPERATING LEASES

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

The future minimum lease payments payable under these operating leases subsequent to December 31, 2016 are as follows:

(In thousands)

2017	\$1,988
2018	1,749
2019	991
2020	466
2021	396
Thereafter	761
	\$6,351

Total rent expense for the years ended December 31, 2016, 2015, and 2014 was \$2.7 million, \$1.0 million, \$0.9 million, respectively.

#### 16. 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.

#### 17. 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 Company did not have available-for-sale securities at December 31, 2016. The accrued contingent consideration depicted below represents the potential earnout incentive for former Rycan shareholders, relating to the purchase of Rycan by HHI in 2015. We have estimated the fair value of the contingent consideration based on the amount of revenue we expect to be earned by Rycan through the year ending December 31, 2018. The Company did not have a contingent consideration liability at December 31, 2015.

(In thousands)	Carrying Amount at 12/31/2016	Fair Value at December 31, 2016 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Contingent consideration	\$ 1,120	\$—	—\$	1,120
Total	\$ 1,120	\$—	—\$	1,120

The fair values of the Company's available-for-sale securities are based on matrix pricing for the year ended December 31, 2015, 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-

88

---



lived assets accounted for pursuant to Codification topic, Property, Plant and Equipment, when events or circumstances indicate a possible impairment.

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

(In thousands)	Carrying Amount at 12/31/2015	Fair Value at December 31, 2015 Using		
		Quoted Prices in Active Markets for Identifiable Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Available-for-sale securities				
Short-term investments (money market funds and accrued income)	\$ 1,269	\$-1,269	\$	—
Mortgage backed securities	55	—55	—	—
Certificates of deposit	1,993	—1,993	—	—
Obligations of U.S. Treasury, U.S. government corporations and agencies	1,557	—1,557	—	—
Corporate debt securities	5,950	—5,950	—	—
Total available-for-sale securities	\$ 10,824	\$-10,824	\$	—

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.

## 18. SEGMENT REPORTING

In connection with our acquisition of HHI, we re-evaluated our methodology for allocating revenues and cost of sales and chose to allocate these items to three operating segments which better align with the reporting structure utilized by our chief operating decision makers ("CODM") in the management of resource allocation and performance assessment. Our Chief Executive Officer and Chief Growth Officer are the Company's CODM. Effective for our first quarter of 2016, we revised our reportable segments. Prior to this change, we used one reportable segment.

We now utilize three operating segments, "Acute Care EHR", "Post-acute Care EHR" and "TruBridge, Rycan, and Other Outsourcing", based on our three distinct business units with unique market dynamics and opportunities.

Revenues and cost of sales are primarily derived from the provision of services and sales of our proprietary software, and our CODM assesses the performance of these three segments at the gross profit level. Operating expenses and items such as interest, income tax, capital expenditures and total assets are managed at a consolidated level and thus are not included in our operating segment disclosures. Accounting policies for each of the reportable segments are the same as those used on a consolidated basis.

The following table presents a summary of the revenues and gross profits of our three operating segments for the year ended December 31, 2016, 2015 and 2014:

(In thousands)	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Acute Care EHR	\$160,836	\$118,385	\$148,652
Post-acute Care EHR	29,058	—	—
TruBridge, Rycan, and Other Outsourcing	77,378	63,789	56,090
Total revenues	267,272	182,174	204,742
Cost of sales:			
Acute Care EHR	75,225	52,500	59,079
Post-acute Care EHR	11,362	—	—
TruBridge, Rycan, and Other Outsourcing	42,671	35,216	31,716
Total cost of sales	129,258	87,716	90,795
Gross profit:			
Acute Care EHR	85,611	65,885	89,573
Post-acute Care EHR	17,696	—	—
TruBridge, Rycan, and Other Outsourcing	34,707	28,573	24,374
Total gross profit	138,014	94,458	113,947
Corporate operating expenses	(123,639 )	(69,372 )	(64,360 )
Other income (loss)	220	405	152
Interest expense	(6,609 )	—	—
Income (loss) before taxes	\$7,986	\$25,491	\$49,739

## 19. SUBSEQUENT EVENTS

## Declaration of Dividends

On February 9, 2017, the Company announced a dividend for the first quarter of 2017 in the amount of \$0.25 per share. The dividend was paid on March 10, 2017 to stockholders of record as of the close of business on February 23, 2017.

