

COMPUTER PROGRAMS & SYSTEMS INC

Form DEF 14A

March 31, 2011

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

**(Amendment No.    )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**Computer Programs and Systems, Inc.**

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

Table of Contents

x No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

March 31, 2011

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

You are invited to attend the 2011 Annual Meeting of Stockholders of Computer Programs and Systems, Inc. (the Company), which will be held at the Mobile Convention Center, One South Water Street, Mobile, Alabama 36602, on Thursday, May 5, 2011 at 9:00 a.m., Central Time. Formal notice of the annual meeting, a proxy statement and a proxy card accompany this letter.

Also enclosed is the Company's 2010 Annual Report to Stockholders.

Information about the annual meeting and the various matters on which the stockholders will act is included in the enclosed notice of annual meeting of stockholders and proxy statement. Please carefully consider the enclosed proxy statement and execute and return your proxy card so that the Company may be assured of the presence of a quorum at the annual meeting. A self-addressed, postage-prepaid envelope is enclosed for your convenience in replying. The prompt return of your proxy card will be of great assistance in reducing the expense of subsequent mailings. If you attend the annual meeting, and so elect, you may withdraw your proxy and vote in person.

Sincerely,

David A. Dye

*Chairman of the Board*

**Table of Contents**

**COMPUTER PROGRAMS AND SYSTEMS, INC.**

**6600 Wall Street**

**Mobile, Alabama 36695**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD THURSDAY, MAY 5, 2011**

**To Our Stockholders:**

NOTICE IS HEREBY GIVEN that the 2011 Annual Meeting of Stockholders of Computer Programs and Systems, Inc. (the Company) will be held at 9:00 a.m., Central Time, on Thursday, May 5, 2011, at the Mobile Convention Center, One South Water Street, Mobile, Alabama 36602. Directions to attend the annual meeting where you may vote in person can be found on our website at <http://www.cpsinet.com/annualmeeting/>. The annual meeting is being held for the following purposes:

1. To elect two Class III directors to serve on the Board of Directors of the Company for a three-year term expiring at the 2014 annual meeting;
2. To ratify the appointment of Grant Thornton LLP as independent registered public accountants for the year ending December 31, 2011;
3. To hold a non-binding advisory vote on the compensation of our named executive officers;
4. To hold a non-binding advisory vote on the frequency of future executive compensation advisory votes; and
5. To transact such other business as may properly come before the annual meeting or any adjournment thereof.

The Board of Directors has set March 21, 2011 as the record date for the annual meeting. Only holders of record of the Company's common stock at the close of business on the record date will be entitled to notice of, and to vote at, the annual meeting.

This proxy statement provides you with detailed information about the proposals to be voted on at the meeting. With this proxy statement we are also including a copy of our 2010 Annual Report to Stockholders in order to provide you with additional information about us. We encourage you to read the proxy statement and the 2010 Annual Report carefully.

The annual meeting may be adjourned from time to time without notice other than announcement at the meeting or at adjournments thereof, and any business for which notice is hereby given may be transacted at any such adjournment.

By order of the Board of Directors,

David A. Dye

*Chief Financial Officer and Secretary*

March 31, 2011

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 5, 2011: THIS PROXY STATEMENT AND THE ACCOMPANYING 2010 ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT <http://www.cpsinet.com/annualmeeting/>.**

**Whether or not you plan to attend the annual meeting, please take the time to vote by completing, signing, dating and returning the enclosed proxy card in the self-addressed, postage-prepaid envelope provided. Returning your proxy card does not deprive you of your right to attend the annual meeting and to vote your shares in person.**

**Table of Contents**

**PROXY STATEMENT**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Information about the Annual Meeting</u></b>	1
<u>Solicitation of Proxies</u>	1
<u>Stockholders Entitled to Vote</u>	1
<u>Proposals to be Considered at the Annual Meeting</u>	1
<u>Information About a Quorum</u>	1
<u>Votes Necessary for Each Proposal to be Approved</u>	2
<u>Abstentions</u>	2
<u>Voting Shares Held in Street Name; Effect of Broker Non-Votes</u>	2
<u>Submission of Proxies</u>	3
<b><u>Proposal 1: Election of Class III Directors</u></b>	4
<u>Board Structure</u>	4
<u>Voting of Proxies</u>	4
<u>Information About the Nominees and Other Directors</u>	4
<b><u>Corporate Governance and Board Matters</u></b>	7
<u>Governance Guidelines</u>	7
<u>Director Independence</u>	7
<u>Company Leadership Structure</u>	8
<u>Risk Oversight</u>	9
<u>Board Structure and Committees</u>	9
<u>Consideration of Director Nominees</u>	11
<u>Stockholder Communications with the Board</u>	13
<u>Executive Sessions</u>	13
<u>Compensation Committee Interlocks and Insider Participation</u>	13
<b><u>Executive Compensation and Other Information</u></b>	14
<u>Compensation Discussion and Analysis</u>	14
<u>Compensation Committee Report</u>	18
<u>Summary Compensation Table</u>	19
<u>Grants of Plan Based Awards in 2010</u>	21
<u>Outstanding Equity Awards at 2010 Fiscal Year-End</u>	21
<u>Option Exercises and Stock Vested in 2010</u>	21
<u>Pension Benefits</u>	22
<u>Nonqualified Deferred Compensation</u>	22
<u>Potential Payments upon Termination or Change in Control</u>	22
<u>Non-Management Director Compensation for 2010</u>	24
<b><u>Security Ownership of Certain Beneficial Owners and Management</u></b>	25
<b><u>Section 16(a) Beneficial Ownership Reporting Compliance</u></b>	27
<b><u>Certain Relationships and Related Person Transactions</u></b>	28
<b><u>Report of the Audit Committee</u></b>	29
<b><u>Proposal 2: Ratification of Appointment of Independent Registered Public Accountants</u></b>	30
<u>General</u>	30
<u>Fees Paid to Grant Thornton LLP</u>	30
<u>Pre-Approval Policy</u>	31
<u>Vote Required; Board Recommendation</u>	31
<b><u>Proposal 3: Advisory Vote on Executive Compensation</u></b>	32
<b><u>Proposal 4: Advisory Vote on Frequency of Say-on-Pay Vote</u></b>	33
<b><u>Other Matters</u></b>	34

**Deadline for Stockholder Proposals**



**Table of Contents**

**COMPUTER PROGRAMS AND SYSTEMS, INC.**

**6600 Wall Street**

**Mobile, Alabama 36695**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD THURSDAY, MAY 5, 2011**

**INFORMATION ABOUT THE ANNUAL MEETING**

Our 2011 Annual Meeting of Stockholders will be held at the Mobile Convention Center, One South Water Street, Mobile, Alabama 36602 on Thursday, May 5, 2011 at 9:00 a.m., Central Time.

**Solicitation of Proxies**

Our Board of Directors has sent you this proxy statement to solicit your vote at the annual meeting (including any adjournment or postponement of the annual meeting). In this proxy statement we summarize information that we are required to provide you under the rules of the Securities and Exchange Commission. This proxy statement is designed to assist you in voting your shares. On or about March 31, 2011, we began mailing this proxy statement and the 2010 Annual Report to all stockholders of record at the close of business on March 21, 2011.

We will bear the cost of the solicitation of proxies. We will request brokers or nominees to forward this proxy statement to their customers and principals and will reimburse them for expenses so incurred. If deemed necessary, we may also use our officers and regular employees, without additional compensation, to solicit proxies personally or by telephone.

**Stockholders Entitled to Vote**

The Board of Directors has set March 21, 2011 as the record date for the annual meeting. Only stockholders of record at the close of business on the record date will be entitled to notice of and to vote at the annual meeting. At the close of business on March 21, 2011, there were 10,962,874 shares of the common stock of the Company, par value \$.001 per share, outstanding. Each stockholder is entitled to one vote in person or by proxy for each share of common stock held on all matters properly to come before the annual meeting.

**Proposals to be Considered at the Annual Meeting**

At the annual meeting, we will ask you to:

- Proposal 1: Elect two Class III directors to serve on the Board of Directors of the Company for a three-year term expiring at the 2014 annual meeting;
- Proposal 2: Ratify the appointment of Grant Thornton LLP as independent registered public accountants for the year ending December 31, 2011;
- Proposal 3: Hold a non-binding advisory vote on the compensation of our named executive officers; and

Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form DEF 14A

Proposal 4: Hold a non-binding advisory vote on the frequency of future executive compensation advisory votes.

**Information About a Quorum**

At the annual meeting, the presence of a majority of the shares of common stock entitled to vote, represented in person or by proxy, shall constitute a quorum for the transaction of business. If a quorum is not

## Table of Contents

present or if we decide that more time is necessary for the solicitation of proxies, we may adjourn the annual meeting. We may do this with or without a stockholder vote. Alternatively, if the stockholders vote to adjourn the meeting in accordance with the Company's Bylaws, the named proxies will vote all shares of common stock for which they have voting authority in favor of adjournment.

### **Votes Necessary for Each Proposal to be Approved**

Assuming the presence of a quorum, the two Class III director nominees receiving the most votes, whether cast in person or by proxy, will be elected (Proposal 1). Proposal 2 (ratification of auditors) requires for adoption the affirmative vote of the holders of a majority of shares of common stock present in person or represented by proxy and entitled to vote on the proposal at the annual meeting. Proposals 3 and 4 are non-binding advisory votes regarding executive compensation. Proposal 3 (advisory vote on executive compensation) requires for adoption the affirmative vote of the holders of a majority of shares of common stock present in person or represented by proxy and entitled to vote on the proposal at the annual meeting. Although there is no voting standard directly applicable to Proposal 4 (advisory vote on the frequency of future voting on executive compensation), the option of every three years, every two years or every year that receives the highest number of votes cast will be considered the frequency that has been approved by stockholders on an advisory basis.

Following the annual meeting, we will file a Form 8-K with the Securities and Exchange Commission disclosing the results of voting on each proposal as required by applicable rules.

### **Abstentions**

A stockholder may abstain or withhold his or her vote (collectively, abstentions) with respect to each item submitted for stockholder approval. Abstentions will be counted as present for purposes of determining the existence of a quorum at the annual meeting. Abstentions will not affect the outcome of the election of directors (Proposal 1) or the non-binding advisory vote on the frequency of future voting on executive compensation (Proposal 4). However, an abstention as to the ratification of the appointment of independent registered public accountants (Proposal 2) and as to the non-binding advisory vote on executive compensation (Proposal 3) will have the same effect as a vote against these proposals.

