

COMPUTER PROGRAMS & SYSTEMS INC
Form 10-K
March 14, 2018

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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

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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 (Do not check if a smaller reporting company) Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant at June 30, 2017 was \$272,103,191.

As of March 12, 2018, the registrant had outstanding 14,085,989 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:

Portions of the definitive Proxy Statement for the 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this report to the extent described herein.

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* Portions of the definitive Proxy Statement for the 2018 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 effects of the federal healthcare reform legislation enacted in 2010, and implementing regulations, on the businesses of our hospital customers;

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

For more information about the risks described above and other risks affecting us, see "Risk Factors" beginning on page 19 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 solutions and services for community hospitals and post-acute care facilities. CPSI offers its products and services through four wholly-owned companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), Healthland Inc. ("Healthland"), and American HealthTech, Inc. ("AHT"). Our family of companies is focused on improving the health of the communities we serve, connecting communities for a better patient care experience, and improving the financial operations of our clients. The individual contributions of each of these companies towards this combined focus are as follows:

• Evident, formed in April 2015, provides a comprehensive acute care electronic health record ("EHR") solution, Thrive, and related services for community hospitals and their physician clinics.

• Healthland provides a comprehensive acute care EHR solution, Centriq, and related services for community hospitals and their physician clinics.

• TruBridge focuses on providing business management, consulting, and managed IT services, along with its complete revenue cycle management ("RCM") solution for all care settings, regardless of their primary healthcare information solutions provider.

• AHT provides a comprehensive post-acute care EHR solution and related services for skilled nursing and assisted living facilities.

Our companies currently support approximately 1,100 acute care facilities and approximately 3,500 post-acute care facilities with a geographically diverse customer mix within the domestic community healthcare market. The Company has a limited presence in the international healthcare IT marketplace, with one client in the Caribbean nation of St. Maarten.

Our target market for our acute care solutions includes community hospitals with 200 or fewer acute care beds. Our primary focus within this defined target market is on hospitals with 100 or fewer beds, which comprise approximately 94% of our acute care hospital EHR customer base. Our target market for our TruBridge services includes community hospitals with 300 or fewer acute care beds. The target market for our post-acute care solutions consists of over 15,000 long-term and skilled nursing facilities. During 2017, we generated revenues of \$276.9 million from the sale of our products and services.

Industry Dynamics

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

Hospital services represents one of the largest categories of total healthcare expenditures, comprising approximately 32.4% of total healthcare expenditures in 2016 according to the CMS. According to the American Hospital Association's AHA Hospital Statistics, 2018 Edition, there are approximately 3,500 community hospitals in the United States that are in our target market of hospitals with 200 or fewer 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 community hospitals typically generate a significant portion of their revenues from beneficiaries of the Medicare and Medicaid programs. Consequently, even small

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

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

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

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

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

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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, community hospitals have limited financial and human resources to operate manual or inefficient information systems. However, these hospitals are expected to achieve the same quality of care and regulatory compliance as larger hospitals, placing them in a particularly difficult operating environment. These pressures on the operating environments of community hospitals were increased with the passage of the ARRA in 2009 which, in addition to providing incentives to healthcare providers to achieve meaningful use of EHR, has resulted in lowered Medicare payment levels for healthcare providers that have yet to achieve meaningful use of EHR. We believe that our information technology solutions meet these challenges facing community hospitals by providing fully integrated, enterprise-wide and ARRA-certified medical information systems and services that are compliant with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") 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 clients, client user groups and extensive client support. Further, through our wholly-owned subsidiary, TruBridge, we offer business management, consulting and managed IT services, along with its full RCM solution, that allow our acute and post-acute care clients to outsource all or just a portion of the revenue cycle function. Consulting and other services help clients avoid some of the fixed costs of a business office and leverage our expertise and resources in helping them identify their IT objectives, define the best way to meet those requirements and manage the resulting projects and associated technologies. As a result, we are capable of providing a single-source solution to healthcare organizations, making us a partner in their initiatives to improve operations and medical care.

Our clients 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 clients and regularly updating our products, we believe that we provide information technology solutions that meet the needs of community hospitals. Our business has continued to grow because we have successfully provided fully integrated, enterprise-wide information systems that allow 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 community healthcare organizations. While our traditional client base for these services has been those community healthcare organizations who have selected CPSI as their single-source healthcare information solutions provider, the formation of TruBridge has allowed for an improved focus of our marketing and service delivery resources and has assisted us in expanding the client base for these service offerings to all community healthcare organizations, regardless of their primary healthcare information solutions provider.

In April 2015, we announced the formation of Evident, a wholly-owned subsidiary of CPSI. Evident provides EHR solutions previously sold under the CPSI name as well as an expanded range of offerings specifically targeting community healthcare organizations. Our objectives with the creation of Evident are to further differentiate our system and support offerings in our core target market, broaden the positioning of our EHR solution and offer a new range of solutions to address current and upcoming needs of community healthcare providers. With the formation of Evident came the introduction of our EHR solution under the name Thrive 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. The acquisition of HHI and its wholly-owned subsidiaries:

- has strengthened our position in providing healthcare information systems to community healthcare organizations through the addition of Healthland;

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

expanded the products and capabilities of TruBridge through the addition of Rycan and its suite of RCM products.

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Strategy

Our objective is to continue to increase our share of the EHR and healthcare services markets for 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 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 1,100 facilities which represents approximately 26% of all inpatient acute care community hospitals nationally and approximately 31% of the market of community hospitals with 200 or fewer beds. Our post-acute care EHR is used by approximately 3,500 skilled nursing facilities, which represents an approximately 23% 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 community healthcare providers looking for a long term partner with a proven track record in meeting the unique needs of community healthcare.

EHR Solutions Across the Care Continuum

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

Solutions and Services to Address Value-Based Reimbursement

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

Interoperability

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

Focus on the Financial Health of Community Healthcare Providers

Given the ongoing transition to value-based reimbursement models, community healthcare providers are under more financial pressure than ever before. Our accounts receivable management services incorporate proven workflow and processes as well as industry leading revenue cycle management tools. A new aspect of many current payment models is an increasing shift of the financial burden to the patient. Community hospitals typically underperform in private pay collections because of the nature of community healthcare but cannot afford to forego the patient portion of contributions. Through our private pay services, providers can bring in much needed private pay receipts without alienating the local community.

Our operational expertise and technology tools provide proven results in improving claim acceptance rates, accelerating payments from third party payers and increasing private pay collections. We also differentiate our services by working to maintain employment in the community by hiring local 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 adopted in 2015 to replace the Sustainable Growth Rate model for paying physicians for treating Medicare patients. Under MACRA, providers are required over time to move to Advance Alternative Payment Models that measure quality and savings and then reimburse providers on those factors based on how they compare on a percentage basis with other providers nationally. Caravan Health has an industry leading track record in establishing successful ACOs that participate in the Medicare Shared Savings Program. CPSI has partnered with Caravan to establish ACOs specific to community providers. CPSI partners with Caravan to provide services to the ACOs at a reduced rate in return for a percentage share of the savings that are returned to the providers through their successful participation in the Medicare Shared Savings program. Not only does this represent a potential on-going income stream to CPSI, but it also contributes to the overall financial health of the healthcare providers in the community 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 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 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 community hospitals using one fully integrated system. We intend to continue to enhance our existing software applications and develop new applications as required by evolving industry standards and the changing needs of our clients. Pursuant to our client support agreements, we provide our clients with software enhancements and upgrades periodically on a when-and-if-available basis. See "Support and Maintenance Services." These enhancements enable each client, regardless of its original installation date, to have the benefit of the most advanced Evident products available.

