

COMPUTER PROGRAMS & SYSTEMS INC

FORM 10-Q (Quarterly Report)

Filed 10/31/2002 For Period Ending 9/30/2002

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Industry	Business Services
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2002.

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____.

Commission file number: 000-49796

COMPUTER PROGRAMS AND SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

74-3032373
(I.R.S. Employer
Identification No.)

6600 Wall Street, Mobile, Alabama
(Address of Principal Executive Offices)

36695
(Zip Code)

(251) 639-8100
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 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

As of October 31, 2002, there were 10,488,000 shares of the issuer's common stock outstanding.

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COMPUTER PROGRAMS AND SYSTEMS, INC.

FORM 10-Q
(For the period ended September 30, 2002)

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

COMPUTER PROGRAMS AND SYSTEMS, INC. CONDENSED BALANCE SHEETS (Unaudited)

	September 30, 2002	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,969,813	\$ 2,018,643
Accounts receivable, net of allowance for doubtful accounts of \$718,000 and \$532,000, respectively	11,980,510	8,107,467
Financing receivables, current portion	633,343	769,423
Inventories	1,255,325	1,126,353
Deferred tax assets	1,027,106	—
Prepaid expenses	367,437	196,276
Total current assets	22,233,534	12,218,162
Property and equipment		
Land	936,026	936,026
Maintenance equipment	2,388,450	2,114,224
Computer equipment	3,303,911	2,906,476
Office furniture and equipment	906,114	793,576
Automobiles	89,934	89,934
	7,624,435	6,840,236
Less accumulated depreciation	(3,097,017)	(2,805,709)
Net property and equipment	4,527,418	4,034,527
Financing receivables	885,535	998,797
Total assets	\$27,646,487	\$17,251,486
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of note payable	\$ —	\$ 86,185
Accounts payable	1,067,226	1,033,349
Deferred revenue	1,865,171	1,601,130
Sales, income and use taxes payable	1,723,785	1,879,939
Accrued vacation	1,356,459	1,075,450
Accrued stockholders' distribution	1,250,000	—
Other accrued liabilities	1,048,670	875,339
Income taxes payable	721,390	—
Total current liabilities	9,032,701	6,551,392
Note payable	—	663,712
Stockholders' equity:		
Common stock, par value \$0.001 per share; 30,000,000 shares authorized; 10,488,000 and 9,288,000 shares issued and outstanding, respectively	10,488	9,288
Additional paid-in capital	17,259,403	109,811
Deferred compensation	(238,183)	—
Retained earnings	1,582,078	9,917,283
Total stockholders' equity	18,613,786	10,036,382
Total liabilities and stockholders' equity	\$27,646,487	\$17,251,486

See accompanying notes.

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Sales revenues:				
System sales	\$ 9,935,868	\$ 7,385,034	\$27,650,220	\$21,179,195
Support and maintenance	7,616,395	6,540,505	22,083,538	18,821,218
Outsourcing	1,344,329	923,871	3,594,985	2,511,256
Total sales revenue	18,896,592	14,849,410	53,328,743	42,511,669
Costs of sales:				
System sales	6,544,503	5,625,230	18,904,917	16,113,266
Support and maintenance	3,578,257	2,944,399	10,084,417	8,481,042
Outsourcing	868,432	615,871	2,216,131	1,496,512
Total costs of sales	10,991,192	9,185,500	31,205,465	26,090,820
Gross profit	7,905,400	5,663,910	22,123,278	16,420,849
Operating expenses:				
Sales and marketing	1,660,244	1,200,704	4,333,138	3,730,978
General and administrative	3,203,612	2,369,664	9,187,259	6,960,067
Total operating expenses	4,863,856	3,570,368	13,520,397	10,691,045
Operating income	3,041,544	2,093,542	8,602,881	5,729,804
Other income (expense):				
Interest income	64,020	30,382	157,887	85,776
Miscellaneous income	117,238	77,642	225,726	105,955
Interest expense	—	(15,460)	(23,677)	(60,841)
Total other income	181,258	92,564	359,936	130,890
Income before taxes	3,222,802	2,186,106	8,962,817	5,860,694
Income taxes	1,146,139	—	1,632,286	—
Net income	\$ 2,076,663	\$ 2,186,106	\$ 7,330,531	\$ 5,860,694
Net income per share—basic	\$ 0.20	\$ 0.24	\$ 0.74	\$ 0.63
Net income per share—diluted	\$ 0.20	\$ 0.24	\$ 0.74	\$ 0.63
Weighted average shares outstanding				
Basic	10,488,000	9,288,000	9,868,220	9,288,000
Diluted	10,589,226	9,288,000	9,907,286	9,288,000
Pro forma income data:				
Historical income before provision for income taxes		\$ 2,186,106	\$ 8,962,817	\$ 5,860,694
Proforma income taxes		813,853	3,303,862	2,181,845
Proforma net income		\$ 1,372,253	\$ 5,658,955	\$ 3,678,849
Pro forma net income per share—basic		\$ 0.15	\$ 0.57	\$ 0.40
Pro forma net income per share—diluted		\$ 0.15	\$ 0.57	\$ 0.40

See accompanying notes.

