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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, 2013**

OR

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

Commission file number: 000-49796

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

Delaware	**74-3032373**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6600 Wall Street, Mobile, 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. ☒

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant at June 30, 2013 was $509,131,481.

As of March 11, 2014 the registrant had outstanding 11,163,950 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2014 are incorporated by reference into Part III of this report.

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* Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2014 are incorporated by reference into Part III of this Form 10-K.

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;
- government regulation of the healthcare and health insurance industries;
- government regulation of our products and customers, including changes in healthcare policy affecting Medicare reimbursement rates and qualifying technological standards;
- potential effects of the federal healthcare reform legislation enacted in 2010, and implementing regulations, on the businesses of our hospital customers;
- funding uncertainties associated with, and potential expenditures required by, the American Recovery and Reinvestment Act of 2009 in connection with the adoption of electronic health records;
- saturation of our target market and hospital consolidations;
- changes in customer purchasing priorities, capital expenditures and demand for information technology systems;
- competition with companies that have greater financial, technical and marketing resources than we have;
- failure to develop new technology and products in response to market demands;
- failure of our products to function properly resulting in claims for medical losses;
- changes in accounting principles generally accepted in the United States of America;
- breaches of security and viruses in our systems resulting in customer claims against us and harm to our reputation;
- potential intellectual property claims against us;
- 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; and
- interruptions in our power supply and/or telecommunications capabilities.

For more information about the risks described above and other risks affecting us, see "Risk Factors" beginning on page 20 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") is a leading provider of healthcare information technology solutions for rural (including critical access) and community hospitals, with over 650 client hospitals in 46 states and the District of Columbia. Founded in 1979, we are a single-source vendor providing comprehensive software and hardware products, complemented by complete installation services and extensive support. Our fully integrated, enterprise-wide system automates clinical and financial data management in each of the functional areas of a hospital. Our software and hardware products and installation and support services are further complemented by business management, consulting and managed information technology ("IT") services offered by our wholly-owned subsidiary, TruBridge, LLC ("TruBridge"). We believe our products and services enhance hospital performance in the critical areas of clinical care, revenue cycle management, cost control and regulatory compliance.

Our target market includes rural and community hospitals with 300 or fewer acute care beds. Our primary focus within this defined target market is on hospitals with 100 or fewer acute care beds, which comprise approximately 94% of our hospital customer base. In addition to our target market, we provide information technology services to other entities in the healthcare industry, such as nursing homes, home health agencies and physician clinics. During 2013, we generated revenues of $200.9 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 17.2% of the U.S. gross domestic product in 2012 according to the Centers for Medicare and Medicaid Services ("CMS"). CMS estimates that by fiscal 2022 total U.S. healthcare spending will reach $5.0 trillion, or 19.9% of the estimated U.S. gross domestic product.

Hospital services represents one of the largest categories of total healthcare expenditures, comprising approximately 31.6% of total healthcare expenditures in 2012 according to the CMS. According to the American Hospital Association's *AHA Hospital Statistics, 2014 Edition*, there are approximately 4,200 community hospitals in the United States that are in our target market of hospitals with 300 or fewer acute care beds, with approximately 2,600 of those in our primary area of focus of 100 or fewer acute care beds. In addition, there is a market of small specialty hospitals that focus on discrete medical areas such as surgery, rehabilitation and psychiatry.

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

Changing Economic Dynamics. The economy of the healthcare industry, although not immune to general macroeconomic conditions, is heavily impacted by legislative and regulatory initiatives of the federal and state governments. These legislative and regulatory initiatives have a particularly significant impact on our customer base, as rural and community hospitals typically generate a significant portion of their revenues from beneficiaries of the Medicare and Medicaid programs. Consequently, even small changes in these federal and state programs have a disproportionately larger impact on rural and community hospitals as compared to larger facilities where greater portions of their revenues are typically generated from beneficiaries of private insurance programs. Medicare funding and reimbursements fluctuate year to year and, with the growth in healthcare costs, will continue to be scrutinized as the federal government attempts to control the costs and growth of the program. The Medicaid program, which is a federal/state program managed by the individual states and dependent in part on funding from the states, also continues to experience funding issues due to the increasing cost of healthcare and limited state revenues.

Mandatory cuts in federal spending resulting from the Budget Control Act of 2011 became effective on March 1, 2013. Although Medicaid is specifically exempted from the cuts mandated by the legislation, it includes a reduction of up to 2% in federal Medicare spending, all of which will be achieved by reduced reimbursements to healthcare providers. Additionally, the Patient Protection and Affordable Care Act, more commonly referred to as the Affordable Care Act (the "ACA"), contains a

number of provisions designed to reduce Medicare and Medicaid program spending by significant amounts, many of which are already in effect. As the federal government seeks in the future to further limit deficit spending due to fiscal restraints, it will likely continue to cut entitlement spending programs such as Medicare and Medicaid matching grants which will place further cost pressures on hospitals and other healthcare providers. Furthermore, federal and state budget shortfalls could lead to potential reductions in funding for Medicare and Medicaid. Reductions in reimbursements from Medicare and Medicaid could lead to hospitals postponing expenditures on information technology.

While legislative and regulatory initiatives are placing significant pressure on Medicare and Medicaid reimbursements, our customer base of rural and community hospitals are also likely faced with increases in demand for Medicare and Medicaid services. We expect that the demand for Medicare and Medicaid services will increase for the foreseeable future due to the growing number of people born during the post-World War II baby boom becoming eligible for Medicare benefits at age 65 and Medicaid coverage expanding 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 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 February 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act (the "ARRA"). This $787 billion economic stimulus package includes a number of healthcare policy provisions, including approximately $19 billion in funding over a ten-year period for health information technology infrastructure and Medicare and Medicaid incentives to encourage doctors, hospitals and other providers to use health information technology to electronically exchange patients' health information, through the development of health information exchanges ("HIE") and the adoption of electronic health records ("EHR"). Approximately $2 billion of the total funding amount is in appropriated funds for discretionary grants, loans and technical assistance programs designed to aid providers with the development of HIE by individual states and the adoption of EHR. These funds are being disbursed by various agencies within the Department of Health and Human Services, either directly to providers – including private physician offices – or to other entities like states or non-profit organizations. The remaining allocated amounts take the form of Medicare and Medicaid payment incentives. The ARRA identifies four priority areas for spending with respect to health information technology: (1) HIE establishment; (2) EHR adoption; (3) workforce training; and (4) new technology research and development. In order to qualify for EHR funding, providers are required to adopt an EHR system and connect to an HIE, which means funding is dependent on state action to establish HIEs.

We have been focused on ensuring that we take the necessary steps to meet the needs of rural and community hospitals to help them gain access to the incentives made available under the ARRA. Primary among those steps is ensuring that our technology meets the ARRA's EHR certification requirements. During 2010, both our hospital and medical practice EHR solutions were certified as a complete EHR by the Certification Commission for Health Information Technology ("CCHIT®"). Receiving this certification for both our hospital and medical practice EHR products ensures that both hospitals and providers using our EHR systems can attain "meaningful use" of EHRs and qualify for certain EHR incentives. Continuing this focus on ensuring that our technology meets the ARRA's EHR certification requirements, we recently announced that Version 19 of our hospital and medical practice EHR systems were each certified by CCHIT® as a complete EHR system in compliance with the Office of the National Coordinator for Health Information Technology ("ONC") 2014 Edition criteria. The ONC 2014 Edition criteria support both stage one and stage two meaningful use measures required to qualify eligible hospitals and providers for funding under the ARRA. As a result of our obtaining the CCHIT® certification and our track record with our hospital customers successfully achieving meaningful use, the ARRA has had and should continue to have a positive impact on our business and the businesses of the rural and community hospitals that comprise our target market.

Continued Push for Improved Patient Care. With the increased pressure to reduce medical errors and improve patient safety, driven in part by the general shift towards value-based reimbursement, hospitals are actively seeking information technology solutions for clinical decision support. This migration toward clinical decision support solutions is further supported by the ARRA. Provisions of the ARRA offer incentives for hospitals to become meaningful users of EHRs through September 2015, and approximately 420 of our hospital customers have received these incentive payments as of the date of this filing. Hospitals and healthcare providers that have not implemented EHRs with HIE connectivity by October 1, 2015 will be penalized with lower Medicare payment levels after that date.

While economic, regulatory and consumer pressures such as those described above have increased rapidly over the last several years, we believe healthcare organizations have historically underinvested in information technology and services compared to other industries. This historical underinvestment has caused healthcare providers to rely on non-integrated, complex and inefficient information systems. 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.

In the face of decreasing revenue and increasing pressure to improve patient care, healthcare providers are in need of management tools and related services that (1) increase efficiency in the delivery of healthcare services, (2) reduce medical errors, (3) effectively track the cost of delivering services so those costs can be properly managed and (4) increase the speed and rate of reimbursement. Despite challenging economic conditions, we believe the industry will increase its adoption of information technology as a management tool, particularly as a result of the ARRA. Additionally, we believe that the industry will 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 Solution

We have tailored an information technology solution that effectively addresses the specific needs of small and midsize hospitals. Due to their smaller operating budgets, rural and community hospitals have limited financial and human resources to operate manual or inefficient information systems. However, these hospitals are expected to achieve the same quality of care and regulatory compliance as larger hospitals, placing them in a particularly difficult operating environment. These pressures on the operating environments of rural and community hospitals were increased with the passage of the ARRA in 2009 which, in addition to providing incentives to healthcare providers to achieve meaningful use of EHR, will result in lowered Medicare payment levels after 2015 for healthcare providers that have yet to achieve meaningful use of EHR.

We believe that the CPSI solution meets these challenges facing rural and community hospitals by providing fully integrated, enterprise-wide and ARRA certified medical information systems and services that are compliant with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and that collect, process, retain and report data in the primary functional areas of a hospital, from patient care to clinical processing to administration and accounting. As a key component of our complete solution, we provide ongoing customer service through regular interaction with customers, customer user groups and extensive customer support. Further, through our wholly-owned subsidiary, TruBridge, we offer business management, consulting and managed IT services that allow customers to avoid some of the fixed costs of a business office and leverage our expertise and resources in helping them identify their IT objectives, define the best way to meet those requirements and manage the resulting projects and associated technologies. As a result, we are capable of providing a single-source solution for small and midsize hospitals, making us a partner in their initiatives to improve operations and medical care.

Our customers continually communicate with us through our support teams and through organized user groups, allowing us to continue to provide a state-of-the-art solution that meets their specific needs. By remaining sensitive and responsive to the ever-changing demands of our customers and regularly updating our products, we believe that we provide an information technology solution that meets the needs of rural and community hospitals. Our business has continued to grow because we have successfully addressed the needs of rural and community hospitals for fully integrated, enterprise-wide information systems that allow them to improve operating effectiveness, reduce costs and improve the quality of patient care.

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

Strategy

Our objective is to continue to grow as a leading provider of healthcare information technology systems and services to rural and community hospitals by expanding on the strategy that we have successfully pursued for over thirty years, the key elements of which are described below.

Deliver a Single-Source Solution. When a customer purchases the CPSI system, we provide everything necessary for the customer to implement and use our system. We deliver the application software, computer hardware, peripherals, forms and supplies used in the comprehensive information network. Our installation teams work extensively with each customer to

convert existing data to the new system, to install all of the necessary equipment and to train hospital personnel to use our system. After installation, our support teams answer and address customer questions and issues related to any aspect of the system. Through TruBridge, we also offer our customers additional services such as business management, consulting and managed IT services. We believe our single-source approach to delivering a complete information system makes our system easier and more convenient for customers to understand and manage, which results in greater customer satisfaction and retention.

Provide Enterprise-Wide, Fully Integrated Software Applications. We have developed all of our software products internally as part of our fully integrated system architecture. Our experience has taught us that using a fully integrated system in the primary functional areas of a hospital ensures compatibility among applications and avoids pitfalls associated with interfacing disparate systems. Our system utilizes one central database where information is stored and used by all of our software applications. With our single database model, our systems provide secure, real-time access to all information across multiple applications for all those needing such access, including physicians, nurses, laboratory technicians, pharmacists, clinicians and other users. The enterprise-wide, fully integrated nature of our system also allows customers to monitor user access to information for purposes of compliance with federal and state privacy regulations.

Maintain Commitment to Customer Oriented Operating Philosophy . A key factor in our success has been our focus on customer service and support. We make available to our customers experienced support teams that can assist with any question or problem. We currently have close to a one-to-one support staff to customer ratio. Our support teams are extensively trained, and our employees are generally promoted from within so that they have a thorough knowledge of our system and a commitment to our culture. Because all of our customers use the same version of our system, our support teams can be more effective by maintaining a complete understanding of a single system. As part of our commitment to system support, we actively solicit customer feedback regarding ways in which we can improve the effectiveness and efficiency of our systems. To further this goal, we have organized our customers into a national user group to promote the exchange of information regarding our system and to identify product enhancements based on our customers' operational experiences. We believe our user group concept is a key component of our success by positively impacting customer satisfaction and retention and by enhancing product development and system functionality. We will continue to focus on our national user group as a key component to our goal of maintaining and growing our customer base and market share.

Expand Presence in Target Market for our Software and Hardware Products. We will continue to target small hospitals of 100 or fewer acute care beds, as well as expand our presence in midsize hospitals of 300 or fewer acute care beds. In addition, a number of our customers are small specialty hospitals that focus on discrete medical areas such as surgery, rehabilitation and psychiatry. According to the most recent data available from the U.S. Department of Health and Human Services, there are approximately 1,200 specialty care hospitals in the United States (excluding critical access and children's hospitals). We intend to continue gaining customers from this market segment. Our system can help these smaller hospitals reduce costs and increase their operating efficiencies. We believe our personalized marketing approach and emphasis on customer relationships are attractive to the management of these hospitals. We also believe our system is well-suited to hospitals of this size because they typically demonstrate a greater commitment than larger hospitals to the concept of an enterprise-wide, fully integrated system. In addition, we will continue to sell software and hardware products and additional services to our existing customers who have not purchased our complete package of products and services.

Expand Presence in Target Market for our Suite of Additional Services. In January 2013, we formed TruBridge as a wholly-owned subsidiary focusing exclusively on providing business management, consulting and managed IT services to rural and community healthcare organizations. While we will continue our previous strategy of continuing to sell additional services to those rural and community healthcare organizations that have selected CPSI as their single-source healthcare information solutions provider, we believe that the formation of TruBridge will enable us to more effectively market and further expand our target market for these service offerings to all healthcare providers, regardless of their primary healthcare information solutions provider. There are approximately 4,200 community hospitals in the United States that are in our target market of hospitals with 300 or fewer acute care beds, with approximately 2,600 of those in our primary area of focus of 100 or fewer acute care beds. Given the magnitude of the marketplace for TruBridge's services, the ability to expand the customer base for our suite of services beyond the more than 650 hospitals who have selected CPSI as their primary healthcare information solutions provider has the potential to drive significant revenue growth.

Emphasize Other Recurring Revenue Opportunities . In addition to revenues from new system installations, we have developed and will continue to develop sources of recurring revenues. Our current principal source of recurring revenues is our support and maintenance fees paid by existing customers. As our customer base grows, our recurring revenues from support and maintenance fees should also grow. We believe recurring revenues will also continue to increase from the business management, consulting and managed IT services provided by TruBridge, which we market to all rural and community healthcare organizations, regardless of their primary healthcare information solutions provider. Our business management

services include electronic billing, patient statement processing, accounts receivable management, payroll processing, ISP services and web site hosting. Our consulting services include IT staffing, IT infrastructure assessment, and project management for application implementation and meaningful use attestation. Our managed IT services include managed network services, server and storage management, and desktop support, as well as communications, connectivity, security and data center services.

Our Products and Services

New Products

Much of our software programming efforts in 2013 and continuing into 2014 have been and will continue to be focused on helping our customers to achieve stage two of meaningful use of EHR, as the volume and complexity of changes required to reach stage two are considerable. The final rules regarding stage two of meaningful use of EHR were released in 2012, and hospitals were allowed to begin reporting their compliance with stage two requirements on October 1, 2013. Stage two increases data capture requirements and use of medical vocabularies, expands stage one functionality requirements, increases interoperability requirements and emphasizes greater patient engagement. To meet these new requirements, new data elements and functionalities have been created and tied to the existing data structure and system functionalities in a manner that is consistent with healthcare provider workflows. Updates associated with stage two of meaningful use of EHR were provided to our customers with the release of Version 19 of the CPSI system in July 2013.

During 2013, our development efforts also focused on the completion of our emergency department application. This new application is currently in beta testing and is scheduled to be generally available in the third quarter of 2014. The emergency department application is specifically designed for the care environment and workflow of a hospital emergency department. The application will provide comprehensive and customizable patient tracking boards; real time displays of patient locations, statuses and order/results alerts; computerized physician order entry specific to emergency care and workflow; evaluation and management coding specific to emergency department patients; and department-contained order routing and resulting. We feel that our emergency department application will allow customers to apply information system efficiencies to the most costly care environment in the hospital.

Software Systems

We offer a full array of software applications designed to streamline the flow of information to the primary functional areas of rural and community hospitals in one fully integrated system. We intend to continue to enhance our existing software applications and develop new applications as required by evolving industry standards and the changing needs of our customers. Pursuant to our customer support agreements, we provide our customers with software enhancements and upgrades periodically on a when-and-if-available basis. See "Support and Maintenance Services." These enhancements enable each customer, regardless of its original installation date, to have the benefit of the most advanced CPSI products available. Our software applications:

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

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

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

Patient Management. Our patient management software enables a hospital to identify a patient at any point in the healthcare delivery system and to collect and maintain patient information throughout the entire process of patient care on an enterprise-wide basis. The single database structure of our software permits authorized hospital personnel to simultaneously access appropriate portions of a patient's record from any point on the system. Our patient management software:

Registration	• records patient admissions, discharges and transfers • manages patient status, room assignments and recurring charges • keeps information available to all hospital personnel in formats designed for their particular requirements
Patient Accounting	• records patient charges and maintains accounts receivable information including aging, service charges and cash receipts • generates and processes insurance claims
Health Information Management	• supports the operational needs of the modern medical records department including transcription, case indexing/abstracting and statistical reporting • tracks deficiencies in a patient's chart and provides chart location information
Patient Index	• maintains a master index of hospital patients and provides immediate online access to patient financial and medical data associated with a patient stay

We also offer the following optional products that may be purchased as part of our core patient management suite:

Enterprise Wide Scheduling	• maintains all patient scheduling information
Contract Management	• tracks patients enrolled in managed care plans and conforms billing functions to such plans
Quality Improvement	• automates hospital-wide total quality management and reporting requirements for utilization activity, risk management, infection surveillance and all accreditation review functions

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:

Executive Information System	• summarizes daily financial transactions regarding patient revenues, receipts, census statistics and billing information for ready access by hospital administrators

General Ledger	• provides timely, accurate financial information generated from daily hospital operations • formats financial statements to the specifications of each user and is able to generate up to 999 different user-defined reports
Accounts Payable	• processes vendor invoices and payments and their related general ledger entries
Payroll/Personnel	• calculates all employee wages and benefits for an unlimited number of salaried and hourly employees • allocates employee time to user-defined cost centers
Time and Attendance	• uses touch screen time clocks to eliminate manual time entry • reduces effort of gathering employee time data and increases access of managers to such data • makes time records more accurate by identifying employees through bar-coding and optional biometric fingerprint technology
Electronic Direct Deposits	• provides for computerized bank deposits to meet payroll and accounts payable needs
Human Resources	• provides for computerized employee files through document/image scanning and data entry • allows for complete tracking of benefits and other employee data through a variety of user-defined reports • tracks job applicant information to assist in the employee recruiting and hiring process
Budgeting	• allows for complete online budget preparation through computerized access to historical data
Fixed Assets	• allows access to information regarding hospital assets including locations and depreciation scheduling
Materials Management	• tracks the flow of materials throughout the hospital • automates the process of inventory control, materials purchasing, stock requisitions and patient charging

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:

Laboratory Information Systems	• provides an interface to laboratory analytical instruments in order to transfer results to nurse stations, mobile point-of-care systems and remote physician offices • allows users to receive orders from any designated location, process orders and report results, and maintain technical, statistical and account information
Laboratory Instrument Interfaces	• provides an automated solution for reviewing test results and completing patient orders • reduces the amount of required manual data entry thereby reducing the likelihood of human error • reduces time to process laboratory specimens

Radiology Information Systems	• includes flash card printing, patient scheduling, transcription, patient indexing by X-Ray film number, film tracking and location • receives patient data, patient locations and other interdepartmental communications support
ImageLink®	• provides a complete picture archiving and communications system (PACS) with comprehensive functionality designed to fit seamlessly with our other applications • allows the realization of an electronic health record complete with diagnostic images • provides physicians real-time access to diagnostic images via the internet through ChartLink®
Physical Therapy and Respiratory Care	• communicates to nursing the appropriate procedures and patient preparation instructions from orders entered into the CPSI system • keeps a journal of the orders received and processed • handles a variety of processing tasks after a patient order is reviewed • allows a department to customize its results to be sent back to nursing
Pharmacy	• allows the hospital pharmacist to enter and fill physician orders • performs all of the functions related to patient charging, general ledger upgrading, re-supply scheduling and inventory reduction/statistics maintenance • improves patient care by monitoring drug/drug and food/drug interactions, allergy contraindications, dosage ranges and duplicate therapy • produces drug education information for each patient in an easy-to-read format

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:

Order Entry / Results Reporting	• provides efficient order and result communication • automates the entry of patient charges • reduces "lost" charges and mistakes due to illegibility • increases efficiency of nursing stations • provides interactive, real time status reports for orders
Point-of-Care System	• allows nurses to enter patient data into the network at the patient's bedside thereby eliminating the duplicate entry of information • utilizes touch-screen and wireless technology • makes patient information instantly available throughout the entire hospital system
Patient Acuity	• categorizes patients according to an assessment of the acuity of the illness, severity of the symptoms, and projected nursing dependency • allows nurses to project the total character and amount of care that should be provided to each patient
ChartLink®	• provides physicians with a secure and interactive portal to patient information through a hospital's web site • optional computerized physician order entry, including the ability to enter medication and ancillary test and treatment orders

Medication Verification	• verifies the accuracy of patient medication orders at a patient's bedside by comparing scans of patient and medication bar codes against past medication orders for that patient • screens medication orders for possible patient allergies and/or drug interactions
Resident Assessment Instruments	• allows nursing staff to complete time consuming resident reporting requirements in an expeditious and efficient manner • generates nursing care plans based on deficiencies in the resident reports
Medical Practice EMR	• provides medical practices and clinics with a complete CCHIT SM certified electronic medical record • supports patient account management and insurance processing for single and multiple practices/clinics • automates medical practice workflow with an interactive white board, template driven documentation, image capture/document scanning and an integrated superbill • integrated with CPSI's ChartLink® EMR portal, the module provides immediate and secure access to the patient's complete ambulatory and inpatient history • supports both hospital-based and remote practices/clinics • supports patient account management and insurance processing for home health agencies • provides complete, regulatory compliant home care tracking • provides for remote in-home documentation of care
Outreach Client Access	• provides the hospital's outreach clients, such as physicians, their office administrators, nursing homes, home health agencies and local businesses, with remote access to online, real-time, secure patient data as needed and appropriate for each outreach client • includes insurance and billing information, diagnosis and procedure coding, discharge summaries, pharmacy profiles and other clinical and administrative information
Electronic Forms	• electronic form templates replace paper-based records and care forms • completed forms become a permanent part of the patient's electronic health record
Physician Documentation	• electronic documentation of all aspects of a physician/patient encounter • documentation is integrated with clinical applications to allow inclusion of diagnostic results, patient clinical data, patient diagnosis, medications and orders • promotes compliance with regulatory standards while assisting in optimizing reimbursement for services provided

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.