Evident's software applications within Thrive:

- provide automated processes that improve clinical workflow and support clinical decision-making;
- allow healthcare providers to efficiently input and easily access the most current patient medical data in order to improve quality of care and patient safety;
- integrate clinical, financial and patient information to promote efficient use of time and resources, while eliminating dependence on paper medical records;
- provide tools that permit healthcare organizations to analyze past performance, model new plans for the future and measure and monitor the effectiveness of those plans;
- provide for rapid and cost-effective implementation, whether through the installation of an in-house system or through our Software as a Service ("SaaS") services; and
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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.

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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 client as a single product. New clients must purchase from us the core applications of patient management and financial accounting and all hardware necessary to run these applications. In addition to the core applications, clients may also purchase one or more of our clinical, patient care and enterprise applications. Over two-thirds of our Thrive clients have purchased a combination of applications that meet their enterprise-wide information technology needs.

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 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 meaningful use ("MU") compliant platform for 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 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 clients that Classic will not be made MU Stage 3 compliant.

During 2017, we notified all remaining Classic clients of our intent to sunset the solution effective November 1, 2019, after which time we will no longer provide related software application support. Prior to this announcement, the majority of Classic clients had already completed the migration to another platform.

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 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.

Acute Care 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 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.

Post-acute Care Support and Maintenance Services

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

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

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

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

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

TruBridge - Business Management, Consulting, and Managed Information Technology Services

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 clients with a strong alternative to in-house operations. These services leverage our deep service and technology experience and are designed to allow clients 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 clients 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.

Our acquisition of HHI in January 2016 also introduced the products and services of Rycan, a leading provider of SaaS-based healthcare RCM solutions. Following the acquisition, and due to the versatility of healthcare RCM solutions, CPSI has integrated Rycan's solution set into the respective EHRs for Evident, Healthland, and AHT and integrated all of Rycan's 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 (Evident), www.healthland.com (Healthland), www.healthtech.net (AHT), and www.trubridge.com (TruBridge).

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

Product Development and Enhancement

The healthcare information technology industry is characterized by rapid technological change requiring us to continually make investments to update, enhance and improve our products and services. These investments have resulted in total expenditures related to our Product Development Services division of approximately \$37.8 million, \$32.6 million, and \$14.2 million during the years ended December 31, 2017, 2016 and 2015, respectively.

In 2017, our focus on delivering shared solutions to the acute and post-acute markets through a suite of services integrated with our core platforms resulted in our first production deliveries of shared products in areas such as:

- Clinical quality measure reporting
- Business intelligence
- Interoperable clinical documentation review
- CommonWell Health Alliance patient management workflows

We also delivered platform specific updates including:

Evident Thrive EHR

Platform and infrastructure updates

On-going localization activities for the Canadian market

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

Healthland Centriq EHR

Development activities continued to support our long-term strategy to utilize the CPSI Interface Management System as a means of efficiently delivering new third-party integrations at scale

AHT

Software feature additions which enhanced the following:

Ported functionality from legacy system to new system platform to enhance pre-admission workflows
Use of new UI/UX process to improve Care Planning performance and workflow
Introduced enterprise-level data concepts, including "Person profile" that included advanced directives, immunization tracking and history, preferences and goals, social history and special needs
Supported value-based payment models adding "Bundled payment" support, convener and dashboard monitoring
Provided Episodic care support, separation and identification of person, stay and episode contexts
Provided Disease Management capabilities through integration with COMS
Interact 4 v2 released

Expanded interoperability framework to allow system level aggregation and simplification of certification process; introduced self-certification interoperability with vendors through use of mailbox; provided new integration and enhanced features

Our Product Development services division operates across our family of companies and 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 - We realize the importance of providing physicians with efficient workflows that provide more time for them to focus on managing patient care. To that end, we have been investing in product improvements to enhance the usability of our physician-targeted applications through user-centered design processes involving our client facilities.

Continuum of Care - We find it critical to provide data expressing the past history and current state of a patient, regardless of setting and throughout their journey. To support this, our investment in product development has included the creation of more data liquidity and the facilitation of data exchange across the continuum.

Financial Efficiencies - Our focus in this area has been two-fold: assisting our clients in managing their operations and financial resources as effectively as possible, and expending our effort internally to ensure we are creating and delivering products in a cost efficient manner.

Population Health - As a provider of solutions which target healthcare delivery across individual communities, we are focused on facilitating more efficient and proactive management of the health of the population of those communities. Through projects such as our clients' ACOs, and products such as our eCQM platform and Business Intelligence dashboards, we are focused on how technology can support the community mission to improve the health of their populace.

Global Market Expansion - We have continued to focus on development to provide more capabilities to the Thrive platform, as well as add infrastructure to support more widespread deployments at scale.

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

is the initial phase of our LikeMind client experience.

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

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clients during the training process. This training phase is also part of the LikeMind client experience that is provided to all of our clients.

Clients, Sales and Marketing

Target Markets. The target market for our acute care EHR systems consists of community hospitals with less than 200 acute care beds, with a primary focus on hospitals with 100 or fewer acute care beds. In the United States, there are approximately 3,500 community hospitals with less than 200 or fewer acute care beds, with approximately 2,500 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, our companies currently support approximately 1,100 acute care facilities across the United States. Approximately 94% of our existing acute care clients are hospitals with fewer than 100 acute care beds, while approximately 99% of our existing acute care clients are hospitals with 200 or fewer acute care beds.

The target market for our post-acute care EHR solution consists of over 15,000 long-term care and skilled nursing facilities in the United States. In addition, through a strategic relationship with Medtelligent, we are able to market an EHR for assisted living facilities creating add-on sales opportunities in our direct client base and new sales opportunities across the broader senior living market. As of the date of this filing, we have our post-acute care EHR solution installed in approximately 3,400 facilities across the United States.

The expanded target market for our TruBridge services consists of small to mid-size hospitals in the United States. There are approximately 4,100 of these hospitals of 300 beds or less. As of the date of this filing, there are over 200 healthcare providers who use our accounts receivable management or private pay services, approximately 550 providers who use our managed information technology services, and approximately 600 providers who use our RCM solutions. In addition, we are now marketing our services to post-acute care facilities, of which there are over 15,000 in the United States.

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

Our goals in the inpatient hospital market are threefold: (1) target those hospitals under 100 beds in the United States that we believe are currently using a vendor that we have determined is vulnerable based on a variety of factors, (2) continue our efforts to expand into the Canadian market through active marketing efforts and establishing business relationships with Canadian information technology providers, and (3) selectively target hospitals in the 100 to 200 bed market that we believe offer a reasonable chance of sales success based on size, location and other factors. Our goal in the ambulatory market is to aggressively target physician practices in those communities where the local hospital is a current CPSI client.