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COMPUTER PROGRAMS AND SYSTEM, INC.
CONDENSED STATEMENTS OF CASH FLOW (Unaudited)

	Nine months ended September 30	
	2002	2001
Operating Activities:		
Net income	\$ 7,330,531	\$ 5,860,694
Adjustments to net income:		
Provision for bad debt	186,500	85,383
Deferred taxes	(92,844)	—
Deferred compensation	17,014	—
Depreciation	792,340	639,000
Changes in operating assets and liabilities:		
Accounts receivable	(4,059,542)	192,046
Financing receivables	249,342	(402,152)
Inventories	(128,972)	151,242
Prepaid expenses	(171,161)	131,284
Accounts payable	33,877	(616,442)
Deferred revenue	264,041	130,330
Sales, income and use taxes payable	(156,154)	11,624
Other liabilities	454,340	21,211
Income taxes payable	721,390	—
Net cash provided by operating activities	5,440,702	6,204,220
Investing Activities:		
Purchases of property and equipment	(1,285,231)	(1,001,437)
Net cash used in investing activities	(1,285,231)	(1,001,437)
Financing Activities:		
Proceeds from issuance of common stock, net of expenses	16,895,596	—
Principal payments on note payable	(749,897)	(59,046)
Distributions to stockholders	(15,350,000)	(5,000,000)
Net cash provided by (used in) financing activities	795,699	(5,059,046)
Increase in cash and cash equivalents	4,951,170	143,737
Cash and cash equivalents at beginning of period	2,018,643	1,033,148
Cash and cash equivalents at end of period	\$ 6,969,813	\$ 1,176,885

See accompanying notes.

COMPUTER PROGRAMS AND SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

Computer Programs and Systems, Inc. (CPSI or the Company) is a healthcare information technology solution 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 outsourcing, remote hosting, networking technologies and other related services.

The accompanying unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are considered of a normal recurring nature. Quarterly results of operations are not necessarily indicative of annual results.

Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These unaudited condensed financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001 and the notes thereto contained in our prospectus dated as of May 21, 2002, as filed with the SEC.

2. PUBLIC OFFERING OF COMMON STOCK AND RECAPITALIZATION

On May 21, 2002, the Company successfully completed an initial public offering of 3.0 million shares of common stock at a price of \$16.50 per share. Of the shares offered, 1.2 million shares were sold by the Company and 1.8 million shares were sold by selling stockholders. In addition, the underwriters for the Company exercised their over-allotment option by purchasing an additional 450,000 shares at \$16.50 per share from selling stockholders. Of the net proceeds to the Company of approximately \$16.9 million, approximately \$12.8 million was used to fund a partial distribution to pre-IPO stockholders of previously taxed S corporation income, and the balance was used to repay outstanding debt and for general corporate purposes.

On May 1, 2002, the Company declared a 430 for 1 stock split, and on May 6, 2002, the Company amended its Articles of Incorporation to increase the Company's total authorized shares to 10,000,000 and to change the par value to \$0.001 per share. All share and per share amounts for all periods presented in the accompanying condensed financial statements have been restated to reflect the split.

Effective immediately prior to the completion of the offering, the Company reincorporated in Delaware. As a Delaware corporation, the Company now has 30,000,000 shares of authorized common stock with a par value per share of \$0.001.

3. NET INCOME PER SHARE

Pro forma net income per share consists of the Company's historical net income as an S corporation, adjusted for additional income taxes that would have been recorded had the Company operated as a C corporation. The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS

COMPUTER PROGRAMS AND SYSTEMS, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (continued)

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. The difference between basic and diluted EPS is solely attributable to stock options. The Company uses the treasury stock method to calculate the impact of outstanding stock options. For the three month and nine month periods ended September 30, 2002, these dilutive shares were 101,226 and 39,066, respectively.

4. INCOME TAXES

The financial statements of the Company do not include a provision for income taxes through May 20, 2002 because the taxable income of the Company was included in the income tax returns of the shareholders under the S corporation election through that date. Upon completion of the IPO, the Company's S corporation status was terminated, and the Company became subject to federal and state income taxes. Upon revocation of the S corporation election, the Company recorded a \$934,000 credit to retained earnings as a deferred tax benefit. Prior to its termination as an S corporation, the Company declared a distribution of earned, but undistributed, accumulated S corporation earnings through the date the Company became a C corporation. A partial distribution in the amount of \$12,750,000 was disbursed on May 28, 2002. An estimated payable of the remaining balance is recorded on the balance sheet of the Company in the amount of \$1,250,000. The ultimate payout will be determined based on as-filed income tax returns for the year ended December 31, 2002.

The Company provides for income taxes using the liability method in accordance with Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*. Deferred income taxes arise from the temporary differences in the recognition of income and expenses for tax purposes. Deferred tax assets and liabilities are comprised of the following at September 30, 2002:

Deferred tax assets:	
Accounts receivable	\$ 198,747
Sales, income and use tax receivables	74,229
Sales, income and use tax interest	213,986
Accrued liabilities	630,654
	<u>1,117,616</u>
Deferred tax liabilities:	
Deferred compensation	(90,510)
	<u>(90,510)</u>
Net deferred tax assets	<u>\$ 1,027,106</u>

COMPUTER PROGRAMS AND SYSTEMS, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (continued)

Significant components of the income tax provision for the nine month period ended September 30, 2002 are as follows:

Current provision:		
Federal	\$	1,492,580
State		232,550
Deferred provision:		
Federal		(83,071)
State		(9,773)
Total income tax provision	\$	1,632,286

The difference between income taxes at the U. S. Federal statutory income tax rate of 34% and those reported in the condensed statement of income for the nine month period ended September 30, 2002 are as follows:

Income taxes at U. S. Federal statutory rate	\$	3,047,358
State income tax, net of federal tax effect		147,032
S corporation		(1,562,748)
Other		644
	\$	1,632,286

5. DEFERRED COMPENSATION

On May 17, 2002, Kenny Muscat, one of the Company's directors and a principal stockholder sold 66,667 shares of common stock to J. Boyd Douglas, Jr., one of the Company's directors and its Chief Operating Officer (COO), for a price of \$13.20 per share. The share price was determined by an independent valuation of the fair market value of the shares. A promissory note was delivered for the entire purchase price. The promissory note bears interest at the applicable rate for federal income tax purposes, and the entire principal balance is due five years after the date of the stock sale. As a part of the same transaction, Mr. Muscat also transferred to Mr. Douglas 19,333 shares of common stock for \$1.00. These shares are subject to a mandatory transfer obligation under which Mr. Douglas will be required to transfer the shares back to Mr. Muscat in the event Mr. Douglas' employment with the Company terminates for certain reasons prior to the fifth anniversary of the transaction date. The mandatory transfer obligation will lapse as to 20% of the shares on each anniversary of the transaction date over the five year restriction period.

COMPUTER PROGRAMS AND SYSTEMS, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (continued)

As a result of this transaction, the Company recorded deferred compensation expense of \$255,196, representing the amount of the fair market value of the 19,333 shares transferred by Mr. Muscat to Mr. Douglas. The Company is amortizing the deferred compensation expense over 20 fiscal quarters, recognizing pre-tax compensation expense of \$12,860 per quarter.

6. STOCK OPTION PLAN

On May 21, 2002, the Company's Board of Directors adopted the 2002 Stock Option Plan under which the Company has authorized the issuance of equity-based awards for up to 1,165,333 shares of common stock to provide additional incentive to employees and officers. Pursuant to the plan, the Company can grant either incentive or non-qualified stock options. Options to purchase common stock under the 2002 Stock Option Plan have been granted to Company employees with an exercise price equal to the fair market value of the underlying shares on the date of grant.

Stock options granted under the 2002 Stock Option Plan to executive officers of the Company become vested as to all of the shares covered by such grant on the fifth anniversary of the grant date and expire on the seventh anniversary of the grant date. Stock options granted under the 2002 Stock Option Plan to employees other than executive officers become vested as to 50% of the shares covered by the option grant on the third anniversary of the grant date and as to 100% of such shares on the fifth anniversary of the grant date, and such options expire on the seventh anniversary of the grant date.

The Company has elected to follow Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense was recognized for the options granted in the nine month period ended September 30, 2002.

A summary of stock option activity under the plan is as follows:

	Shares	Exercise Price
Outstanding on January 1, 2002	—	\$ —
Granted	466,133	16.50
Exercised	—	—
Forfeited	(11,603)	16.50
Outstanding on September 30, 2002	454,530	\$ 16.50
Exercisable on September 30, 2002	—	\$ —
Shares available on September 30, 2002 for options that may be granted	699,200	
Weighted-average grant date fair value		\$ 16.50
Weighted-average remaining contractual life		7 years

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed financial statements and related notes appearing elsewhere herein.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. 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 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; saturation of our target market and hospital consolidations; changes in customer purchasing priorities 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; fluctuations in quarterly financial performance due to, among other factors, timing of customer installations; failure of our products to function properly resulting in claims for medical losses; government regulation of our products and customers; and interruptions in our power supply and/or telecommunications capabilities.

Additional information concerning these and other factors which could cause differences between forward-looking statements and future actual results is discussed under the heading "Risk Factors" in our final prospectus dated as of May 21, 2002, as filed with the Securities and Exchange Commission.

Overview

Computer Programs and Systems, Inc. ("CPSI" or the "Company") is a healthcare information technology company that designs, develops, markets, installs and supports computerized information technology systems to meet the unique demands of small and midsize hospitals. Our target market includes acute care community hospitals with 300 or fewer beds and small specialty hospitals. We are a single-source vendor providing comprehensive software and hardware products complemented by data conversion, complete installation and extensive support. Our fully integrated, enterprise-wide system automates clinical and financial management in each of the primary functional areas of a hospital. In addition, we provide services that enable our customers to outsource certain data-related business processes, which we can perform more efficiently. We believe our products and services enhance hospital performance in the critical areas of clinical quality, revenue cycle management, cost control and regulatory compliance. From our initial hospital installation in 1981, we have grown to serve more than 400 hospital customers across 45 states and the District of Columbia.

Results of Operations

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2002

Revenues . Total revenues increased by 27.3% or \$4.1 million from \$14.8 million for the three months ended September 30, 2001 to \$18.9 million for the three months ended September 30, 2002.

System sales revenues increased by 34.5% or \$2.5 million from \$7.4 million for the three months ended September 30, 2001 to \$9.9 million for the three months ended September 30, 2002. This increase was primarily due to an increase in the sale and installation of new systems.

Support and maintenance revenues increased by 16.4% or \$1.1 million from \$6.5 million for the three months ended September 30, 2001 to \$7.6 million for the three months ended September 30,

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2002. This increase was attributable to an increase in recurring revenues as a result of a larger customer base, as well as an increase in the volume of ASP and ISP services.