## 20. QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The following table presents a summary of our results of operations for our eight most recent quarters ended December 31, 2016. 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.

(In thousands, except for per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Year Ended December 31, 2016				
Sales revenues	\$69,643	\$68,415	\$64,663	\$64,551
Gross profit	36,253	35,135	32,951	33,675
Operating income	766	5,263	4,244	4,102
Net income	(1,663 )	1,996	1,599	2,001
Net income per share				
Basic	\$(0.13 )	\$0.15	\$0.12	\$0.15
Diluted	(0.13 )	0.15	0.12	0.15
Year Ended December 31, 2015				
Sales revenues	\$46,240	\$47,086	\$44,617	\$44,231
Gross profit	24,446	24,715	22,727	22,570
Operating income	7,834	8,386	4,261	4,605
Net income	5,508	5,903	3,539	3,393
Net income per share				
Basic	\$0.49	\$0.52	\$0.31	\$0.30
Diluted	0.49	0.52	0.31	0.30

SCHEDULE II  
 COMPUTER PROGRAMS AND SYSTEMS, INC.  
 VALUATION AND QUALIFYING ACCOUNTS  
 (In thousands)

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	2014	\$ 1,125	\$ 931	\$ (803 )	\$ 1,253
	2015	\$ 1,253	\$ 674	\$ (711 )	\$ 1,216
	2016	\$ 1,216	\$ 497	\$ 657	\$ 2,370

(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	2014	\$ 1,365	\$ (349 )	\$ (15 )	\$ 1,001
	2015	\$ 1,001	\$ 236	\$ (583 )	\$ 654
	2016	\$ 654	\$ 1,762	\$ (218 )	\$ 2,198

(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 were not effective as of December 31, 2016 due to the material weaknesses in internal control over financial reporting related to our business combinations processes.



#### Remediation of Previously Identified Material Weakness

During the year ended December 31, 2016, we implemented internal control procedures to address previously identified material weaknesses related to the revenue recognition of one of the entities acquired in the HHI acquisition. In connection with the identification of material weaknesses in our internal control over financial reporting, we evaluated, designed and implemented controls and procedures to address these weaknesses. These measures included:

Converting the billing processes and systems for the affected HHI revenue streams to CPSI-legacy billing processes and systems to provide transaction-level controls enforcing revenue recognition upon delivery (as required by U.S. GAAP) as opposed to billing;

Implementing monitoring controls over the affected HHI revenue streams, similar to those already implemented for CPSI-legacy revenue streams, as an additional proof of the effectiveness of the aforementioned transaction-level controls; and

Improving our control environment by enforcing to our accounting and financial reporting personnel and select members of management the necessity for sound revenue recognition practices, beginning at the transaction-level, and ensure that the appropriate individuals within management with the appropriate knowledge and experience are involved in any decisions related to billing practices that deviate from our standard billing processes and systems.

As of the end of the previous fiscal 2016 interim periods, we had not yet determined that these internal control changes had operated effectively for a sufficient period of time to conclude that the material weaknesses previously identified had been remediated. During the fourth quarter of our year ended December 31, 2016, we completed our assessment of the operating effectiveness of these controls. After completing our assessment of the design and operating effectiveness of these new controls and procedures, we concluded that we have remediated the previously identified material weaknesses as of December 31, 2016.

#### Material Weakness - Business Combinations

During the three months ended December 31, 2016, the Company identified a material weakness related to the Company's business combination process. The Company identified deficiencies in its controls over review of third-party valuations and properly establishing and accounting for opening balance sheet amounts. Due to the complexity and materiality of the transaction and the subjectivity of the estimates inherent in the process, management has concluded that these processes potentially would not prevent or detect a material misstatement on a timely basis. A potential misstatement would primarily affect the value recorded for goodwill and purchased intangibles, and to a lesser extent, other purchased assets, and the depreciation and amortization associated with those assets.