Our goal in the post-acute care market is to continue to target both individual facilities as well as larger multi-facility corporate entities. In addition, we intend to extend our penetration into the post-acute care market by offering an assisted living facility EHR solution that we believe will broaden the appeal of our solutions to those operators who offer multiple care settings in their organizations.

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

	Year ended December 31,		
(In thousands)	2017	2016	2015
Sales revenues:			
Domestic	\$276,510	\$267,081	\$181,716
International ⁽¹⁾	417	191	458
	\$276,927	\$267,272	\$182,174

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

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

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

Competition

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

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product features, functionality and performance;
range of services offered;
level of client service and satisfaction;
ease of integration and speed of implementation;
product price;
cost of services offered;
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 Cerner Corporation, athenahealth, Inc., Medical Information Technology, Inc. ("Meditech"), 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 Change Healthcare Holdings, Inc., 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., Patient Focus, Inc, Xtend Healthcare Inc., Ensemble Health Partners, and nThrive, 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, Citadel Outsource Group LLC, Patient Matters, LLC, KIWI-TEK, LLC, and Aviacode Inc. Our principle competitors for RCM solutions include RelayHealth Corp, SSI Group, LLC, Quadax Inc., Change Healthcare Holdings, Inc., Availity, LLC, and Navicare, Inc.

Actual or perceived security breaches of our systems could harm the market perception of our products and services which could impact our retention of existing clients and ability to acquire prospective clients.

Health Information Security and Privacy Practices

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") is a federal law governing 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 clients. 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.

Managing Cybersecurity Risks

Our business operations, including the provision of the products and services described above, involve the compilation and transmission of 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, but our systems may be vulnerable to security breaches, viruses, programming errors and other similar disruptive problems.

The Board of Directors is responsible for exercising oversight of management's identification and management of, and planning for, the material risks facing the Company, and we believe our policies and procedures are adequate to ensure that relevant information about cybersecurity risks and incidents is appropriately reported and disclosed. In connection with its oversight responsibility with respect to cybersecurity risks facing the Company, the Board authorized in 2017 the formation of a Cybersecurity Committee comprised of the Executive Vice President of CPSI, the Chief Technology Officer, the Senior Vice President of IT Services, and the Senior Vice President of Professional Services of TruBridge, LLC. The Cybersecurity Committee meets quarterly to discuss the primary cybersecurity-related risks currently facing the Company, and the Committee reports to Mr. Fowler, the Company's Chief Operating Officer and President of TruBridge, LLC, who in turn provides updates to the Board.

Additionally, we appointed a new Security Operations Center (SOC) Director to oversee a number of initiatives designed to improve our cybersecurity protection, readiness and response. The SOC Director oversees penetration testing for TruBridge customers, vulnerability scanning by CPSI and TruBridge, endpoint threat detection and response development, insider threat detection and monitoring, security event application management and other cybersecurity-related projects. The Company also consulted with a third party in 2017 to conduct an evaluation of our cybersecurity risks. Finally, all users employed by or contracted to the Company are required to complete annual

cybersecurity education and training, which includes identifying suspicious emails, Internet threats, telecommunication threats and ransomware.

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 clients, 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, 2017, we had approximately 2,000 employees, the substantial majority of which are located at our offices in Alabama, Louisiana, Mississippi, Pennsylvania, 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 51, has served as our President and Chief Executive Officer since May 2006. He was first 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 July 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 48, was appointed as our Chief Growth Officer in November 2015, having previously served as our Chief Financial Officer, Secretary and Treasurer from June 2010 until November 2015. Mr. Dye served as our President and Chief Executive Officer from July 1999 to May 2006. He was first 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 42, 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 37, 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 59, 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 48, 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 53, 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 clients 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 clients. During the past several years, the healthcare industry has been subject to increased legislation and regulation of, among other things, reimbursement rates, payment programs, information technology programs and certain capital expenditures (collectively, the "Health Reform Laws").

The Health Reform Laws contain various provisions which impact us and our clients. 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. The continued increase in fraud and abuse penalties is expected to 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, quality-based care and a reduction of inefficiencies and waste, including through various tools to address fraud and abuse.

The Health Reform Laws will continue to affect hospitals differently depending upon the populations they serve and their payor mix. Our target market of 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 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 are leading to significant changes in the healthcare system, but the full impact of the legislation and of further statutory and regulatory actions to reform healthcare on our business is unknown. As a result, 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. We believe some healthcare industry participants have reduced their investments or postponed 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 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.

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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 clients 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 clients. 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 clients 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 clients is difficult to predict. Many of the regulations applicable to our clients and that may be applicable to us, including those relating to marketing incentives offered in connection with medical device sales 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 clients 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 clients 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 clients 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 clients 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 clients 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 clients' 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 clients, 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 clients who are covered entities, we are in most instances already contractually required to ensure compliance with the HIPAA regulations as they pertain to the handling of covered client data. However, the extension of these HIPAA obligations to business associates by law has created a direct liability risk 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 clients 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 clients 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 clients or

limit our ability to attract new clients.

ARRA Meaningful Use Program. The ARRA requires "meaningful use of certified electronic health record technology" by healthcare providers by 2015 in order to receive limited incentive payments and to avoid related reduced reimbursement rates for Medicare claims. Related 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 clients' 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 clients 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 client 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 clients may postpone or cancel their decisions to purchase or implement our software and systems.

As it relates specifically to interoperability, we are a member of 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. Effective October 2015, CMS mandated the use of new patient codes for reporting medical diagnosis and inpatient procedures, referred to as the ICD-10 codes. CMS requires all providers, payors, clearinghouses and billing services to utilize these ICD-10 codes when submitting claims for payment. ICD-10 codes affect medical diagnosis and inpatient procedure coding for everyone covered by HIPAA, not just those who submit Medicare or Medicaid claims. Claims for services 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, clients 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 clients 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 clients. 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 economic recession in 2007-2009 and continued decrease in availability of credit to hospitals, combined with actual and potential further 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.

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 clients, a reduction in our potential client base and downward pressure on the prices of our products and services.

The limited number of hospitals with 200 or fewer acute care beds in our general target market for our acute care product and service offerings 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 client. 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 clients and could experience a decrease in the number of potential purchasers of our products and services. The loss of existing and potential clients 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 clients and our business.

Domestic and international events have frequently resulted in volatility and disruption to the global capital and credit markets, often adversely affecting the availability, terms and cost of credit. 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 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 clients continue to face tight capital and credit markets and other disruptions resulting from the prior economic recession or cuts in Medicare and Medicaid funding. 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 clients 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 clients 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 clients 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, 2017, we had approximately \$143.5 million of indebtedness, which includes \$115.5 million under our Term Loan Facility and \$28.0 million borrowed under our Revolving Credit Facility. We also had \$17.0 million of unused commitments under our Revolving Credit Facility as of December 31, 2017.

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. Additionally, the Credit Agreement requires repayment of the facilities with 75% (50% for 2019 and thereafter) of excess cash flow (minus certain specified other payments), subject to elimination if our consolidated leverage ratio is less than or equal to 2.5 to 1.0.