Outsourcing revenues increased by 45.5% or \$0.4 million from \$0.9 million for the three months ended September 30, 2001 to \$1.3 million for the three months ended September 30, 2002. We experienced an increase in outsourcing revenues as a result of continued growth in customer demand for electronic billing and statement outsourcing services. We also began offering our business office outsourcing services in the first quarter of 2002, which contributed to the increase in outsourcing revenues for the third quarter of 2002.

Costs of Sales . Total costs of sales increased by 19.7% or \$1.8 million from \$9.2 million for the three months ended September 30, 2001 to \$11.0 million for the three months ended September 30, 2002. As a percentage of total revenues, cost of sales changed from 61.9% for the three months ended September 30, 2001 to 58.2% for the three months ended September 30, 2002.

Cost of system sales increased by 16.3% or \$0.9 million from \$5.6 million for the three months ended September 30, 2001 to \$6.5 million for the three months ended September 30, 2002. This increase was caused primarily by an increase in travel expenses of \$0.4 million as a direct result of larger system installations requiring larger installation teams. Additionally, payroll related expenses increased \$0.3 million as a result of increased employee headcount needed to support increasing sales volume. Cost of equipment also increased by \$0.2 million as a direct result of our increase in system sales. The gross margin on system sales increased from 23.8% for the three months ended September 30, 2001 to 34.1% for the three months ended September 30, 2002. The increase in gross margin was due to an increase in the average size of systems installed in 2002 over the same period in 2001.

Cost of support and maintenance increased by 21.5% or \$0.7 million from \$2.9 million for the three months ended September 30, 2001 to \$3.6 million for the three months ended September 30, 2002. This increase was caused primarily by an increase in payroll related expenses of \$0.5 million as a result of increased employee headcount needed to support our increasing customer base. Also, telecommunication expenses increased \$0.1 million due to increased utilization of our ISP services. The gross margin on support and maintenance revenues decreased from 55.0% for the three months ended September 30, 2001 to 53.0% for the three months ended September 30, 2002. The decrease in gross margin was due to the increase in employee headcount.

Our costs associated with outsourcing services increased by 41.0% or \$0.3 million from \$0.6 million for the three months ended September 30, 2001 to \$0.9 million for the three months ended September 30, 2002. Salary expense increased \$0.2 million due to the hiring of additional employees to support our business office outsourcing services. Postage cost increased \$0.1 million as a result of an increase in transaction volumes of our statement outsourcing services.

Sales and Marketing Expenses . Sales and marketing expenses increased by 38.3% or \$0.5 million from \$1.2 million for the three months ended September 30, 2001 to \$1.7 million for the three months ended September 30, 2002. The increase was attributable to increased commission expense of \$0.5 million which resulted from increased sales volumes.

General and Administrative Expenses . General and administrative expenses increased 35.2% or \$0.8 million from \$2.4 million for the three months ended September 30, 2001 to \$3.2 million for the three months ended September 30, 2002. The increase in expense was related to increased costs of \$0.2 million associated with pay raises for existing employees and the hiring of additional employees to support the growth in our business. Additional expense increases were related to depreciation, telecommunications, professional fees and insurance related costs.

As a percentage of total revenues, sales and marketing expenses and general and administrative expenses increased from 24.1% for the three months ended September 30, 2001 to 25.8% for the three

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months ended September 30, 2002.

Net Income . Net income for the three months ended September 30, 2002 was \$2.1 million or \$0.20 per diluted share, as compared to pro forma net income of \$1.4 million or \$0.15 per diluted share for the three months ended September 30, 2001. Net income represents 11.0% of revenue for the three months ended September 30, 2002. Pro forma net income represents 9.2% of revenue for the three months ended September 30, 2001. Net income is discussed on a pro forma basis due to a provision for income taxes to reflect the estimated corporate income tax expense that the Company would have recognized had it not elected to be treated as an S corporation prior to the completion of its initial public offering.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2002

Revenues . Total revenues increased by 25.4% or \$10.8 million from \$42.5 million for the nine months ended September 30, 2001 to \$53.3 million for the nine months ended September 30, 2002.

System sales revenues increased by 30.6% or \$6.5 million from \$21.2 million for the nine months ended September 30, 2001 to \$27.7 million for the nine months ended September 30, 2002. This increase was primarily due to the increase in the sale and installation of new systems.

Support and maintenance revenues increased by 17.3% or \$3.3 million from \$18.8 million for the nine months ended September 30, 2001 to \$22.1 million for the nine months ended September 30, 2002. This increase was attributable to an increase in recurring revenues as a result of a larger customer base and also an increase in the volume of ASP and ISP services.

Outsourcing revenues increased by 43.2% or \$1.1 million from \$2.5 million for the nine months ended September 30, 2001 to \$3.6 million for the nine months ended September 30, 2002. We experienced an increase in outsourcing revenues as a result of continued growth in customer demand for electronic billing and statement outsourcing services. We also began offering our business office outsourcing services in the first quarter of 2002, which contributed to the increase in outsourcing revenues for the nine months ended September 30, 2002.

Costs of Sales . Total costs of sales increased by 19.6% or \$5.1 million from \$26.1 million for the nine months ended September 30, 2001 to \$31.2 million for the nine months ended September 30, 2002. As a percentage of total revenues, cost of sales changed from 61.4% for the nine months ended September 30, 2001 to 58.5% for the nine months ended September 30, 2002.