### **Voting Shares Held in Street Name; Effect of Broker Non-Votes**

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker, bank or other nominee who is considered the shareholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and are also invited to attend the annual meeting. Your broker, bank or other nominee has enclosed a voting instruction card for you to use in directing the broker, bank or nominee regarding how to vote your shares.

In the past, if you held your shares in street name and you did not indicate how you wanted your shares to be voted in the election of directors, your broker or other nominee was allowed to vote those shares on your behalf in the election of directors as they felt appropriate. Recent regulatory changes, effective January 1, 2010, have taken away the ability of your broker or other nominee to vote your uninstructed shares in the election of directors on a discretionary basis. Similarly, if you do not direct your broker or other nominee as to how to vote with respect to the executive compensation matters (Proposals 3 and 4), your broker or other nominee may not vote on these matters. If you hold your shares in street name and do not instruct your broker or other nominee on how to vote in the election of directors or with respect to the executive compensation matters, your shares will not be voted for any director nominee or on any other proposal on which your broker does not have discretionary authority (resulting in a broker non-vote). **Accordingly, if you hold your shares in street name, it is critical that you return the voting instruction card if you want your votes counted in the election of directors (Proposal 1) and with respect to the non-binding, advisory votes relating to executive compensation (Proposals 3 and 4).**

**Table of Contents**

Broker non-votes are counted for general quorum purposes but are not entitled to vote with respect to any matter for which a broker does not have discretionary authority to vote. Broker non-votes will have no effect on the election of directors (Proposal 1), or in determining the outcome of the non-binding advisory votes regarding executive compensation (Proposals 3 and 4). Because your broker or other nominee has discretion to vote any uninstructed shares on the ratification of the appointment of independent registered public accountants (Proposal 2), there should not be any broker non-votes with respect to this item.

**Submission of Proxies**

Please complete, sign, date and return the proxy card in the enclosed self-addressed, pre-paid envelope so that the common stock you own will be voted in accordance with your wishes. If you desire to revoke your proxy, you may do so either by attending the annual meeting in person or by delivering written notice of revocation so that it is received by the Company or its transfer agent, American Stock Transfer & Trust Company, LLC, on or before May 4, 2011. The address for American Stock Transfer & Trust Company is as follows:

American Stock Transfer & Trust Co., LLC

Operations Center

6201 15<sup>th</sup> Avenue

Brooklyn, New York 11219

**Unless instructed to the contrary, the shares represented by the proxies will be voted FOR Proposals 1, 2 and 3 and for EVERY THREE YEARS on Proposal 4.**

**Table of Contents**

**PROPOSAL 1**

**ELECTION OF CLASS III DIRECTORS**

**Board Structure**

Our Certificate of Incorporation provides that the number of directors of the Company shall be fixed by resolution of the Board of Directors and divided into three classes. We currently have seven directors. Directors in each class are elected for three-year terms. The current term of the Class III directors expires at the 2011 annual meeting. The current Class I directors will serve until the 2012 annual meeting and until their successors have been elected and qualified. The current Class II directors will serve until the 2013 annual meeting and until their successors have been elected and qualified.

The Board of Directors has nominated Ernest F. Ladd, III and David A. Dye for election as Class III directors to serve a three-year term until the 2014 annual meeting of stockholders and until their successors have been elected and qualified.

**Voting of Proxies**

Unless a shareholder instructs otherwise on the enclosed proxy card, it is intended that the shares represented by properly signed proxies in the accompanying form will be voted for the persons nominated by the Board of Directors. The Board of Directors anticipates that the nominees listed below will be able to serve, but if either of the nominees should be unable or unwilling to serve, the proxies will be voted for a substitute selected by the Board of Directors, or the Board of Directors may decide not to select an additional person as a director.

Unless otherwise specified in the enclosed proxy card, it is intended that votes will be cast for the election of Ernest F. Ladd, III and David A. Dye as Class III directors. Proxies cannot be voted for a greater number of persons than the number of actual nominees so named. Vacancies that occur on the Board of Directors may be filled by remaining directors until the next election of directors for the class in which the vacancy occurred.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE CLASS III DIRECTOR NOMINEES NAMED ABOVE.**

**Information About the Nominees and Other Directors**

The biographies of each of the nominees and our other directors below contain information regarding such person's service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and, with respect to the nominees and the continuing directors, the experiences, qualifications, attributes or skills that caused the Board of Directors to determine that the person should serve as a director. Each of the nominees currently serves as a director of the Company. The stock ownership with respect to each director and nominee for director is set forth in the table entitled **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**.

***Nominees for Election Terms To Expire in 2014***

**Ernest F. Ladd, III**, 70, was first elected as a director in February 2002. From 1979 until his retirement in 1997, Mr. Ladd was employed by Dravo Corporation, a national producer and marketer of chemical products, serving most recently as its Executive Vice President, Finance and Administration from 1989 until 1994 and as its Executive Vice President, Chief Financial Officer from 1994 until his retirement in 1997. From April 1984 until April 2006, Mr. Ladd was a director of Regions Bank of Mobile, an operating division of Regions Bank, which is a subsidiary of Regions Financial Corporation. Mr. Ladd currently serves as a senior advisor to Taylor Companies, a private investment bank. Mr. Ladd is chairman of the Audit Committee of the Board of Directors.

## **Table of Contents**

Mr. Ladd's experience as the principal financial officer of Dravo Corporation, which was a public company until 1998, as well as his business experiences with Regions Bank and Taylor Companies, give him a wide range of accounting, financial, capital markets and executive management experience and skills, which adds valuable expertise and insight to the Board.

**David A. Dye**, 41, has been a director since March 2002, was appointed as Chairman of the Board of Directors in May 2006, and has served as Vice President-Finance, Chief Financial Officer and Secretary since July 2, 2010. Mr. Dye began his career with CPSI in May 1990 as a Financial Software Support Representative. From that time until June 1999, he worked for CPSI in various capacities, including as Manager of Financial Software Support, Director of Information Technology and then as CPSI's Vice President supervising the areas of sales, marketing and information technology. Mr. Dye served as CPSI's President and Chief Executive Officer from July 1999 until May 2006, at which time he was appointed Chairman of the Board. Beginning in July 2006, Mr. Dye became a partner with Bulow Biotech Prosthetics, a company located in Clarksville, Tennessee that operates prosthetic clinics in the Southeastern United States. Mr. Dye was appointed to the positions of Vice President-Finance and Chief Financial Officer of CPSI on an interim basis on June 30, 2010 and has occupied those positions on a permanent basis since February 25, 2011. Mr. Dye has been employed by CPSI for more than 16 years in a number of positions and areas and has served in senior executive positions for over 10 years, including as Chief Executive Officer for seven years, providing him with extensive knowledge of CPSI's operations.

### ***Class II Continuing Directors Terms Expire in 2013***

**J. Boyd Douglas**, 44, has served as CPSI's President and Chief Executive Officer since May 2006. He was first elected as a director in March 2002. Mr. Douglas began his career with us in August 1988 as a Financial Software Support Representative. From May 1990 until November 1994, Mr. Douglas served as Manager of Electronic Billing, and from December 1994 until June 1999, he held the position of Director of Programming Services. From July 1999 until May 2006, Mr. Douglas served as CPSI's Executive Vice President and Chief Operating Officer. Mr. Douglas has been employed by CPSI for more than 20 years in a number of positions and areas and has served in senior executive positions for over 10 years, providing him with intimate knowledge of CPSI's operations and the healthcare industry.

**Charles P. Huffman**, 57, was first elected as a director at the 2004 annual meeting. From August 2007 until his retirement in November 2008, Mr. Huffman served as Executive Vice President and Chief Financial Officer of EnergySouth, Inc., a public company specializing in natural gas distribution and storage. From December 2000 to July 2007, Mr. Huffman served as the Senior Vice President and Chief Financial Officer of EnergySouth, Inc. Mr. Huffman brings more than 28 years of experience as an officer of a public company, EnergySouth, Inc., including serving as the principal financial and accounting officer, which gives him a wide range of accounting, financial, capital markets and executive management experience that contributes greatly to the composition of the Board.

### ***Class I Continuing Directors Terms Expire in 2012***

**William R. Seifert, II**, 62, was first elected as a director in February 2002. From 1994 through November 2006, Mr. Seifert served as Executive Vice President of AmSouth Bank. From the closing of the merger of AmSouth Bank and Regions Bank in November 2006 until June 2009, Mr. Seifert served as Executive Vice President of Regions Bank, which is a subsidiary of Regions Financial Corporation. He has held the position of Chairman of the South Alabama Advisory Board of Regions Bank since November 2006. During Mr. Seifert's forty year career in banking and financial services, he has served in numerous leadership roles, including with Regions Bank and its predecessor banks. Mr. Seifert's extensive leadership and banking expertise adds valuable insight to the Board.

**Table of Contents**

**W. Austin Mulherin, III**, 45, was first elected as a director in February 2002. Since 1991, Mr. Mulherin has practiced law, handling a variety of litigation and business matters for public and private companies. He has been a partner in the law firm of Frazer, Greene, Upchurch & Baker, LLC since 1998. Mr. Mulherin's 20 years of experience as a practicing attorney, during which period he has advised a number of public companies on a variety of issues, provides a unique and valuable perspective to the Board. Additionally, Mr. Mulherin served on the board of directors of the predecessor company to CPSI (predating CPSI's initial public offering in 2002) and has extensive knowledge of CPSI and its operations.

**John C. Johnson**, 60, has been a director since 2004. Mr. Johnson has worked as a real estate appraiser for Courtney & Morris Appraisals, Inc. in Mobile, Alabama since September 2001. From December 1994 to January 1998, Mr. Johnson served as the President and Chief Operating Officer of Coopersmith, Inc., a regional wholesale bakery located in Mobile, Alabama. After chairing the transition team for the sale of Coopersmith, Inc. to Earthgrains Company from January 1998 to May 1999, Mr. Johnson retired from the bakery industry and worked for a brief time as the Business Manager of Saint Ignatius Church. Mr. Johnson is currently a director of the South Alabama Advisory Board of Regions Bank, which is a subsidiary of Regions Financial Corporation. The Board believes that Mr. Johnson's skills and professional experiences in a variety of operational and leadership roles give him a wide range of knowledge on topics important to business and contribute greatly to the Board's composition.