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, 2017 was 4.875%. 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.

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 client 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 clients 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 clients and/or a lowering of prices for our products, causing a decrease in our revenues and/or market share.

Our principal competitors are Cerner Corporation, athenahealth, Inc., Medical Information Technology, Inc. ("Meditech"), 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 solutions and address the needs of hospitals in the markets we serve.

Our secondary competitors in the acute care EHR market include Change Healthcare Holdings, Inc., 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 provided by one of these competitors 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., Patient Focus, Inc, Xtend Healthcare Inc., Ensemble Health Partners, and nThrive, 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, Citadel Outsource Group LLC, Patient Matters, LLC, KIWI-TEK, LLC, and Aviacode Inc. Our principle competitors for RCM solutions include RelayHealth Corp, SSI Group, LLC, Quadax Inc., Change Healthcare Holdings, Inc., Availity, LLC, and Navicure, Inc.

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 clients, 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 clients 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, clients 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 client claims against us and harm to our reputation causing us to incur expenses and/or lose clients.

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

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networks of our clients. 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. Based on the size of our company, the industry in which we operate, and the overall percentage of impacted companies in the same or similar industry, it is probable there will be attempts to breach our security. Healthcare information has become a prime target for attackers based on the value of the information and, therefore, has the potential to increase the risk of us experiencing a cyber attack.

Our systems have experienced various immaterial breaches in the past, including ransomware, denial-of-service, malware, and phishing. Also, our business partners have experienced security breaches, which is disruptive for our customers. While these events have not had an adverse impact on our business or financial condition, security breaches such as these could have a material adverse effect on our financial condition, as, (a) clients could sue us for breaches of security involving our system due to the sensitivity of the medical information we compile and transmit; (b) 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 clients; and (c) 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 and we have enhanced our cybersecurity risk management program and disclosure controls and procedures, as discussed under "Business - Our Products and Services." However, no assurance can be given that these efforts will be sufficient to protect against a breach or other cybersecurity incident. Also, 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 client 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 clients' 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 client satisfaction with our products, cause a loss of revenue, result in legal actions by our clients and cause increased insurance costs.

Most of 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 clients who depend on us for system support or business management, consulting and managed IT services. Also, the servers of clients who use our remote access services could be damaged or destroyed in any such disaster. This would have potentially devastating consequences to those clients. 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 clients 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 clients and obtain new clients, and result in

lost revenue and increased insurance and other operating costs.

We also have clients for whom we store and maintain computer servers containing critical patient and administrative data. Those clients 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 clients would be unable to access their mission

critical data causing an interruption in their operations. In such event our remote access clients and/or their patients could seek to hold us responsible for any losses. We would also potentially lose those clients, and our reputation could be harmed.

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

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

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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 clients 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 clients 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 clients and our ability to obtain new clients. 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 clients, which is not within our control.

We deliver Internet-based services and, accordingly, depend on our ability and the ability of our clients 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 clients.

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.

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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, including ASC Topic 985-606, 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 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 clients, 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. For example, we recorded a goodwill impairment charge of \$28.0 million in the fourth quarter of 2017 relating to our Post-acute Care EHR reporting unit, which consists solely of American HealthTech, which we acquired in January 2016 as part of our acquisition of HHI. This impairment charge had a significant negative effect on our consolidated net income for the year ended December 31, 2017.

Any future impairment charges 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 clients often take

significant time evaluating our system and related services before making a purchase decision. Moreover, a prospective client who has placed an order for our system could decide to cancel that order or postpone installation of the ordered system. If a prospective client delays or cancels a scheduled system installation during any quarter, we may not be able to schedule a substitute system installation

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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 client budgets and purchasing priorities;
- the ability of our clients to obtain financing for the purchase of our products;
- the financial stability of our clients;
- the specific mix of software, hardware and services in orders from clients;
- 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.

During 2017, we recognized revenue pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 985-605, Software, Revenue Recognition, or ASC 985-605. As of January 1, 2018, we recognize revenue pursuant to FASB ASC Topic 606, Revenue from Contracts with Customers, or ASC 606. ASC 606 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;
• client 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.

If we fail to 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 our Annual Report on Form 10-K for the year ended December 31, 2016 (under "Controls and Procedures"), our management concluded that, as of December 31, 2016, we had a material weakness 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 have remediated the identified material weakness, but no assurances can be given that management will not identify in the future internal control deficiencies, with respect to business combination processes or otherwise, that constitute a material weakness in our internal control over financial reporting or that any such material weakness will be remediated in a timely fashion.

If we are unable to maintain effective internal control over financial reporting, 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; Pottsville, Pennsylvania; Lanett, Alabama; Mobile, Alabama; Monroe, Louisiana; Denver, Colorado; Glenwood, Minnesota; Marshall, Minnesota; Minneapolis, Minnesota; and Ridgeland, Mississippi. The terms of these leases generally range in length from one to twelve years, and all of the leases contain options to incrementally extend the lease period. Two of our leases are set to expire in 2018 in the normal course. We do not expect difficulties in locating comparable facilities should we chose not to, or be otherwise unable to, extend one or more of our existing leases. We do not anticipate the need to lease additional office space in 2018, as we expect that our existing facilities will be sufficient to meet our needs until the end of 2018 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 12, 2018, there were approximately 100 registered holders of our common stock, as provided to us by our transfer agent. This number does not include the number of beneficial owners whose shares are held in "street" names by broker-dealers and other institutions who hold shares on behalf of their clients. As of March 12, 2018, there were 14,085,989 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
2017			
First Quarter	\$29.00	\$21.60	\$ 0.25
Second Quarter	36.15	26.05	0.20
Third Quarter	32.85	27.60	0.30
Fourth Quarter	31.70	27.75	0.10
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

The last reported sales price of CPSI's common stock as reported on the NASDAQ Global Select Market on March 12, 2018 was \$30.60.

Dividends

On November 2, 2017, the Company announced that our Board of Directors adopted a fixed dividend policy for the payment of quarterly dividends. The policy provides for dividends to be paid quarterly in an amount of \$0.10 per share. During 2017, we paid quarterly dividends in the amount of \$0.25, \$0.20, \$0.30, and \$0.10, compared to 2016, when we paid quarterly dividends in the amount of \$0.64, \$0.64, \$0.34, and \$0.24. 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,				
	2017	2016	2015	2014	2013
INCOME DATA:					
Total sales revenues	\$276,927	\$267,272	\$182,174	\$204,742	\$200,863
Total costs of sales	125,630	130,012	87,716	90,795	89,534
Gross profit	151,297	137,260	94,458	113,947	111,329
Total operating expenses*	156,111	122,885	69,372	64,360	61,085
Operating income (loss)*	(4,814)	14,375	25,086	49,587	50,244
Total other income (expense)	(8,669)	(6,389)	405	152	466
Income (loss) before taxes*	(13,483)	7,986	25,491	49,739	50,710
Provision for income taxes	3,933	4,053	7,148	16,819	17,967
Net Income (loss)*	\$(17,416)	\$3,933	\$18,343	\$32,920	\$32,743
Net income (loss) per share - basic*	\$(1.27)	\$0.29	\$1.62	\$2.94	\$2.95
Net income (loss) per share - diluted*	\$(1.27)	\$0.29	\$1.62	\$2.94	\$2.95
Weighted average shares outstanding:					
Basic	13,419	13,255	11,083	11,026	10,998
Diluted	13,419	13,255	11,083	11,026	10,998
Cash dividends declared per common share	\$0.85	\$1.86	\$2.56	\$2.28	\$2.04