Cost of system sales increased by 17.3% or \$2.8 million from \$16.1 million for the nine months ended September 30, 2001 to \$18.9 million for the nine months ended September 30, 2002. This increase was caused primarily by an increase in cost of equipment of \$1.2 million as a direct result of our increase in system sales. Additionally, payroll related expenses increased \$1.0 million as a result of increased employee headcount needed to support increasing sales volume. Travel expenses also increased by \$0.6 million. The gross margin on system sales increased from 23.9% for the nine months ended September 30, 2001 to 31.6% for the nine months ended September 30, 2002. The increase in gross margin was due to an increase in the average size of systems installed in 2002 over the same period in 2001.

Cost of support and maintenance increased by 18.9% or \$1.6 million from \$8.5 million for the nine months ended September 30, 2001 to \$10.1 million for the nine months ended September 30, 2002. This increase was caused primarily by an increase in payroll related expenses of \$1.1 million as a result of increased employee headcount needed to support our increasing customer base. Also, telecommunication expenses increased \$0.2 million due to increased utilization of our ISP services. The gross margin on support and maintenance revenues decreased from 54.9% for the nine months ended September 30, 2001 to 54.3% for the nine months ended September 30, 2002. The decrease in gross margin was due to the increase in employee headcount.

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Our costs associated with outsourcing services increased 48.1% or \$0.7 million from \$1.5 million for the nine months ended September 30, 2001 to \$2.2 million for the nine months ended September 30, 2002. Postage cost increased \$0.4 million resulting from an increase in transaction volumes of our statement outsourcing services. Salary expense also increased \$0.3 million due to the hiring of additional employees to support our business office outsourcing services.

Sales and Marketing Expenses . Sales and marketing expenses increased by 16.1% or \$0.6 million from \$3.7 million for the nine months ended September 30, 2001 to \$4.3 million for the nine months ended September 30, 2002. The increase was attributable to increased commission expense of \$0.5 million and also an increase in advertising and other expenditures of \$0.1 million.

General and Administrative Expenses . General and administrative expenses increased 32.0% or \$2.2 million from \$7.0 million for the nine months ended September 30, 2001 to \$9.2 million for the nine months ended September 30, 2002. The increase in expense was related to increased costs of \$0.5 million associated with pay raises for existing employees and the hiring of additional employees to support the growth in our business. Additional expense increases were related to depreciation, telecommunications, professional fees and insurance related costs.

As a percentage of total revenues, sales and marketing expenses and general and administrative expenses increased from 25.2% to 25.3% for the nine months ended September 30, 2001 and 2002, respectively.

Pro Forma Net Income . Pro forma net income increased 53.8% from \$3.7 million for the nine months ended September 30, 2001 to \$5.7 million for the nine months ended September 30, 2002. Pro forma net income represents 8.7% and 10.6% of revenues for the nine months ended September 30, 2001 and 2002, respectively. Net income is discussed on a pro forma basis due to a provision for income taxes to reflect the estimated corporate income tax expense that the Company would have recognized had it not elected to be treated as an S corporation prior to the completion of its initial public offering.

Liquidity and Capital Resources

At September 30, 2002, we had cash and short-term investments of \$7.0 million, compared to \$1.2 million at September 30, 2001. Net cash provided by operating activities for the nine months ended September 30, 2002 was \$5.4 million, compared to \$6.2 million for the nine months ended September 30, 2001. The decrease was primarily due to an increase in receivables, which is attributable to record levels of sales.

Net cash used in investing activities totaled \$1.3 million for the nine months ended September 30, 2002, compared to \$1.0 million for the nine months ended September 30, 2001. We used cash primarily for the purchase of fixed assets.

Net cash received from financing activities totaled \$0.8 million for the nine months ended September 30, 2002, compared to \$5.1 million used in financing activities for the nine months ended September 30, 2001. We received \$16.9 million as net proceeds from the sale of 1,200,000 shares of common stock in our initial public offering ("IPO"). Prior to the IPO, we made cash distributions to our stockholders in the amount of \$2.6 million. From the IPO proceeds, we made additional cash distributions to our pre-IPO stockholders in the amount of \$12.8 million for previously taxed S corporation income. We anticipate an additional cash distribution to these stockholders of approximately \$1.3 million prior to the filing of our 2002 tax returns. We also retired outstanding long-term debt in the amount of \$0.7 million.

We currently do not have a bank line of credit or other credit facility in place. 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 our future investments in fixed assets. We believe that our available cash and cash equivalents and anticipated cash generated from operations will be sufficient to meet our

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operating requirements for the next 12 months.

Contractual Commitments

Our real estate leases are our principal contractual commitments requiring recurring payments in the future. Our payments under these leases subsequent to September 30, 2002 will be as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 309,750
2003	1,224,000
2004	1,224,000
2005	1,224,000
2006	1,224,000
Thereafter	6,531,750
Total	\$ 11,737,500

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We currently do not use derivative financial instruments. Cash and cash equivalents consist of highly liquid financial instruments, primarily cash, money market funds and short term U.S. Government obligations, purchased with an original maturity of three months or less. Interest income on our income statement is included in "Other Income."

As of September 30, 2002, the Company had no borrowings and is, therefore, not subject to interest rate risks related to debt instruments.

Item 4. Procedures and Controls

Within the 90 days prior to 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 the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material legal proceedings.

Item 2. Changes in Securities and Use of Proceeds.

- (a) None.
- (b) None.
- (c) None.
- (d) Use of Proceeds.