Support and Maintenance Services

After a customer installs a CPSI system, we provide software application support, hardware maintenance, continuing education and related services pursuant to a support agreement. The following describes services provided to customers using CPSI systems.

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. With approximately 530 employees as of December 31, 2013 who provide customer service and support, we currently have close to a one-to-one support staff to customer ratio.

User Group. All of our 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 CPSI system. The benefit of these enhancements is that each customer, regardless of its original installation date, uses the most advanced CPSI software available. Through this process, we can keep our customers up-to-date with the latest operational innovations in the healthcare industry as well as with changing governmental regulatory requirements. Another benefit of this "one system" concept is that our customer service teams can be more effective in responding to customer needs because they maintain a complete understanding of and familiarity with the one system that all customers use.

Purchasing a new information technology system requires the expenditure of a substantial amount of capital and other resources, and many customers are concerned that these systems will become obsolete as technology changes. Our periodic product updates eliminate our customers' concerns about system obsolescence. We believe providing this benefit is a strong incentive for potential customers to select our products over the products of our competitors.

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

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

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

Business Management Services. Our business management services consist of the following service offerings:

Electronic Billing	• We provide electronic billing for customers at prices competitive with other electronic billing vendors. Once a customer processes patient insurance claims using our system, we then perform the electronic billing function with no other participation by hospital staff. With this service, customers do not need to prepare billing files or maintain interfaces with third-party software, thereby saving the customer both time and money.
Insurance Services	• In addition to electronic billing, we offer customers complementary insurance services, including insurance follow-up, claim eligibility checking, claim status checking, pharmacy online adjudication, medical necessity database updates, Medicare Connect access, review of health services transactions and electronic remittances. Using these services allows customers to improve their revenue cycle management by reducing the incidents of invalid claims, monitoring the progress of valid claims, and ensuring the timely and accurate application of insurance payments.
Statement Processing	• Our customers may choose to have us prepare and distribute all patient billing statements. We use our knowledge of a customer's collection system to produce statements without requiring any action on the part of the hospital data processing personnel. Because we can connect directly with a customer's system, the customer is not required to build and transfer files to us. All system enhancements are incorporated into the statement process without having to modify any third-party vendor interface. Similar to electronic billing, this service saves the customer both time and money.
Accounts Receivable Management	• We offer customers the option of using us to perform their patient billing functions and accounts receivable management. Using this service allows customers to reduce costs by employing fewer full-time administrative employees.
Payroll Processing	• We offer customers the option of using us to perform their payroll functions, including payroll processing, tax and deduction management, quarterly and yearly reporting, and electronic pay stubs.
Contract Management	• We offer customers the option of using us to perform audits of payments from third-party insurers with which a customer executes managed care contracts to ensure payments are made in accordance with the agreed upon metrics.

Consulting Services. Our consulting services consist of the following service offerings:

Revenue Cycle Consulting	• We offer customers revenue cycle consulting services, including revenue cycle assessment, process redesign, interim management, benchmarking, ICD-10 Readiness and custom contracted services. With decades of experience in healthcare operations, we understand what works in rural and community healthcare contexts and are able to develop achievable plans to help customers meet their revenue cycle goals.
Clinical Consulting	• We offer customers clinical consulting services, including computerized physician order entry adoption, meaningful use achievement, point-of-care utilization, clinical application roll-out, physician documentation, medical practice management, medication reconciliation and custom contracted services. With decades of experience in electronic health record technology, our consultants are intimately familiar with what is required to meet regulatory mandates and create useful clinical information systems for caregivers of all kinds.

Information Technology ("IT") Consulting	• We offer customers IT consulting services, including strategic planning, IT infrastructure assessment, IT planning, design and deployment, IT resource services, security risk assessment and custom contract services. With a clear understanding of the IT issues and challenges faced by rural and community healthcare enterprises, our consultants can identify a path that will make best use of a hospital's existing infrastructure, while positioning the hospital for the challenges yet to come.

Managed Information Technology ("IT") Services. Our managed IT services consist of the following service offerings:

Cloud Computing	• We offer customers cloud computing services utilizing server and storage resources maintained in our SOC 1 accredited data center. Cloud computing utilizes virtual environments to meet customer processing and data storage needs for live operations, disaster recovery co-location, testing and training, and system backups.
Internet Service Provider	• As part of our total information solution, we can provide Internet connection services to our customers. We also can provide web site design and hosting services.
Managed Network Services	• We offer comprehensive support for LAN, WLAN, WAN and VPN infrastructures for those customers needing assistance with their data networks. Security updates, hardware support, network monitoring, wireless access management, VPN and private point-to-point connectivity management and monitoring solutions can be subscribed to based on the client's unique needs.
Server and Storage Management	• We offer complete management of CPSI-installed server and storage technology, including monitoring, administration and change management solutions to enhance client availability strategies for those important assets.
Desktop Support	• We offer timely support for desktop hardware, operating systems, select application software and peripheral devices. Desktop support offerings can help expedite problem resolution and ensure employees are not hindered by technological obstacles.
Communications Solutions	• We offer a robust set of fault tolerant communications hosting solutions for web sites and electronic mail, smartphone email integration and DNS services.
Connectivity Solutions	• We provide a variety of solutions to help ensure clients can stay connected to the Internet in remote locations, including MPLS, Metro-E, DSL, DS-1, DS-3 and other options.
Security Services	• We offer complete solutions for protecting the integrity of information systems and keeping systems compliant with federal security laws, including HIPAA privacy and security requirements. Solutions for malware (anti-virus protection), Internet content filtering and firewall administration can all be provided by CPSI.
Data Center Services	• We offer a SOC 1 accredited data center to house and manage client servers and storage technologies. Solutions for managing these environments and the provision of other data center services, such as disaster recovery co-location and remote testing services, are available.

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

	Year ended December 31,		
	2013	2012	2011
Sales revenues:			
System sales	39.7%	39.6%	40.7%
Support and maintenance	35.6%	36.7%	37.0%
Business management, consulting and managed IT services	24.7%	23.7%	22.3%
	100.0%	100.0%	100.0%

System Implementation and Training

Conversion Services. When a customer purchases our system, we convert its existing data to the CPSI system. Our knowledge of hospital data processing, in conjunction with extensive in-house technical expertise, allows us to accomplish this task in a cost effective manner. When we install a new system, the data conversion has already occurred so that the system is immediately operational. Our goal is for each customer to be immediately productive in order not to waste time and money on the costly and inefficient task of maintaining the same data on parallel systems. Our services also relieve the hospital staff of the time-consuming burden of data conversion.

Training. In order to integrate the new system and to ensure its success, we spend approximately three to four weeks providing individualized training on-site at each customer's facility at the time of installation. We directly train all hospital users, including staff members and healthcare providers, during all hospital shifts in the use of hardware and software applications. In contrast, some of our competitors train only a hospital's training staff at an off-site location. We employ nurses, medical technicians, and providers in addition to our technical training staff in order to help us communicate more effectively with our customers during the training process.

Technology

Operating Systems and Server Platform. The CPSI system features a Linux operating system, open source SQL-compliant database, Java™ and a cross-platform user interface (UI). This reliable platform allows CPSI to provide its clients with an extensive range of capabilities to enhance IT operations and implement other new, complementary technologies, such as role-based customization and access from various end-user devices. The SQL-compliant database offers the ability to efficiently mine the mass of clinical data being captured by a hospital EHR system to meet the hospital's internal demands along with regulatory and interoperability requirements.

Server and Storage. Whether managing multiple guest machines on a hypervisor or operating a single bare metal server, the enterprise class hardware provided as part of CPSI's turnkey solution is based on individual customer requirements. The robust infrastructure solutions implemented are scalable while still providing for high availability, redundancy and data integrity. Certified and trained technicians are employed to provide timely support and maintenance on all hardware currently supported by the Company.

ClientWare®. CPSI provides a client/server based solution where its ClientWare® application integrates the Linux environment with other end-user devices. This integration brings together the strengths and flexibility of many operating environments and devices. The processing power of Linux combined with the communication and portability aspects of other operating systems creates an information system that allows the use of familiar "point and click" processing. CPSI's latest versions of ClientWare® offer easy interface with and access to a wide range of devices and applications.

Information Availability. EHR availability is crucial for continued patient care during system outages. CPSI offers several hardware and software options to assist its clients in creating an acceptable data recovery and business contingency plan based on the suite of applications utilized. These options range from hardware redundancy, real-time data replication and server clustering to maintaining availability of vital patient information during planned system maintenance.

Data Security. Protecting individually identifiable health information and other sensitive data is a critical and essential function of CPSI's solutions. A variety of industry-standard approaches which meet or exceed regulatory requirements such as HIPAA and HITECH are employed. To assist in avoiding unauthorized access for the life span of this data, diverse methods of identification, authentication, authorization and encryption are utilized at various layers, inclusive of the operating system, application software and hardware. These concepts are shared amongst servers and other end-user devices and are complemented by our Change Management module which allows the software change control cycle to be a formal, defined process.

Product Development and Enhancement

We continually work to improve and enhance the CPSI system and to develop new products and services for our customers. The primary source of ideas for improvements to our products and services comes from our customers, which submit suggestions to us through our national user group. We believe our interaction with customers and their communication with each other is the most efficient way to learn about and respond to changes in the healthcare operating environment. Our management and customer support and service teams play a significant role in product development by continually monitoring the needs and desires of our customers and our market. In addition to our customer support and service teams, a Product Development Services division was created in 2008. This division is responsible for the design, development, quality assurance/testing, and distribution of all application software. By consolidating all of our development efforts under a single division, we can ensure standardization in our software development processes and effective utilization of our resources. This approach to research and development allows us to quickly adapt to technological advances and improve our products and services to better serve the needs of our customers. As of December 31, 2013 , we had 200 employees in our Product Development Services division, including 9 research and development employees whose dedicated function is to develop new uses for and applications of technology available in the marketplace. During the years ended December 31, 2013, 2012 and 2011, we expended approximately $2.8 million, $2.8 million and $2.5 million, respectively, on research and development activities.

Customers, Sales and Marketing

Target Market. The target market for our information system consists of small and midsize hospitals of 300 or fewer acute care beds, with a primary focus on hospitals with 100 or fewer acute care beds. In the United States, there are approximately 4,200 community hospitals with 300 or fewer acute care beds, with approximately 2,600 of these having 100 or fewer acute care beds. In addition, we market our products to small specialty hospitals in the United States that focus on discrete medical areas such as surgery, rehabilitation and psychiatry. As of the date of this filing, we have installed our system in over 650 facilities in 46 states and the District of Columbia. Approximately 94% of our existing customers are hospitals with 100 or fewer acute care beds, while approximately 99% of our existing customers are hospitals with 200 or fewer acute care beds. Our goal is to increase sales to hospitals with 100 to 300 acute care beds while continuing to increase our market share and competitive position in the under 100 acute care bed market segment.

Sales Staff. Most of our new customers are referrals from our existing customers, thereby reducing the need for a large sales force. As of December 31, 2013, we had 36 employees dedicated to direct sales, 18 of whom concentrate on new prospects, and 18 of whom are responsible for the sale of additional products and services to existing customers. We hire our sales representatives from our existing employees. Nearly three-quarters of our sales representatives have over 10 years of experience with the Company, including experience in installation, training and customer support. Our sales representatives have defined geographic territories in the United States in which to target new customers. A significant portion of the compensation for all sales personnel is commission based.

Marketing Strategy. Our primary marketing strategy is to generate referrals from our existing customers and directly solicit potential users through presentations at industry seminars and trade shows. We also advertise in various healthcare industry trade publications. For hospitals that we have targeted as potential customers, most of our direct sales efforts involve site visits and meetings with hospital management. The typical sales cycle of a healthcare information system usually takes six to eighteen months from the time of initial contact to the signing of a contract. Therefore, we believe it is important for our sales staff to dedicate a substantial amount of time and energy to building relationships with potential new customers. We do not conduct extensive marketing activities and promotions because hospitals are easily identified, finite in number and generally send a request for proposal to vendors when they contemplate the purchase of a hospital information system.

Backlog

Backlog consists of revenues we reasonably expect to recognize over the next twelve months under existing contracts. The revenues to be recognized may relate to a combination of one-time fees for system sales and recurring fees for support and maintenance, business management, consulting and managed IT services. As of December 31, 2013, we had a twelve-month backlog of approximately $51 million in connection with non-recurring system purchases and approximately $116 million in connection with recurring payments under support and maintenance, business management, consulting and managed IT services. The backlog amounts exclude amounts to be recognized in subsequent periods related to First Generation Meaningful Use Installment Plans. Our backlog increase is the result of new contracts signed in 2013 to be installed in 2014, as well as an increase in our customer base for recurring business. As of December 31, 2012 , we had a twelve-month backlog of approximately $42 million in connection with non-recurring system purchases and approximately $107 million in connection with recurring payments under support and maintenance, business management, consulting and managed IT services.

Competition

The market for our products and services is competitive, and we expect additional competition from established and emerging companies in the future. Our market is characterized by rapidly changing technology, evolving user needs and the frequent introduction of new products. We believe the principal competitive factors that hospitals consider when choosing between us and our competitors are:

- product features, functionality and performance;
- level of customer service and satisfaction;
- ease of integration and speed of implementation;
- product price;
- knowledge of the healthcare industry;
- sales and marketing efforts; and
- company reputation.

Our principal competitors are Medical Information Technology, Inc. ("Meditech"), Healthland Inc. ("Healthland"), and Healthcare Management Systems, Inc. ("HMS"). Meditech, Healthland and HMS compete with us directly in our target market of small and midsize hospitals. These companies offer products and systems that are comparable to our system and address the needs of hospitals in the markets we serve.

Our secondary competitors include McKesson Corporation, Quadramed Corp., Cerner Corporation, Quality Systems, Inc. and Siemens 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 directly with us. Our secondary competitors also include Prognosis Health Information Systems LLC and Razor Insights, LLC, which are smaller than us.

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

A number of existing and potential competitors are more established than we are and have greater name recognition and financial, technical and marketing resources than we have. Products of our competitors may have better performance, lower prices and broader market acceptance than our products. We expect that competition will continue to increase.

Health Information Security and Privacy Practices

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") is a federal law that affects the use, disclosure, transmission and storage of certain individually identifiable health information, referred to as "protected health information," and that was enacted for the purpose of, among other things, protecting the privacy and security of protected health information. As directed by HIPAA, the Department of Health and Human Services (the "DHHS") has promulgated standards and rules for certain electronic health transactions, code sets, data security, unique identification numbers and privacy of protected health information. HIPAA and the standards promulgated by DHHS apply to certain health plans, healthcare clearinghouses and healthcare providers (referred to as "covered entities"), which includes our hospital customers. The Health Information Technology for Economic and Clinical Health Act and its implementing regulations published in January 2013 (the "HITECH Act") significantly expand HIPAA by extending privacy and security standards to "business associates" of healthcare providers that are covered entities. Under the HITECH Act, business associates are required to establish administrative, physical and technical safeguards and are subject to direct penalties for violations. Certain of our services, including those provided through our wholly-owned subsidiary, TruBridge, 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.

Internal Management Control System

We have developed and maintain an automated enterprise management system which permits us to manage not only all of our internal management, accounting and personnel functions, but also all information relating to each customer's information system. Our system maintains detailed records of all information regarding each customer's system, including all system specifications, service history and customer communications, among other things. This internal control system helps us to more effectively respond to customer support needs through complete and current system information and through situation-based problem solving.

Intellectual Property

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

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

Employees

As of December 31, 2013, we had 1,378 employees, almost all of whom are located at our offices in Mobile, Fairhope and Lanett, Alabama and Monroe, Louisiana. Our employees can be grouped according to the following general categories: 527 in software services and support, 458 in business management, consulting and managed IT services, 96 in information technology services and support, 200 in product development services, 49 in sales and marketing and 48 in administration. Our general practice is to recruit recent college graduates for entry-level positions and then promote these individuals within the organization to fill vacancies in higher positions. We also hire nurses and other medically-trained professionals in connection with our support services.

Since 1991, we have maintained a non-qualified discretionary profit-sharing plan under which all full-time employees with three years of uninterrupted service are eligible to participate, other than executive officers and commissioned salespeople. The plan is designed to provide each eligible employee with periodic cash bonuses based on our profitability. Each eligible employee receives a pro rata share of the amount of cash distributed under the profit-sharing plan based on the amount of his or her base salary compared to the sum of the salaries of all participating employees. Our profit-sharing plan is not a qualified plan for tax purposes or a guaranteed benefit. Contributions to the plan are made periodically at the sole discretion of the Board of Directors. During 2013, we distributed approximately $4.0 million under this profit-sharing plan. We plan to continue to make distributions under this plan based on our profitability.

We are fortunate to have a high rate of employee retention, with our executive officers having an average tenure in excess of 19 years. Our performance depends in significant part on our ability to attract, train and retain highly qualified personnel. None of our employees are represented by a labor union, and we believe our relations with our employees are good.

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 47, has served as our President and Chief Executive Officer since May 2006. He was elected as a director in March 2002. Mr. Douglas began his career with us in August 1988 as a Financial Software Support Representative. From May 1990 until November 1994, Mr. Douglas served as Manager of Electronic Billing, and from December 1994 until June 1999, he held the position of Director of Programming Services. From July 1999 until May 2006, Mr. Douglas served as our Executive Vice President and Chief Operating Officer. Mr. Douglas's wife's sister's husband, Mr. Patrick A. Immel, is an executive officer of the Company. Mr. Immel is not a "family member" of Mr. Douglas under NASDAQ Listing Rule 5605.

David A. Dye – Chief Financial Officer, Secretary and Treasurer. David A. Dye, age 44, has served as our Chief Financial Officer, Secretary and Treasurer since July 1, 2010. Mr. Dye served as our President and Chief Executive Officer

from July 1999 to May 2006. He was elected as a director in March 2002 and has served as our Chairman of the Board since May 2006. Mr. Dye began his career with CPSI in May 1990 as a Financial Software Support Representative and served in various capacities until July 1999. Mr. Dye has served as a director of Bulow Biotech Prosthetics, LLC, a company headquartered in Nashville, Tennessee that operates prosthetic clinics in the Southeastern United States, since July 2006.

Victor S. Schneider – Executive Vice President–Corporate and Business Development. Victor S. Schneider, age 55, has served as our Executive Vice President–Corporate and Business Development since January 2013. Prior to his appointment as Executive Vice President – Corporate and Business Development, Mr. Schneider served as our Senior Vice President – Corporate and Business Development since December 2005. Mr. Schneider is responsible for revenue generation efforts, customer relations, strategic growth initiatives and positioning, and market execution. 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–Software Services. Robert D. Hinckle, age 44, served as our Vice President–Software Services from October 2004 until January 2013 and has served as our Senior Vice President – Software Services since January 2013. Mr. Hinckle is responsible for overseeing all aspects of the installation and support of our software products. Since beginning his career with us in 1995 as a Financial Software Support Representative, Mr. Hinckle has worked in various positions in our Software Services Division, including Team Manager, Assistant Director and Director of that division.