**Table of Contents**

**CORPORATE GOVERNANCE AND BOARD MATTERS**

**Governance Guidelines**

We are committed to having sound corporate governance principles. Having such principles is essential to running our business efficiently and to maintaining our integrity in the marketplace. The Board of Directors has adopted corporate governance guidelines that set forth the fundamental corporate governance principles of the Company in order to demonstrate the Board's accountability and its desire to achieve superior business results. We have adopted a Code of Business Conduct and Ethics that is 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 our website at [www.cpsinet.com](http://www.cpsinet.com) in the Investors' section under Corporate Governance.

**Director Independence**

Nasdaq listing standards require that the Company have a majority of independent directors. Accordingly, because our Board of Directors currently has seven members, Nasdaq requires that at least four of the directors be independent. Nasdaq's listing standards provide that no director will qualify as independent for these purposes unless the Board of Directors affirmatively determines that the director has no relationship with the Company that would interfere with the exercise of the director's independent judgment in carrying out the responsibilities of a director. Additionally, the listing standards set forth a list of relationships that would preclude a finding of independence.

The Board affirmatively determines the independence of each director and nominee for election as a director. The Board makes this determination annually. In accordance with Nasdaq's listing standards, we do not consider a director to be independent unless the Board determines (i) that no relationships exist that would preclude a finding of independence under Nasdaq listing rules and (ii) that the director has no relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) that would interfere with the exercise of the director's independent judgment in carrying out his responsibilities as a director. Members of the audit, compensation and nominating and corporate governance committees must also meet applicable independence tests of Nasdaq and the Securities and Exchange Commission.

At a meeting held on January 24, 2011, the Board of Directors reviewed a summary of directors' responses to a questionnaire asking about their relationships with the Company, as well as material provided by management related to transactions, relationships or arrangements between the Company and the directors and parties related to the directors. After deliberation, the Board determined that the five non-employee directors listed below are independent, and that all of the members of the audit, compensation and nominating and corporate governance committees also satisfy the independence tests referenced above.



**Table of Contents**

The following table describes the categories or types of transactions, relationships, or arrangements considered by the Board in reaching its determination that the following directors are independent:

<b>Name</b>	<b>Independent</b>	<b>Transactions/Relationships/Arrangements Considered</b>
Charles P. Huffman	Yes	None
John C. Johnson	Yes	Since August 2005, CPSI has paid fees to a bank and a registered broker-dealer that is affiliated with the bank for cash management services. Mr. Johnson serves as a director of an advisory board of the bank. The annual fees paid by CPSI have been less than 1% of the annual revenues of the bank or the affiliated broker-dealer.
Ernest F. Ladd, III	Yes	None
W. Austin Mulherin, III	Yes	Mr. Mulherin is a partner in a law firm that performs certain legal services for CPSI. With respect to each of the most recent three completed fiscal years, total payments by CPSI to the law firm have been less than 2% of the law firm's annual revenues.  Mr. Mulherin's brother-in-law, Matt Cole, is employed by CPSI as a sales manager. Mr. Cole is not an officer of CPSI.
William R. Seifert, II	Yes	Since August 2005, CPSI has paid fees to a bank and a registered broker-dealer that is affiliated with the bank for cash management services. Mr. Seifert serves as a director of an advisory board of the bank. The annual fees paid by CPSI have been less than 1% of the annual revenues of the bank or the affiliated broker-dealer.

**Company Leadership Structure**

The business of the Company is managed under the direction of the Board of Directors, which is elected by our stockholders. The basic responsibility of the Board is to lead CPSI by exercising its business judgment to act in what each director reasonably believes to be the best interests of CPSI and its stockholders. Leadership is important to facilitate the Board acting effectively as a working group so that CPSI and its performance may benefit. The role of the Chairman includes providing continuous feedback on the direction, performance and strategy of CPSI, presiding as Chair of Board meetings, setting the Board's agenda with management, leading the Board in anticipating and responding to opportunities and challenges faced by CPSI, and, to the extent the Chairman is independent under applicable Nasdaq listing rules, presiding as Chair of executive sessions of the independent members of the Board.

The Board does not have a policy requiring the separation or combination of the CEO and Chairman roles, but these positions have been separated since CPSI's initial public offering in 2002. However, our Chairman of the Board is not independent and is our Chief Financial Officer, a position to which he was appointed on June 30, 2010 following the termination of employment of the prior Chief Financial Officer. We have determined that this current structure is the most appropriate and effective Board leadership structure for our Company at this time based upon a number of factors, including the experience of the applicable individuals, the current business environment, the specific needs of the business and what is in the best interests of the Company's stockholders. However, the Board may reconsider the Company's leadership structure from time to time in the future based on considerations at that time.

The Company does not have a lead independent director. Given the size of the Board, the Board believes that the presence of five independent directors out of the seven directors on the Board, which independent directors sit on the Board's committees, is sufficient independent oversight of the Chief Executive Officer and the Chairman of the Board. The independent directors work well together in the current board structure, and the

## **Table of Contents**

Board does not believe that selecting a lead independent director would add significant benefits to the Board's oversight role.

### **Risk Oversight**

Our management continually monitors the material risks facing the Company, including financial risk, strategic risk, operational risk, and legal and compliance risk. The Board of Directors is responsible for exercising oversight of management's identification and management of, and planning for, those risks. The Board has delegated to certain committees oversight responsibility for those risks that are directly related to their area of focus.

The Audit Committee reviews our policies and guidelines with respect to risk assessment and risk management, including our major financial risk exposures, and oversees the steps management has taken to monitor and control those exposures. The Compensation Committee considers risk issues when establishing and administering our compensation program for executive officers and other key personnel. The Nominating and Corporate Governance Committee oversees matters relating to the composition and organization of the Board and advises the Board how its effectiveness can be improved by changes in its composition and organization.

The Board and its committees exercise their risk oversight function by carefully evaluating the reports they receive from management and by making inquiries of management with respect to areas of particular interest to the Board or committee. We believe that our leadership structure also enhances the Board's risk oversight function since our Chairman regularly discusses with management the material risks facing the Company. The Chairman is also expected to report candidly to his fellow directors on his assessment of the material risks we face, based upon the information he receives from management.

### **Board Structure and Committees**

Our Board of Directors is divided into three classes, with one class of directors being elected at each annual meeting of stockholders. Each director serves for a term of three years and until his successor is elected and qualified. The Board of Directors oversees the business and affairs of the Company and monitors the performance of its management. Although the Board of Directors is not involved in the Company's day-to-day operations, the directors keep themselves informed about the Company through meetings of the Board, reports from management and discussions with the Company's executive officers. Directors also communicate with the Company's outside advisors, as necessary. The Board of Directors met seven times in 2010.

During 2010, the Company had three standing committees of the Board of Directors: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Another standing committee of the Board, the Executive Committee, was abolished effective July 26, 2010. The Board may from time to time form other committees as circumstances warrant. Such committees will have the authority and responsibility as delegated by the Board.

Only members of the Board of Directors can be members of a committee, and each committee is required to report its actions to the full Board of Directors. The Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee each operates under a written charter adopted by the Board. Charters for each of these three committees are available on the Company's website at [www.cpsinet.com](http://www.cpsinet.com) in the Investors' section under Corporate Governance.

None of the incumbent directors attended less than 75% of the aggregate of (a) the total number of meetings of the Board of Directors and (b) the total number of meetings held by all committees of the Board of Directors on which he served. Absent extenuating circumstances, directors are expected to attend annual meetings of the Company's stockholders. All of our then current directors attended the 2010 annual meeting of stockholders, except for M. Kenny Muscat, who retired from the Board effective at the conclusion of the 2010 annual meeting.

## **Table of Contents**

The following describes the functions and sets forth the current membership of each Committee of the Board of Directors. The number of meetings that each Committee held in 2010 is also listed.

### ***Audit Committee***

The current members of the Audit Committee are Ernest F. Ladd, III, Chairman, William R. Seifert, II and Charles P. Huffman, all of whom are independent directors as defined under existing Nasdaq listing standards and SEC rules. The Audit Committee met 18 times during 2010.

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to: the financial reports and other financial information provided by the Company to its stockholders and others; the Company's financial policies and procedures; the Company's system of internal controls; and the Company's auditing, accounting and financial reporting processes. The Audit Committee is directly responsible for appointing and overseeing the independent auditor of the Company.

The Board of Directors has carefully evaluated the backgrounds of the members of the Audit Committee and has determined that such members qualify as independent under applicable Nasdaq listing standards and SEC rules for audit committee membership. Furthermore, in accordance with SEC rules, the Board has determined that Ernest F. Ladd, III and Charles P. Huffman both qualify as an audit committee financial expert as defined by the applicable SEC rules. The Report of the Audit Committee appears in this proxy statement at page 29.

### ***Compensation Committee***

The current members of the Compensation Committee are William R. Seifert, II, Chairman, W. Austin Mulherin, III and John C. Johnson. The Board of Directors has determined that each of these members is independent under the Nasdaq director independence standards. The Compensation Committee met nine times during 2010.

The Compensation Committee is authorized to approve and recommend to the Board of Directors the compensation to be paid to officers, directors and committee members of the Company. Executive compensation may include, but is not limited to, salary, bonus, stock options, other annual compensation and any combination thereof as the Compensation Committee deems appropriate in light of the performance of the Company. The Compensation Committee Report appears on page 18 of this proxy statement.

Additionally, the Compensation Committee has reviewed CPSI's compensation programs, plans and practices for all of its employees as they relate to risk management and risk-taking initiatives to ascertain if they serve to incent risks which are reasonably likely to have a material adverse effect on CPSI. As a result of this process, the Compensation Committee concluded and informed the Board of Directors that any risks arising from these programs, plans and practices are not reasonably likely to have a material adverse effect on the Company.

### ***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are W. Austin Mulherin, III, Chairman, John C. Johnson and Charles P. Huffman. The Board of Directors has determined that each of these members is independent under the Nasdaq director independence standards. The Nominating and Corporate Governance Committee met once during 2010.

The purpose of the Nominating and Corporate Governance Committee is to (a) identify individuals qualified to become members of the Board and to recommend director nominees to the Board for election by the stockholders, (b) monitor, oversee and evaluate the corporate governance principles applicable to the Company and (c) oversee the evaluation of the Board and management.