	As of December 31,				
	2017	2016	2015	2014	2013
BALANCE SHEET DATA					
Cash and cash equivalents	\$520	\$2,220	\$24,951	\$23,792	\$11,729
Working capital	17,028	13,604	57,136	63,355	51,301
Total assets	318,216	339,150	92,788	99,325	92,535
Total current liabilities	40,849	30,945	17,421	18,161	21,451
Total stockholders' equity	136,086	157,970	75,366	80,781	69,083

* Year ended December 31, 2017 is inclusive of a \$28.0 million (\$2.09 per share) non-cash goodwill impairment expense.

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 is a leading provider of healthcare solutions and services for community hospitals and other healthcare systems and post-acute care facilities. Founded in 1979, CPSI offers its products and services through four companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), Healthland Inc. ("Healthland"), and American HealthTech, Inc. ("AHT"). These 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 these companies towards this combined focus are as follows:

Evident, formed in April 2015, provides a comprehensive acute care electronic health record ("EHR") solution, Thrive, and related services for community hospitals and their physician clinics.

Healthland provides a comprehensive acute care EHR solution, Centriq, and related services for community hospitals and their physician clinics.

TruBridge focuses on providing business management, consulting, and managed IT services along with its complete revenue cycle management ("RCM") solution for all care settings, regardless of their primary healthcare information solutions provider.

AHT provides a comprehensive post-acute care EHR solution and related services for skilled nursing and assisted living facilities.

Our companies currently support approximately 1,100 acute care facilities and approximately 3,500 post-acute care facilities with a geographically diverse customer mix within the domestic community healthcare market. Our customers primarily consist of community hospitals with 200 or fewer acute care beds, with hospitals having 100 or fewer beds comprising approximately 94% of our hospital EHR customer base.

We operate in three reportable segments: (1) Acute Care EHR, (2) Post-acute Care EHR and (3) TruBridge. See Note 17 to the consolidated financial statements included herein for additional information on our segment reporting.

Acute Care EHR

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

Our TruBridge 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 5.9% as of the end of our most recently completed fiscal year. Important to our potential for continued long-term revenue growth is our ability to sell new and additional products and services to our existing customer base,

including cross-selling opportunities presented with

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the acquisition of HHI. We believe that as our combined customer base grows, the demand for additional products and services, including business management, consulting and managed IT services, will also continue to grow, supporting further increases in recurring revenues. We also expect to drive revenue growth from new product development that we may generate from our research and development activities.

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. This acquisition expanded our footprint for servicing acute care facilities and introduced us to the post-acute care segment, adding significantly to our already substantial recurring revenue base and further expanding our ability to generate organic recurring revenue growth through additional cross-selling opportunities now available within the combined company. We believe that the addition of HHI and its clients and products has enhanced and will continue to enhance our ability to grow our business and compete in the markets that we serve.

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 2016 we instituted several changes related to our employee benefits offerings, including a spousal carve-out for healthcare benefits. Additionally, during the first quarter of 2017 we instituted a limited-time, voluntary severance program offering those employees meeting certain predetermined criteria severance packages involving continuing periodic cash payments and healthcare benefits for varying periods, depending upon the individual's years of service with the Company. Lastly, the acquisition of HHI in January 2016 presented 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 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 while replacing fee-for-service in part by enrolling in an advanced payment model. This pressure could further encourage adoption of healthcare IT and increase demand for business management, consulting, and managed IT services as the future success of these healthcare providers is greatly dependent upon their ability to engage patient populations and to coordinate patient care across a multitude of settings, while optimizing operating efficiency along the way.

American Recovery and Reinvestment Act of 2009

While ongoing financial challenges facing healthcare organizations have impacted and are expected to continue to impact the community hospitals that comprise our target market, we believe that the reduced reimbursement under the American Recovery and Reinvestment Act of 2009 (the "ARRA") for those providers failing to adopt qualifying

EHRs will continue to support demand for healthcare information technology and will have a positive impact on our business prospects through at least 2018.

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

Similarly, compliance with the meaningful use rules has accelerated the purchases of incremental applications by our existing customers. Consequently, our penetration rates within our existing customer base for our current menu of applications have increased significantly under the ARRA, thereby significantly narrowing the market for add-on sales to existing customers. On August 2, 2017, the Centers for Medicare and Medicaid Services (“CMS”) announced a final rule that effectively delayed the requirement for stage three compliance from January 1, 2018 to January 1, 2019. While we believe that the stage three requirements provide a significant opportunity for add-on sales revenues through 2018, the delay by CMS is expected to delay some of the contract revenues we previously anticipated and there is a risk of further delays or reductions in the regulatory requirements imposed on hospitals, which could have an adverse effect on our revenues.

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 200 bed hospital market, and continued development of new software applications such as our Business Intelligence solution which provides community hospital leaders valuable insight into financial, operational, and clinical data, 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.

2017 Financial Overview

We generated revenues of \$276.9 million from the sale of our products and services during 2017, compared to \$267.3 million during 2016, an increase of 3.6% that is primarily attributed to TruBridge customer growth and meaningful use stage 3 implementations. We view sales of TruBridge solutions within our existing EHR client base as our leading performance indicator. Our net income (loss) decreased to a loss of \$17.4 million from income of \$3.9 million in 2016 primarily due to a \$28.0 million goodwill impairment charge for our post-acute care EHR reporting unit. Our operating income (loss) decreased by 133.5%, from income of \$14.4 million in 2016 to a loss of \$4.8 million, primarily due to the aforementioned goodwill impairment partially offset by realized synergies resulting from the 2016 acquisition of HHI. Net cash provided by operating activities increased \$21.5 million, from \$2.1 million provided by operations for 2016 to \$23.6 million provided by operations for 2017. This increase is primarily due to a \$6.7 million increase in net income, exclusive of the non-cash goodwill impairment charge, and cash-advantageous changes in working capital.

We did not identify any events or circumstances that would require interim goodwill impairment testing prior to October 1, 2017. Based on our assessment as of October 1, 2017, we determined that there was no impairment of goodwill for our Acute Care EHR and TruBridge reporting units. We also determined as of October 1, 2017, that it was more likely than not that we did not have an impairment of our Post-acute Care EHR reporting unit. During the fourth quarter of 2017, the cumulation of events, including anticipated attrition of significant customer accounts and a product development acceleration investment plan in our Post-acute Care EHR software, triggered management to re-assess future discounted cash flow projections for the Post-acute Care EHR reporting unit. The result of our fair value assessment, with the assistance a third-party valuation expert, resulted in a preliminary conclusion on January 12, 2018. The valuation assessment, which applied a combination of the income and market valuation approach, measured the reporting unit's fair value less than the reporting unit's carrying value and a goodwill impairment of \$28.0 million was recorded against our Post-acute Care EHR reporting unit as of December 31, 2017.