Troy D. Rosser – Senior Vice President–Sales. Troy D. Rosser, age 49, has served as our Senior Vice President–Sales since January 2012, having previously served as Vice President – Sales since October 2005. Mr. Rosser is responsible for overseeing all of our sales and marketing efforts. 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.

Michael K. Muscat, Jr. – Senior Vice President–Product Development Services. Michael K. Muscat, Jr., age 40, has served as our Senior Vice President – Product Development Services since March 2008. Mr. Muscat is responsible for overseeing all aspects of the development, quality assurance/testing, documentation, and distribution of all application software. Mr. Muscat began his career with us in July 1996 as a Software Support Representative. Mr. Muscat then served as a Programmer and Manager of Outsourcing Services. From June 2002 to May 2006, Mr. Muscat served as the Director of Business Management Services and from May 2006 until March 2008 as the Vice President of Business Management Services.

Robert D. Smith – Vice President–Product Development Services. Robert D. Smith, age 43, has served as our Vice President – Product Development Services since March 2008. Mr. Smith is responsible for overseeing all aspects of system programming and enhancements within our Product Development division. Since Mr. Smith began his career with us in September 1993, he has served in the capacity of Technical Support Representative, Programmer, and Programming Manager. From January 2001 to May 2006, Mr. Smith served as the Director of Programming Services and from May 2006 to March 2008 as Vice President of Programming Services.

James B. Britain – Vice President–Finance and Controller. James B. Britain, age 48, has served as our Vice President – Finance and Controller since March 2011. Mr. Britain is our principal accounting officer. Mr. Britain began his career with us in September 2007 as Controller and served in that capacity until March 2011. Prior to his appointment as Controller, Mr. Britain was Controller of Azalea Aviation, Inc., a fixed base operator in Mobile, Alabama, from September 2006 until September 2007.

Lyle E. Hutchison – Vice President–Sales. Lyle E. Hutchison, age 48, has served as our Vice President – Sales since October 2012. Mr. Hutchison is responsible for overseeing all of our sales efforts directed towards new or prospective customers. Prior to his appointment as Vice President – Sales in October 2012, Mr. Hutchison served as Senior Sales Director since May 2011. Mr. Hutchison began his career with us in August 1990 and has held the positions of Sales Manager from August 2005 until June 2006, Sales Director from June 2006 until May 2011, and Senior Sales Director from May 2011 until October 2012.

Sean C. Nicholas – Vice President–Sales. Sean C. Nicholas, age 44, has served as our Vice President – Sales since October 2012. Mr. Nicholas is responsible for overseeing all of our sales efforts directed towards our established customers. Prior to his appointment as Vice President – Sales in October 2012, Mr. Nicholas served as Senior Sales Director since May 2011. Mr. Nicholas began his career with us in July 1993 and has held the positions of Sales Manager from January 1999 until October 2000, Marketing Director from October 2000 until October 2003, Sales Director from October 2003 until May 2011, and Senior Sales Director from May 2011 until October 2012.

J. Scott Littrell – Vice President–Information Technology Services. J. Scott Littrell, age 39, has served as our Vice President – Information Technology Services since January 2013. Mr. Littrell is responsible for overseeing all aspects of technical and hardware services. Mr. Littrell began his career with us in 2000 as a Technical Support Representative. Since that time, Mr. Littrell has served as ImageLink Support Representative from 2003 until 2004, R&D Analyst from 2004 until 2007, and most recently served as Director of Technical and Hardware Services from 2007 until January 2013.

Stephanie S. Durkac – Vice President–Clinical Support. Stephanie S. Durkac, age 47, has served as our Vice President – Clinical Support since January 2013. Ms. Durkac is responsible for overseeing the software support services we provide to customers of our clinical applications. Prior to her appointment as Vice President – Clinical Support in January 2013, Ms. Durkac served as Director of Software Services since November 2003. Ms. Durkac began her career with us in 1994 and has held various positions within our Software Services division, including Manager, Assistant Director, and Director.

Pamela S. Phillips – Vice President–Financial Support. Pamela S. Phillips, age 46, has served as our Vice President – Financial Support since January 2013. Ms. Phillips is responsible for overseeing the software support services we provide to customers of our financial applications. Prior to her appointment as Vice President – Financial Support in January 2013, Ms. Phillips served as our Director of Financial Support from November 2004 until January 2013. Ms. Phillips began her career with us in 1993 and has held various positions within our Software Services division, including Software Implementation Team Manager, Education Manager, and Director of Financial Support.

J. Lamar Cowart – Vice President–Implementation. J. Lamar Cowart, age 40, has served as our Vice President – Implementation since January 2013. Mr. Cowart is responsible for overseeing the implementation services we provide to those customers purchasing new applications. Mr. Cowart began his career with us in 1999 and has held various positions within our Software Services division, including Project Manager from 2003 until 2004, Director of Implementation Services from 2004 until 2011, and Senior Director of Implementation Services from 2011 until January 2013.

In January 2013, the Company announced the formation of Trubridge, LLC ("TruBridge"), a wholly-owned subsidiary of CPSI. The executive officers of TruBridge serve at the pleasure of the Board of Directors of CPSI. Set forth below is a list of the current executive officers of TruBridge and a brief explanation of each individual's principal employment during the last five years.

Christopher L. Fowler – President–TruBridge. Christopher L. Fowler, age 38, has served as the President of TruBridge since its formation in January 2013. Mr. Fowler is responsible for overseeing all aspects of the business management, consulting and managed IT services we provide to our customers through TruBridge. Prior to the formation of TruBridge, Mr. Fowler served as CPSI's Vice President – Business Management Services since March 2008. Mr. Fowler began his career with us in May 2000 as a Software Support Representative and later as a manager of Financial Software Services. From August 2004 until March 2008, Mr. Fowler served as Assistant Director and Director of Business Management Services.

Patrick A. Immel – Senior Vice President of Professional Services–TruBridge. Patrick A. Immel, age 43, has served as the Senior Vice President of Professional Services of TruBridge since its formation in January 2013. Mr. Immel is responsible for overseeing the managed IT and consulting services we provide to our customers through TruBridge. Prior to the formation of TruBridge, Mr. Immel served as CPSI's Vice President–Information Technology Services since January 2000. Mr. Immel began his career with us in July 1993 as a Financial Software Support Representative. Since that time, Mr. Immel has served as a programmer, Manager of Technical Support and Director of Information Technology Services. Mr. Immel's wife's sister's husband, Mr. J. Boyd Douglas, is an executive officer of the Company. Mr. Douglas is not a "family member" of Mr. Immel under NASDAQ Listing Rule 5605.

Gregory Leatherbury – Vice President of Business Services–TruBridge. Gregory Leatherbury, age 36, has served as the Vice President of Business Services of TruBridge since its formation in January 2013. Mr. Leatherbury is responsible for overseeing the business services we provide to our customers through TruBridge. Prior to the formation of TruBridge, Mr. Leatherbury served as CPSI's Director of Revenue Cycle Management since 2008. Mr. Leatherbury began his career with us in 2002 and has held various positions in both the Software Services and Business Services divisions. Mr. Leatherbury's uncle by marriage, Mr. Ernest F. Ladd, III, is a director of the Company. Mr. Ladd is not a "family member" of Mr. Leatherbury under NASDAQ Listing Rule 5605.

Rick Jones – Vice President of Sales–TruBridge. Rick Jones, age 44, has served as the Vice President of Sales of TruBridge since its formation in January 2013. Mr. Jones is responsible for all sales and marketing efforts related to TruBridge. Prior to the formation of TruBridge, Mr. Jones served as a Sales Director at CPSI since 2006. Mr. Jones began his career with us in February 1994 and has held various sales and Software Services positions within the Company.

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

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

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

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

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

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

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

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

As existing regulations mature and become better defined, we anticipate that these regulations will continue to directly affect certain of our products and services, but we cannot fully predict the effect at this time. We have taken steps to modify our products, services and internal practices as necessary to facilitate our compliance with the regulations, but there can be no assurance that we will be able to do so in a timely or complete manner. Achieving compliance with these regulations could be costly and distract management’s attention and divert other company resources, and any noncompliance by us could result in civil and criminal penalties.

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

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

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

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

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

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

claims. CMS has stated that it is concerned that percentage-based billing services may encourage billing companies to commit or to overlook fraudulent or abusive practices.

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

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

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

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

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

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

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

ARRA Meaningful Use Program. Various federal and state government agencies are developing standards that could become mandatory for systems purchased by entities that are funded by these agencies. For example, the ARRA requires "meaningful use of certified electronic health record technology" by healthcare providers by 2015 in order to receive incentive payments. Regulations have been issued that identify standards and implementation specifications and establish the certification standards for qualifying EHR technology. Nevertheless, these standards and specifications are subject to interpretation by the

entities designated to certify such technology. While a combination of our solutions has been certified as meeting both stage one and stage two standards for certified health record technology, the regulatory standards to achieve certification will continue to evolve over time. We may incur increased development costs and delays in delivering solutions if we need to upgrade our software or healthcare devices to be in compliance with these varying and evolving standards. In addition, delays in interpreting these standards may result in postponement or cancellation of our customers' decisions to purchase our software solutions. If our software solutions are not compliant with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our software solution.

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

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

Standards for Submission of Healthcare Claims. CMS has mandated the use of new patient codes for reporting medical diagnosis and inpatient procedures, referred to as the ICD-10 codes. CMS is requiring all providers, payors, clearinghouses and billing services to utilize these ICD-10 codes when submitting claims for payment. ICD-10 codes will affect medical diagnosis and inpatient procedure coding for everyone covered by HIPAA, not just those who submit Medicare or Medicaid claims. Claims for services provided on or after October 1, 2014 must use ICD-10 codes for medical diagnosis and inpatient procedures or they will not be paid.

We do not anticipate significant remaining costs associated with implementing the use of the ICD-10 codes within our products and services. However, if our products and services do not accommodate CMS mandates at any future date, customers may cease to use those products and services that are not compliant and may choose alternative vendors and products that are compliant. This could adversely impact future revenues.

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

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

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

There are a finite number of hospitals with 300 or fewer acute care beds in our general target market. Saturation of this market with our products or our competitors' products could limit our revenues and revenue growth. Furthermore, many

healthcare providers have consolidated to create larger healthcare delivery enterprises with greater market power. If this consolidation continues, we could lose existing customers and could experience a decrease in the number of potential purchasers of our products and services. The loss of existing and potential customers due to industry consolidation could cause our revenue growth rate to decline. In addition, larger, consolidated enterprises could have greater bargaining power, which may lead to downward pressure on the prices of our products and services.

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

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

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

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

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

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

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

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

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

The needs of hospitals in our target market are subject to rapid change due to government regulation, trends in clinical care practices and technological advancements. As a result of these changes, our products may quickly become obsolete or less

competitive. New product introductions and enhancements by our competitors that more effectively or timely respond to changing industry needs may weaken our competitive position.

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

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

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

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

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

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

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

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

The vast majority of our facilities and employees are located within 30 miles of the coast of the Gulf of Mexico. Our facilities are vulnerable to significant damage or destruction from hurricanes and tropical storms. We are also vulnerable to damage from other types of disasters, including tornadoes, fires, floods and similar events. If any disaster were to occur, our

ability to conduct business at our facilities could be seriously impaired or completely destroyed. This would have adverse consequences for our customers who depend on us for system support or business management, consulting and managed IT services. Also, the servers of customers who use our remote access services could be damaged or destroyed in any such disaster. This would have potentially devastating consequences to those customers. Although we have an emergency recovery plan, including back-up systems in remote locations, there can be no assurance that this plan will effectively prevent the interruption of our business due to a natural disaster. Furthermore, the insurance we maintain may not be adequate to cover our losses resulting from any natural disaster or other business interruption.

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

We currently have backup generators to be used as alternative sources of power in the event of a loss of power to our facilities. If these generators were to fail during any power outage, we would be temporarily unable to continue operations at our facilities. This would have adverse consequences for our customers who depend on us for system support, business management, and managed IT and professional services. Any such interruption in operations at our facilities could damage our reputation, harm our ability to retain existing customers and obtain new customers, and result in lost revenue and increased insurance and other operating costs.

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

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

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

We do not have employment or non-competition agreements with 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 any 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.

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

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

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

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

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

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

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

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

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

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

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

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

Based on our reading and interpretations of relevant guidance, principles or concepts issued by, among other authorities, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and the Securities and Exchange Commission, we believe revenue received pursuant to our current sales and licensing contract terms and business arrangements have been properly recognized. However, there continue to be issued interpretations and guidance for applying

the relevant standards to a wide range of sales and licensing contract terms and business arrangements that are prevalent in the software industry. Future interpretations or changes by the regulators of existing accounting standards or changes in our business practices could result in changes in our revenue recognition and/or other accounting policies and practices that could adversely affect our business, financial condition, cash flows, revenue and results of operations.

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

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

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

- changes in customer budgets and purchasing priorities;
- the ability of our customers to obtain financing for the purchase of our products;
- the financial stability of our customers;
- the specific mix of software, hardware and services in orders from customers;
- the timing of new product announcements and product introductions by us and our competitors;
- market acceptance of new products, product enhancements and services from us and our competitors;
- product and price competition;
- our success in expanding our sales and marketing programs;
- the availability and cost of system components;
- delay of revenue recognition to future quarters due to an increase in the sales of our remote access SaaS services;
- the length of sales cycles and installation processes;
- changes in revenue recognition or other accounting guidelines employed by us and/or established by the Financial Accounting Standards Board or other rulemaking bodies;
- accounting policies concerning the timing of recognition of revenue;
- personnel changes; and
- general market and economic factors.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

Prior to December 13, 2011, we leased the 16.5 acres and all of our corporate campus buildings in Mobile, Alabama from a related party, C.P. Investments, Inc., an Alabama corporation. Our leases with C.P. Investments, Inc. were terminated on December 13, 2011 in conjunction with our purchase of the property from C.P. Investments for $9.5 million. The 11.3 acres of undeveloped property is also directly owned by CPSI.

On January 1, 2007, we entered into a lease with Riverside Corporation to house a call center to support the growth of our business management services (now offered by our subsidiary, TruBridge). This building consists of approximately 10,000 square feet and is located in Lanett, Alabama.

On January 20, 2009, we entered into a lease agreement with Strauss Properties, LLC to house a call center to further support the growth of our business management services (now offered by our subsidiary, TruBridge). This lease consists of approximately 10,800 square feet of space and is located in Monroe, Louisiana.

On September 14, 2009, we entered into a lease agreement with 3725 Airport Boulevard, LP to house the majority of our employees providing business management services (now offered by our subsidiary, TruBridge). This lease consists of approximately 32,240 square feet and is located in Mobile, Alabama, approximately 5 miles from our corporate campus location.

On February 1, 2010, we entered into a lease agreement with 3725 Airport Boulevard, LP to lease additional space for our employees providing business management services (now offered by our subsidiary, TruBridge). This lease consists of approximately 11,240 square feet and is located in Mobile, Alabama, approximately 5 miles from our corporate campus location.

On March 19, 2012, we entered into a lease agreement with Fairhope Group, LLC to lease additional space for our software services employees. This lease consists of approximately 45,020 square feet and is located in Fairhope, Alabama, approximately 30 miles from our corporate campus location.

We do not anticipate the need to lease additional office space in 2014, as we expect that our existing facilities will be sufficient to meet our needs until the end of 2014 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 11, 2014, CPSI had 75 stockholders of record (which does not include the number of beneficial owners whose shares are held in "street" names by broker-dealers and other nominees who are the record holders) and 11,163,950 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
2013			
First Quarter	$ 54.50	$ 46.08	$ 0.51
Second Quarter	56.31	48.02	0.51
Third Quarter	59.53	47.23	0.51
Fourth Quarter	62.87	55.36	0.51
2012			
First Quarter	$ 64.00	$ 50.58	$ 0.46
Second Quarter	61.90	51.64	0.46
Third Quarter	59.17	44.95	0.46
Fourth Quarter	56.03	46.76	0.46 (1)

(1) Excluded from the quarterly dividend declared per share in the fourth quarter of 2012 is the December 2012 declaration of a special, one-time dividend of $1.00 per share that was made in anticipation of increased federal income tax rates on dividends that began in 2013.

The last reported sales price of CPSI's common stock as reported on the NASDAQ Global Select Market on March 11, 2014 was $67.12.

Dividends

During 2013, we paid a quarterly dividend in the amount of $0.51 per share, compared to $0.46 per share during 2012. Additionally, our strong cash position resulted in the decision by our Board of Directors on January 30, 2014 to approve a $0.06 increase in our quarterly dividend to $0.57 per share. We believe that paying dividends is an effective way of providing an investment return to our stockholders and a beneficial use of our cash. However, the declaration of dividends by CPSI is subject to the discretion of our Board of Directors. Our Board of Directors will take into account such matters as general business conditions, our financial results and such other factors as our Board of Directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands except for share and per share data)				
INCOME DATA:					
Total sales revenues	$ 200,863	$ 183,309	$ 173,476	$ 153,247	$ 127,742
Total costs of sales	107,126	102,648	94,065	88,863	74,483
Gross profit	93,737	80,661	79,411	64,384	53,259
Total operating expenses	43,493	39,384	38,116	35,287	29,890
Operating income	50,244	41,277	41,295	29,097	23,369
Total other income	466	721	667	674	728
Income before taxes	50,710	41,998	41,962	29,771	24,097
Provision for income taxes	17,967	12,025	16,129	11,033	8,914
Net Income	$ 32,743	$ 29,973	$ 25,833	$ 18,738	$ 15,183
Net income per share - basic	$ 2.95	$ 2.71	$ 2.34	$ 1.71	$ 1.39
Net income per share - diluted	$ 2.95	$ 2.71	$ 2.34	$ 1.71	$ 1.39
Weighted average shares outstanding:					
Basic	11,100,825	11,066,456	11,033,804	10,962,874	10,953,747
Diluted	11,100,825	11,066,456	11,033,804	10,962,874	10,955,167
Cash dividends declared per common share	$ 2.04	$ 2.84	$ 1.44	$ 1.44	$ 1.44

	As of December 31,				
	2013	2012	2011	2010	2009
BALANCE SHEET DATA					
Cash and cash equivalents	$ 11,729	$ 8,912	$ 6,664	$ 2,940	$ 4,387
Working capital	51,301	32,486	37,498	35,135	34,426
Total assets	92,535	77,839	75,645	62,735	54,450
Total current liabilities	21,451	18,461	16,671	14,485	11,247
Total stockholders' equity	69,083	57,202	57,384	46,464	42,691

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 was founded in 1979 and specializes in delivering comprehensive healthcare information systems and related services to rural and community hospitals. Our systems and services are designed to support the primary functional areas of a hospital and to enhance access to necessary financial and clinical information. Our comprehensive system enables healthcare providers to improve clinical, financial and administrative processes and outcomes. Our products and services provide solutions in key areas, including patient management, financial accounting, clinical, patient care and enterprise applications. In addition to servicing small to medium-sized hospitals, we provide information technology services to other related entities in the healthcare industry, such as nursing homes, home health agencies and physician clinics.

We sell a fully integrated, enterprise-wide financial and clinical hospital information system comprised of all necessary software, hardware, peripherals, forms and office supplies, together with comprehensive customer service and support. We also offer business management, consulting and managed information technology ("IT") services, including electronic billing submissions, patient statement processing and accounts receivable management, as part of our overall information system solution.

Our system currently is installed and operating in over 650 hospitals in 46 states and the District of Columbia. Our customers consist of rural and community hospitals with 300 or fewer acute care beds, with hospitals having 100 or fewer acute care beds comprising approximately 94% of our customers.

Management Overview

Historically we have primarily sought revenue growth through sales of healthcare information technology systems and related services to existing and new customers within our target market. Our strategy has produced consistent revenue growth over the long term, as reflected in five- and ten-year compounded annual growth rates in revenues of approximately 10.9% and 9.5%, respectively. Selling new and additional products and services to our existing customer base is an important part of CPSI's future revenue growth. We believe that as our customer base grows, the demand for additional products and services, including business management services, will also continue to grow, supporting further increases in recurring revenues. We also expect to drive revenue growth from new product development that we may generate from our research and development activities.

In January 2013, we announced the formation of TruBridge, LLC ("TruBridge"), a wholly-owned subsidiary of CPSI. TruBridge provides the business management, consulting and managed IT services that historically had been provided by CPSI, with the expectation of expanding both our service offerings and our footprint in this particular marketplace in the future. We expect this strategic initiative to allow us to more fully take advantage of the market opportunities in providing such services by facilitating the expansion of our target market to include the entire rural and community hospital market, no longer limiting the market for our services to hospitals where CPSI already serves as the primary IT vendor.

In addition to revenue growth, our business model is focused on earnings growth. Once a hospital has installed our system, we continue to provide support and maintenance services to the customer on an ongoing basis. These services are typically provided by the same personnel who perform our system installations but at a reduced cost to us, and therefore at an increased gross margin. We also look to increase margins through cost containment measures where appropriate.

As a result of the recent economic recession, continued economic uncertainty and tightened lending standards, hospitals have experienced reduced availability of third-party credit and increased volatility in their investment portfolios. In addition, healthcare organizations with a large dependency on Medicare and Medicaid populations, such as rural and community hospitals, have been impacted by the challenging financial condition of the federal government and many state governments and government programs. Accordingly, we recognize that prospective hospital customers often do not have the necessary capital to make investments in information technology. Additionally, in response to these challenges, hospitals have become more selective regarding where they invest capital, resulting in a focus on strategic spending that generates a return on their

investment. Despite the current economic environment, 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.