## **Table of Contents**

### **Consideration of Director Nominees**

#### ***Criteria and Diversity***

Criteria that will be used by the Nominating and Corporate Governance Committee in connection with evaluating and selecting new directors include factors relating to whether the director candidate would meet the definition of independence required by the Nasdaq listing standards, as well as skills, occupation and experience in the context of the needs of the Board. The Company's *Guidelines of Significant Governance Issues* (the Governance Guidelines) also set forth certain factors that should be considered by the Nominating and Corporate Governance Committee in recommending a nominee to the Board, including relevant experience, intelligence, independence, commitment, integrity, diligence, conflicts of interest, age, compatibility with the Company's management team and culture, prominence, understanding of the Company's business, the ability to act in the interests of all stockholders and other factors deemed relevant. The Board believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

Although neither the Board nor the Nominating and Corporate Governance Committee has a policy with regard to the consideration of diversity in identifying director nominees, the director nomination process is designed to ensure that the Board includes members with diverse backgrounds and experiences. The goal of this process is to assemble a group of Board members with deep, varied experience, sound judgment, and commitment to CPSI's success. For a discussion of the individual experiences and qualifications of our Board members, please refer to the section entitled, Proposal 1: Election of Class III Directors in this proxy statement.

#### ***Process for Identifying and Evaluating Nominees for Director***

The process that will be followed by the Nominating and Corporate Governance Committee to identify and evaluate director candidates will include requests to Board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates, and interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board. Assuming that appropriate biographical and background material is provided for candidates recommended by stockholders, the Nominating and Corporate Governance Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members.

#### ***Director Nominees Proposed by Stockholders***

The Nominating and Corporate Governance Committee will consider stockholder-recommended director candidates for inclusion in the slate of nominees that the Board recommends to the stockholders for election. In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, including candidates recommended by stockholders, the Nominating and Corporate Governance Committee will apply the selection criteria described above. The Nominating and Corporate Governance Committee will not assign specific weights to its various criteria and no particular criterion is necessarily applicable to all prospective nominees.

Stockholders may recommend to the Nominating and Corporate Governance Committee individuals to be considered as potential director candidates by submitting the following information to the Nominating and Corporate Governance Committee of Computer Programs and Systems, Inc., c/o Corporate Secretary, 6600 Wall Street, Mobile, Alabama 36695:

The name of the recommended person;

All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934;

**Table of Contents**

The written consent of the recommended person to being named in the proxy statement as a nominee and to serve as a director if elected;

As to the stockholder making the recommendation, the name and address of such stockholder, as it appears on the Company's books; provided, however, that if the stockholder is not a registered holder of the Company's common stock, the stockholder should submit his or her name and address along with a current written statement from the record holder of the shares that reflects his or her beneficial ownership of the Company's common stock; and

A statement disclosing whether such stockholder is acting with or on behalf of any other person and, if applicable, the identity of such person.

In addition to submitting nominations in advance to the Nominating and Corporate Governance Committee for consideration, a stockholder also may nominate persons for election to the Board of Directors in person at a stockholders meeting. Our Bylaws provide that written notice of a stockholder's intent to make a nomination at a stockholders meeting must be given, either by personal delivery or by United States certified mail, postage prepaid, to the Secretary of the Company and received (1) with respect to any annual meeting, not less than 120 days nor more than 150 days before the first anniversary of the date of our proxy statement in connection with the last annual meeting of stockholders, (2) if the date of the applicable annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, not less than 60 days before the date of the applicable annual meeting, or (3) with respect to any special stockholders meeting called for the election of directors, not later than the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders.

Each such stockholder's notice shall set forth:

The name and address of such stockholder, as it appears on the Company's books;

A representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to nominate the person or persons specified in the notice;

The class and number of shares of our stock beneficially owned by such stockholder and the nominee;

A description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder;

The name, age, business address and, if known, residence address of the nominee;

The principal occupation or employment of the nominee;

Any other information relating to the nominee that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the SEC; and

The written consent of the nominee to serve as a director if elected.

The chairman of the annual meeting of stockholders shall determine whether or not a nomination was made in accordance with the procedures set forth in our Bylaws. If the chairman determines that a nomination is defective, he will declare to the meeting that such nomination is defective, and the defective nomination will be disregarded.



## **Table of Contents**

### **Stockholder Communications with the Board**

The Board will give appropriate attention to written communications that are submitted by stockholders and will respond as the Board deems appropriate. Stockholders and other interested parties who wish to send communications on any topic to the Board should address such communications to:

Chairman of the Nominating and Corporate Governance Committee

of Computer Programs and Systems, Inc.

c/o Corporate Secretary

6600 Wall Street

Mobile, Alabama 36695

All communications to the Board will be relayed to the Chairman of the Nominating and Corporate Governance Committee without being screened by management. Absent unusual circumstances or as contemplated by committee charters, the Chairman of the Nominating and Corporate Governance Committee will be primarily responsible for monitoring communications from stockholders and will provide copies or summaries of such communications to the other directors as he considers appropriate. Communications will be forwarded to all directors if they relate to substantive matters and include suggestions or comments that the Chairman of the Nominating and Corporate Governance Committee considers to be important for the directors to know.

### **Executive Sessions**

Executive sessions of the independent directors of the Board are to be held at least two times a year and otherwise as needed. These sessions are chaired by an independent director selected by a majority of the independent directors.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee, which establishes the compensation of the executive officers of CPSI, during 2010 was comprised of Messrs. Seifert, Mulherin and Johnson. No member of the Committee is, or was during 2010, an executive officer of another company whose board of directors has a comparable committee on which one of our executive officers serves.

**Table of Contents**

**EXECUTIVE COMPENSATION AND OTHER INFORMATION**

**Compensation Discussion and Analysis**

***Compensation Philosophy and Objectives***

Our policy with respect to the compensation of executive officers is linked to our historical method for identifying and selecting executive officers to manage the company. Generally, we have sought to identify and promote talented individuals from within the company to become our executive officers. Specifically, those individuals hired by us who have demonstrated over time the greatest ability to successfully develop, market and manage our products and services, who have developed a comprehensive understanding of our operations and finances from the ground up, and who have exhibited strong management skills, have been promoted by the Board of Directors to the executive officer ranks. We feel that this method of selecting executive officers offers us the best chances of continuing to grow our business and of generating long-term returns for our stockholders. Our compensation philosophy is consistent with, and attempts to further, our belief that the caliber and motivation of our executive officers, and their leadership, are critical to our success.

Our compensation program is designed to motivate and retain our executive officers, to align their financial interests with those of our stockholders and to reward company performance and/or behavior that enhances stockholder returns. The elements of compensation consist of base salary and discretionary cash bonuses and equity awards. The base salaries paid to our executive officers are determined principally by the job responsibilities required by the position and the length of service of the individual in such position and at the company. Additionally, of the executive officers identified in the Summary Compensation Table on page 19 (who we refer to as our named executives), the base salaries of two of them, Victor S. Schneider and Troy D. Rosser, consist in part of commissions, which are based on the amount of profit generated by the company from its sales of new software systems, hardware and business management services.

The other elements of executive compensation consist of discretionary awards of cash bonuses and time-based equity grants. Historically, we have not adopted a regular or pre-established plan for making either cash bonuses or equity awards. Instead, they have been made on a case-by-case basis at the discretion of the Compensation Committee and the Board. Cash bonuses have been paid in circumstances where the Board believes it is appropriate to reward exceptional individual and/or company performance. Stock-based awards have been made in order to provide management with an equity interest in the company, which we believe helps to motivate them and align their financial interests with those of our stockholders. As discussed below, the Compensation Committee has recently engaged a compensation consulting firm in order to, among other things, evaluate the company's executive compensation program. As a result of this engagement and evaluation, and in an effort to further align executives' financial interests with those of our stockholders, the Compensation Committee is in the process of considering the adoption of one or more incentive plans that would provide for more structured and consistent opportunities for executives to earn performance-based compensation, including annual incentives and longer-term equity awards. We believe that our compensation program has been successful in retaining executive talent, in that all of the current named executives have been employed by the company for at least 22 years, but that it is important to continue to create incentives to ensure the retention of those executives and other employees who are critical to the success of our business.

***No Employment or Severance Agreements***

Our named executives do not have employment, severance or change-in-control agreements. Our named executives serve at the will of the Board, which enables the company to terminate their employment with discretion as to the terms of any severance arrangement. This is consistent with the company's employment and compensation philosophy.



## **Table of Contents**

### ***Oversight of Executive Compensation***

Our Compensation Committee has oversight of the executive compensation program and normally recommends to the full Board for approval the compensation paid to our executive officers. The Compensation Committee is composed of the following three non-employee members of the Board of Directors: William R. Seifert, II (Chairman), W. Austin Mulherin, III and John C. Johnson. Each of these directors has been determined by the Board of Directors to qualify as independent under applicable Nasdaq director independence standards. The members of the Compensation Committee are appointed on an annual basis by the full Board upon recommendation of the Nominating and Corporate Governance Committee.

The Compensation Committee is governed by the Compensation Committee Charter, a copy of which is available on CPSI's website at [www.cpsinet.com](http://www.cpsinet.com) in the Investors section under Corporate Governance. The Compensation Committee's primary responsibilities with respect to establishing executive compensation and administering our compensation program, as provided for in the committee's charter, include the following:

Reviewing and making recommendations to the Board regarding the compensation of the executive officers of the company;

Reviewing and making recommendations to the Board regarding our policies and procedures pertaining to director compensation;

Reviewing and making recommendations to the Board regarding executive compensation and benefit plans and programs; and

Overseeing and administering our equity-based plans.

The scope of the Compensation Committee's authority is limited by the responsibilities that are set forth in the charter. Additionally, in fulfilling its responsibilities, the Compensation Committee is permitted to delegate its authority to one or more of its members. The charter further provides the Compensation Committee with the authority to engage independent compensation consultants and legal advisers when determined by the Compensation Committee to be necessary or appropriate in carrying out its duties. The Compensation Committee has sole authority to retain and terminate any such consultant or legal adviser, including sole authority to approve the fees and other retention terms.

The Compensation Committee is required on an annual basis to review and reassess the adequacy of its charter and recommend any changes to the full Board. Any revisions to the charter are to be made by the full Board. The Compensation Committee last reviewed and assessed the adequacy of its charter on March 21, 2011.

### ***Role of Executive Officers***

Our Chief Executive Officer and Chief Financial Officer make recommendations to the Compensation Committee regarding base salaries, bonuses and equity compensation grants for the remainder of our executives. Neither the Chief Executive Officer nor the Chief Financial Officer is involved in determining his own compensation. The Compensation Committee has discretion to approve, disapprove or modify recommendations made by these executives, and then provides a recommendation regarding compensation of our executive team to the Board for its approval.