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).

During 2017, total financing receivables increased by \$15.5 million, which had a significant impact on operating cash flow. The increase in financing arrangements is primarily due to two reasons. First, meaningful use stage 3 installations are primarily financed through short-term payment plans. Second, competitor financing options, primarily

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

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. We have experienced a substantial increase in the prevalence of such SaaS arrangements for new system installations and add-on sales to existing customers since 2015, a trend we expect to continue for the foreseeable future. Unlike

our historical perpetual license arrangements under which the related revenue is recognized effectively upon installation, the SaaS arrangements result in revenue being recognized monthly as the services are provided over the term of the arrangement. As a result, the effect of this trend on the Company's financial statements is reduced system sales revenues during the period of 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.

TruBridge. 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 sale and implementation of and training related to our Acute Care and Post-acute Care EHR software systems and related support services are employee salaries, 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.

TruBridge. 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, 2017, expressed as a percentage of our total revenues for these periods:

(In thousands)	Year ended December 31,					
	2017		2016		2015	
	Amount	% Sales	Amount	% Sales	Amount	% Sales
INCOME DATA:						
Sales revenues:						
System sales and support:						
Acute Care EHR	\$164,228	59.3 %	\$159,146	59.5 %	\$118,385	65.0 %
Post-acute Care EHR	24,033	8.7 %	26,519	9.9 %	—	— %
Total system sales and support	188,261	68.0 %	185,665	69.5 %	118,385	65.0 %
TruBridge	88,666	32.0 %	81,607	30.5 %	63,789	35.0 %
Total sales revenues	276,927	100.0 %	267,272	100.0 %	182,174	100.0 %
Costs of sales:						
System sales and support:						
Acute Care EHR	68,513	24.7 %	74,746	28.0 %	52,500	28.8 %
Post-acute Care EHR	7,481	2.7 %	9,610	3.6 %	—	— %
Total system sales and support	75,994	27.4 %	84,356	31.6 %	52,500	28.8 %
TruBridge	49,636	17.9 %	45,656	17.1 %	35,216	19.3 %
Total costs of sales	125,630	45.4 %	130,012	48.6 %	87,716	48.1 %
Gross profit	151,297	54.6 %	137,260	51.4 %	94,458	51.9 %
Operating expenses:						
Product development	37,761	13.6 %	32,621	12.2 %	14,229	7.8 %
Sales and marketing	33,021	11.9 %	27,194	10.2 %	18,333	10.1 %
General and administrative	46,923	16.9 %	52,888	19.8 %	36,810	20.2 %
Amortization of acquisition-related intangibles	10,406	3.8 %	10,182	3.8 %	—	— %
Goodwill impairment	28,000	10.1 %	—	— %	—	— %
Total operating expenses	156,111	56.4 %	122,885	46.0 %	69,372	38.1 %
Operating income (loss)	(4,814)	(1.7)%	14,375	5.4 %	25,086	13.8 %
Other income (expense):						
Other income	407	0.1 %	220	0.1 %	405	0.2 %
Loss on extinguishment of debt	(1,340)	(0.5)%	—	— %	—	— %
Interest expense	(7,736)	(2.8)%	(6,609)	(2.5)%	—	— %
Total other income (expense)	(8,669)	(3.1)%	(6,389)	(2.4)%	405	0.2 %
Income (loss) before taxes	(13,483)	(4.9)%	7,986	3.0 %	25,491	14.0 %
Provision for income taxes	3,933	1.4 %	4,053	1.5 %	7,148	3.9 %
Net income (loss)	\$(17,416)	(6.3)%	\$3,933	1.5 %	\$18,343	10.1 %

2017 Compared to 2016

Revenues. Total revenues for the year ended December 31, 2017 increased 3.6%, or \$9.7 million, compared to the year ended December 31, 2016.

System sales and support revenues, consisting of the Acute Care EHR and Post-acute Care EHR segments, increased by 1.4%, or \$2.6 million, from the year ended December 31, 2016. System sales and support revenues were comprised of the following for the year ended December 31, 2017 and 2016:

(In thousands)	Year ended	
	December 31, 2017	2016
Recurring system sales and support revenues ⁽¹⁾		
Acute Care EHR	\$ 113,056	\$ 117,482
Post-acute Care EHR	20,122	20,082
Total recurring system sales and support revenues	133,178	137,564
Non-recurring system sales and support revenues ⁽²⁾		
Acute Care EHR	51,172	41,665
Post-acute Care EHR	3,911	6,436
Total non-recurring system sales and support revenues	55,083	48,101
Total system sales and support revenue	\$ 188,261	\$ 185,665

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

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

Nonrecurring Acute Care EHR system sales and support revenues increased \$9.5 million, or 22.8%, primarily as Evident's new installations and add-on volumes increased by \$10.5 million, or 33.6%, partially offset by a \$1.0 million decrease in Healthland's nonrecurring revenue. Related to Evident's new system installation volumes, we went live with our Thrive EHR solution at 29 new hospital clients during 2017 (three of which were under a Cloud EHR arrangement, under which the related costs are all captured in the period of the installation with the resulting revenue recognized ratably over the contractual term as the services are provided) compared to 21 new hospital clients during 2016 (five of which were under a Cloud EHR arrangement), with a resulting revenue increase of \$2.4 million. Evident's add-on sales increased \$8.1 million due to installations related to meaningful use stage three compliance. These increases were partially offset by a decrease in nonrecurring Post-acute Care EHR revenues of \$2.5 million, or 39.2%, compared with 2016, as a result of slowing new installation bookings due to aggressive competition and the need for technological improvement in the AHT products.

Recurring Acute Care EHR system sales and support revenues decreased \$4.4 million, or 3.8%. Our recently acquired Healthland customer base contains a heavy concentration of calendar year-end support and maintenance renewal terms. As a result, the majority of the revenue impact related to Healthland attrition through 2016 customer support terminations did not materialize until 2017. Post-acute Care EHR recurring revenues remained relatively flat compared to 2016.

TruBridge revenues increased 8.6%, or \$7.1 million, from 2016. Our hospital customers 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 accounts receivable management services (increasing 11.1%, or \$2.6 million). Our insurance services revenues increased 8.7%, or \$1.6 million, as our 2016 acquisition of HHI exposed Rycan's solutions to a broader and more robust sales channel. Our IT managed services revenues have increased 14.2%, or \$1.3 million, as we continue to see increasing demand for remote hosting for our acute and post-acute care EHR solutions. Our medical coding services have increased 59.6%, or \$2.3 million, as new key customers have been added. These increases were partially offset by a decrease in nonrecurring consulting services of \$0.6 million, or 14.8%.

Costs of Sales. Total costs of sales decreased by 3.4%, or \$4.4 million, from 2016. As a percentage of total revenues, costs of sales decreased from 48.6% in 2016 to 45.4% in 2017.