Over the past five years, we have experienced an increase in customers seeking financing arrangements from us for system installations as a result of ongoing challenging economic conditions and tightened lending standards. Additionally, as our new system installation customers expect significant future cash inflows in the form of electronic health record ("EHR") incentive payments from the federal and state governments, we have experienced a significant demand for financing arrangements allowing these customers to minimize the near-term impact on their current cash resources. As a result, we have experienced a significant increase in financing arrangements that allow customers to utilize anticipated cash inflows under the EHR incentive program in satisfaction of their payment obligations in purchasing our EHR solution. The increased demand for financing arrangements has resulted in nearly all of our new system installation customers seeking and receiving financing arrangements during 2013. Historically, we have made financing arrangements available to customers on a case-by-case basis depending upon various aspects of the proposed contract and customer attributes. These financing arrangements include short-term payment plans, longer-term lease financing through us or third-party financing companies, and Software as a Service ("SaaS") arrangements. We intend to continue to work with prospective customers to provide for financing arrangements to purchase our systems so long as such arrangements do not adversely affect our financial position or long-term liquidity. We believe that meeting the financial needs of rural and community hospitals while allowing for the profitable expansion of our footprint in this market will remain both an opportunity and a challenge for us in the foreseeable future.

Despite the ongoing challenging economic conditions generally, including continued tightened lending standards and the significant increase in customers entering into financing arrangements with us, we have not experienced a decline in demand for our products and services, and our collections of receivables remain consistent with historical trends.

American Recovery and Reinvestment Act of 2009

While the ongoing challenging economic conditions and tightened lending standards have impacted and are expected to continue to impact the rural and community hospitals that comprise our target market, we believe that the American Recovery and Reinvestment Act of 2009 (the "ARRA") has increased and will continue to increase demand for healthcare information technology and will have a positive impact on our business prospects through 2015. The ARRA includes more than $19 billion in funding to aid healthcare organizations in modernizing their operations through the acquisition and wide-spread use of healthcare information technology. Included in the funding is approximately $17.2 billion in incentives through Medicare and Medicaid reimbursement systems to encourage and assist healthcare providers in adopting and using EHRs. These incentive payments began in 2011, but if an eligible healthcare provider does not begin to demonstrate meaningful use of an EHR by October 1, 2014, then reimbursement under Medicare will begin to be reduced. Our hospital customers began receiving these incentive payments under the ARRA in 2011. As of the date of this filing, approximately 420 of our hospital customers have received payments for EHR adoption totaling approximately $577 million.

We have been focused on ensuring that we take the necessary steps to meet the needs of rural and community hospitals to help them gain access to the incentives made available under the ARRA. Primary among those steps is ensuring that our technology meets the ARRA’s EHR certification requirements. During 2010, both our hospital and medical practice EHR solutions were certified as a complete EHR by CCHIT ®. Receiving this certification for both our hospital and medical practice EHR products ensures that both hospitals and providers using our EHR systems can attain "meaningful use" of EHRs and qualify for certain EHR incentives. Continuing this focus on ensuring that our technology meets the ARRA's EHR certification requirements, we recently announced that Version 19 of our hospital and medical practice EHR systems were certified by CCHIT ® as complete EHRs in compliance with the Office of the National Coordinator for Health Information Technology ("ONC") 2014 Edition criteria. The ONC 2014 Edition criteria support both stage one and stage two meaningful use measures required to qualify eligible hospitals and providers for funding under the ARRA.

According to data reported by the ONC, along with CMS, as of December 31, 2013 CPSI is third among all vendors in terms of the number of successful hospital customer attestations for complete EHR systems. As a result of our obtaining the CCHIT ® certification and our track record with our hospital customers successfully achieving meaningful use, the ARRA has had and should continue to have a positive impact on our business and the businesses of the rural and community hospitals that comprise our target market.

Health Care Reform

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and

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

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

Deficit Reduction/Sequestration

President Obama signed legislation in August 2011, the Budget Control Act of 2011, to increase the U.S. debt ceiling. This legislation mandates significant cuts in federal spending over the next decade, as the special bipartisan Congressional committee appointed under the legislation failed to take any action on deficit reduction. Although Medicaid is specifically exempted from the federal spending cuts mandated by the legislation, it calls for a reduction of up to 2% in federal Medicare spending, all of which will be achieved by reduced reimbursements to healthcare providers. With the passage of the American Taxpayer Relief Act of 2012, the reduced reimbursements provided for under the Budget Control Act took effect starting on March 1, 2013. As our hospital customers rely heavily on reimbursements from Medicare to fund their operations, the anticipated reduction in reimbursement rates, although capped at 2%, could negatively affect the businesses of our customers and our business.

As the federal government seeks to further limit deficit spending in the future due to fiscal restraints, it will likely continue to cut entitlement spending programs such as Medicare and Medicaid matching grants which will place further cost pressures on hospitals and other healthcare providers. Furthermore, federal and state budget shortfalls could lead to potential reductions in funding for Medicare and Medicaid. Reductions in reimbursements from Medicare and Medicaid could lead to hospitals postponing expenditures on information technology.

2013 Financial Overview

Our gross revenues in 2013 increased 9.6%, while our net income increased 9.2%. Despite the increase in net income, cash flow from operations decreased 9.8% due primarily to significant increases in our financing receivables. We continued to experience increased levels of customers seeking financing arrangements for system installations during the year due to continued challenging economic conditions and unavailability of third-party credit. Additionally, as our new system installation customers expect significant future cash inflows in the form of EHR incentive payments, we have experienced a significant demand for financing arrangements allowing these customers to minimize the near-term impact on their current cash resources. As a result, we have experienced a significant increase in financing arrangements that allow customers to utilize anticipated cash inflows under the EHR incentive program in satisfaction of their principal obligation in purchasing our EHR solution. These customers have opted for payment terms that result in the full satisfaction of principal within a timeframe consistent with that of our historical financing arrangements. We will continue to grant financing arrangements to customers on a case-by-case basis depending upon various aspects of the proposed contract and customer attributes.

Despite the decrease in cash flow from operations during the year, we have maintained a strong cash position that we believe is sufficient to meet our operating requirements. We believe that a strong cash position enables us to compete better in the marketplace and maintain the quality of our customer service and product offerings.

As mentioned above, our operations have been significantly affected by the EHR incentives offered under the ARRA and the related reduction in Medicare reimbursement rates for those providers that fail to demonstrate meaningful use of EHR by October 1, 2014. "Meaningful use" of EHR under the ARRA refers to a set of core criteria that medical providers must meet in order to prove that they are using their EHR as an effective tool in their practice, plus additional a la carte menu items. Meaningful use is measured in three stages, with each stage representing a level of adoption of EHR. EHR incentive payments to eligible hospitals meeting the stage one criteria began in 2011 and eligible hospitals not meeting the stage one criteria by October 1, 2013 will experience a decrease in the overall incentive payments for which they are eligible under the incentive

program. To achieve the stage one criteria, eligible hospitals are required to meet 14 core objectives and five menu objectives that they select from a total list of 10. Stage two criteria, published in September 2012, became effective at the beginning of the federal government's 2014 fiscal year (October 1, 2013) and require eligible hospitals to meet 16 core objectives and three menu objectives to be selected from a total list of six. Most of the stage one objectives are core objectives under stage two, but the thresholds that providers must meet to satisfy these objectives for stage two have been raised. Stage three criteria (the final rules for which have not yet been published) are expected to become effective at the beginning of the federal government's 2017 fiscal year (October 1, 2016).

First Generation Meaningful Use Installment Plans. During 2012, we included language in certain of our customer license agreements that more evenly matched customers' anticipated cash inflows under the EHR incentive program with the necessary cash outflows for purchasing our EHR solution ("First Generation Meaningful Use Installment Plans," previously referred to as "Extended Meaningful Use Installment Plans" in our prior filings with the Securities and Exchange Commission). Under these arrangements, a customer is required to remit to us Medicare and Medicaid incentive payments (not to exceed the remaining balance under the arrangement) received for adoption of qualifying EHRs upon receipt of such funds, with only nominal payments required until the customer's receipt of such incentive payments. If no such incentive payments are received by the customer or if such payments are not sufficient to pay the remaining balance under the arrangement, payments continue at contracted nominal amounts until the balance of the contract price is paid in full. EHR incentive payments aside, these nominal payment amounts would result in the overall duration of the payment periods significantly exceeding that of our historical financing arrangements. As a result, revenue from these arrangements is recognized as the amounts become due. As of December 31, 2013, we have remaining accumulated unrecognized revenue of $2.7 million to be recognized as the amounts become due under these contracts. Of the customers contributing to the $2.7 million in accumulated unrecognized revenue as of December 31, 2013, all have attested to stage one of meaningful use as of the date of this filing, with half of those customers attesting to stage one having already received related Medicaid incentive payments. Medicare payments, which are typically significantly larger than the related Medicaid payments, are still pending for most of these customers.

Our experience suggests an average time from successful attestation in stage one to receipt of funds from Medicare under the EHR incentive program of approximately six weeks. Overall with respect to these contracts, we have typically experienced a timeframe of 6 to 12 months from the date of installation to receipt of funds under the EHR incentive program. While those customers contributing to the $2.7 million of accumulated unrecognized revenue have experienced significantly expanded timeframes from installation to receipt of incentive funds, we do not consider the events giving rise to such timeframe expansion to be indicative of an increased risk of noncompliance with the ARRA requirements, collectibility or eventual revenue recognition. The final new system installation under a First Generation Meaningful Use Installment Plan was performed during the fourth quarter of 2012, and the Company does not expect to offer such payment terms going forward. As a result, aside from the anticipated recognition of the $2.7 million of accumulated unrecognized revenue as of December 31, 2013, we do not expect First Generation Meaningful Use Installment Plans to have a significant impact on our future financial statements.

Second Generation Meaningful Use Installment Plans. Beginning in the fourth quarter of 2012, we ceased offering First Generation Meaningful Use Installment Plans to our customers, opting instead for license agreements with payment terms that provide us with greater visibility into and control over the customer's meaningful use attestation process and significantly reducing the maximum timeframe over which customers must satisfy their full payment obligations in purchasing our system ("Second Generation Meaningful Use Installment Plans"). Under these arrangements, for the first two years following execution of the contract, a customer is only required to remit to us Medicare and Medicaid incentive payments (not to exceed the remaining balance under the arrangement) received for adoption of a qualifying EHR upon receipt of such funds. Upon the expiration of this two-year period, the remaining balance (if any) is required to be paid in full over a period not to exceed twelve months. As the overall payment period durations of the Second Generation Meaningful Use Installment Plans are consistent with that of our historical system sale financing arrangements, revenues under the Second Generation Meaningful Use Installment Plans are recognized upon installation of our EHR solution. Nearly all of our new system installations during 2013 were under Second Generation Meaningful Use Installment Plans, resulting in a significant increase in our financing receivables balances from December 31, 2012 to December 31, 2013.

We expect the demand for financing arrangements to continue for the next few years, but at a lower frequency than that experienced during 2012 and 2013. As a result, our financing receivables balances are expected to decrease beginning in 2014 upon successful collection of currently outstanding amounts.

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 generally accepted accounting principles.

Revenue from general support agreements for post-contract support services (support and maintenance) and information technology management and consulting services are recognized by the Company ratably over the term of the agreement.

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

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

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

Business Management, Consulting and Managed IT Services. Our business management services include electronic billing, statement processing, payroll processing and business office management (primarily accounts receivable management and private pay services). Most of these business management services are sold pursuant to one-year customer agreements, with automatic one-year renewals until terminated. We also provide web site design, hosting services, and other managed IT and professional 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 financial statements for additional discussion of our revenue recognition policies.

Costs of Sales

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

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

Our employees that perform system installations also provide support and maintenance services. We allocate their time equally between the two functions to provide them with an equal amount of time at home providing support services versus traveling away from home performing system installations. As such, salary-related expenses are allocated between cost of system sales and cost of support and maintenance services based upon an estimate of the percentage of time employees spend performing each function. We had 558 software installation and support employees as of December 31, 2013 compared to 652 as of December 31, 2012.

Additionally, as the employees in our Product Development Services division devote a portion of their time to the development of software enhancements governed by our support arrangements with our customers, we similarly allocate this division's salary-related expenses between cost of system sales and cost of support and maintenance services. The average headcount in this division increased from 174 during 2012 to 195 during 2013.

Supplies and forms represent an additional cost associated with our support and maintenance services. These costs are expensed as incurred.

Business Management, Consulting and Managed IT Services. The principal cost related to our statement processing services is postage. 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, 2013, expressed as a percentage of our total revenues for these periods (*dollar amounts in thousands*):

	Year ended December 31,					
	2013		2012		2011	
	Amount	% Revenues	Amount	% Revenues	Amount	% Revenues
INCOME DATA:						
Sales revenues:						
System sales	$ 79,792	39.7%	$ 72,553	39.6%	$ 70,644	40.7%
Support and maintenance [1]	71,506	35.6%	67,293	36.7%	64,153	37.0%
Business management, consulting and managed IT services [1]	49,565	24.7%	43,463	23.7%	38,679	22.3%
Total sales revenues	200,863	100.0%	183,309	100.0%	173,476	100.0%
Costs of sales:						
System sales	47,840	23.8%	49,019	26.7%	47,603	27.4%
Support and maintenance [1]	28,640	14.3%	27,710	15.1%	25,844	14.9%
Business management, consulting and managed IT services [1]	30,646	15.3%	25,919	14.1%	20,618	11.9%
Total costs of sales	107,126	53.4%	102,648	55.9%	94,065	54.2%
Gross profit	93,737	46.6%	80,661	44.1%	79,411	45.8%
Operating expenses:						
Sales and marketing	14,737	7.3%	14,290	7.8%	13,413	7.7%
General and administrative	28,756	14.3%	25,094	13.7%	24,703	14.2%
Total operating expenses	43,493	21.6%	39,384	21.5%	38,116	21.9%
Operating income	50,244	25.0%	41,277	22.6%	41,295	23.9%
Other income:						
Interest income	466	0.2%	721	0.4%	667	0.4%
Total other income	466	0.2%	721	0.4%	667	0.4%
Income before taxes	50,710	25.2%	41,998	23.0%	41,962	24.3%
Provision for income taxes	17,967	8.9%	12,025	6.6%	16,129	9.3%
Net income	$ 32,743	16.3%	$ 29,973	16.4%	$ 25,833	15.0%

[1] Prior year amounts have been reclassified to reflect the current presentation. See Note 2 to the consolidated financial statements.

2013 Compared to 2012

Revenues. Total revenues increased 9.6%, or $17.6 million. This was largely attributable to an increase in system sales revenues, primarily caused by an increase in new system installations under Second Generation Meaningful Use Installment Plans combined with revenue recognized related to First Generation Meaningful Use Installment Plans of $3.9 million (net of approximately $0.6 million of additional unrecognized revenue accumulated during 2013 related to these arrangements) compared to accumulated unrecognized revenue of $7.1 million (net of approximately $5.5 million of revenue recognized) related to these arrangements during 2012. Additionally, we experienced an increase in support and maintenance revenues and business management, consulting and managed IT services revenues due to a larger customer base and increased applications within that customer base requiring support and maintenance services, as well as increased demand for and market acceptance of our business management, consulting and managed IT services.

System sales revenues increased by 10.0%, or $7.2 million. We completed financial and patient software system installations at 30 new hospital clients in 2013 (none of which was under a First Generation Meaningful Use Installment Plan and one of which was under a SaaS arrangement) compared to 34 in 2012 (10 of which were under First Generation Meaningful Use Installment Plans). Sales to existing customers accounted for 58.0% of our system sales revenues during 2013 compared to 64.1% during 2012. During 2012, the Company installed systems under First Generation Meaningful Use Installment Plans for which a substantial majority of the consideration is not received or revenue recognized until the customers successfully achieve

"meaningful use" designation and receive related stage one ARRA incentive payments. These arrangements resulted in revenue recognized (net of additional unrecognized revenue accumulated) of $3.9 million during 2013 and $7.1 million of accumulated unrecognized revenue during 2012. Excluding the net effect on revenue resulting from these arrangements, adjusted system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) decreased $3.7 million, or 4.7%, due to the decrease in add-on sales to existing customers. Add-on sales in 2012 benefited from those customers purchasing necessary incremental applications in order to satisfy both stage one and stage two meaningful use criteria, whereas during 2013 the opportunities for add-on sales for stage one incremental applications had largely been exhausted.

Support and maintenance revenues increased by 6.3%, or $4.2 million. Support service fees increased by 8.5%, or $5.3 million, due to an increase in recurring revenues as a result of a larger customer base, an increase in support fees for add-on business sold to existing customers, and increases in support rates from contractually agreed upon Consumer Price Index rate increases. The increase in support service fees was partially offset by a 27.7%, or $0.8 million, decrease in SaaS, hosting and other fees as a result of the high volume during 2012 of conversions of previously installed SaaS arrangements to perpetual licenses at the customers' request.

Business management, consulting and managed IT services revenues increased by 14.0%, or $6.1 million. We experienced this increase in business management, consulting and managed IT services revenues primarily as a result of growth in customer demand for accounts receivable management (increasing 29.5%, or $3.4 million), consulting services (increasing 88.5%, or $2.0 million, due to an approximately 80% increase in related contract signings), cloud computing (a component of managed IT services, increasing 58.4%, or $0.5 million), and private pay services (increasing 3.3%, or $0.3 million) due to more effective marketing of these services.

Costs of Sales. Total costs of sales increased by 4.4%, or $4.5 million. As a percentage of revenues, costs of sales decreased from 55.9% to 53.4%.

Costs of system sales decreased 2.4%, or $1.2 million. The decrease in costs of system sales was primarily due to a $1.6 million decrease in travel expenses and a $1.2 million decrease in cost of equipment as a result of the decrease in new system installations. These cost decreases were partially offset by a $2.0 million increase in the cost of third-party software subscriptions as a result of our expanding customer base utilizing such third-party software services and new royalty payments for newly copyrighted and newly provided third-party content. The gross margin on system sales increased to 40.0% in 2013 from 32.4% in 2012. Excluding the net effect on revenue resulting from First Generation Meaningful Use Installment Plans (which were used by the Company in 2012) and the deferral of the related cost of equipment, the adjusted gross margin on system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) decreased slightly to 37.5% in 2013 from 37.8% in 2012. The table below summarizes the major components of costs of system sales as a percentage of system sales revenues:

	Year Ended December 31,	
	2013	2012
Payroll and related expenses	31.0%	34.5%
Travel expenses	14.1%	17.7%
Cost of equipment	7.3%	9.7%

Excluding the net effect on revenue and cost of equipment resulting from First Generation Meaningful Use Installment Plans, payroll and related expenses, travel expenses, and adjusted cost of equipment (as hereinafter defined in the "Non-GAAP Financial Measures" section below) would represent 32.6%, 14.9% and 7.7%, respectively, of adjusted system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) for 2013 compared to 31.4%, 16.1% and 9.5%, respectively, for 2012. Please see the tables set forth below under the caption "Non-GAAP Financial Measures" for a reconciliation of each of these non-GAAP financial measures to the comparable financial measure determined in accordance with GAAP.

Costs of support and maintenance increased 3.4%, or $0.9 million, primarily due to an increase in payroll and related costs of 4.7%, or $1.2 million, due to increased personnel in our Product Development Services division. The gross margin on support and maintenance revenues increased slightly to 60.0% in 2013 from 58.8% in 2012.

Our costs associated with business management, consulting and managed IT services increased 18.2%, or $4.7 million, due primarily to an increase in payroll and related expenses. The gross margin on these services decreased to 38.2% in 2013 from 40.4% in 2012 due to the disproportionate increase in payroll and related expenses versus revenues. Payroll and related expenses increased 20.8%, or $3.4 million, as a result of adding more employees during the trailing twelve months in order to

support and develop our growing customer base and increase capacity in advance of anticipated future increases in demand. We also experienced a $0.9 million increase in related travel costs, primarily due to the increased volume of clinical consulting engagements and increased sales generation efforts.

Sales and Marketing Expenses. Sales and marketing expenses increased 3.1%, or $0.4 million. This increase was primarily attributable to increased commissions resulting from an increase in system sales revenues and increased salary expense due to the promotion of two new vice presidents during the fourth quarter of 2012.

General and Administrative Expenses. General and administrative expenses increased 14.6%, or $3.7 million, with the largest contributing factor being a $1.4 million increase in bad debt expense due to the continued significant increase in our financing receivables balances and the write-off of substantial amounts related to a single customer experiencing considerable financial difficulty. Our group health insurance expense increased 11.9%, or $0.9 million, due to continuing increases in healthcare costs. Depreciation expense increased $0.4 million as a result of significant capital expenditures over the trailing twelve months, mostly related to the build-out of our new facility in Fairhope, Alabama. This new facility also resulted in a $0.3 million increase in utilities expense. Payroll and related expenses increased 6.5%, or $0.3 million, due to increased stock-based compensation costs resulting from additional grants of restricted stock to our executive officers and non-employee directors and increased costs related to our incentive bonus program for certain members of management as profitability growth improved from 2012 to 2013. Lastly, our expenses related to our customer user group increased $0.3 million as, in addition to our annual User Group Conference, we held our Financial, Clinical, and Physician Conferences in May 2013; the only such large event to take place during 2012 was the annual User Group Conference.