### ***Role of Compensation Consultant***

In late 2010, the Compensation Committee retained Hay Group, Inc. ( Hay Group ) as its independent compensation consultant to review, assess and provide recommendations with respect to certain aspects of the company's compensation program for executive officers and directors. In this role, Hay Group is rendering services specifically requested by the Compensation Committee, which include examining the overall pay mix for our executives, conducting a competitive assessment of our executive compensation program and making

## Table of Contents

recommendations to and advising the Compensation Committee on compensation design and levels. In this regard, Hay Group is providing advice to the Compensation Committee on structuring annual and long-term incentive arrangements for executives. In addition, Hay Group has provided advice to the Compensation Committee on the compensation elements and levels for non-employee directors.

CPSI does not have a policy that limits the other services that an executive compensation consultant can perform. However, CPSI has not engaged Hay Group for any projects other than those directed by the Compensation Committee and which have been limited to engagements involving the compensation of executives and directors. Hay Group has not performed any other services for CPSI in 2010 or 2011.

### *Elements Used to Achieve Compensation Objectives*

**Base Salaries.** Each named executive's base salary is determined principally by the responsibilities required by the executive's position, as well as the executive's length of service in a position and at our company, and also takes into account individual competence and the amount of other elements of compensation. The amount of any future increase or decrease in base salary will be considered based on the above mentioned factors and may also take into account the company's financial performance and the compensation paid by our competitors and/or other comparable-sized companies.

**Commissions.** Certain of our executive officers, including two of our current named executives—Victor S. Schneider and Troy D. Rosser—are compensated in part through the payment of commissions. The amount of commission-based compensation received by each of them is based directly on the amount of profit generated from the sales of new software systems, hardware and business management services by the company to new and existing customers. The amount of commissions earned by the named executive is included in the Salary column of the Summary Compensation Table on page 19 below.

**Bonuses.** Our bonus policy has been to pay cash bonuses only on a case-by-case basis in circumstances where the Compensation Committee and the Board believe it is appropriate to reward exceptional individual and/or company performance. The Compensation Committee reviews and recommends to the Board for approval bonuses paid to executive officers. We did not pay any cash bonuses to any of our executive officers in 2010. In an effort to further link executive compensation with the performance of the company, the Compensation Committee is in the process of considering implementing an annual incentive plan that would provide for more structured and consistent opportunities for executives to earn performance-based compensation. Our bonus structure will continue to be designed to reward individual and company performance.

**Equity Compensation.** We have made occasional grants of equity compensation to executive officers in order to provide an incentive for them to maintain their relationship with the company and to align their interests and compensation with the long-term interests of stockholders. However, at this time, we have no pre-established program or schedule for making such grants. Instead, grants have been made solely on a discretionary basis taking into account our need to incentivize management. As of the date of this proxy statement, all stock options and restricted stock awards previously granted to executive officers have fully vested. Accordingly, in order to further align the interests of executives with the long-term interests of stockholders, the Compensation Committee is considering making grants of equity awards on a more regular basis.

At the time of our initial public offering in May 2002, we awarded non-qualified stock options under our 2002 Stock Option Plan to all of our employees, including all of our then current executive officers. These options vested in May 2007 and expired in May 2009. The options did not contain any performance-based conditions to vesting. These option grants were made to permit all of our employees to participate in the ownership of the company in connection with our becoming a public company. The number of options granted was determined using a formula based on years of service to the company and then current salary. No option grants have been made since the time of our initial public offering in May 2002.

## **Table of Contents**

Beginning in 2006, the accounting treatment for stock options changed as a result of the Financial Accounting Standards Board's FASB Accounting Standards Codification Topic 718, *Compensation - Stock Compensation*, making the accounting treatment of stock options less attractive. As a result, we addressed the desirability of granting shares of restricted stock to executive officers and concluded that restricted stock would provide an equally motivating form of incentive compensation. Accordingly, in anticipation of the upcoming change in accounting for stock options, our Board of Directors, upon the Compensation Committee's recommendation, adopted the 2005 Restricted Stock Plan, which was approved by our stockholders at the 2005 annual meeting.

In 2006 we awarded restricted stock to certain of our executive officers, including all of our then current named executives, under the 2005 Restricted Stock Plan. These 2006 restricted stock grants were timed-based awards, with one-fifth of the shares vesting on January 30 of each year following the date of grant, commencing on January 30, 2007. In order to vest, the executive was required to remain employed by us as an executive on each vesting date. The size of the restricted stock awards was based on the subjective determination of the Compensation Committee, which considered each executive's importance to and tenure with the company and level of responsibility. Additionally, in determining the size of the awards, the Compensation Committee decided that the maximum number of shares of restricted stock that could vest in any one year per participant would not exceed 50% of that participant's annual base salary in effect at the date of grant. The purpose of these awards was to incentivize management to continue employment with the company and to further align their financial interests with those of our stockholders. All restricted stock grants made to date have either vested or been forfeited.

### ***Equity Grant Practices***

To date, our practice in granting restricted stock has been to determine the dollar amount of equity compensation that we want to provide the executives and then to grant a number of shares of restricted stock that have a fair market value equal to that amount on the date of grant. We determine the fair market value based on the closing price of our stock on the Nasdaq Stock Market on the date of grant. We do not select grant dates based upon the public release of material information about the Company, and the proximity of the grant date of any award to the date on which we announce such information is coincidental.

### ***Perquisites and Other Benefits***

None of our executive officers receives any perquisites. Our policy is to not provide perquisites to executives, in part because we believe that they do not effectively incentivize management to improve the financial performance of the company. Additionally, we do not maintain any pension or defined benefit plans for the benefit of our executive officers.

Our executive officers participate in the company's 401(k) plan on the same terms as all of our employees. We match employee contributions up to \$1,000 per employee per year and contribute up to another \$1,000 per employee per year depending on the profitability of the company. Senior management, including the named executive officers, also participate in our other benefit plans on the same terms as our other employees. These plans include medical and dental insurance, life insurance and long-term disability insurance.

### ***Tax and Accounting Implications***

***Tax Deductibility of Executive Compensation.*** Section 162(m) of the Internal Revenue Code generally limits the tax deductibility paid by a public company to its Chief Executive Officer and certain other executive officers to \$1 million in the year that the compensation becomes taxable to the executive. There is an exception to the limit on deductibility for performance-based compensation that meets certain requirements. To date, no executive officer of the Company has ever received compensation exceeding \$1 million in a single year. Accordingly, the Company believes that compensation paid to date has been fully deductible for federal income

**Table of Contents**

tax purposes. As part of its role, the Compensation Committee will continue to review and consider the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code when developing and implementing short- and long-term incentive arrangements. However, the Company believes it is important to preserve flexibility in administering its compensation program in a manner designed to promote varying corporate goals. Accordingly, the Company has not adopted a policy that all compensation exceeding \$1 million must qualify as deductible under Section 162(m). It is possible that amounts paid to executive officers in the future may not qualify as performance-based compensation excluded from the limitation on deductibility.

*Accounting for Stock-Based Compensation.* Beginning on January 1, 2006, the Company began accounting for stock-based compensation, including stock options granted under the 2002 Stock Option Plan and restricted stock granted under the 2005 Restricted Stock Plan, in accordance with the requirements of the FASB Accounting Standards Codification Topic 718, *Compensation - Stock Compensation*.

*Section 409A of the Internal Revenue Code ( Section 409A ).* All grants made under the 2002 Stock Option Plan and the 2005 Restricted Stock Plan are intended either not to be subject to or otherwise to comply with Section 409A.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis. Based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in CPSI's 2011 proxy statement.

The Compensation Committee:

William R. Seifert, II, *Chairman*

W. Austin Mulherin, III

John C. Johnson

**Table of Contents****Summary Compensation Table**

The table below summarizes the total compensation paid to or earned by each of the Company's named executive officers for the fiscal years ended December 31, 2010, 2009 and 2008. The Company has not entered into any employment agreements with any of the named executive officers. When setting total compensation for each of the named executive officers, the Compensation Committee reviews tally sheets which show the executive's current compensation, including equity and non-equity based compensation.

Based on the compensation reflected in the table below, Salary accounted for the following percentages of each named executive officer's total compensation in 2010: 98% for Mr. Douglas, 90% for Mr. Dye, 98% for Mr. Jones, 99% for Mr. Schneider, 99% for Mr. Rosser and 94% for Mr. West. None of the named executive officers received a bonus in 2010.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(10)	Option Awards (\$)(11)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(12)	Total (\$)
<b>J. Boyd Douglas</b> <i>President, CEO and Director</i>	2010	\$ 550,000	-0-	-0-	-0-	-0-	-0-	\$ 8,709	\$ 558,709
	2009	\$ 521,154	-0-	-0-	-0-	-0-	-0-	\$ 15,420	\$ 536,574
	2008	\$ 500,000	\$ 50,000	-0-	-0-	-0-	-0-	\$ 22,130	\$ 572,130
<b>David A. Dye (1)</b> <i>Vice President-Finance and CFO</i>	2010	\$ 84,135	-0-	-0-	-0-	-0-	-0-	\$ 9,000	\$ 93,135
<b>Michael S. Jones (2)</b> <i>Former Exec. Vice President and COO</i>	2010	\$ 400,000	-0-	-0-	-0-	-0-	-0-	\$ 7,129	\$ 407,129
	2009	\$ 400,000	-0-	-0-	-0-	-0-	-0-	\$ 12,259	\$ 412,259
	2008	\$ 400,000	-0-	-0-	-0-	-0-	-0-	\$ 17,388	\$ 417,388
<b>Victor S. Schneider</b> <i>Senior Vice President Corporate and Business Development</i>	2010	\$ 556,531(3)	-0-	-0-	-0-	-0-	-0-	\$ 5,355	\$ 561,886
	2009	\$ 442,454(4)	-0-	-0-	-0-	-0-	-0-	\$ 8,710	\$ 451,164
	2008	\$ 427,747(5)	-0-	-0-	-0-	-0-	-0-	\$ 12,066	\$ 439,813
<b>Troy D. Rosser</b> <i>Vice President Sales</i>	2010	\$ 488,986(6)	-0-	-0-	-0-	-0-	-0-	\$ 5,355	\$ 494,341
	2009	\$ 353,889(7)	-0-	-0-	-0-	-0-	-0-	\$ 12,066	\$ 363,141
	2008	\$ 351,075(8)	-0-	-0-	-0-	-0-	-0-	\$ 15,421	\$ 359,699
<b>Darrell G. West (9)</b> <i>Former VP-Finance and CFO</i>	2010	\$ 154,111	-0-	-0-	-0-	-0-	-0-	\$ 8,116	\$ 162,227
	2009	\$ 312,692	-0-	-0-	-0-	-0-	-0-	\$ 20,975	\$ 333,667
	2008	\$ 257,693	-0-	\$ 350,000	-0-	-0-	-0-	\$ 25,718	\$ 633,411

(1) David A. Dye was appointed Vice President-Finance and Chief Financial Officer of CPSI effective June 30, 2010. Mr. Dye was not an employee of CPSI during 2009 or 2008. Accordingly, this table only presents compensation for Mr. Dye for 2010.