Costs of Acute Care EHR system sales and support decreased by 8.3%, or \$6.2 million, from 2016 primarily due to the realization of planned HHI acquisition synergies over the past two years, coupled with expected declining Healthland installation volumes. As a result, the gross margin on Acute Care EHR system sales and support increased to 58.3% 2017 from 53.0% 2016.

Costs of Post-acute Care EHR system sales and support decreased by 22.2%, or \$2.1 million, from 2016, primarily due to decreased payroll costs of \$1.2 million, or 22.3%, as the realization of HHI acquisition synergies over the trailing twelve months have resulted in a decrease in associated headcount. Third party software costs, hardware costs, and travel costs decreased by a total of \$0.9 million due to the decreased installation volume mentioned above. The gross margin on Post-acute Care EHR systems sales and support increased to 68.9% in 2017, from 63.8% in 2016. Our costs of sales associated with TruBridge increased 8.7%, or \$4.0 million, in 2017 with the largest contributing factor being an increase in payroll and related costs of 14.0%, or \$4.0 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 gross margin on these services decreased slightly to 44.0% in 2017 from 44.1% in 2016 as a result of the aforementioned headcount increases to support a growing customer base. Product Development Costs. Product development costs consist primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs increased 15.8%, or \$5.1 million, from 2016, as a result of increased headcount dedicated to functionality additions and enhancements across the product lines, as well as integration across product lines.

Sales and Marketing Expenses. Sales and marketing expense increased 21.4%, or \$5.8 million, from 2016, with the largest contributing factor being a \$4.9 million increase in commission expense resulting from the aforementioned increase in Evident's new system implementation and add-on volumes, including Cloud EHR arrangements and related revenues and continued bookings growth for TruBridge.

General and Administrative Expenses. General and administrative expenses decreased 11.3%, or \$6.0 million, from 2016, primarily due to \$8.2 million in HHI transaction costs during 2016 with none in 2017. This decrease was partially offset by an increase of \$0.4 million in employee health claims, a \$0.6 million increase in stock compensation, and a \$1.2 million increase in bad debt expense, as our exposure to financially distressed clients increased during 2017, resulting in increased customer-specific reserves. The proliferation of customer financing has greatly increased our balance sheet risk, necessitating an increase in related general reserves.

Amortization of Acquisition-Related Intangibles. Amortization expense associated with acquisition-related intangible assets increased \$0.2 million due to the HHI acquisition taking place in January 2016; therefore, a full year of amortization did not occur during 2016.

Goodwill Impairment. During the fourth quarter of 2017, the cumulation of events, including anticipated attrition of significant customer accounts and a product development acceleration investment plan in our Post-acute Care EHR software, triggered management to re-assess future discounted cash flow projections for the Post-acute Care EHR reporting unit. A goodwill impairment of \$28.0 million was recorded against our Post-acute Care EHR reporting unit as of December 31, 2017. There was not an impairment during 2016.

Total Operating Expenses. As a percentage of total revenues, total operating expenses increased to 56.4% in 2017 compared to 46.0% in 2016. Excluding the aforementioned non-cash \$28.0 million goodwill impairment expense, as a percentage of total revenues, total operating expenses increased to 46.3% in 2017 compared to 46.0% in 2016.

Total Other Income (Expense). Total other expense increased from an expense of \$6.4 million during 2016 to an expense of \$8.7 million during 2017, as we recognized a \$1.3 million loss on extinguishment of debt. We partially expensed the capitalized loan fees associated with our Credit Facilities, which were refinanced during 2017. In addition, market conditions in 2017 have resulted in increased interest rates paid on our variable-rate debt obligations. Income (loss) Before Taxes. As a result of the foregoing factors, income before taxes decreased by 268.8%, or \$21.5 million, from 2016.

Provision for Income Taxes. Our effective income tax rates for 2017 and 2016 were (29.2)% and 50.8%, respectively. Our effective tax rate for the year ended December 31, 2017 was significantly impacted by tax shortfalls related to stock-based compensation resulting from our adoption of ASU 2016-09, the non-deductible nature of our goodwill

impairment charges, and

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the effect of recent tax reform legislation. These three factors combined for a net \$8.8 million expense during 2017, impacting the period's effective tax rate by approximately 65.2%. 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.

Net Income (loss). Net income (loss) for 2017 decreased by \$21.3 million to a net loss of \$17.4 million, or \$1.27 loss per basic and diluted share, compared with net income of \$3.9 million, or \$0.29 per basic and diluted share, for 2016. Net loss represented 6.3% of revenue for 2017, compared to net income representing 1.5% of revenue for 2016.

2016 Compared to 2015

Revenues. Total revenues for the year ended December 31, 2016 increased 46.7%, or \$85.1 million, compared to the year ended December 31, 2015. This was largely attributable to \$86.6 million of revenue contributions from the acquisition of HHI.

System sales and support revenues, consisting of the Acute Care EHR and Post-acute Care EHR segments, increased by 56.8%, or \$67.3 million, from the year ended December 31, 2015. This increase was largely attributable to \$73.1 million of revenue contributions from the acquisition of HHI. System sales and support revenues were comprised of the following for the year ended December 31, 2016 and 2015:

(In thousands)	Year ended	
	December 31, 2016	2015
Recurring system sales and support revenues ⁽¹⁾		
Acute Care EHR	\$ 117,482	\$ 79,477
Post-acute Care EHR	20,082	—
Total recurring system sales and support revenues	137,564	79,477
Non-recurring system sales and support revenues ⁽²⁾		
Acute Care EHR	41,665	38,908
Post-acute Care EHR	6,436	—
Total non-recurring system sales and support revenues	48,101	38,908
Total system sales and support revenue	\$ 185,665	\$ 118,385

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

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

Nonrecurring Acute Care EHR system sales and support revenues increased \$2.8 million, or 7.1%, primarily due to \$10.4 million of revenue contribution from the acquisition of HHI. The contribution of Healthland was partially offset as Evident's new installation and add-on revenues decreased \$7.6 million, or 19.5%, 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, Evident 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 decreased from 2015. Post-acute Care EHR nonrecurring revenue, all attributable to the HHI acquisition, contributed \$6.4 million of revenue during 2016.

Recurring Acute Care EHR system sales and support revenues increased \$38.0 million, or 47.8%. The acquisition of HHI contributed \$36.3 million of recurring revenues. The remainder of the increase came from the Evident customer base, resulting in a \$1.7 million, or 2.2% increase, primarily due to newly installed and add-on software support fees. Recurring Post-acute Care EHR system sales and support revenues contributed \$20.1 million in 2016 as a result of the acquisition of HHI.

TruBridge revenues increased 27.9%, or \$17.8 million, primarily due to \$13.4 million of revenues attributable to the HHI acquisition, mostly generated through the Rycan RCM solution (\$8.0 million) and hosting services (\$4.2 million). TruBridge-legacy increased 6.9%, or \$4.4 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. These increases were partially offset by a decrease of 59.0%, or \$0.5 million, in health management consulting reflecting the 2015 ICD-10 compliance deadline.

Costs of Sales. Total costs of sales increased by 48.2%, or \$42.3 million. The 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 from 48.1% to 48.6%.