As a percentage of total revenues, sales and marketing expenses, and general and administrative expenses increased slightly to 21.6% in 2013 compared to 21.5% in 2012.

As a result of the foregoing factors, income before taxes increased by 20.8%, or $8.7 million.

Income Taxes. Our effective income tax rate for the years ended December 31, 2013 and 2012 was 35.4% and 28.6%, respectively. The significant increase in our effective income tax rate was primarily due to $3.1 million in favorable provision-to-return adjustments recorded during 2012. These provision-to-return adjustments were primarily related to differences between the Domestic Production Activities Deduction ("DPAD") reported on the 2011 federal income tax return and amounts previously estimated, as well as the estimated additional net federal tax benefit to be realized by the Company upon amending federal income tax returns for all open years for revised DPAD amounts. This increase in our effective tax rate resulting from the significant provision-to-return adjustments recorded during 2012 was partially offset as our effective tax rate for 2013 included a tax benefit from federal research and development tax credits attributable to the entire 2012 and 2013 fiscal years. The federal research and development tax credit expired effective December 31, 2011 and was extended retroactively for amounts incurred between January 1, 2012 through December 31, 2013 when the American Taxpayer Relief Act of 2012 (the "ATRA") was signed into law in January 2013. As the ATRA was signed into law after December 31, 2012, the tax benefit from credits related to 2012 were recorded during 2013.

2012 Compared to 2011

Revenues. Total revenues increased by 5.7%, or $9.8 million. This was largely attributable to an increase in support and maintenance revenues and business management, consulting and managed IT services revenues due to a larger customer base and increased applications within that customer base requiring support and maintenance services, as well as increased demand and market acceptance of our managed IT services.

System sales revenues increased by 2.7%, or $1.9 million. We completed financial and patient software system installations at 34 new hospital clients in 2012 (10 of which were under First Generation Meaningful Use Installment Plans), compared to 17 new hospital clients in 2011 (none of which were under First Generation Meaningful Use Installment Plans). System sales to existing customers accounted for 64.1% of our revenues during 2012 compared to 75.4% in 2011. During 2012, the Company installed systems under First Generation Meaningful Use Installment Plans for which a substantial majority of the consideration will not be received or revenue recognized until the customers successfully achieve "meaningful use" designation and receive related stage one ARRA incentive payments, resulting in net unrecognized revenue of $7.1 million accumulated during 2012 to be recognized in future periods as the amounts become due and payable. The Company recognized $3.6 million of revenue during 2012 for previously installed SaaS arrangements that were converted to perpetual license arrangements.

Support and maintenance revenues increased by 4.9%, or $3.1 million. Support service fees increased by 8.1%, or $4.7 million, due to an increase in recurring revenues as a result of a larger customer base, an increase in support fees for add-on business sold to existing customers, and increases in support rates from contractually agreed upon Consumer Price Index rate increases. The increase in support service fees was partially offset by a 26.3%, or $1.0 million, decrease in SaaS, hosting and

other fees as a result of the high volume during 2012 of conversions of previously installed SaaS arrangements to perpetual licenses at the customers' request.

Business management, consulting and managed IT services revenues increased by 12.4%, or $4.8 million. Consulting and managed IT services (exclusive of ASP and ISP fees) were new service offerings beginning in the third quarter of 2011, and resulted in revenues of $3.3 million in 2012 compared to $0.7 million in 2011. We also experienced increases in customer demand for accounts receivable management (increasing 9.2%, or $1.0 million) and private pay (increasing 6.8%, or $0.7 million) services due to more effective marketing of these services.

Costs of Sales. Total costs of sales increased by 9.1%, or $8.6 million. As a percentage of revenues, costs of sales increased slightly from 54.2% to 56.0%.

Costs of systems sales increased 3.0%, or $1.4 million. This increase is mostly attributable to increases in travel costs and payroll and related expenses. Travel costs increased 21.6%, or $2.3 million, as a result of the increased activity in new system installations. Payroll and related expenses increased 4.0%, or $1.0 million, due to moderate increases in the related headcount necessary to successfully accomplish the increased installation workload. These increases were partially offset by a 19.4%, or $1.7 million, decrease in cost of equipment due largely to a 27% decrease in equipment sales. During 2011, we experienced an unusually high number of equipment sales to existing customers and related cost of equipment due to the Company’s migration to a new operating platform, which required many customers to upgrade existing hardware to support the new platform. The gross margin on system sales remained relatively flat, decreasing slightly from 32.6% in 2011 to 32.4% in 2012. This is despite the prevalence of First Generation Meaningful Use Installment Plans in the Company’s 2012 new system implementations, which comprised nearly one third of all new system installations for 2012. Under these arrangements, the Company recognizes all non-equipment expenses as the installations occur but will not recognize the related revenue until the customers successfully achieve "meaningful use" designation and receive related ARRA incentive payments. Excluding the effects of the unrecognized revenue noted above and the deferral of the related cost of equipment, the adjusted gross margin on system sales (as hereinafter defined in the "Non-GAAP Financial Measures" section below) increased to 37.8% in 2012. The table below summarizes the major components of costs of system sales as a percentage of system sales revenues:

	Year Ended December 31,	
	2012	2011
Payroll and related expenses	34.5%	34.1%
Travel expenses	17.7%	14.9%
Cost of equipment	9.7%	12.4%

If the Company had recognized the $7.1 million of unrecognized revenue accumulated during 2012 from First Generation Meaningful Use Installment Plans, payroll and related expenses, travel expenses, and adjusted cost of equipment (as hereinafter defined in the "Non-GAAP Financial Measures" section below) would represent 31.4%, 16.1%, and 9.5%, respectively, of adjusted system sales (as hereinafter defined in the Non-GAAP Financial Measures” section below) for 2012. Please see the tables set forth below under the caption "Non-GAAP Financial Measures" for a reconciliation of each of these non-GAAP financial measures to the comparable financial measure determined in accordance with GAAP.

Cost of support and maintenance increased 7.2%, or $1.9 million, due entirely to an increase in payroll and related costs of 8.7%, or $2.0 million, driven by an increase in headcount. The gross margin on support and maintenance decreased from 59.7% in 2011 to 58.8% in 2012, due mainly to the decrease in SaaS, hosting and other fees.

Our costs associated with business management, consulting and managed IT services increased 25.7%, or $5.3 million, due primarily to an increase in payroll and related costs. Payroll and related expenses increased 37.3%, or $4.4 million, as a result of the addition of personnel to provide consulting and managed IT services, which were new service offerings beginning in the third quarter of 2011. Similarly, temporary labor expenses increased 26.8%, or $0.2 million. The gross margin on business management, consulting and managed IT services decreased to 40.4% in 2012 from 46.7% in 2011 due to the disproportionate increase in payroll and related costs versus revenues as our consulting and managed IT services offerings have yet to achieve economies of scale on a level consistent with our business management services offerings.

Sales and Marketing Expenses. Sales and marketing expenses increased 6.5%, or $0.9 million. The increase was attributable to increased sales commission expense and increased salaries as a result of additional personnel.

General and Administrative Expenses. General and administrative expenses increased 1.6%, or $0.4 million. Group health insurance expense increased 16.4%, or $1.1 million, due to the combined factors of increased overall headcount and continuing

increases in healthcare costs. Expenses resulting from our annual national user group conference and various regional or application-specific user group meetings hosted during 2012 increased $0.8 million due to an increase in the number of such meetings and more costly host locations in 2012 than in 2011. Depreciation expense increased $0.7 million as a result of our acquisition of our corporate campus in Mobile, Alabama during December 2011. These increases were mostly offset by a $1.5 million decrease in rent expense related to the aforementioned campus acquisition during December 2011 and a $0.9 million decrease in bad debt expense. Bad debt expense in 2011 was significantly higher than historical trends as several customers declared bankruptcy during the second quarter of 2011 and we increased reserves for specific customers with which we had experienced collection problems.

As a result of the foregoing factors, income before taxes remained unchanged at $42.0 million during both 2012 and 2011.

Income Taxes. Our effective income tax rate for the years ended December 31, 2012 and 2011was 28.6% and 38.4%, respectively. The significant decrease in our effective income tax rate was primarily due to favorable provision-to-return adjustments related to differences between the DPAD reported on the 2011 federal income tax returns and amounts previously estimated, as well as the estimated additional net federal tax benefit to be realized by the Company upon amending federal income tax returns for all open years for revised DPAD amounts. The federal research and development tax credit expired effective December 31, 2011, but was retroactively extended for amounts incurred from January 1, 2012 through December 31, 2013, when the ATRA was signed into law in January 2013. As the ATRA was signed into law during the first quarter of 2013, no tax benefit from these potential credits was recorded for 2012. However, our effective tax rate for the first quarter of 2013 included a tax benefit from federal research and development tax credits attributable to the entire 2012 fiscal year and the first quarter of 2013.

Liquidity and Capital Resources

As of December 31, 2013, we had $11.7 million in cash and cash equivalents and $10.7 million in investments. Management believes that cash and investments plus cash generated from our normal operating activities should be adequate to fund our business through the remainder of 2014. Our principal source of liquidity has been cash provided by operating activities. Cash provided by operating activities has been used primarily to fund the growth of our business and return cash to our shareholders in the form of dividends. Because of our cash position, our Board of Directors decided to begin paying a quarterly dividend in 2003. We declared and paid dividends in the aggregate amount of $22.6 million in 2013, $31.4 million in 2012 (including a special, one-time dividend of approximately $11.1 million during December 2012 in anticipation of a significant increase in tax rates on dividends beginning in 2013), and $15.9 million in 2011. 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 continue to take into account such matters as general business conditions, our financial results and such other factors as our Board of Directors may deem relevant.

Net cash provided by operating activities totaled $29.0 million, $32.2 million and $33.5 million for 2013, 2012 and 2011, respectively. The 9.8% decrease in net cash provided by operating activities in 2013 is despite a 9.2% increase in net income from 2012 to 2013, due primarily to significant increases in our financing receivables. We continued to experience increased levels of customers seeking financing arrangements for system installations during 2013 due to continued challenging economic conditions, unavailability of third-party credit, and the increasing preference by our new system installation customers to minimize the near-term impact that purchasing our system will have on their current cash resources. We expect this trend of increased levels of customers seeking financing arrangements for system installations to continue during the next twelve months, resulting in further increases in our financing receivables, although at lower levels than that experienced during 2013. The expected increase in financing receivables, although offset by periodic collections of previously outstanding amounts, could temporarily have a negative impact on our net cash provided by operating activities.

Net cash used in investing activities totaled $3.7 million in 2013, compared to $1.5 million of net cash provided by investing activities during 2012 and net cash used in investing activities of $14.0 million in 2011. We used cash for the purchase of property and equipment of $3.6 million, $4.4 million and $10.8 million in 2013, 2012 and 2011, respectively. Of the $10.8 million in capital expenditures in 2011, $9.5 million related to the purchase of our corporate headquarters which we had previously been leasing. We experienced a return to more historical levels of capital expenditures in 2012, with 2013 capital expenditures further normalizing with the completion of the build-out of our new facility in Fairhope, Alabama. Purchases of investments, net of cash inflows from liquidated positions, were $0.1 million in 2013 compared to net cash inflows from investments of $5.8 million in 2012. We liquidated $7.0 million of our investment portfolio in December 2012 to partially fund the aforementioned one-time, special dividend of $11.1 million. For 2014, we anticipate the need for approximately $3.5 million in capital expenditures.

Net cash used in financing activities totaled $22.5 million, $31.4 million and $15.8 million for 2013, 2012 and 2011, respectively. We declared and paid dividends in the aggregate amount of $22.6 million, $31.4 million (including the aforementioned one-time, special dividend of $11.1 million), and $15.9 million during 2013, 2012 and 2011, respectively.

Our days sales outstanding, which represents the average collection time for accounts receivable, for the years 2013, 2012 and 2011 were 38, 41, and 47 days, respectively.

We currently do not have a bank line of credit or other credit facility in place. Because we have no debt, we are not subject to contractual restrictions or other influences on our operations, such as payment demands and restrictions on the use of operating funds that are typically associated with debt. If we borrow money in the future, we will likely be subject to operating and financial covenants that could limit our ability to operate as profitably as we have in the past. Defaults under applicable loan agreements could result in the demand by lenders for immediate payment of substantial funds and substantial restrictions on expenditures, among other things. Due to the recent economic recession and ongoing tightened lending standards, additional capital, if needed, may not be available on terms favorable to us, or at all.

Our future capital requirements will depend upon a number of factors, including the rate of growth of our sales, cash collections from our customers and future investments in fixed assets. We believe that our available cash and cash equivalents, investments and anticipated cash generated from operations will be sufficient to meet our operating requirements for at least the next 12 months.

Non-GAAP Financial Measures

We have included in the discussion under the captions "2013 Compared to 2012" and "2012 Compared to 2011" above financial measures that were not prepared in accordance with GAAP. Any analysis of non-GAAP financial measures should be made only in conjunction with results presented in accordance with GAAP. Below, we define each of these non-GAAP financial measures, provide a reconciliation of each non-GAAP financial measure to the most directly comparable financial measure calculated in accordance with GAAP, and discuss the reasons that we believe this information is useful to management and may be useful to investors.

We use the non-GAAP financial measures "adjusted gross margin on system sales," "adjusted cost of equipment," and "adjusted system sales." Management believes these non-GAAP financial measures provide our Board of Directors, investors, potential investors, securities analysts and others with useful information to evaluate our performance because they exclude the impact of unrecognized revenue, recognized revenue and related deferral of cost of equipment resulting from our use of First Generation Meaningful Use Installment Plans. First Generation Meaningful Use Installment Plans were new to the Company in 2012, resulting in the Company not having sufficient experience with comparable arrangements to establish evidence of a standard business practice of historically collecting under the original payment terms of such contracts without making concessions. As a result, the provisions of the *Software* topic and *Revenue Recognition* subtopic of the FASB Accounting Standards Codification result in a conclusion that the fee is not fixed or determinable and, as a result, the revenue is to be recognized as the amounts become due. Because the timing of our recognition of revenue under First Generation Meaningful Use Installment Plans is not related to any remaining obligation on the part of the Company, the Company and our Board of Directors use these non-GAAP financial measures to evaluate our performance relative to other periods. We believe that the most directly comparable GAAP measures to adjusted gross margin on system sales, adjusted cost of equipment, and adjusted system sales are gross margin on system sales, cost of equipment, and system sales, respectively. Set forth below are reconciliations of adjusted gross margin on system sales, adjusted cost of equipment, and adjusted system sales to the comparable financial measures calculated in accordance with GAAP (dollar amounts in thousands):

Adjusted Gross Margin on System Sales

	Year ended December 31,		
	2013	2012	2011
Gross margin on system sales	$ 31,953	$ 23,534	$ 23,041
Add: Unrecognized revenue accumulated related to First Generation Meaningful Use Installment Plans	597	12,581	—
Less: Revenue recognized related to First Generation Meaningful Use Installment Plans	(4,488)	(5,524)	—
Less: Deferred cost of equipment related to First Generation Meaningful Use Installment Plans	—	(983)	—
Add: Amortization of deferred cost of equipment related to First Generation Meaningful Use Installment Plans	416	462	—
Adjusted gross margin on system sales	$ 28,478	$ 30,070	$ 23,041

Adjusted Cost of Equipment

	Year ended December 31,		
	2013	2012	2011
Cost of equipment	$ 5,836	$ 7,055	$ 8,763
Add: Deferred cost of equipment related to First Generation Meaningful Use Installment Plans	—	983	—
Less: Amortization of deferred cost of equipment related to First Generation Meaningful Use Installment Plans	(416)	(462)	—
Adjusted cost of equipment	$ 5,420	$ 7,576	$ 8,763

Adjusted System Sales

	Year ended December 31,		
	2013	2012	2011
System sales	$ 79,792	$ 72,553	$ 70,644
Add: Unrecognized revenue accumulated related to First Generation Meaningful Use Installment Plans	597	12,581	—
Less: Revenue recognized related to First Generation Meaningful Use Installment Plans	(4,488)	(5,524)	—
Adjusted system sales	$ 75,901	$ 79,610	$ 70,644

Related Party Transactions

On December 13, 2011, we purchased our corporate campus headquarters, including 16.5 acres of land on which the headquarters is located, in Mobile, Alabama from a related party, C.P. Investments, Inc., an Alabama corporation, for $9.5 million. The stockholders of C.P. Investments, Inc. include, among others, Michael K. Muscat, Jr., who is one of our executive officers, and his siblings, Ellen M. Harvey and Susan M. Slaton. Prior to the purchase, we leased the facilities from C.P. Investments, Inc. In 2011, we made total lease payments in the amount of $1,900,810 to C.P. Investments, Inc. These lease agreements were all canceled simultaneously with the purchase. The purchase price for the corporate campus headquarters and 16.5 acres of land was determined following receipt of three separate independent third-party appraisals of the property.

Contractual Obligations

Our real estate leases are the only material contractual obligations requiring payments in the future. Our payments under these leases subsequent to December 31, 2013, are set forth below:

	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	$ 4,212,473	$ 772,079	$ 881,670	$ 757,278	$ 1,801,446

The table above excludes any amounts related to the $1,317,977 of unrecognized tax benefit as the Company cannot make a reasonably reliable estimate of the periods of cash settlements with the respective taxing authorities. See Note 7 to the financial statements for additional information.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2013 or December 31, 2012.

Critical Accounting Policies

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

Revenue Recognition. We generate revenue from the following sources:

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

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

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

Risks associated with these estimates and judgments and the effects thereof include: (1) if VSOE of fair value of any undelivered element does not exist, all revenue is deferred until VSOE of fair value of the undelivered element is established or the element has been delivered and (2) if the fees are not fixed or determinable, or if collection is not reasonably assured, then the revenue recognized in various periods will be less than amounts that would have been otherwise recognizable using the residual method provided under the Codification. See Note 2 to the financial statements for further discussion of our revenue recognition policies.

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

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

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

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

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

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

Quantitative and Qualitative Disclosures about Market and Interest Rate Risk

Our exposure to market risk relates primarily to the potential change in the value of our investment portfolio as a result of fluctuations in interest rates. The primary purpose of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing risk of loss. As of December 31, 2013, our investment portfolio consisted of a variety of financial instruments, primarily including, but not limited to, money market securities and high quality government and corporate obligations. It is our intent to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We do not hold financial instruments for trading or other speculative purposes. The securities in our investment portfolio are classified as available-for-sale and, consequently, are recorded on our balance sheet at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income (loss) in stockholders' equity.

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

We believe that the market risk arising from our holdings of these financial instruments is minimal. Due to the conservative allocation of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio. Additionally, since we believe we have the ability to liquidate

this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a sudden change in market interest rates on our investment portfolio. We do not utilize derivative financial instruments to manage our interest rate risks.

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of December 31, 2013 and 2012.

	Aggregate Fair Value		Weighted Average Interest Rate	
	2013	2012	2013	2012
Cash and Cash Equivalents:				
Cash and cash equivalents	$ 11,729,185	$ 8,912,457	—%	—%
Short-Term Investments:(1)				
Accrued income	$ 45,607	$ 57,507	—%	—%
Money market funds	3,357,314	391,913	0.02%	0.14%
Obligations of the U.S. Treasury, U.S government corporations and agencies	1,444,257	1,448,433	2.39%	0.45%
Corporate debt securities	2,799,905	2,579,992	2.84%	3.83%
Total short-term investments	$ 7,647,083	$ 4,477,845		
Long-Term Investments:(2)				
Obligations of the U.S. Treasury, U.S government corporations and agencies	$ 1,304,593	$ 933,346	1.19%	1.10%
Mortgage backed securities	81,112	95,604	1.63%	1.75%
Corporate debt securities	1,669,838	5,167,814	2.09%	2.68%
Total long-term investments	$ 3,055,543	$ 6,196,764		

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

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

As of December 31, 2013, the Company had no borrowings and, therefore, is not subject to interest rate risks related to debt instruments.

Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

Index to Financial Statement Schedules

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Computer Programs and Systems, Inc.'s ("CPSI") internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. CPSI's internal control over financial reporting includes those policies and procedures that:

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

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

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

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

Management assessed the effectiveness of CPSI's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992)*.

Based on our assessment and those criteria, management believes that CPSI maintained effective internal control over financial reporting as of December 31, 2013.

The independent registered public accounting firm, Grant Thornton LLP, has audited the financial statements as of and for the year ended December 31, 2013, and has also issued its report on the effectiveness of the Company's internal control over financial reporting included in this report on page 51.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Computer Programs and Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Computer Programs and Systems, Inc. (a Delaware corporation) and its subsidiary (collectively, the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 8. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Programs and Systems, Inc. and its subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 12, 2014 expressed an unqualified opinion on the internal control over financial reporting.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 12, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Computer Programs and Systems, Inc.:

We have audited the internal control over financial reporting of Computer Programs and Systems, Inc. (a Delaware corporation) and its subsidiary (collectively, the "Company") as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013, and our report dated March 12, 2014 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 12, 2014

COMPUTER PROGRAMS AND SYSTEMS, INC.