(2) Mr. Jones's employment with the Company as Executive Vice President and Chief Operating Officer was terminated on February 25, 2011.

(3) \$306,531 of this amount represents sales commissions earned by Mr. Schneider during 2010.

(4) \$192,454 of this amount represents sales commissions earned by Mr. Schneider during 2009.

(5) \$177,747 of this amount represents sales commissions earned by Mr. Schneider during 2008.

(6) \$288,986 of this amount represents sales commissions earned by Mr. Rosser during 2010.

(7) \$153,889 of this amount represents sales commissions earned by Mr. Rosser during 2009.

(8) \$151,075 of this amount represents sales commissions earned by Mr. Rosser during 2008.

## Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form DEF 14A

- (9) Mr. West's employment with the Company as Vice President-Finance and Chief Financial Officer was terminated on June 30, 2010.
- (10) Represents the aggregate grant date fair value of non-option stock awards granted in accordance with FASB Accounting Standards Codification Topic 718, *Compensation - Stock Compensation*, rather than the amount paid to or realized by the named executive officer. The grant date fair value of an award is computed by multiplying the number of shares granted by the closing price of our common stock on the Nasdaq Stock Market on the date of grant. There can be no assurance that the grant date fair value will ever be realized. There were no stock awards in 2010 or 2009.
- (11) There were no options granted in 2010, 2009 or 2008.

**Table of Contents**

- (12) The following table shows each of the components of the All Other Compensation column for 2010: (i) Company contributions to the 401(k) retirement plan; (ii) dividends paid on unvested shares of restricted stock under the Company's 2005 Restricted Stock Plan; and (iii) solely with respect to David A. Dye, fees received by Mr. Dye for his service as an outside director from January 1, 2010 through June 30, 2010. David A. Dye was appointed to the positions of Vice President-Finance and Chief Financial Officer on June 30, 2010, at which point he stopped receiving compensation for his service as a director. The Company does not provide any perquisites to its executive officers.

**All Other Compensation 2010**

<b>Name of Executive</b>	<b>Company 401(k) Contributions</b>	<b>Dividends on Restricted Stock</b>	<b>Director Fees Earned or Paid in Cash</b>	<b>Total All Other Compensation</b>
J. Boyd Douglas	\$ 2,000	\$ 6,709		\$ 8,709
David A. Dye	-0-	-0-	\$ 9,000	\$ 9,000
Michael S. Jones	\$ 2,000	\$ 5,129		\$ 7,129
Victor S. Schneider	\$ 2,000	\$ 3,335		\$ 5,335
Troy D. Rosser	\$ 2,000	\$ 3,335		\$ 5,335
Darrell G. West	\$ 1,000	\$ 7,116		\$ 8,116

**Table of Contents****Grants of Plan-Based Awards in 2010**

The Company did not grant any plan-based awards to its named executive officers in 2010.

**Outstanding Equity Awards at 2010 Fiscal Year-End**

The following table shows the number of shares of unvested restricted stock held by the named executive officers on December 31, 2010, and the market value of such shares on that date. There were no stock options outstanding at December 31, 2010. The shares of unvested restricted stock reflected in the table were granted under the Company's 2005 Restricted Stock Plan to the named executive officers on January 30, 2006, except for Mr. Jones, who received a restricted stock grant on May 17, 2006. The shares vest in five annual installments of 20% each on January 30 of each year, commencing on January 30, 2007. All of the shares were fully vested as of January 30, 2011.

Name of Executive	Option Awards					Stock Awards			Equity Incentive Plan
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
J. Boyd Douglas	-0-	-0-				4,659	\$ 218,228		
David A. Dye	-0-	-0-				-0-	\$ 0		
Michael S. Jones	-0-	-0-				3,562	\$ 166,844		
Victor S. Schneider	-0-	-0-				2,330	\$ 109,137		
Troy D. Rosser	-0-	-0-				2,330	\$ 109,137		
Darrell G. West	-0-	-0-				-0-	\$ 0		

**Option Exercises and Stock Vested in 2010**

The following table reflects certain information with respect to shares of restricted stock that vested during the fiscal year ended December 31, 2010. No stock options were held or exercised by the named executive officers during 2010.

Name of Executive	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
J. Boyd Douglas			4,660	\$ 173,356
David Dye				



Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form DEF 14A

Michael S. Jones	3,562	\$	134,038
Victor S. Schneider	2,330	\$	87,678
Troy D. Rosser	2,330	\$	87,678
Darrell G. West	3,294	\$	123,953

- (1) The amounts in this column reflect the number of shares acquired upon vesting of restricted stock multiplied by the market value of the Company's common stock on the last trading day prior to the vesting date of January 30, 2010.

---

**Table of Contents**

**Pension Benefits**

The Company does not maintain any plans that provide for payments or other benefits to named executive officers at, following, or in connection with their retirement.

**Nonqualified Deferred Compensation**

The Company does not maintain any defined contribution or other plans that provide for the deferral of compensation to named executive officers on a basis that is not tax-qualified.

**Potential Payments Upon Termination or Change-in-Control**

As described in the Compensation Discussion and Analysis, the named executive officers do not have employment, severance or change-in-control agreements with the Company. The information below describes and quantifies the compensation that would have accrued to the named executive officers under CPSI's 2005 Restricted Stock Plan upon a termination of the executives' employment or a change-in-control of CPSI on December 31, 2010. However, the actual benefit to a named executive officer under this plan can only be determined at the time of the change-in-control event or such executive's separation from the Company. In this regard, please note that all of the remaining shares of restricted stock that have been granted to date under the 2005 Restricted Stock Plan vested on January 30, 2011. Additionally, the benefits described below are in addition to benefits available generally to salaried employees upon a termination of employment, such as distributions under CPSI's 401(k) plan and disability benefits. None of the executive officers was eligible to receive any compensation under CPSI's 2002 Stock Option Plan as a result of a termination of the executive's employment or a change-in-control of CPSI because there were no options outstanding as of December 31, 2010.

Mr. West was not eligible to receive benefits under CPSI's 2005 Restricted Stock Plan on December 31, 2010 because, upon the termination of his employment with CPSI on June 30, 2010, he forfeited the unvested portion of his restricted stock award. Accordingly, Mr. West is not included in the following disclosures.

***Accelerated Vesting of Restricted Stock Upon a Termination of Employment or a Change in Control***

The terms of the restricted stock award agreements with the named executives under the 2005 Restricted Stock Plan provided for the acceleration of vesting of restricted stock upon the death or disability of the executive or, at the discretion of the Board of Directors, upon the executive's termination without cause. Cause is defined in the 2005 Restricted Stock Plan as any of the following acts by the executive: (i) a felony conviction, (ii) the failure to contest prosecution for a felony, or (iii) willful misconduct or dishonesty which is harmful to CPSI's business or reputation, as determined by the Board. Disability is defined as a permanent and total disability under the Company's long-term disability insurance program.

The award agreements under the 2005 Restricted Stock Plan also provided that all of the shares of restricted stock not previously vested will automatically vest in the event of a change in control of CPSI. A change in control generally consists of any one of the following events:

- (i) An acquisition of 50% or more of CPSI's voting securities, other than an acquisition by:

CPSI or any CPSI benefit plan; or

any company owned by CPSI stockholders in the same proportions as their ownership of CPSI stock.

- (ii) When, during any two-year period, the members of CPSI's Board of Directors at the beginning of the period (along with any new director whose election or nomination is approved by at least two-thirds of the directors who either were directors at the beginning of the period or who were so approved) cease to constitute a majority of the Board.



**Table of Contents**

- (iii) CPSI's stockholders approve a merger or consolidation of CPSI with another corporation, unless the outstanding shares of CPSI stock immediately prior to the transaction continue to represent more than 50% of the combined voting stock of CPSI or its successor immediately following the transaction.
- (iv) CPSI's stockholders approve a plan of complete liquidation of CPSI or an agreement for the sale of all or substantially all of CPSI's assets.

Upon the occurrence of any of these events, the Board of Directors is charged with determining the effective date of the change in control for purposes of the plan.

The table below sets forth the intrinsic value of the shares of restricted stock under the 2005 Restricted Stock Plan that would have vested in the event that either (i) a change in control of CPSI had occurred on December 31, 2010, or (ii) the employment of the named executive officer had terminated on December 31, 2010 due to the executive's death, disability or, upon approval by the Board, a termination by CPSI without cause. The intrinsic value is calculated by multiplying the number of shares that would have vested by the fair market value of CPSI's common stock on December 31, 2010. The fair market value of a share of common stock is assumed to be \$46.84, which was the closing price of the stock on December 31, 2010.

Name	Amount that Would Have Been Realized Due to the Acceleration of Vesting of Restricted Stock in the Event of a Change in Control of CPSI or the Executive's Death, Disability or Termination without Cause(1)	
	\$	
J. Boyd Douglas	\$	218,228
David A. Dye	\$	0
Michael S. Jones	\$	166,844
Victor S. Schneider	\$	109,137
Troy D. Rosser	\$	109,137

- (1) With respect to the termination of a named executive officer without cause, this table assumes that the Board would have exercised its discretion under the 2005 Restricted Stock Plan and approved an acceleration of vesting of all of the shares of restricted stock upon such a termination.

**Table of Contents****Non-Management Director Compensation for 2010**

During 2010, each of our non-employee directors received an annual cash retainer of \$10,000 for service as a director, except that members of the Audit Committee received an annual cash retainer of \$15,000. Additionally, each non-employee director received an attendance fee of \$2,000 for each regular quarterly meeting of the Board of Directors attended.