On May 24, 2002, we completed an initial public offering of 3,000,000 shares of our common stock, \$0.001 par value per share. The managing underwriters were Morgan Keegan & Company, Inc. and Raymond James & Associates, Inc. The shares of common stock sold in the offering were registered under the Securities Act of 1933, as amended, on a Registration Statement on Form S-1 (Registration No. 333-84726) that was declared effective by the Securities and Exchange Commission on May 20, 2002. All 3,000,000 shares of common stock registered under the Registration Statement, plus 450,000 shares of common stock covered by an over-allotment option granted to the underwriters, were sold to the public at a price of \$16.50 per share. Of the shares offered, 1,200,000 shares were sold by the Company, and 1,800,000 shares (plus the 450,000 over-allotment option shares) were sold by certain stockholders. The amount of aggregate gross proceeds from the shares of common stock sold by us was \$19.8 million. The net proceeds to us from the offering were approximately \$16.9 million after deducting the underwriting discount of \$1.4 million and \$1.5 million in other expenses incurred in connection with the offering.

Of the net proceeds received by us from the offering, we used \$0.7 million to retire debt on our land, and we paid \$12.8 million to our pre-IPO stockholders in connection with the distribution of previously taxed S corporation income. We have invested the remainder of the proceeds in short-term, investment-grade, interest bearing instruments. We expect to use these proceeds to fund an additional distribution to our pre-IPO stockholders of previously taxed S corporation income in the approximate amount of \$1.3 million and for other general corporate purposes. Other than the S corporation distribution, none of our proceeds from the offering (and no offering expenses) have been paid, directly or indirectly, to any of our officers or directors or any of their associates, or to any persons owning ten percent or more of our outstanding common stock.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

- 10.1 Form of Indemnity Agreement entered into by the Company and each of its non-employee directors
- 99.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 200

(b) The Company filed no reports on Form 8-K during the quarter ended September 30, 2002.

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SIGNATURE

Pursuant to the requirements 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.

C O M P U T E R P R O G R A M S A N D S Y S T E M S , I N C .

By: /s/ D A V I D A. D Y E

David A. Dye
President and Chief Executive Officer

Date: October 31, 2002

By: /s/ M. S T E P H E N W A L K E R

M. Stephen Walker
Vice President—Finance and
Chief Financial Officer

Date: October 31, 2002

**CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT RULE 13A-14**

I, David A. Dye, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Computer Programs and Systems, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ DAVID A. DYE

David A. Dye
President and Chief Executive Officer

Date: October 31, 2002

**CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT RULE 13A-14**

I, M. Stephen Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Computer Programs and Systems, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ M. S TEPHEN W ALKER

M. Stephen Walker
Vice President—Finance and
Chief Financial Officer

Date: October 31, 2002

EXHIBIT INDEX

<u>No.</u>	<u>Exhibit</u>
10.1	Form of Indemnity Agreement entered into by the Company and each of its non-employee directors
99.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**FORM OF
INDEMNITY AGREEMENT**

This Indemnity Agreement (this “Agreement”), dated as of _____, 2002, is made by and between **COMPUTER PROGRAMS AND SYSTEMS, INC.**, a Delaware corporation (the “Company”), and _____, a non-employee director of the Company (the “Indemnitee”).

RECITALS

A. The Company is aware that competent and experienced persons are increasingly reluctant to serve as directors of corporations of which they are not employees unless they are protected by indemnification, due to increased exposure to litigation costs and risks resulting from their service to such corporations, and due to the fact that the exposure frequently bears no reasonable relationship to the compensation of such non-employee directors;

B. Based on their experience as business managers, the Board of Directors of the Company (the “Board”) has concluded that, to retain and attract talented and experienced individuals to serve as directors of the Company, and to encourage such individuals to take the business risks necessary for the success of the Company, it is necessary for the Company contractually to indemnify the Company’s non-employee directors and to assume for itself maximum liability for expenses and damages in connection with claims against such directors in connection with their service to the Company;

C. Section 145 of the General Corporation Law of Delaware, under which the Company is organized (the “Law”), empowers the Company to indemnify by agreement its directors, and expressly provides that the indemnification provided by the Law is not exclusive; and

D. The Company desires and has requested the Indemnitee to serve or continue to serve as a director of the Company free from undue concern for claims for damages arising out of or related to such services to the Company.

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions.

1.1 *Expenses*. For purposes of this Agreement, “expenses” includes all direct and indirect costs of any type or nature whatsoever (including, without limitation, all attorneys’ fees and related disbursements and other out-of-pocket costs) actually and reasonably incurred by the Indemnitee in connection with the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification or advancement of expenses under this Agreement.

1.2 *Proceeding* . For the purposes of this Agreement, “proceeding” means any threatened, pending or completed action, suit or other proceeding, whether civil, criminal, administrative, investigative or any other type whatsoever.

2. Agreement to Serve . The Indemnitee agrees to continue to serve as a director of the Company, at the will of the Company, faithfully and to the best of his ability, so long as he is duly appointed or elected and qualified in accordance with the applicable provisions of the Certificate of Incorporation and Bylaws of the Company, as amended from time to time; provided, however, that the Indemnitee may at any time and for any reason resign from such position, and the Company shall have no obligation under this Agreement to continue to allow the Indemnitee to serve in any such position.

3. Mandatory Indemnification . Subject to Section 8 below, the Company shall indemnify the Indemnitee as provided herein.