Consolidated Balance Sheets

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 11,729,185	$ 8,912,457
Investments	10,702,626	10,674,609
Accounts receivable, net of allowance for doubtful accounts of $1,125,000 and $1,124,000, respectively	20,076,592	19,704,767
Financing receivables, current portion, net	25,387,637	4,618,131
Inventories	1,588,673	1,682,008
Deferred tax assets	2,366,369	2,463,567
Prepaid income taxes	—	1,064,515
Prepaid expenses and other	901,228	1,081,421
Total current assets	72,752,310	50,201,475
Property and equipment, net	19,231,372	19,029,974
Financing receivables, net of current portion	550,956	7,862,833
Total assets	$ 92,534,638	$ 77,094,282
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,213,714	$ 2,980,174
Deferred revenue	9,581,357	7,452,612
Accrued vacation	3,694,600	3,506,106
Income taxes payable	797,101	—
Other accrued liabilities	4,164,242	3,777,068
Total current liabilities	21,451,014	17,715,960
Deferred tax liabilities	2,001,077	2,176,130
Stockholders' equity:		
Common stock, $0.001 par value; 30,000,000 shares authorized; 11,159,142 and 11,077,672 shares issued and outstanding	11,159	11,078
Additional paid-in capital	34,643,900	32,848,101
Accumulated other comprehensive income	11,368	27,693
Retained earnings	34,416,120	24,315,320
Total stockholders' equity	69,082,547	57,202,192
Total liabilities and stockholders' equity	$ 92,534,638	$ 77,094,282

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

COMPUTER PROGRAMS AND SYSTEMS, INC.

Consolidated Statements of Income

	Year ended December 31,		
	2013	2012	2011
Sales revenues:			
System sales	$ 79,792,563	$ 72,553,036	$ 70,643,877
Support and maintenance	71,505,736	67,293,101	64,152,937
Business management, consulting and managed IT services	49,565,033	43,463,266	38,679,530
Total sales revenues	200,863,332	183,309,403	173,476,344
Costs of sales:			
System sales	47,839,794	49,018,946	47,602,817
Support and maintenance	28,639,891	27,710,252	25,844,109
Business management, consulting and managed IT services	30,646,789	25,919,236	20,618,213
Total costs of sales	107,126,474	102,648,434	94,065,139
Gross profit	93,736,858	80,660,969	79,411,205
Operating expenses:			
Sales and marketing	14,737,440	14,290,061	13,413,587
General and administrative	28,755,477	25,093,527	24,702,679
Total operating expenses	43,492,917	39,383,588	38,116,266
Operating income	50,243,941	41,277,381	41,294,939
Other income:			
Interest income	466,678	720,573	667,564
Total other income	466,678	720,573	667,564
Income before taxes	50,710,619	41,997,954	41,962,503
Provision for income taxes	17,967,381	12,024,482	16,129,113
Net income	$ 32,743,238	$ 29,973,472	$ 25,833,390
Net income per share - basic	$ 2.95	$ 2.71	$ 2.34
Net income per share - diluted	$ 2.95	$ 2.71	$ 2.34
Weighted average shares outstanding			
Basic	11,100,825	11,066,456	11,033,804
Diluted	11,100,825	11,066,456	11,033,804

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

COMPUTER PROGRAMS AND SYSTEMS, INC.

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2013	2012	2011
Net income	$ 32,743,238	$ 29,973,472	$ 25,833,390
Other comprehensive (loss) income, net of tax			
Unrealized (loss) gain on investments available for sale, net of tax	(16,325)	20,313	(51,523)
Total other comprehensive (loss) income, net of tax	(16,325)	20,313	(51,523)
Comprehensive income	$ 32,726,913	$ 29,993,785	$ 25,781,867

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

COMPUTER PROGRAMS AND SYSTEMS, INC.

Consolidated Statements of Stockholders' Equity

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income(Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2010	10,962,874	$ 10,963	$ 30,549,149	$ 58,903	$ 15,845,008	$ 46,464,023
Net income	—	—	—	—	25,833,390	25,833,390
Unrealized loss on investments held for sale, net of tax	—	—	—	(51,523)	—	(51,523)
Issuance of restricted stock	100,346	100	(100)	—	—	—
Stock-based compensation	—	—	928,224	—	—	928,224
Dividends	—	—	—	—	(15,894,912)	(15,894,912)
Income tax benefit from restricted stock dividends	—	—	42,266	—	—	42,266
Income tax benefit from restricted stock	—	—	62,569	—	—	62,569
Balance at December 31, 2011	11,063,220	11,063	31,582,108	7,380	25,783,486	57,384,037
Net income	—	—	—	—	29,973,472	29,973,472
Unrealized gain on investments held for sale,net of tax	—	—	—	20,313	—	20,313
Issuance of restricted stock	14,452	15	(15)	—	—	—
Stock-based compensation	—	—	1,264,779	—	—	1,264,779
Dividends	—	—	—	—	(31,441,638)	(31,441,638)
Income tax benefit from restricted stock dividends	—	—	98,163	—	—	98,163
Deficient tax benefit from restricted stock	—	—	(96,934)	—	—	(96,934)
Balance at December 31, 2012	11,077,672	11,078	32,848,101	27,693	24,315,320	57,202,192
Net income	—	—	—	—	32,743,238	32,743,238
Unrealized loss on investments held for sale,net of tax	—	—	—	(16,325)	—	(16,325)
Issuance of restricted stock	81,470	81	(81)	—	—	—
Stock-based compensation	—	—	1,699,128	—	—	1,699,128
Dividends	—	—	—	—	(22,642,438)	(22,642,438)
Income tax benefit from restricted stock dividends	—	—	74,939	—	—	74,939
Income tax benefit from restricted stock	—	—	21,813	—	—	21,813
Balance at December 31, 2013	11,159,142	$ 11,159	$ 34,643,900	$ 11,368	$ 34,416,120	$ 69,082,547

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

COMPUTER PROGRAMS AND SYSTEMS, INC.

Statements of Cash Flows

	Year ended December 31,		
	2013	2012	2011
Operating Activities			
Net income	$ 32,743,238	$ 29,973,472	$ 25,833,390
Adjustments to net income:			
Provision for bad debt	1,911,480	515,138	1,436,549
Deferred taxes	(67,848)	654,093	(452,891)
Stock based compensation	1,699,128	1,264,779	928,224
(Excess) deficient tax benefit from restricted stock	(21,813)	96,934	(62,569)
Income tax benefit from restricted stock dividends	(74,939)	(98,163)	(42,266)
Depreciation	3,429,053	3,164,184	2,500,324
Changes in operating assets and liabilities:			
Accounts receivable	(974,145)	1,516,349	3,014,205
Financing receivables	(14,766,789)	(4,858,589)	(790,376)
Inventories	93,335	(255,037)	(445,974)
Prepaid expenses and other	180,193	(583,249)	64,038
Accounts payable	233,540	511,017	(148,220)
Deferred revenue	2,128,745	1,862,820	1,120,285
Other liabilities	575,668	(597,169)	1,179,498
Prepaid income taxes/income taxes payable	1,958,368	(959,882)	(594,042)
Net cash provided by operating activities	29,047,214	32,206,697	33,540,175
Investing Activities			
Purchases of property and equipment	(3,630,451)	(4,362,961)	(10,846,717)
Purchases of investments	(2,733,109)	(1,155,352)	(3,178,738)
Sale of investments	2,678,760	7,000,000	—
Net cash (used in) provided by investing activities	(3,684,800)	1,481,687	(14,025,455)
Financing Activities			
Dividends paid	(22,642,438)	(31,441,638)	(15,894,912)
Excess (deficient) tax benefit from restricted stock	21,813	(96,934)	62,569
Income tax benefit from restricted stock dividends	74,939	98,163	42,266
Net cash used in financing activities	(22,545,686)	(31,440,409)	(15,790,077)
Increase in cash and cash equivalents	2,816,728	2,247,975	3,724,643
Cash and cash equivalents at beginning of year	8,912,457	6,664,482	2,939,839
Cash and cash equivalents at end of year	$ 11,729,185	$ 8,912,457	$ 6,664,482
Supplemental disclosure of cash flow information			
Cash paid for interest	$ —	$ —	$ —
Cash paid for income taxes	$ 16,236,693	$ 12,330,270	$ 17,146,023
Reclassification of inventory to property and equipment	$ —	$ 411,966	$ 389,780
Write-off of fully depreciated assets	$ 2,360,563	$ 8,687,631	$ —

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

COMPUTER PROGRAMS AND SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. NATURE OF OPERATIONS

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

In January 2013, the Company announced the formation of TruBridge, LLC ("TruBridge"), a wholly-owned subsidiary of CPSI. TruBridge provides business management, consulting and managed information technology ("IT") services specifically targeted at rural and community healthcare organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of CPSI include the accounts of TruBridge, a wholly owned subsidiary of CPSI. All significant intercompany balances and transactions have been eliminated.

Reclassifications

With the formation of TruBridge in January 2013 as a wholly-owned subsidiary of the Company focusing exclusively on providing business management, consulting and managed IT services to rural and community healthcare organizations, the Company's presentation of certain revenues and related costs of sales within its Consolidated Statements of Income was changed as follows:

- The Company's consulting and managed IT services revenues and related costs of sales are now included under the caption "Business management, consulting and managed IT services" within the accompanying Consolidated Statements of Income. These amounts were formerly included as a component of "Support and maintenance" within the Statements of Income.
- The former captioned item "Business management services" within the Statements of Income has been changed to "Business management, consulting and managed IT services" to reflect the additional revenue streams included under the recaptioned item as a result of the aforementioned reclassifications.

These reclassifications had no effect on previously reported total sales revenues, total costs of sales, gross profit, operating income, income before taxes or net income.

Amounts presented for the years ended December 31, 2012 and 2011 have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the years ended December 31, 2012 and 2011:

	2012	2011
Sales revenues:		
Support and maintenance	$ (5,733,390)	$ (3,404,449)
Business management, consulting and managed IT services	$ 5,733,390	$ 3,404,449
Costs of sales:		
Support and maintenance	$ (3,409,466)	$ (1,394,670)
Business management, consulting and managed IT services	$ 3,409,466	$ 1,394,670

Additionally, effective September 30, 2013, the Company changed its presentation of liabilities arising from unrecognized tax benefits related to uncertain tax positions. These amounts, formerly included as a component of "Other accrued liabilities" within the Consolidated Balance Sheets, are now included as a component of "Income taxes payable" or

"Prepaid income taxes" (as determined by the status of the Company's overall federal and state income tax position at the respective balance sheet dates) within the Consolidated Balance Sheets. The purpose of this change was to present the entirety of the Company's overall federal and state income tax position under a single caption within the Consolidated Balance Sheets. Amounts presented in the accompanying Consolidated Balance Sheet at December 31, 2012 have been reclassified to conform to the current presentation. The following table provides the amounts reclassified as of December 31, 2012:

	December 31, 2012
Assets:	
Prepaid income taxes	$ (744,705)
Liabilities and Stockholders' Equity	
Other accrued liabilities	$ (744,705)

Cash and Cash Equivalents

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

Investments

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

Income Taxes

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Financing Receivables

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

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

Inventories

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

Property and Equipment

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

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

Deferred Revenue

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

Revenue Recognition

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

The Company's revenue is generated from three sources:

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

System Sales, Software Application Support, and Hardware Maintenance

The Company enters into contractual obligations to sell hardware, perpetual software licenses, conversion, installation and training services, and software application support and hardware maintenance services. On average, the Company is able to

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

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

SaaS, ISP, and Other Professional IT Services

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

The Company will occasionally provide ISP and other professional IT services. We consider these services to be non-software elements. The selling price of these services is based on third-party evidence of selling price of similar services. Revenue from this element is recognized as the services are performed.

Business Management Services

Business management services consist of electronic billing services, statement processing services, payroll processing, accounts receivable management services, contract management and insurance services. While business management service arrangements are contracts separate from the system sale and support and maintenance contracts, these contracts are sometimes executed within a short time frame of each other. The selling price of these services is based on VSOE of fair value by reference to the rate at which our customers renew as well as the rate at which the services are sold to customers when the business management services agreement is not executed within a short time frame of the system sale and support and maintenance contracts. Because the pricing is transaction based (per unit pricing), customers are billed and revenue recognized as services are performed based on transaction levels.

Stock-Based Compensation

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

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs totaled approximately $2,761,000, $2,757,000 and $2,452,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Research and development costs are included in cost of support and maintenance in the accompanying consolidated statements of income.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately $97,000, $132,000 and $283,000 for the years ended December 31, 2013, 2012 and 2011, respectively, and is recorded in sales and marketing expenses in the accompanying consolidated statements of income.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and included in general and administrative expenses. Shipping and handling costs totaled approximately $482,000, $617,000 and $720,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

Use of Estimates

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

New Accounting Standards Adopted in 2013

There were no new standards required to be adopted during the year ended December 31, 2013 that had or will have a material impact on our financial statements.

New Accounting Standards Yet to be Adopted

There are no new standards required to be adopted in future periods that will have a material impact on our financial statements.

3. INVESTMENTS

Investments were comprised of the following at December 31, 2013:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$ 3,402,921	$ —	$ —	$ 3,402,921
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,748,721	250	(121)	2,748,850
Mortgaged-backed securities	78,540	2,572	—	81,112
Corporate debt securities	4,454,107	17,038	(1,402)	4,469,743
	$ 10,684,289	$ 19,860	$ (1,523)	$ 10,702,626

Shown below are the amortized cost and estimated fair value of securities with fixed maturities at December 31, 2013, by contract maturity date. Actual maturities may differ from contractual maturities because issuers of certain securities retain early call or prepayment rights.

	Amortized Cost	Fair Value
Due in 2014	$ 7,639,903	$ 7,647,082
Due in 2015	2,815,913	2,825,521
Due in 2016	149,933	148,911
Due in 2017	—	—
Due thereafter	78,540	81,112
	$ 10,684,289	$ 10,702,626

Investments were comprised of the following at December 31, 2012:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$ 449,420	$ —	$ —	$ 449,420
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,381,313	1,031	(565)	2,381,779
Mortgaged-backed securities	93,458	2,146	—	95,604
Corporate debt securities	7,705,914	53,236	(11,344)	7,747,806
	$ 10,630,105	$ 56,413	$ (11,909)	$ 10,674,609

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2013 and December 31, 2012, respectively:

	At December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$ 1,321,511	$ (121)	$ —	$ —	$ 1,321,511	$ (121)
Corporate debt securities	148,911	(1,022)	161,270	(380)	310,181	(1,402)
	$ 1,470,422	$ (1,143)	$ 161,270	$ (380)	$ 1,631,692	$ (1,523)

	At December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$ 1,649,980	$ (565)	$ —	$ —	$ 1,649,980	$ (565)
Corporate debt securities	243,612	(9,800)	668,748	(1,544)	912,360	(11,344)
	$ 1,893,592	$ (10,365)	$ 668,748	$ (1,544)	$ 2,562,340	$ (11,909)

Our investment portfolio, including those securities in unrealized loss positions at December 31, 2013, is comprised almost entirely of investment-grade corporate and government debt securities. The Company does not intend to sell the investments that are in an unrealized loss position, and it is not likely that the Company will be required to sell any investments before recovery of their amortized cost basis. As a result, the Company has determined that the unrealized losses are deemed to be temporary impairments as of December 31, 2013. The Company believes that the unrealized losses

generally are caused by liquidity discounts and increases in risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets.

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following at December 31, 2013 and 2012:

	2013	2012
Land	$ 2,848,276	$ 2,848,276
Buildings and improvements	9,309,951	9,067,504
Maintenance equipment	1,607,256	2,588,452
Computer equipment	5,524,304	5,795,707
Leasehold improvements	4,543,559	3,067,756
Office furniture and fixtures	3,597,842	2,845,548
Automobiles	316,398	314,905
	27,747,586	26,528,148
Less: accumulated depreciation	(8,516,214)	(7,498,174)
Property and equipment, net	$ 19,231,372	$ 19,029,974

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities are comprised of the following at December 31, 2013 and 2012:

	2013	2012
Salaries and benefits	$ 2,379,202	$ 2,155,435
Commissions	718,524	716,087
Self-insurance reserves	706,600	633,700
Other	359,916	271,846
	$ 4,164,242	$ 3,777,068

6. NET INCOME PER SHARE

The Company presents both basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period presented. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period presented. There were no dilutive common equivalent shares outstanding for the years ended December 31, 2013, 2012 or 2011.

7. INCOME TAXES

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

We applied these provisions to all tax positions for which the statute of limitations remained open. A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

	2013	**2012**
Beginning balance	$ 744,705	$ 731,346
Additions based on tax positions related to the current year	62,800	—
Additions for tax positions of prior years	580,099	13,359
Reductions for tax positions of prior years	(69,627)	—
Ending balance	$ 1,317,977	$ 744,705

The total amount of unrecognized tax benefits, if recognized, that would affect the effective tax rate is $1,317,977.

The Company classifies interest and penalties arising from the underpayment of income taxes in the consolidated statements of income under provision for income taxes. As of December 31, 2013, we had recorded $168,288 of accrued interest related to uncertain tax positions. The federal returns for the tax years 2004 through 2009 are currently under examination by the Internal Revenue Service, primarily in relation to research credits and Domestic Production Activities Deduction ("DPAD") amounts claimed on those returns, as amended, by the Company. The federal returns for tax years 2010 through 2012 remain open to examination, and the tax years 2006 through 2012 remain open to examination by certain other taxing jurisdictions to which the Company is subject.

It is reasonably possible that the amount of unrecognized tax benefits, inclusive of related interest, will change in the next twelve months. At December 31, 2013, there is no estimated increase or decrease in the amount of unrecognized tax benefits.

Deferred income taxes arise from the temporary differences in the recognition of income and expenses for tax purposes. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Deferred tax assets and liabilities are comprised of the following at December 31, 2013 and 2012:

	2013	2012
Deferred tax assets:		
Accounts receivable and financing receivables	$ 971,132	$ 696,672
Accrued vacation	1,191,286	1,367,381
Stock-based compensation	491,921	351,850
Accrued liabilities and other	203,952	432,707
Total deferred tax assets	$ 2,858,291	$ 2,848,610
Deferred tax liabilities:		
Other comprehensive income	$ 6,967	$ 16,974
Depreciation	2,486,032	2,544,199
Total deferred tax liabilities	$ 2,492,999	$ 2,561,173

Significant components of the income tax provision for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Current provision:			
Federal	$ 15,437,727	$ 9,997,468	$ 13,602,045
State	2,597,502	1,372,921	2,979,959
Deferred provision:			
Federal	(60,890)	587,008	(406,441)
State	(6,958)	67,085	(46,450)
Total income tax provision	$ 17,967,381	$ 12,024,482	$ 16,129,113

The difference between income taxes at the U.S. federal statutory income tax rate of 35% and those reported in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Income taxes at U. S. federal statutory rate	$ 17,748,717	$ 14,699,284	$ 14,686,876
Provision-to-return adjustments	(217,206)	(3,085,812)	148,134
State income tax, net of federal tax effect	1,824,908	1,558,169	1,890,523
Domestic production activities deduction	(1,423,425)	(1,236,701)	(424,709)
Tax credits	(502,400)	—	(283,739)
Uncertain tax positions	573,272	13,359	33,622
Other	(36,485)	76,183	78,406
Total income tax provision	$ 17,967,381	$ 12,024,482	$ 16,129,113

Our effective tax rates for the years ended December 31, 2013, 2012 and 2011 were 35.43%, 28.63% and 38.44%, respectively. The significantly reduced effective tax rate for the year ended December 31, 2012 (when compared to both the immediately preceding and succeeding years) is mostly due to provision-to-return adjustments recorded during 2012, primarily related to differences between the DPAD amount reported on the 2011 federal income tax return and amounts previously estimated, as well as the expected additional net federal tax benefit to be realized by the Company upon amending federal income tax returns for all open years for revised DPAD amounts.

8. STOCK-BASED COMPENSATION AND EMPLOYEE INCENTIVE PROGRAMS

Stock-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as an expense over the employee's or non-employee director's requisite service period.

The following table shows total stock-based compensation expense for the years ended December 31, 2013, 2012 and 2011, included in the consolidated statements of income:

	2013	2012	2011
Costs of sales	$ 601,377	$ 459,996	$ 348,274
Operating expenses	1,097,751	804,783	579,950
Pre-tax stock-based compensation expense	1,699,128	1,264,779	928,224
Less: income tax effect	(662,660)	(493,264)	(362,007)
Net stock-based compensation expense	1,036,468	771,515	566,217
Basic and diluted per share impact	$ 0.09	$ 0.07	$ 0.05

Cash flows resulting from excess or deficient tax benefits are required to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for the vested portion of restricted share awards that are in excess of the deferred tax asset attributable to stock compensation costs for such restricted share awards. Conversely, deficient tax benefits are realized tax benefits from tax deductions for the vested portion of restricted share awards that are less than the deferred tax asset attributable to stock compensation costs for such restricted share awards. As a result, excess (deficient) tax benefits of $21,813, $(96,934) and $62,569 have been classified as financing cash inflows (outflows) for the years ended December 31, 2013, 2012 and 2011, respectively. In addition to tax benefits related to the vested portion of restricted share awards, the Company also pays dividends on unvested restricted stock which resulted in excess tax benefits of $74,939, $98,163 and $42,266 for the years ended December 31, 2013, 2012 and 2011, respectively, which are classified as cash inflows from financing activities.