In accordance with its charter, the Compensation Committee of the Board of Directors has the authority to review and make recommendations to the Board regarding the Company's policies and procedures pertaining to director compensation. In 2010, the Compensation Committee engaged a compensation consulting firm, Hay Group, to, among other things, review our director compensation. As a result of Hay Group's review, the Compensation Committee recommended to the Board, and the Board approved, an increase in the annual cash retainer paid to directors. Effective January 1, 2011, each of our non-employee directors is to receive an annual cash retainer of \$30,000 for service as a director, with members of the Audit Committee to receive an additional \$5,000 per year, members of the Compensation Committee to receive an additional \$4,000 per year and members of the Nominating and Corporate Governance Committee to receive an additional \$1,000 per year. Non-employee directors continue to receive an attendance fee of \$2,000 for each regular quarterly meeting of the Board of Directors attended.

In its consideration of whether to increase the amount of the annual retainer paid to directors, the Compensation Committee and the Board noted that the only increase in director compensation that had occurred since the Company's initial public offering in May 2002 was an increase in the annual retainer for members of the Audit Committee in January 2004 from \$10,000 to \$15,000. In approving these increases in the annual retainer paid to non-employee directors, the Board considered the amount of time that members of the Board (and members of the committees of the Board) have been expending in fulfilling their duties to the Company, in particular as a result of significant changes in corporate governance standards and other rules affecting public companies that have occurred since the enactment of the Sarbanes-Oxley Act in July 2002.

Directors who are employees of the Company receive no compensation for their service as directors. Directors are also reimbursed for their expenses incurred in attending any meeting of directors.

The table below summarizes the compensation paid by CPSI to non-employee directors for the fiscal year ended December 31, 2010.

Name(1)(2)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified	All Other Compensation (\$)	Total (\$)
					Deferred Compensation Earnings		
Charles P. Huffman	\$ 23,000						\$ 23,000
John C. Johnson	\$ 18,000						\$ 18,000
Ernest F. Ladd, III	\$ 23,000						\$ 23,000
W. Austin Mulherin	\$ 18,000						\$ 18,000
M. Kenny Muscat	\$ 9,000						\$ 9,000
William R. Seifert, II	\$ 23,000						\$ 23,000

- (1) J. Boyd Douglas, the Company's President and Chief Executive Officer and a director of the Company, is not included in this table as he is, and at all times during 2010 was, an employee of the Company and thus received no compensation for his service as a director. The compensation received by Mr. Douglas as an employee of the Company is shown in the Summary Compensation Table on page 19.
- (2) David A. Dye, the Chairman of the Board of the Company, is not included in this table as he became an employee of the Company on June 30, 2010, when he was appointed to the positions of Vice President-Finance and Chief Financial Officer. All of the compensation received by Mr. Dye in 2010, including the board fees he earned in 2010 prior to his becoming an executive officer on June 30, 2010 and the compensation he earned as an executive officer for the remainder of 2010, is shown in the Summary Compensation Table on page 19. Mr. Dye stopped receiving compensation for his service as a director on the date he became an employee of the Company.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth the number and percentage of outstanding shares of common stock beneficially owned as of March 21, 2011 by:

each director and director nominee;

each executive officer named in the Summary Compensation Table on page 19;

all of our directors and executive officers as a group; and

beneficial owners of 5% or more of our common stock.

Name of Beneficial Owner	Number of Shares of Common Stock(1)	% of Shares of Common Stock(2)
Wasatch Advisors, Inc.(3)	1,134,073	10.3%
FMR LLC(4)	1,114,200	10.2%
Blackrock, Inc.(5)	843,900	7.7%
Kayne Anderson Rudnick Investment Management, LLC(6)	699,939	6.4%
T. Rowe Price Associates, Inc.(7)	637,493	5.8%
The Vanguard Group, Inc.(8)	585,531	5.3%
J. Boyd Douglas(9)	124,633	1.1%
David A. Dye	76,000	*
Charles P. Huffman(10)	1,000	*
John C. Johnson	500	*
Ernest F. Ladd, III	1,700	*
W. Austin Mulherin, III(11)	2,107	*
William R. Seifert, II	1,550	*
Victor S. Schneider(12)	32,850	*
Troy D. Rosser	4,680	*
Darrell G. West(13)	3,474	*
Michael S. Jones	13,810	*
<b>All Directors &amp; Executive Officers as a group (14 persons)</b>	<b>603,125</b>	<b>5.5%</b>

\* Reflects ownership of less than 1%.

- (1) The number of shares of common stock reflected in the table is that number of shares which are deemed to be beneficially owned under the federal securities laws. Shares deemed to be beneficially owned include shares as to which, directly or indirectly, through any contract, relationship, arrangement, understanding or otherwise, either voting power or investment power is held or shared. Unless otherwise stated, the named person has the sole voting and investment power for the shares indicated.
- (2) Percentage of ownership is based on 10,962,874 shares of Company common stock outstanding as of March 21, 2011.
- (3) The address of Wasatch Advisors, Inc. ( Wasatch Advisors ) is 150 Social Hall Avenue, Salt Lake City, Utah 84111. This information is based solely upon our review of an amended Schedule 13G filed by Wasatch Advisors with the Securities and Exchange Commission on March 10, 2011, reporting beneficial ownership as of February 28, 2011. The Schedule 13G reports that Wasatch Advisors is an investment advisor and has sole voting and dispositive power with respect to all 1,134,073 shares.
- (4) The address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109. This information is based solely upon our review of an amended Schedule 13G filed jointly by FMR LLC ( FMR ) and Edward C. Johnson 3d with the Securities and Exchange Commission on February 14, 2011, reporting beneficial ownership as of December 31, 2010. The Schedule 13G reports that, of the 1,114,200 shares

## Edgar Filing: COMPUTER PROGRAMS & SYSTEMS INC - Form DEF 14A

beneficially owned, FMR has sole voting power with respect to 500 shares and sole dispositive power with respect to all 1,114,200 shares. The Schedule 13G reports that Fidelity Management & Research Company ( Fidelity ), a wholly-owned subsidiary of FMR and an investment adviser registered under the Investment Advisers Act

**Table of Contents**

- of 1940 ( Investment Advisers Act ), is the beneficial owner of all 1,114,200 shares as a result of acting as investment adviser to various investment companies registered under the Investment Company Act of 1940 (the funds ). The Schedule 13G reports that Edward C. Johnson 3d (Chairman of FMR) and FMR, through its control of Fidelity, and the funds each has sole power to dispose of the 1,114,200 shares owned by the funds. The Schedule 13G reports that, through their ownership of voting common shares of FMR and the execution of the shareholders voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR. The Schedule 13G reports that neither FMR nor Edward C. Johnson 3d has the sole power to vote or direct the voting of the shares owned directly by the Fidelity funds, which power resides with the funds boards of trustees, and that Fidelity carries out the voting of the shares under written guidelines established by the funds boards of trustees.
- (5) The address of Blackrock, Inc. is 40 East 52nd Street, New York, New York 10022. This information is based solely upon our review of an amended Schedule 13G filed by Blackrock, Inc. with the Securities and Exchange Commission on February 3, 2011, reporting beneficial ownership as of December 31, 2010. The Schedule 13G reports that (a) Blackrock, Inc. is a parent holding company or control person, (b) Blackrock, Inc. s subsidiaries, BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Australia Limited, BlackRock Advisors, LLC, BlackRock Investment Management, LLC and BlackRock International Limited, acquired the shares being reported and (c) Blackrock, Inc. has sole voting and sole dispositive power with respect to all 843,900 shares.
- (6) The address of Kayne Anderson Rudnick Investment Management, LLC is 1800 Avenue Of The Stars, 2nd Floor, Los Angeles, CA 90067. This information is based solely upon our review of a Schedule 13G filed by Kayne Anderson Rudnick Investment Management, LLC ( Kayne Anderson ) with the Securities and Exchange Commission on February 2, 2011, reporting beneficial ownership as of December 31, 2010. The Schedule 13G reports that Kayne Anderson has sole voting and dispositive power with respect to all 699,939 shares.
- (7) The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202. This information is based solely upon our review of Amendment No. 2 to Schedule 13G filed by T. Rowe Price Associates, Inc. with the Securities and Exchange Commission on January 11, 2011, reporting beneficial ownership as of December 31, 2010. The Schedule 13G reports that, of the 637,493 shares beneficially owned, T. Rowe Price Associates, Inc. has sole voting power with respect to 86,785 shares and sole dispositive power with respect to all 637,493 shares.
- (8) The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, Pennsylvania 19355. This information is based solely upon our review of a Schedule 13G filed by The Vanguard Group, Inc. ( Vanguard Group ) with the Securities and Exchange Commission on February 10, 2011, reporting beneficial ownership as of December 31, 2010. The Schedule 13G reports that, of the 585,531 shares reported as beneficially owned, Vanguard Group has sole voting power and shared dispositive power with respect to 15,062 shares and sole dispositive power with respect to 570,469 shares. The Schedule 13G reports that Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard Group, is the beneficial owner of 15,062 shares as a result of its serving as investment manager of collective trust accounts.
- (9) Includes 100 shares owned by Mr. Douglas s wife and a total of 600 shares held in custodial accounts for the benefit of his three children.
- (10) Mr. Huffman shares voting and investment power for these shares with his wife.
- (11) Mr. Mulherin shares voting and investment power for 1,400 shares with his wife. Includes 222 shares held in a custodial account for the benefit of Mr. Mulherin s daughter.
- (12) Includes a total of 200 shares held in custodial accounts for the benefit of Mr. Schneider s two children.
- (13) This information is based solely upon a Form 4 filed by Mr. West with the Securities and Exchange Commission on July 1, 2010.



**Table of Contents**

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and officers, and persons who own more than ten percent of our common stock, to file reports of ownership and changes in ownership of Company common stock held by them with the SEC. Copies of these reports must also be provided to us. Based on our review of these reports, we believe that, during the year ended December 31, 2010, all reports required to be filed during such year were filed on a timely basis, except that one officer of the Company, Mr. Michael K. Muscat, Jr., filed one late Form 5 to report a gift of common stock to one of his minor children on November 3, 2009. Additionally, with respect to reports required to be filed during the current fiscal year, Mr. Muscat filed one late Form 5 to report a gift of common stock to two of his minor children on February 22, 2010.