Costs of Acute Care EHR system sales and support increased by 42.4%, or \$22.2 million due mostly to \$26.3 million of costs of sales contributions from Healthland, partially offset by a 7.6%, or \$4.0 million, decrease in costs related to Evident 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 Evident. The gross margin for Acute Care EHR system sales and support decreased to 53.0% from 55.7%, primarily due to the margin profile associated with the Healthland system sales and support revenues. The gross margin on system sales and support generated by Healthland operations was 43.7% in 2016. Comparably, the gross margin on system sales and support generated by Evident operations was 56.9% during 2016, increasing slightly from 55.7% in 2015. The difference between the system sales and support gross margins of Healthland operations and Evident operations is the byproduct of a decreased support customer base for Healthland compared to Evident, resulting in a sales mix for Healthland that is more heavily weighted towards the more cost-intensive system sales revenues.

Costs of Post-acute Care EHR system sales and support were \$9.6 million in 2016, all attributable to the HHI acquisition. Gross margin on Post-acute Care EHR systems sales and support was 63.8% in 2016.

Our costs associated with TruBridge increased 29.6%, or \$10.4 million, with the acquisition of HHI contributing \$7.1 million in 2016. The largest contributing factor for the increase in cost of sales to TruBridge-legacy was an increase in payroll and related 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. The gross margin on these services decreased to 44.1% 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 had not fully converted into revenues as of December 31, 2016, but nevertheless required immediate investment in capacity.

Product Development Costs. Product development costs consist primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs increased 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 expense increased 48.3%, 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 increased a combined \$1.8 million due to the expansion of our sales force.

General and Administrative Expenses. General and administrative expenses increased 43.7%, or \$16.1 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. Total Operating Expense. As a percentage of total revenues, total operating expenses increased to 46.0% 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 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.

Income (loss) Before Taxes. As a result of the foregoing factors, income before taxes decreased by 68.7%, or \$17.5 million, from 2015.

Provision for Income Taxes. Our effective tax rate 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 (loss). Net income for 2016 decreased by 78.5%, or \$14.4 million, to 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.

Liquidity and Capital Resources

Sources of Liquidity

As of December 31, 2017, our principal sources of liquidity consisted of cash and cash equivalents of \$0.5 million and our remaining borrowing capacity under the Amended Revolving Credit Facility (as defined below) compared to \$2.2 million of cash and cash equivalents as of December 31, 2016. As noted previously, we completed our acquisition of HHI in January 2016. In conjunction with the acquisition, we entered into a syndicated credit agreement (the "Previous Credit Agreement"), described further below, with Regions Bank ("Regions") serving as administrative agent, which provided for a \$125 million term loan facility (the "Previous Term Loan Facility") and a \$50 million revolving credit facility (the "Previous Revolving Credit Facility" and, together with the Previous Term Loan Facility, the "Previous Credit Facilities"). The cash portion of the purchase price for our acquisition of HHI was primarily funded by the \$125 million Previous Term Loan Facility and \$25 million borrowed under the Previous Revolving Credit Facility.

On October 13, 2017, we entered into a Second Amendment (the "Second Amendment") to the Previous Credit Agreement (the "Amended Credit Agreement"), dated as of January 8, 2016, to refinance and decrease the aggregate committed size of the credit facilities from \$175 million to \$162 million, which included a \$117 million term loan facility (the "Amended Term Loan Facility") and a \$45 million revolving credit facility (the "Amended Revolving Credit Facility" and, together with the Amended Term Loan Facility, the "Amended Credit Facilities"). On February 8, 2018 we entered into a Third Amendment (the "Third Amendment") to the Amended Credit Agreement to increase the aggregate principle amount of the Amended Credit Facilities from \$162 million to \$167 million, which includes the \$117 million Amended Term Loan Facility and a \$50 million Amended Revolving Credit Facility.

As of December 31, 2017, we had \$143.5 million in principle amount of indebtedness outstanding under the Amended Credit Facilities. We believe that our cash and cash equivalents of \$0.5 million as of December 31, 2017, our future operating cash flows and our remaining borrowing capacity under the Amended Revolving Credit Facility of \$17.0 million as of December 31, 2017, 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.

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Operating Cash Flow Activities

2017 Compared to 2016. Net cash provided by operating activities increased \$21.5 million, from \$2.1 million provided by operations for 2016 to \$23.6 million provided by operations for 2017. This increase is primarily due to net income, exclusive of non-cash goodwill impairment charges, which increased \$6.7 million, and cash-advantageous changes in working capital. 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 during 2016. Comparatively, the timing of vendor payments during 2017 resulted in expansion of these liabilities and a resulting benefit to cash flows of \$6.8 million, for a total beneficial swing in cash flows from these working capital components of \$19.7 million.

Additionally, our acquisition of HHI in January 2016 included significant deferred revenue balances, the amortization of which benefited revenues during 2016 with no corresponding cash benefit. Conversely, deferred revenue balances grew during 2017 due to a high volume of advance billings for third party subscriptions, providing cash benefits with no related revenue impact. These deferred revenue dynamics alone resulted in a \$16.5 million improvement in cash flows as displayed in the consolidated statement of cash flows.

These cash flow improvements have been partially offset by an increasing level of customer financing arrangements for the purchase of our EHR systems. The increase in financing arrangements is primarily due to two reasons. First, meaningful use stage 3 installations are primarily financed through short-term payment plans. Second, competitor financing options, primarily accounts receivables management collections and cloud EHR arrangements, have applied pressure to reduce initial customer capital investment requirements for new EHR installations, leading to the offering of long-term lease options. During 2017 financing receivables expanded by \$17.3 million compared to a \$1.5 million contraction during 2016.

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 had no benefit to our operating cash flows. Consequently, our operating cash flows were 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 incurred \$8.2 million of transaction costs, the vast majority of which were in cash, associated with the HHI acquisition during 2016, with only \$3.0 million of such costs during 2015.

Investing Cash Flow Activities

2017 Compared to 2016. Net cash used in investing activities decreased to \$0.7 million in 2017 from \$151.8 million used during 2016. 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 during this period.

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.

Financing Cash Flow Activities

2017 Compared to 2016. During 2017, our financing activities used net cash of \$24.6 million, as we paid \$12.8 million in long term debt principal and we declared and paid dividends in the amount of \$11.6 million. Financing cash flow activities provided \$127.0 million during 2016, primarily due to the proceeds of the aforementioned credit facility of \$156.4 million partially offset by \$25.1 million cash paid in dividends.

We believe that paying dividends is an effective way of providing an investment return to our stockholders and a beneficial use of our cash. However, the declaration of dividends by CPSI is subject to compliance with the terms of

our Amended Credit Agreement and the discretion of our Board of Directors which may decide to change or terminate the Company's dividend policy at any time. The fixed dividend declared on November 2, 2017, which decreased the dividend to \$0.10 per share, marks a change from the Company's previous variable dividend policy, announced on August 4, 2016. The revised dividend policy, along with improved pricing under the Amended Credit Facilities, are consistent with our goal of

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achieving a target leverage ratio of 2.5x in 2018. 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.

2016 Compared to 2015. During 2016, our financing a