2005 Restricted Stock Plan

On January 27, 2006, the Compensation Committee of the Board of Directors (the "Compensation Committee") approved the grant of 116,498 shares of restricted stock, effective January 30, 2006, to certain executive officers of the Company under the Company's 2005 Restricted Stock Plan. The grant date fair value was $42.91 per share. The restricted stock vested in five equal annual installments commencing on the first anniversary of the date of grant.

On May 17, 2006, the Compensation Committee approved the grant of 17,810 shares of restricted stock, effective May 17, 2006, to the then Chief Operating Officer of the Company. The grant date fair value was $42.11 per share. The restricted stock vested in five equal annual installments commencing on the first anniversary of the date of grant.

On January 23, 2008, the Compensation Committee approved the grant of 16,471 shares of restricted stock to the Company's then Vice President – Finance and Chief Financial Officer. The grant date fair value was $21.25 per share. The restricted stock was scheduled to vest in five equal annual installments commencing on the first anniversary of the date of grant. On June 30, 2010, 9,883 shares of unvested restricted stock were forfeited, cancelled and returned to the authorized and unissued shares of the Company as a result of the termination of employment of this individual on such date.

On April 18, 2011, the Compensation Committee approved the grant of a total of 100,346 shares of restricted stock, effective April 18, 2011, to certain executive officers of the Company. The grant date fair value was $60.79 per share. Under the terms of the restricted stock award agreements with the executive officers, the shares of restricted stock are scheduled to vest in five equal annual installments commencing on the first anniversary of the date of grant, assuming that the recipient of the award continues to serve as an executive officer of the Company on each applicable vesting date. Compensation expense for this grant will be recognized on a straight-line basis over five years.

On October 31, 2012, the Compensation Committee approved the grant of a total of 12,292 shares of restricted stock, effective October 31, 2012, to two executive officers of the Company. The grant date fair value was $48.81 per share. Under the terms of the restricted stock award agreements with the executive officers, the shares of restricted stock are scheduled to vest in five equal annual installments commencing on the first anniversary of the date of grant, assuming that the recipient of the award continues to serve as an executive officer of the Company on each applicable vesting date. Compensation expense for this grant will be recognized on a straight-line basis over five years.

On September 25, 2013, the Compensation Committee approved the grant of a total of 79,080 shares of restricted stock, effective September 25, 2013, to certain executive officers of the Company. The grant date fair value was $57.54 per share. Under the terms of the restricted stock award agreements with the executive officers, the shares of restricted stock are scheduled to vest in four equal annual installments commencing on the first anniversary of the date of grant, assuming that the recipient of the award continues to serve as an executive officer of the Company on each applicable vesting date. Compensation expense for this grant is being recognized on a straight-line basis over four years.

Of the 300,000 shares of the Company's common stock initially reserved for issuance under the 2005 Restricted Stock Plan, five remain available for future issuances as of December 31, 2013.

2012 Restricted Stock Plan for Non-Employee Directors

On June 18, 2012, the Compensation Committee approved the grant of a total of 2,160 shares of restricted stock, effective June 18, 2012, to the five non-employee directors of the Company under the Company's 2012 Restricted Stock Plan for Non-Employee Directors. The grant date fair value was $55.55 per share. Under the terms of the restricted stock award agreements with the non-employee directors, the shares of restricted stock are scheduled to vest on the third anniversary of the date of grant, assuming that the recipient of the grant continues to serve as a director of the Company on the vesting date. Compensation expense for this grant will be recognized on a straight-line basis over three years.

On March 4, 2013, the Compensation Committee approved the grant of a total of 2,390 shares of restricted stock, effective March 4, 2013, to the five non-employee directors of the Company under the Company's 2012 Restricted Stock Plan for Non-Employee Directors. The grant date fair value was $52.32 per share. Under the terms of the restricted stock award agreements with the non-employee directors, the shares of restricted stock are scheduled to vest on the third anniversary of the date of grant, assuming that the recipient of the grant continues to serve as a director of the Company on the vesting date. Compensation expense for this grant is being recognized on a straight-line basis over three years.

Of the 100,000 shares of the Company's common stock initially reserved for issuance under the 2012 Restricted Stock Plan for Non-Employee Directors, 95,450 remain available for future issuances as of December 31, 2013.

A summary of activity under the 2005 Restricted Stock Plan and the 2012 Restricted Stock Plan for Non-Employee Directors (the "Plans") during the years ended December 31, 2013, 2012 and 2011 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested stock outstanding at January 1, 2011	19,871	$ 42.77
Granted	100,346	60.79
Vested	(19,871)	42.77
Forfeited	—	—
Nonvested stock outstanding at December 31, 2011	100,346	$ 60.79
Granted	14,452	49.82
Vested	(20,069)	60.79
Forfeited	—	—
Nonvested stock outstanding at December 31, 2012	94,729	$ 59.12
Granted	81,470	57.39
Vested	(22,525)	59.48
Forfeited	—	—
Nonvested stock outstanding at December 31, 2013	153,674	$ 58.15

As of December 31, 2013, there was $7,674,003 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. As of December 31, 2013, this cost is expected to be recognized over a weighted-average period of 3.17 years.

2013 Incentive Program

On March 4, 2013, the Board of Directors, upon the recommendation of the Compensation Committee, adopted a short-term incentive program for 2013 for the executive officers of the Company, other than executive officers earning any commission-based compensation (the "2013 Incentive Program"). Under the 2013 Incentive Program, certain executive officers of the Company were granted a short-term incentive cash bonus opportunity based on the achievement of a specified level of financial performance, specifically the Company's earnings before interest, income taxes, depreciation and amortization ("EBITDA") in 2013 ("2013 EBITDA") compared to the Company's EBITDA in 2012 ("2012 EBITDA").

Participants in the 2013 Incentive Program will receive 100% of their target award amount if the Company's 2013 EBITDA is 105% of 2012 EBITDA, 75% of the target award amount if the Company achieves a minimum threshold level of performance (2013 EBITDA reaching 95% of 2012 EBITDA), and a maximum of 150% of the target award amount for a maximum level of performance (2013 EBITDA equaling or exceeding 130% of 2012 EBITDA). No payments are to be made for performance below the specified threshold amount. Payouts between the threshold and maximum are calculated by the Compensation Committee using the interpolation process described in the 2013 Incentive Program. The Compensation Committee may make adjustments to the terms and conditions of, and the criteria included in, awards under the 2013 Incentive Program in recognition of unusual or nonrecurring events affecting a participant or the Company, or the financial statements of the Company, or in certain other instances specified in the 2013 Incentive Program.

Awards earned under the 2013 Incentive Program are to be paid solely in cash. In addition, awards pursuant to the 2013 Incentive Program are subject to recovery or adjustments by the Company in certain circumstances in which the operating results on which payment was based are restated or otherwise adjusted or in the event that a participant's conduct is not in good faith and materially disrupts, damages, impairs or interferes with the business of the Company.

9. CONCENTRATION OF CREDIT RISK

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

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

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

10. FINANCING RECEIVABLES

Short-Term Payment Plans

The Company has sold information and patient care systems to certain healthcare providers under short-term payment plans, which typically have expected terms from 3 to 12 months. These receivables, included in the current portion of financing receivables, were comprised of the following on December 31, 2013 and 2012:

	2013	2012
Short-term payment plans, gross	$ 25,317,770	$ 448,487
Less: allowance for losses	(1,265,889)	(22,424)
Less: unearned income	—	—
Short-term payment plans, net	$ 24,051,881	$ 426,063

The significant increase in amounts due under short-term payment plans from December 31, 2012 to December 31, 2013 is due to those factors described under the caption ***"Second Generation Meaningful Use Installment Plans"*** below.

Sales-Type Leases

Additionally, the Company leases its information and patient care systems to certain healthcare providers under sales-type leases expiring in various years through 2017. These receivables typically have terms from two to five years, bear interest at various rates, and are usually collateralized by a security interest in the underlying assets. Since the Company has a history of successfully collecting amounts due under the original payment terms of these extended payment arrangements without making any concessions to its customers, the Company satisfies the requirement for revenue recognition. The Company's history with these types of extended payment term arrangements supports management's assertion that revenues are fixed and determinable and collection is probable.

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

	2013	2012
Sales-type leases, gross	$ 2,081,512	$ 13,665,300
Less: allowance for losses	(99,301)	(639,891)
Less: unearned income	(95,499)	(970,508)
Sales-type leases, net	1,886,712	12,054,901

The significant decrease in amounts due under sales-type leases from December 31, 2012 to December 31, 2013 is due to those factors described under the caption ***"Second Generation Meaningful Use Installment Plans"*** below.

Future minimum lease payments to be received subsequent to December 31, 2013 are as follows:

2014	$ 1,530,556
2015	430,044
2016	72,000
2017	48,912
2018	—
Thereafter	—
Total minimum lease payments to be received	2,081,512
Less unearned income	(95,499)
Net leases receivable	$ 1,986,013

Credit Quality of Financing Receivables and Allowance for Credit Losses

The following table is a roll-forward of the allowance for financing credit losses for the years ended December 31, 2013 and 2012:

	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
December 31, 2013	$ 662,315	$ 1,309,160	$ (606,285)	$ —	$ 1,365,190
December 31, 2012	$ 447,321	$ 214,994	$ —	$ —	$ 662,315

The Company's financing receivables are comprised of a single portfolio segment, as the balances are all derived from short-term payment plan arrangements and sales-type leasing arrangements within our target market of rural and community hospitals. The Company evaluates the credit quality of its financing receivables based on a combination of factors, including, but not limited to, customer collection experience, economic conditions, the customer's financial condition, and known risk characteristics impacting the respective customer base of rural and community hospitals, the most notable of which relate to enacted and potential changes in Medicare and Medicaid reimbursement rates as rural and community hospitals typically generate a significant portion of their revenues and related cash flows from beneficiaries of these programs. In addition to specific account identification, the Company utilizes historical collection experience to establish the allowance for credit losses. Financing receivables are written off only after the Company has exhausted all collection efforts. The Company has been successful in collecting its financing receivables and considers the credit quality of such arrangements to be good, especially as the underlying assets act as collateral for the receivables.

Customer payments are considered past due if a scheduled payment is not received within contractually agreed upon terms. To facilitate customer collection and credit monitoring efforts, financing receivable amounts are invoiced and reclassified to trade accounts receivable when they become due, with all invoiced amounts placed on nonaccrual status. As a result, all past due amounts related to the Company's financing receivables are included in trade accounts receivable in the accompanying consolidated balance sheets. The following is an analysis of the age of financing receivables amounts (excluding short-term payment plans) that have been reclassified to trade accounts receivable and were past due as of December 31, 2013 and December 31, 2012:

	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
December 31, 2013	$ 511,792	$ 85,738	$ 57,429	$ 654,959
December 31, 2012	$ 1,108,108	$ 297,812	$ 301,896	$ 1,707,816

From time to time, the Company may agree to alternative payment terms outside of the terms of the original financing receivable agreement due to customer difficulties in achieving the original terms. In general, such alternative payment arrangements do not result in a re-aging of the related receivables. Rather, payments pursuant to any alternative payment arrangements are applied to the already outstanding invoices beginning with the oldest outstanding invoices as the payments are received.

Because amounts are reclassified to trade accounts receivable when they become due, there are no past due amounts included within the financing receivables or the financing receivables, current portion, net amounts in the accompanying consolidated balance sheets.

The Company utilizes an aging of trade accounts receivable as the primary credit quality indicator for its financing receivables, which is facilitated by the reclassification of customer payment amounts to trade accounts receivable when they become due. The table below categorizes customer financing receivable balances (excluding short term payment plans), none of which are considered past due, based on the age of the oldest payment outstanding that has been reclassified to trade accounts receivable:

	December 31, 2013	December 31, 2012
Customer balances with amounts reclassified to trade accounts receivable that are:		
1 to 90 Days Past Due	$ 1,322,823	$ 7,337,602
91 to 180 Days Past Due	368,424	1,028,235
181+ Days Past Due	37,537	252,770
Total customer balances with past due amounts reclassified to trade accounts receivable	$ 1,728,784	$ 8,618,607
Total customer balances with no past due amounts reclassified to trade accounts receivable	257,229	4,076,185
Total financing receivables with contractual maturities of one year or less	25,317,770	448,487
Less allowance for losses	(1,365,190)	(662,315)
Total financing receivables	$ 25,938,593	$ 12,480,964

First Generation Meaningful Use Installment Plans

During 2012, the Company entered into multiple customer license agreements with payment terms requiring the customer to remit to the Company incentive payments (not to exceed the remaining balance of the contract price) received under the American Recovery and Reinvestment Act of 2009 (the "ARRA") for adoption of qualifying electronic health records ("EHRs"), with only nominal payment amounts required until the customer's receipt of such incentive payments ("First Generation Meaningful Use Installment Plans"). If no such incentive payments are received by the customer or if such payments are not sufficient to pay the remaining balance under the arrangement, payments continue at contracted nominal amounts until the balance of the contract price is paid in full. Because of the significant difference in the underlying economics of these arrangements compared to our historical financing receivables, management determined that these arrangements were not comparable to historical arrangements. In accordance with the *Software* topic and *Revenue Recognition* subtopic of the Codification, the Company recognizes revenue related to these arrangements as the amounts become due. Anticipated future cash flows from these 2012 licensing arrangements are excluded from the Company's financing receivables and deferred revenue in the accompanying consolidated balance sheets. Direct, incremental costs in the amount of $104,573, included as a component of prepaid expenses and other in the accompanying consolidated balance sheets, have been capitalized as of December 31, 2013 related to these arrangements.

Second Generation Meaningful Use Installment Plans

Beginning in the fourth quarter of 2012, we ceased offering First Generation Meaningful Use Installment Plans to our customers, opting instead for license agreements with payment terms that provide us with greater visibility into and control over the customer's meaningful use attestation process and significantly reducing the maximum timeframe over which customers must satisfy their full payment obligations in purchasing our system ("Second Generation Meaningful Use Installment Plans"). As the overall payment period durations of the Second Generation Meaningful Use Installment Plans are consistent with that of our historical system sale financing arrangements, revenues under the Second Generation Meaningful Use Installment Plans are recognized upon installation of our EHR solution. Consistent with the terms of the respective agreements, all related amounts are included as a component of financing receivables, current portion, net in the accompanying consolidated balance sheets and as a component of *short-term payment plans* within this Note 10.

Nearly all of our new system installations during the year ended December 31, 2013 were under Second Generation Meaningful Use Installment Plans, resulting in a significant increase in our financing receivables balance related to short-term payment plans from December 31, 2012 to December 31, 2013. Consequently, this concentration of system installations under short-term payment plans has resulted in the overall significant decrease in amounts due under sales-type leases from December 31, 2012 to December 31, 2013.

11. BENEFIT PLANS

In January 1994, the Company adopted the CPSI 401(k) Retirement Plan that covers all eligible employees of the Company who have completed one year of service. The plan allows eligible employees to contribute up to 60% of their pre-tax earnings up to the statutory limit prescribed by the Internal Revenue Service. The Company matches a discretionary amount determined by the Board of Directors. The Company contributed approximately $2,020,000, $1,749,000 and $1,495,000 to the plan for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company provides certain health and medical benefits to eligible employees, their spouses and dependents pursuant to a benefit plan funded by the Company. Each participating employee contributes to the Company's costs associated with such benefit plan. The Company's obligation to fund this benefit plan and pay for these benefits is limited through the Company's purchase of an insurance policy from a third-party insurer. The amount established as a reserve is intended to recognize the Company's estimated obligations with respect to its payment of claims and claims incurred but not yet reported under the benefit plan. Management believes that the recorded liability for medical self-insurance at December 31, 2013 and 2012 is adequate to cover the losses and claims incurred, but these reserves are based on estimates and the amount ultimately paid may be more or less than such estimates.

12. OPERATING LEASES

Prior to the Company's purchase of its corporate campus on December 13, 2011, the Company leased the real properties comprising the corporate campus, most of which was partially owned by an executive officer of the Company. The lease agreements had terms of ten years and were set to expire on or before December 2015. These related party leases were cancelled in December 2011 in conjunction with the Company's purchase of these properties from the related party entity for $9.5 million. For the year ended December 31, 2011, total rent expense paid to the related party entity was $1,901,810. The Company also leased during 2013 office space in Mobile, Fairhope and Lanette, Alabama, and Monroe, Louisiana. These leases have terms expiring from 2014 through 2024 but do contain optional extension terms.

The future minimum lease payments payable under operating leases subsequent to December 31, 2013 are as follows:

2014	$ 772,079
2015	527,393
2016	354,277
2017	404,924
2018	352,354
Thereafter	1,801,446
	$ 4,212,473

Total rent expense for the years ended December 31, 2013, 2012, and 2011 was $882,215, $934,206, and $2,437,422, respectively.

13. COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. Management does not expect this to have a material adverse effect on the Company's financial statements.

14. FAIR VALUE

FASB Codification topic, *Fair Value Measurements and Disclosures,* establishes a framework for measuring fair value and expands financial statement disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Codification topic does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. The Codification topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

The fair values of the Company's available-for-sale securities are based on matrix pricing for the periods ended December 31, 2013 and 2012, which uses observable market-based inputs (such as benchmark yields) in addition to quoted prices in active markets to derive fair values. As a result, these inputs are classified as Level 2 within the fair value hierarchy. We generally apply fair value techniques on a non-recurring basis associated with (1) valuing potential impairment loss related to financing receivables accounted for pursuant to Codification topic, *Leases*, and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to Codification topic, *Property, Plant and Equipment*, when events or circumstances indicate a possible impairment.

The following table summarizes the carrying amounts and fair values of certain assets and liabilities at December 31, 2013 and December 31, 2012:

		Fair Value at December 31, 2013 Using		
	Carrying Amount at 12/31/2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Available-for-sale securities				
Short-term investments (money market funds and accrued income)	$ 3,402,921	$ —	$ 3,402,921	$ —
Mortgage backed securities	81,112	—	81,112	—
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,748,850	—	2,748,850	—
Corporate debt securities	4,469,743	—	4,469,743	—
Total available-for-sale securities	$ 10,702,626	$ —	$ 10,702,626	$ —

		Fair Value at December 31, 2012 Using		
	Carrying Amount at 12/31/2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Available-for-sale securities				
Short-term investments (money market funds and accrued income)	$ 449,420	$ —	$ 449,420	$ —
Mortgage backed securities	95,604	—	95,604	—
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,381,779	—	2,381,779	—
Corporate debt securities	7,747,806	—	7,747,806	—
Total available-for-sale securities	$ 10,674,609	$ —	$ 10,674,609	$ —

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

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

15. SUBSEQUENT EVENTS

Declaration of Dividends

On January 30, 2014, the Company announced a dividend for the first quarter of 2014 in the amount of $0.57 per share. The dividend was paid on February 28, 2014 to stockholders of record as of the close of business on February 13, 2014.

Issuance of Restricted Stock

On January 27, 2014, the Compensation Committee of the Board of Directors approved the grant of a total of 4,808 shares of restricted stock, effective January 27, 2014, to certain of the non-employee directors of the Company under the Company's 2012 Restricted Stock Plan for Non-Employee Directors. The grant date fair value was $58.22 per share. Under the terms of the restricted stock award agreements with the non-employee directors, the shares of restricted stock are scheduled to vest on the first anniversary of the date of grant, assuming that the recipient of the grant continues to serve as a director of the Company on the vesting date. Compensation expense for this grant will be recognized on a straight-line basis over one year.

16. QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The following table presents a summary of our results of operations for our eight most recent quarters ended December 31, 2013. The information for each of these quarters is unaudited and has been prepared on a basis consistent with the audited financial statements. This information includes all adjustments, consisting only of normal recurring adjustments, we consider necessary for fair presentation of this information when read in conjunction with the audited financial statements and related notes. Our operating results have varied on a quarterly basis and may fluctuate significantly in the future.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands except for share and per share data)			
Year Ended December 31, 2013				
Sales revenues	$ 49,549	$ 53,261	$ 46,780	$ 51,273
Gross profit	22,119	25,477	20,654	25,487
Operating income	10,109	13,148	11,026	15,961
Net income	6,944	8,486	7,269	10,044
Net income per share				
Basic	$ 0.63	$ 0.77	$ 0.66	$ 0.90
Diluted	0.63	0.77	0.66	0.90
Weighted average shares outstanding				
Basic	11,078,407	11,080,062	11,085,164	11,159,142
Diluted	11,078,407	11,080,062	11,085,164	11,159,142
Year Ended December 31, 2012				
Sales revenues	$ 44,489	$ 45,731	$ 45,174	$ 47,915
Gross profit	19,267	20,139	20,015	21,240
Operating income	8,999	9,925	9,991	12,362
Net income	5,649	8,261	6,925	9,139
Net income per share				
Basic	$ 0.51	$ 0.75	$ 0.63	$ 0.83
Diluted	0.51	0.75	0.63	0.83
Weighted average shares outstanding				
Basic	11,063,220	11,063,529	11,065,380	11,073,575
Diluted	11,063,220	11,063,529	11,065,380	11,073,575

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

Description		Balance at beginning of period	Additions charged to cost and expenses (1)	Deductions (2)	Balance at end of period
Allowance for doubtful accounts deducted from accounts receivable in the balance sheet	2011	$ 969,000	$ 937,000	$ (630,000)	$ 1,276,000
	2012	$ 1,276,000	$ 300,144	$ (452,144)	$ 1,124,000
	2013	$ 1,124,000	$ 602,000	$ (601,000)	$ 1,125,000

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

Description		Balance at beginning of period	Additions charged to cost and expenses (1)	Deductions (2)	Balance at end of period
Allowance for credit losses deducted from financing receivables in the balance sheet	2011	$ 233,396	$ 499,485	$ (285,560)	$ 447,321
	2012	$ 447,321	$ 214,994	$ —	$ 662,315
	2013	$ 662,315	$ 1,309,160	$ (606,285)	$ 1,365,190

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations to the effectiveness of any system of disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been prevented or detected on a timely basis. Even disclosure controls and procedures determined to be effective can only provide reasonable assurance that their objectives are achieved.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

This report is included in Item 8 on page 49 and is incorporated herein by reference.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

This report is included in Item 8 on page 51 and is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

Other information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from CPSI's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

(a)(3) and (b) – Exhibits.