3.1 *Third Party Actions* . If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Company) by reason of the fact that he is or was a director and/or an agent of the Company, or by reason of anything done or not done by him in any such capacity, against any and all expenses and liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred by him in connection with the investigation, defense, settlement or appeal of such proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

3.2 *Derivative Actions* . If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that he is or was a director and/or an agent of the Company, or by reason of anything done or not done by him in any such capacity, against any amounts paid in settlement of any such proceeding and all expenses actually and reasonably incurred by him in connection with the investigation, defense, settlement or appeal of such proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company; except that no indemnification under this subsection shall be made in respect of any claim, issue or matter as to which such person shall have been finally adjudged to be liable to the Company by a court of competent jurisdiction, unless and only to the extent that the court in which such proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such amounts which such court shall deem proper.

4. Partial Indemnification and Contribution.

4.1 *Partial Indemnification* . If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) incurred by him in the investigation, defense, settlement or appeal of a proceeding but is not entitled, however, to indemnification for all of the total amount thereof, then the Company shall nevertheless indemnify the Indemnitee for such total amount except as to the portion thereof to which the Indemnitee is not entitled to indemnification.

4.2 *Contribution* . If the Indemnitee is not entitled to the indemnification provided in Section 3 for any reason other than the statutory limitations set forth in the Law, then in respect of any threatened, pending or completed proceeding in which the Company is jointly liable with the Indemnitee (or would be if joined in such proceeding), the Company shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by the Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and the Indemnitee on the other hand from the transaction from which such proceeding arose and (ii) the relative fault of the Company on the one hand and of the Indemnitee on the other hand in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Indemnitee on the other hand shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

5. Mandatory Advancement of Expenses . Subject to Section 8 below, the Company shall advance all expenses incurred by the Indemnitee in connection with the investigation, defense, settlement or appeal of any proceeding to which the Indemnitee is a party or is threatened to be made a party by reason of the fact that the Indemnitee is or was a director and/or an agent of the Company or by reason of anything done or not done by him in any such capacity. The Indemnitee hereby undertakes to promptly repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Company under the provisions of this Agreement, the Certificate of Incorporation or Bylaws of the Company, the Law or otherwise. The advances to be made hereunder shall be paid by the Company to the Indemnitee within twenty (20) days following delivery of a written request therefor by the Indemnitee to the Company.

6. Notice and Other Indemnification Procedures.

6.1 Promptly after receipt by the Indemnitee of notice of the commencement of or the threat of commencement of any proceeding, the Indemnitee shall, if the Indemnitee believes that indemnification with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or threat of commencement thereof.

6.2 If, at the time of the receipt of a notice of the commencement of a proceeding pursuant to Section 6.1 hereof, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such D&O Insurance policies.

6.3 In the event the Company shall be obligated to advance the expenses for any proceeding against the Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel approved by the Indemnitee (which approval shall not be unreasonably withheld), upon the delivery to the Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by the Indemnitee and the retention of such counsel by the Company, the Company will not be liable to the Indemnitee under this Agreement for any fees of counsel subsequently incurred by the Indemnitee with respect to the same proceeding, provided that: (a) the Indemnitee shall have the right to employ his own counsel in any such proceeding at the Indemnitee's expense; (b) the Indemnitee shall have the right to employ his own counsel in connection with any such proceeding, at the expense of the Company, if such counsel serves in a review, observer, advice and counseling capacity and does not otherwise materially control or participate in the defense of such proceeding; and (c) if (i) the employment of counsel by the Indemnitee has been previously authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of the Indemnitee's counsel shall be at the expense of the Company.

7. Determination of Right to Indemnification.

7.1 To the extent the Indemnitee has been successful on the merits or otherwise in defense of any proceeding referred to in Section 3.1 or 3.2 of this Agreement or in the defense of any claim, issue or matter described therein, the Company shall indemnify the Indemnitee against expenses actually and reasonably incurred by him in connection with the investigation, defense or appeal of such proceeding, or such claim, issue or matter, as the case may be.

7.2 In the event that Section 7.1 is inapplicable, or does not apply to the entire proceeding, the Company shall nonetheless indemnify the Indemnitee unless the Company shall prove by clear and convincing evidence to a forum listed in Section 7.3 below that the Indemnitee has not met the applicable standard of conduct required to entitle the Indemnitee to such indemnification.

7.3 The Indemnitee shall be entitled to select the forum in which the validity of the Company's claim under Section 7.2 hereof that the Indemnitee is not entitled to indemnification will be heard from among the following:

- (a) A quorum of the Board consisting of directors who are not parties to the proceeding for which indemnification is being sought;
- (b) Legal counsel mutually agreed upon by the Indemnitee and the Board, which counsel shall make such determination in a written opinion;
- (c) A panel of three arbitrators, one of whom is selected by the Company, another of whom is selected by the Indemnitee and the last of whom is selected by the first two arbitrators so selected; or
- (d) Any court having jurisdiction of subject matter and the parties.

7.4 As soon as practicable, and in no event later than thirty (30) days after the forum has been selected pursuant to Section 7.3 above, the Company shall, at its own expense, submit to the selected forum its claim that the Indemnitee is not entitled to indemnification, and the Company shall act in the utmost good faith to assure the Indemnitee a complete opportunity to defend against such claim.