We are currently evaluating the controls and procedures we will design and put in place to address and remediate this material weakness and plan to implement appropriate measures as part of this effort. These controls and procedures may include engagement of independent consultants to aid the Company in its review of future business combinations for proper accounting, conducting training sessions for key financial personnel regarding the acquisition accounting, or implementing additional review procedures over the business combination accounting related to the overall completeness and accuracy of third-party valuation. We have do not regularly conclude business combinations, so it is uncertain as to when we will be able to remedy this material weakness. Successful remediation of this material weakness requires review and evidence of the effectiveness of the related internal control processes as part of our periodic assessments of our internal control over financial reporting. As we continue to evaluate and work to enhance our internal control over financial reporting, we may determine that additional measures should be taken to address the material weakness described above or other control deficiencies, or that we should modify the remediation plan.



#### Changes in Internal Control over Financial Reporting

On January 8, 2016, we acquired Healthland Holding Inc. ("HHI"), as further described in Note 3 of the notes to the consolidated financial statements. We continue to integrate policies, processes, people, technology and operations for our combined operations, and we will continue to evaluate the impact of any related changes to internal control over financial reporting during the fiscal year.

Except for any changes in internal controls related to the integration of the HHI businesses into CPSI, such as the addition of internal controls related to debt, intangible assets, goodwill and consolidation, and the steps taken to remediate the material weaknesses identified above, there were no other changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Consistent with the guidance issued by the Securities and Exchange Commission that an assessment of internal control over financial reporting of a recently acquired business may be omitted from management's evaluation, management has excluded from its assessment Rykan Technologies, Inc., which we acquired on January 8, 2016. The assets of Rykan Technologies, Inc. excluded from our assessment represented less than 1% of the Company's total assets as of December 31, 2016 and approximately 3% of the Company's consolidated total revenues for the year ended December 31, 2016.

#### Management's Annual Report on Internal Control Over Financial Reporting

This report is included in Item 8 on page 56 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 57 and is incorporated herein by reference.

#### ITEM 9B. OTHER INFORMATION.

None.



**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](http://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 2017 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 2017 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 2017 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**

Information regarding securities authorized for issuance under our equity compensation plans is incorporated by reference to the Proxy Statement for the 2017 Annual Meeting of Stockholders of the Company (the "2017 Proxy Statement") to be filed by the Company with the SEC under the Exchange Act.

**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 2017 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 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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 97 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 15th day of March, 2017.

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 15, 2017
/s/ Matt J. Chambless Matt J. Chambless	Chief Financial Officer (principal financial officer)	March 15, 2017
/s/ David A. Dye David A. Dye	Chairman of the Board and Director, Chief Growth Officer	March 15, 2017
/s/ James B. Britain James B. Britain	Vice President – Finance and Controller (principal accounting officer)	March 15, 2017
/s/ W. Austin Mulherin, III W. Austin Mulherin, III	Director	March 15, 2017
/s/ William R. Seifert, II William R. Seifert, II	Director	March 15, 2017
/s/ John C. Johnson	Director	March 15, 2017

John C. Johnson

/s/ Charles P. Huffman      Director  
Charles P. Huffman

March 15,  
2017

/s/ A. Robert Outlaw, Jr.      Director  
A. Robert Outlaw, Jr.

March 15,  
2017

96

---

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*	

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

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)
- 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 Troy D. Rosser
- 10.16 Employment Agreement, dated as of July 8, 2013, by and between Healthland Holdings Inc. and Chris Bauleke (filed as exhibit 10.17 to CPSI's Annual Report on Form 10-K for the period ending December 31, 2015 and incorporated herein by reference)
- 10.17 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)
- 10.18 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)
- 10.19 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)
- 10.20 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)
- 10.21 Escrow Agreement, dated as of January 8, 2016, by and among Computer Programs and Systems, Inc., AHR Holdings, LLC and U.S. Bank National Association (filed as Exhibit 99.4 to CPSI's Registration Statement on Form S-8 (Registration No. 333-208915) and incorporated herein by reference)
- 10.22 First Amendment, dated as of December 20, 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 December 20, 2016 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

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

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, 2016  
\* Management compensation plan or arrangement

98