The exhibits listed on the Exhibit Index beginning on page 78 of this Form 10-K are filed herewith or are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this the 12th day of March, 2014.

COMPUTER PROGRAMS AND SYSTEMS, INC.

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

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

Name	Title	Date
/s/ David A. Dye David A. Dye	Chairman of the Board and Director, Chief Financial Officer (principal financial officer)	March 12, 2014
/s/ J. Boyd Douglas J. Boyd Douglas	President, Chief Executive Officer and Director (principal executive officer)	March 12, 2014
/s/ James B. Britain James B. Britain	Vice President – Finance and Controller (principal accounting officer)	March 12, 2014
/s/ Ernest F. Ladd, III Ernest F. Ladd, III	Director	March 12, 2014
/s/ W. Austin Mulherin, III W. Austin Mulherin, III	Director	March 12, 2014
/s/ William R. Seifert, II William R. Seifert, II	Director	March 12, 2014
/s/ John C. Johnson John C. Johnson	Director	March 12, 2014
/s/ Charles P. Huffman Charles P. Huffman	Director	March 12, 2014
/s/ A. Robert Outlaw, Jr. A. Robert Outlaw, Jr.	Director	March 12, 2014

Exhibit Index

Exhibit Number	Description
3.1	Certificate of Incorporation (filed as Exhibit 3.4 to CPSI's Registration Statement on Form S-1 (Registration No. 333-84726) and incorporated herein by reference)
3.2	Amended and Restated Bylaws (filed as Exhibit 3 to CPSI's Current Report on Form 8-K dated October 28, 2013 and incorporated herein by reference)
10.1*	Amendment and Restatement of 2005 Restricted Stock Plan (filed as Exhibit 10.6 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2005 and incorporated herein by reference)
10.2*	Form of Five-Year Restricted Stock Award Agreement under the 2005 Restricted Stock Plan (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated January 30, 2006 and incorporated herein by reference)
10.3*	Form of Four-Year Restricted Stock Award Agreement under the 2005 Restricted Stock Plan (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated September 25, 2013 and incorporated herein by reference)
10.4	Form of Indemnity Agreement entered into by CPSI and each of its non-employee directors (filed as Exhibit 10.1 to CPSI's Quarterly Report on Form 10-Q for the period ended September 30, 2002 and incorporated herein by reference)
10.5	Real Property Lease Agreement, dated September 14, 2009 between CPSI and 3725 Airport Boulevard, LP (filed as Exhibit 10.1 to CPSI's Quarterly Report on Form 10-Q for the period ended September 30, 2009 and incorporated herein by reference)
10.6	First Amendment to Real Property Lease Agreement, dated October 9, 2009, between CPSI and 3725 Airport Boulevard, LP (filed as Exhibit 10.2 to CPSI's Quarterly Report on Form 10-Q for the period ended September 30, 2009 and incorporated herein by reference)
10.7	Real Property Lease Agreement, dated March 19, 2012, between CPSI and Fairhope Group, LLC (filed as Exhibit 10.6 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.8*	2011 Executive Officer Incentive Program (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated April 18, 2011 and incorporated herein by reference)
10.9*	2012 Executive Officer Incentive Program (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated January 23, 2012 and incorporated herein by reference)
10.10*	2013 Executive Officer Incentive Program (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated March 4, 2013 and incorporated herein by reference)
10.11*	Commission Program for Victor S. Schneider (filed as Exhibit 10.9 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.12*	Commission Program for Troy D. Rosser (filed as Exhibit 10.10 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.13*	Commission Program for Sean C. Nicholas (filed as Exhibit 10.11 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.14*	Commission Program for Lyle E. Hutchison (filed as Exhibit 10.12 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.15*	Commission Program for Richard R. Jones (filed as Exhibit 10.13 to CPSI's Annual Report on Form 10-K for the period ended December 31, 2012 and incorporated herein by reference)
10.16*	Amended and Restated 2012 Restricted Stock Plan for Non-Employee Directors
23.1	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files for CPSI's Annual Report on Form 10-K for the period ended December 31, 2013

* Management compensation plan or arrangement

Exhibit 10.16

Computer Programs and Systems, Inc.

Amended and Restated
2012 Restricted Stock Plan
for Non-Employee Directors

Effective as of May 10, 2012
(As Amended and Restated on January 27, 2014)

This Computer Programs and Systems, Inc. 2012 Restricted Stock Plan for Non-Employee Directors (the "Plan") is established by the Board of Directors of Computer Programs and Systems, Inc., a Delaware corporation (the "Company"), has been adopted by the Board of Directors of the Company (the "Board") and will be effective upon approval by the stockholders of the Company.

ARTICLE I
Purpose

The purpose of this Plan is to promote the interests of the Company and its stockholders by granting restricted stock to the Non-Employee Directors of the Company in order to: (1) attract and retain Non-Employee Directors by affording them an opportunity to share in the future successes of the Company, (2) strengthen the mutuality of interests between such Non-Employee Directors and the Company's stockholders and (3) provide the Non-Employee Directors with a proprietary interest in maximizing the growth, profitability and overall success of the Company.

ARTICLE II
Definitions

For purposes of this Plan, the following terms will have the meanings set forth below:

"83(b) Election" is defined in Section 8.2.

"Award" means a grant of Restricted Stock under the Plan, subject to the terms and conditions of the Plan and the applicable Award Agreement.

"Award Agreement" means a Restricted Stock Award Agreement between the Company and a Non-Employee Director evidencing the terms and conditions of an Award of Restricted Stock.

"Board" means the Board of Directors of the Company.

"Change in Control" will be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) or any two (2) or more persons acting as a partnership, syndicate or other such group (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Stock of the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; (ii) during any period of two (2) consecutive years (not including any period prior to the adoption of the Plan), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii), or (iv) of this paragraph) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board; (iii) a merger or consolidation of the Company with any other corporation is consummated, other than a merger or consolidation that results in the voting securities of the Company outstanding immediately prior thereto

continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets. If any of the events enumerated in clauses (i) through (iv) occur, the Board shall determine the effective date of the Change in Control resulting therefrom, for purposes of the Plan.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board, or such other committee of the Board as may be appointed by the Board to administer the Plan. The Committee shall at all times consist of two (2) or more members of the Board, and the Committee members must (i) satisfy the requirements of Rule 16b-3 under the Exchange Act and (ii) meet any applicable independence standards promulgated by the Nasdaq Stock Market or by any other stock exchange on which the Company's Stock is then listed. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee shall be filled by the Board. The Committee shall select one of its members as Chairman and shall hold meetings at such times and places as it may determine.

"Company" means Computer Programs and Systems, Inc., a Delaware corporation, or any successor to such corporation.

"Disability" means a permanent and total disability as defined in the Company's long term disability insurance program; provided, however, that in the event no such program is in effect, Disability shall mean a total and permanent disability or incapacity resulting from medically demonstrable bodily injury or disease (i) which prevents the Non-Employee Director from engaging in any regular occupation for compensation or profit, (ii) which has continuously existed for a period of at least six (6) months and (iii) for which the Non-Employee Director would be eligible for or is in receipt of disability benefits under the Federal Social Security Act. Disability will be determined by the Board who may reasonably require the Non-Employee Director to undergo examination by a qualified physician selected by the Board at any time or times for the purposes of determining whether the Non-Employee Director incurred and continues to have a Disability.

"Effective Date" is defined in Article V.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means, unless otherwise determined by the Board, the closing price on the date of determination for a share of Stock, or if there were no sales on such date, the most recent prior date on which there were sales, as reported by the Nasdaq Stock Market.

"Non-Employee Director" means any person who is a member of the Board who is not, as of the date of a grant of Restricted Stock under the Plan, an employee of the Company or any subsidiary of the Company.

"Plan" means this Computer Programs and Systems, Inc. 2012 Restricted Stock Plan for Non-Employee Directors, as amended from time to time.

"Restricted Stock" means Stock issued pursuant to the Plan.

"Restricted Period" is defined in Section 7.3.

"Rule 16b-3" means the exemption under Rule 16b-3, promulgated by the Securities and Exchange Commission under Section 16(b) of the Exchange Act, or any successor to such rule, as in effect from time to time.

"Stock" means the $.001 par value common stock of the Company.

ARTICLE III
Stock Subject to Plan; Adjustments

3.1 Stock Reserved. Subject to adjustments as provided in Section 3.3 below, an aggregate of 100,000 shares of the Stock have been reserved by the Company for the grant of Awards under the Plan. In the event that shares of Restricted Stock are issued under the Plan and thereafter are forfeited, such forfeited shares may again be issued under the Plan.

3.2 Type of Shares Distributable. Restricted Stock may consist, in whole or in part, of authorized and unissued Stock, of Stock reacquired by the Company through purchase in open market or private transactions, or of Stock that was forfeited, as provided for in Section 3.1 above.

3.3 Adjustments. In the event of any merger, reorganization, consolidation, recapitalization, stock dividend or other distribution (whether in the form of cash, shares of stock, other securities or other property), stock split, reverse stock split, combination, repurchase, or exchange of shares of Stock or other securities of the Company, or other similar corporate transactions or events or change in corporate structure affecting the Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits and potential benefits intended to be made available under the Plan, then the Committee, in such a manner as it deems equitable, shall make an appropriate substitution or adjustment in (i) the aggregate number of shares reserved for issuance under the Plan, and (ii) the kind, number and price of shares subject to outstanding Restricted Stock Awards granted under the Plan; provided that the number of shares subject to any Award shall always be a whole number. Such substitutions or adjustments shall be made as may be determined by the Committee, in its sole discretion, and shall be conclusive and binding for purposes of the Plan.

ARTICLE IV
Eligibility

Each individual who as of the date of any grant made pursuant to the Plan is a Non-Employee Director of the Company shall be eligible to be selected by the Committee to receive an Award of Restricted Stock under the Plan.

ARTICLE V
Effective Date; Duration

Upon adoption by the Board, the Plan becomes effective on the date the stockholders of the Company approve the Plan (the "Effective Date"). The Plan shall terminate ten (10) years from the Effective Date, unless terminated earlier pursuant to Article IX, and no Awards may be granted thereafter.

ARTICLE VI
Administration

6.1 General. The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) select which Non-Employee Directors may receive Awards under the Plan, (ii) determine the number of shares of Restricted Stock to be awarded to a Non-Employee Director, (iii) determine the form, terms and conditions of each Award Agreement, including without limitation the length of the Restricted Period, (iv) interpret and administer the Plan and any instrument or agreement relating to, or grant made under, the Plan, (v) establish, interpret, amend, suspend, rescind or waive any rules and regulations relating to the Plan, (vi) appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (vii) make any other determination and take any other action that the Committee deems necessary to or desirable for the administration of the Plan. Other provisions of the Plan notwithstanding, the Board may perform any function of the Committee under the Plan, including for the purpose of ensuring that transactions under the Plan by Non-Employee Directors who are then subject to Section 16 of the Exchange Act in respect of the Company are exempt under Rule 16b-3 under the Exchange Act. In any case in which the Board is performing a function of the Committee under the Plan, each reference to the Committee herein shall be deemed to refer to the Board, except where the context otherwise requires.

6.2 Committee Discretion Binding. Unless otherwise expressly provided under the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive and binding upon all persons, including the Company, any Non-Employee Director, any holder or beneficial owner of Restricted Stock and any stockholder of the Company.

6.3 Limitation of Liability. Neither a member of the Committee nor a Non-Employee Director shall be liable for any act or failure to act hereunder, except in circumstances involving his or her bad faith, gross negligence or willful misconduct, or for any act or failure to act hereunder by any other member of the Committee or Non-Employee Director or by any agent to whom duties in connection with the administration of the Plan have been delegated.

6.4 Indemnification. The Company shall indemnify members of the Committee against any and all liabilities or expenses to which they may be subjected by reason of any act or failure to act with respect to their duties on behalf of the Plan, except in circumstances involving such person's bad faith, gross negligence or willful misconduct.

ARTICLE VII
Restricted Stock

7.1 Award of Restricted Stock; Award Agreement. The Committee may grant an Award of Restricted Stock to a Non-Employee Director. Any Award of Restricted Stock granted to a Non-Employee Director shall include a Restricted Period of at least one (1) year. After the Committee determines that it will offer an Award to a Non-Employee Director, it will advise the Non-Employee Director in writing, by means of an Award Agreement, of the terms, conditions and restrictions, if any, related to the Award, including the terms under which the Restricted Stock may become vested and the number of shares the Non-Employee Director shall be entitled to receive. The Award shall be accepted by the Non-Employee Director upon execution of an Award Agreement in the manner determined by the Committee.

7.2 Purchase Price. Restricted Stock shall be offered under the Plan for such consideration in cash, other property or services as is determined by the Committee and set forth in the Award Agreement.

7.3 Restricted Period. At the time an Award of Restricted Stock is made, the Committee shall establish a period of time during which the transfer of shares of Restricted Stock shall be restricted and be subject to forfeiture, as provided in Section 7.4 (the "Restricted Period"). The duration of the Restricted Period and the limitations on transferability will be set forth in the Award Agreement. The minimum Restricted Period, however, shall be one (1) year from the date of the Award. Each Award may have a different Restricted Period.

7.4 Risk of Forfeiture. In the event a Non-Employee Director shall cease to be a director of the Company, for any reason other than those set forth in this Section 7.4 or in Section 7.9, the Non-Employee Director, or former Non-Employee Director, as the case may be, shall, for no consideration, forfeit to the Company all shares of Restricted Stock issued pursuant to this Plan that have not previously vested. Upon recommendation of the Chief Executive Officer and unanimous approval by the Committee (except that if the Non-Employee Director whose Restricted Stock is at issue is a member of the Committee, then that Non-Employee Director will abstain from the decision), the Committee may choose to accelerate the vesting of all or any portion of the shares of Restricted Stock that had not vested prior to the date on which such Non-Employee Director shall cease to be a director of the Company. In the event of such an acceleration of vesting, a stock certificate shall be delivered in accordance with Section 7.8 below.

7.5 Transferability of Awards. Except as otherwise provided by the Committee, no Restricted Stock awarded under this Plan shall be transferred, sold, exchanged, pledged or otherwise disposed of by a Non-Employee Director during the Restricted Period, other than (i) by the Non-Employee Director's last will and testament, (ii) by the applicable laws of descent and distribution or (iii) as otherwise determined by the Committee. The provisions of the Plan shall apply to and be binding upon the beneficiaries, distributees and personal representatives, and any successors in interest, of such Non-Employee Director.

7.6 Stock Certificate Representing Restricted Stock. At the time of each grant, the Company shall issue stock certificates that evidence Restricted Stock pending the lapse of applicable restrictions, and that bear a legend making appropriate reference to such restrictions substantially in the form provided below:

> *The transferability of this certificate and the shares of stock represented by this certificate are subject to the terms and conditions (including forfeiture) of the Computer Programs and Systems, Inc. 2012 Restricted Stock Plan for Non-Employee Directors and an Award Agreement entered into by the registered owner and Computer Programs and Systems, Inc. Copies of such Plan and Agreement are on file in the offices of Computer Programs and Systems, Inc.*

7.7 Escrow of Stock. To facilitate the enforcement of the transfer restrictions prior to vesting, the Company shall require that the stock certificate(s) evidencing shares of Restricted Stock be held in custody by a designated escrow agent (which may, but need not be, the Company) until the restrictions thereon have lapsed. The Company may require the Non-Employee Director to execute a stock power endorsed in blank related to the shares covered by the Award.

7.8 Issuance of Shares Upon Vesting. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee, the restrictions applicable to the Restricted Stock shall lapse and a stock certificate for the number of shares of Restricted Stock with respect to which the restrictions have lapsed shall be delivered as soon as administratively possible, free of all such restrictions and legends, except any that may be imposed by law. A new stock certificate for the balance of any shares that remain Restricted Stock shall be issued with appropriate restrictive legends and may be held in escrow pursuant to Section 7.7 above, pending the lapse of such restrictions with respect to those shares.

7.9 Accelerated Vesting. In the event of (i) a Change in Control of the Company, (ii) the death of the Non-Employee Director or (iii) the Disability of the Non-Employee Director, the Restricted Period will be deemed to have lapsed and all conditions will be deemed to have been satisfied, and all Awards granted to such Non-Employee Director under this Plan shall become one hundred percent (100%) vested as of the date of the Change in Control, the death or the Disability, as the case may be, and a stock certificate shall be delivered in accordance with Section 7.8 above.

7.10 Voting and Dividend Rights. The Non-Employee Director will be entitled to voting rights and dividend rights during the Restricted Period. The Non-Employee Director will be entitled to retain cash dividends even if the shares of Restricted Stock are later forfeited.

ARTICLE VIII
Withholding of Tax; 83(b) Election

8.1 Withholding of Tax. To the extent that the receipt of the Restricted Stock or the lapse of any restrictions results in income to a Non-Employee Director for federal or state income tax purposes, the Non-Employee Director shall deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money or shares of unrestricted Stock as the Company may require to meet its withholding obligation under applicable tax laws or regulations, and, if the Non-Employee Director fails to do so, the Company is authorized to withhold from any cash or Stock remuneration then or thereafter payable to the Non-Employee Director any tax required to be withheld.

8.2 83(b) Election. Section 83(b) of the Code allows a recipient of Restricted Stock to elect to immediately recognize ordinary compensation income in an amount equal to the Fair Market Value of the Restricted Stock on the date of the grant (an "83(b) Election"). A Non-Employee Director of the Company may make an 83(b) Election only with the prior written approval of the Committee.

ARTICLE IX
Amendment; Termination

Unless applicable laws, regulations, or Nasdaq Stock Market listing standards provide otherwise, the Committee may at any time terminate the Plan or make such changes in or additions to the Plan as it deems advisable without further action on the part of the Company's stockholders, provided that no such termination or amendment shall adversely affect or impair any then outstanding Award without the consent of the Non-Employee Director holding that Award.

ARTICLE X
General Provisions

10.1 No Right to Continued Service. Neither the Plan nor any action taken hereunder shall be construed as giving any Non-Employee Director the right to continue to serve as a director of the Company or otherwise to be retained in the service of the Company.

10.2 No Right to Awards. Non-Employee Directors shall not have any claim to be granted Restricted Stock and there is no obligation for uniformity of treatment of Non-Employee Directors. The terms and conditions of Awards need not be the same with respect to each recipient.

10.3 Compliance with Legal and Nasdaq Stock Market Requirements. The Plan, the granting of Awards thereunder, and the other obligations of the Company under the Plan and any Award Agreement, shall be subject to all applicable federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under any Award until completion of such listing with the Nasdaq Stock Market or registration or qualification of such Stock or other required action under any state, federal or foreign law, rule or regulation as the Company may consider appropriate, and may require any Non-Employee Director to make such representations and furnish such information as the Company may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations.

10.4 Compliance with Rule 16b-3 of the Exchange Act. If any provision of the Plan or any Award Agreement relating to a person subject to Section 16 of the Exchange Act does not comply or is inconsistent with the requirements of Rule 16b-3 under the Exchange Act, such provision shall be construed or deemed to be amended or to be null and void to the extent necessary to conform to such requirements.

10.5 Governing Law. The validity, construction and effect of the Plan, any rules and regulations relating to the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Delaware, excluding any choice of law provisions which may indicate the application of the laws of another jurisdiction.

10.6 Headings. Headings are given to the Articles and sections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provisions thereof.

10.7 Plan Expenses. The expenses of the Plan shall be borne by the Company.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 12, 2014, with respect to the financial statements, financial statement schedule and internal control over financial reporting included in the Annual Report of Computer Programs and Systems, Inc. on Form 10-K for the year ended December 31, 2013. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Computer Programs and Systems, Inc. on Forms S-8 (File No. 333-131165, effective January 20, 2006, and File No. 333-181352, effective May 11, 2012).

/s/ GRANT THORNTON LLP
Atlanta, Georgia
March 12, 2014

Exhibit 31.1

CERTIFICATION

I, J. Boyd Douglas, certify that:

1. I have reviewed this annual report on Form 10-K of Computer Programs and Systems, Inc.;

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2014

/s/ J. Boyd Douglas

J. Boyd Douglas
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, David A. Dye, certify that:

1. I have reviewed this annual report on Form 10-K of Computer Programs and Systems, Inc.;

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2014

/s/ David A. Dye

David A. Dye
Chief Financial Officer

Exhibit 32.1

Certifications of Chief Executive Officer
and Chief Financial Officer
Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Computer Programs and Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), J. Boyd Douglas, Chief Executive Officer of the Company, and David A. Dye, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: March 12, 2014

/s/ J. Boyd Douglas

J. Boyd Douglas
Chief Executive Officer

/s/ David A. Dye

David A. Dye
Chief Financial Officer