7.5 If the forum selected in accordance with Section 7.3 hereof is not a court, then after the final decision of such forum is rendered, the Company or the Indemnitee shall have the right to apply to the court having jurisdiction of subject matter and the parties, the court in which the proceeding giving rise to the Indemnitee's claim for indemnification is or was pending or any other court of competent jurisdiction, for the purpose of appealing the decision of such forum, provided that such right is executed within sixty (60) days after the final decision of such forum is rendered. If the forum selected in accordance with Section 7.3 hereof is a court, then the rights of the Company or the Indemnitee to appeal any decision of such court shall be governed by the applicable laws and rules governing appeals of the decision of such court.

7.6 Notwithstanding any other provision in this Agreement to the contrary, the Company shall indemnify the Indemnitee against all expenses incurred by the Indemnitee in connection with any hearing or proceeding under this Section 7 involving the Indemnitee and against all expenses incurred by the Indemnitee in connection with any other proceeding between the Company and the Indemnitee involving the interpretation or enforcement of the rights of the Indemnitee under this Agreement unless a court of

competent jurisdiction finds that each of the material claims and/or defenses of the Indemnitee in any such proceeding was frivolous or not made in good faith.

8. Exceptions . Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement in connection with the following:

8.1 *Claims Initiated by Indemnitee .* To indemnify or advance expenses to the Indemnitee with respect to proceedings or claims initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to proceedings specifically authorized by the Board or brought to establish or enforce a right to indemnification and/or advancement of expenses arising under this Agreement, the charter documents of the Company or any statute or law or otherwise, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board finds it to be appropriate; or

8.2 *Unauthorized Settlements .* To indemnify the Indemnitee hereunder for any amounts paid in settlement of a proceeding unless the Company consents in advance in writing to such settlement, which consent shall not be unreasonably withheld; or

8.3 *Securities Law Actions .* To indemnify the Indemnitee on account of any suit in which judgment is rendered against the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; or

8.4 *Unlawful Indemnification .* To indemnify the Indemnitee if a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful. In this respect, the Company and the Indemnitee have been advised that the Securities and Exchange Commission takes the position that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication.

9. Non-Exclusivity . The provisions for indemnification and advancement of expenses set forth in this Agreement shall not be deemed exclusive of any other rights which the Indemnitee may have under any provision of law, the Company's Certificate of Incorporation or Bylaws, the vote of the Company's stockholders or disinterested directors, other agreements or otherwise, both as to action in the Indemnitee's official capacity and to action in another capacity while occupying his position as a director and/or an agent of the Company, and the Indemnitee's rights hereunder shall continue after the Indemnitee has ceased acting as a director and/or an agent of the Company and shall inure to the benefit of the heirs, executors and administrators of the Indemnitee.

10. General Provisions.

10.1 *Interpretation of Agreement* . It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification and advancement of expenses to the Indemnitee to the fullest extent now or hereafter permitted by law, except as expressly limited herein.

10.2 *Severability* . If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, then: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable and to give effect to Section 10.1 hereof.

10.3 *Modification and Waiver* . No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

10.4 *Subrogation* . In the event of full payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all documents required and shall do all acts that may be necessary or desirable to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

10.5 *Counterparts* . This Agreement may be executed in one or more counterparts, which shall together constitute one agreement.

10.6 *Successors and Assigns* . The terms of this Agreement shall bind, and shall inure to the benefit of, the successors and assigns of the parties hereto.

10.7 *Notice* . All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given: (a) if delivered by hand and signed for by the party addressee; or (b) if mailed by certified or registered mail, with postage prepaid, on the third business day after the mailing date. The address for notice to the Company shall be 6600 Wall Street, Mobile, Alabama 36695, and the address for notice to the Indemnitee is as shown on the signature page of this Agreement, which addresses may be subsequently modified by written notice by either party.

10.8 *Governing Law* . This Agreement shall be governed exclusively by and construed according to the laws of the State of Delaware.

10.9 *Attorneys' Fees* . In the event Indemnitee is required to bring any action to enforce rights under this Agreement (including, without limitation, the expenses of any Proceeding described in Section 3), the Indemnitee shall be entitled to all reasonable fees and expenses in bringing and pursuing such action, unless a court of competent jurisdiction finds each of the material claims of the Indemnitee in any such action was frivolous and not made in good faith.

10.10 *Insurance* . The indemnity and advancement of expenses obligations of the Company contained in this Agreement shall apply only to the extent that an Indemnitee has not been reimbursed pursuant to any insurance policy the Company may maintain from time to time for the Indemnitee's benefit, or otherwise.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have entered into this Indemnity Agreement effective as of the date first written above.

Company:

C O M P U T E R P R O G R A M S A N D S Y S T E M S , I N C .

By: _____

Name: _____

Its: _____

Indemnitee:

Signature: _____

Print Name: _____

Exhibit 99.1

**CERTIFICATION 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 Quarterly Report of Computer Programs and Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Dye, President and Chief Executive Officer of the Company, certify, 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;

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is incorporated solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose.

By: /s/ D AVID A. D YE

David A. Dye
President and Chief Executive Officer

Date: October 31, 2002

Exhibit 99.2

**CERTIFICATION 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 Quarterly Report of Computer Programs and Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Stephen Walker, Vice President-Finance and Chief Financial Officer of the Company, certify, 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;

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is incorporated solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose.

By: /s/ M. S TEPHEN W ALKER

M. Stephen Walker
Vice President—Finance and

Date: October 31, 2002

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