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**

**Policy for the Review and Approval of Related Person Transactions**

We may occasionally enter into or participate in transactions with certain related persons. Related persons include our executive officers, directors, 5% or more beneficial owners of our common stock, immediate family members of these persons, and entities in which one of these persons has a direct or indirect material interest. We refer to transactions with these related persons as related person transactions. We have a policy regarding the review and approval of related person transactions.

In accordance with this policy, and except for certain transactions subject to standing pre-approval under the policy, our Audit Committee must review and approve all such related person transactions that exceed or are expected to exceed \$100,000 in any calendar year. This \$100,000 threshold is less than the \$120,000 threshold requiring disclosure under the rules of the Securities and Exchange Commission. The Audit Committee considers all relevant factors when determining whether to approve a related person transaction, including whether the related person transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction. No director may participate in any discussion or approval of any related person transaction in which he or she is a related person, but that director is required to provide the Audit Committee with all material information concerning the transaction.

**Related Person Transactions**

We lease our corporate headquarters campus from C.P. Investments, Inc., an Alabama corporation, pursuant to eight separate lease agreements with C.P. Investments. The following three stockholders of C.P. Investments are related persons of CPSI: Ellen M. Harvey, Michael K. Muscat, Jr. and Susan M. Slaton, who are the children of M. Kenny Muscat, who was a director of CPSI until his retirement on May 6, 2010. Additionally, Michael K. Muscat, Jr. is an executive officer of CPSI. The lease agreements have terms of ten years and expire between April 2012 and December 2015. In 2010, we made total lease payments in the amount of approximately \$1,698,000 to C.P. Investments, and we anticipate making lease payments to C.P. Investments in 2011 in the aggregate amount of approximately \$1,698,000, subject to adjustment as set forth in the lease agreements. The annual rent payable under these leases has been determined by an independent, third-party appraisal firm. Based on the related persons' ownership interests in C.P. Investments, the approximate dollar amount of each of Ellen M. Harvey's, Michael K. Muscat, Jr.'s and Susan M. Slaton's interest in the 2010 lease payments to C.P. Investments was \$169,800.

Michael K. Muscat, Jr., the son of M. Kenny Muscat (a director of the Company until May 6, 2010), is an executive officer of the Company, serving as Vice President - Product Development Services. Michael K. Muscat, Jr. received total compensation of \$352,000 from the Company during 2010.

Matt Cole, the brother-in-law of W. Austin Mulherin (a director of the Company), is employed by the Company as a sales manager. Matt Cole received total compensation of \$152,438 from the Company during 2010.

Our lease agreements with C.P. Investments, Inc. have been approved by the Audit Committee. Additionally, the Audit Committee reviewed and approved the compensation of Mr. Muscat and Mr. Cole. Mr. Muscat's compensation was also reviewed and approved by the Compensation Committee.

**Table of Contents**

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of the Board of Directors is currently composed of three directors who are independent directors as defined under existing Nasdaq rules and SEC rules. The Audit Committee operates under a written charter, as last amended by the Board of Directors on January 25, 2010.

The Audit Committee hereby submits the following report:

We have reviewed and discussed with management the Company's audited financial statements as of, and for, the year ended December 31, 2010.

We have discussed with the independent registered public accountants, Grant Thornton LLP, the matters required to be discussed by Statement on Auditing Standard No. 61, *Communication with Audit Committees*, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

We have received and reviewed the written disclosures and the letter from Grant Thornton LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Grant Thornton LLP's communications with the Audit Committee concerning independence, and have discussed with Grant Thornton LLP their independence. We considered whether the provision of non-financial audit services was compatible with Grant Thornton LLP's independence in performing financial audit services.

Based on the review and discussions referred to above, we recommended to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission. It should be noted that management is responsible for the Company's financial reporting process, including its system of internal controls, and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The Company's independent registered public accountants are responsible for auditing those financial statements. Our responsibility is to monitor and review these processes. It is not our duty or our responsibility to conduct auditing or accounting reviews or procedures.

Audit Committee:

Ernest F. Ladd, III, *Chairman*

William R. Seifert, II

Charles P. Huffman

**Table of Contents****PROPOSAL 2****RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED****PUBLIC ACCOUNTANTS**

At the direction of the Audit Committee, the ratification of the appointment of Grant Thornton LLP ( Grant Thornton ) as the Company's independent registered public accountants for the year ending December 31, 2011 is being presented to the stockholders for approval at the annual meeting. If the appointment of independent registered public accountants is not ratified, the Audit Committee will reconsider its appointment of independent registered public accountants.

**General**

The Audit Committee has approved the engagement of Grant Thornton as the Company's independent registered public accountants for the year ending December 31, 2011. Grant Thornton has been engaged by the Company since 2004 and has audited the financial statements of the Company for the years ended December 31, 2004 through December 31, 2010.

It is expected that a representative of Grant Thornton will be present at the annual meeting to respond to appropriate questions, and will be given the opportunity to make a statement if he so desires.

**Fees Paid to Grant Thornton LLP**

The following table presents the fees paid or accrued by the Company for the audit and other services rendered by Grant Thornton for the years ended December 31, 2010 and 2009.

	2010	2009
Audit Fees	\$ 558,684	\$ 508,686
Audit-Related Fees	\$ 74,592	83,454
Tax Fees	\$ 0	-0-
All Other Fees	\$ 39,869	-0-
<b>TOTAL</b>	<b>\$ 673,145</b>	<b>\$ 592,140</b>

*Audit Fees.* Audit Fees for the last two years were for professional services rendered by the independent registered public accountants in connection with (i) the audits of the Company's annual financial statements and audits of the effectiveness of the Company's internal control over financial reporting, and (ii) the review of the Company's quarterly financial statements.

*Audit-Related Fees.* Audit-Related Fees for 2010 and 2009 were for services rendered by the independent registered public accountants for (i) audits of the Company's employee benefit plans and (ii) examining and reporting on the Company's design and operating effectiveness of controls related to the Company's Application Service Provider hosting environment and management of changes to computer programs in accordance with Statement on Auditing Standards No. 70, *Service Organizations*, as amended. All audit related services were pre-approved by the Company's Audit Committee.

*Tax Fees.* There were no Tax Fees paid to Grant Thornton in 2010 or 2009.

*All Other Fees.* All Other Fees encompasses any services provided by the independent registered public accountants other than the services reported in the other above categories. In 2010 Grant Thornton performed an assessment of the Company's compliance with the security and privacy provisions of The Health Insurance Portability and Accountability Act of 1996, or "HIPAA", as amended by The Health Information Technology for Economic and Clinical Health Act. All of these services were pre-approved by the Audit Committee. There were no such services provided in 2009.



**Table of Contents**

**Pre-Approval Policy**

The Audit Committee's policy is to specifically pre-approve all audit and non-audit services to be rendered by the independent registered public accountants. Through this policy, the Audit Committee can effectively monitor the costs of services and can ensure that the provision of such services does not impair the registered accountant's independence.

**Vote Required; Board Recommendation**

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote on the proposal is needed to ratify the appointment of independent registered public accountants. Unless instructed to the contrary, the shares represented by the proxies will be voted to approve the ratification of the appointment of independent registered public accountants.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE IN FAVOR OF PROPOSAL 2.**

**Table of Contents**

**PROPOSAL 3**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that public companies provide shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of their named executive officers as disclosed in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As described in detail under the heading Compensation Discussion and Analysis, we seek to align the interests of our named executive officers with the interests of our shareholders and to reward performance that enhances stockholder returns. Additionally, we believe that our compensation program has been successful in retaining and motivating our executive officers necessary for the current and long-term success of the Company.

The vote on this resolution is not intended to address any specific element of compensation; rather, the vote relates to the compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission. The vote is advisory, which means that the vote is not binding on the Company, our Board of Directors or the Compensation Committee of the Board of Directors. To the extent there is any significant vote against our named executive officer compensation as disclosed in this proxy statement, the Compensation Committee will evaluate whether any actions are necessary to address the concerns of stockholders.

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote on this proposal is required to approve this proposal.

In accordance with recently adopted Section 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), we ask our stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2010 Summary Compensation Table and the other related tables and disclosure.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT.**

**Table of Contents**

**PROPOSAL 4**

**ADVISORY VOTE ON FREQUENCY OF SAY-ON-PAY VOTE**

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides that stockholders must be given the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently we should seek future advisory votes on the compensation of our named executive officers, which we refer to as an advisory vote on executive compensation or a say-on-pay vote. Pursuant to Section 14A of the Exchange Act, in this Proposal 4 we are asking stockholders to vote on whether they would prefer that we conduct future say-on-pay votes every year, every two years or every three years. Stockholders also may, if they wish, abstain from casting a vote on this proposal.

Our Board of Directors has determined that an advisory vote on executive compensation that occurs once every three years is the most appropriate alternative for the Company and therefore our Board recommends that you vote for a three-year interval for the say-on-pay vote. In determining to recommend that stockholders vote for a frequency of once every three years, the Board considered how an advisory vote at this frequency will provide our stockholders with sufficient time to evaluate the effectiveness of our compensation policies and practices in the context of our long-term business results for the corresponding period, while avoiding over-emphasis on short-term variations in compensation and business results. A say-on-pay vote occurring once every three years will also permit our stockholders to observe and evaluate the impact of any changes to our executive compensation policies and practices which have occurred since the last say-on-pay vote, including changes made in response to the outcome of such vote. A three-year frequency for the say-on-pay vote will also provide the Compensation Committee of the Board of Directors a meaningful period to respond to the results of the say-on-pay vote.

This vote is advisory and not binding on the Company or our Board of Directors in any way. The Board of Directors and the Compensation Committee will take into account the outcome of the vote, however, when considering the frequency of future advisory votes on executive compensation. The Board may decide that it is in the best interests of our shareholders and the Company to hold an advisory vote on executive compensation more or less frequently than the frequency receiving the most votes cast by our stockholders.

The proxy card provides stockholders with the opportunity to choose among four options (holding the advisory vote on compensation every one, two or three years, or abstaining) and therefore stockholders will not be voting to approve or disapprove the recommendation of the Board of Directors. Instead, the option of every three years, every two years or every year that receives the highest number of votes cast will be considered the frequency of the say-on-pay vote that has been approved by our stockholders on an advisory basis. Even though your vote is advisory and therefore will not be binding on the Company, the Compensation Committee values the opinions of our stockholders and will consider our stockholders' vote. Nonetheless, the Board may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option voted by our stockholders. We will continue to engage with our stockholders regarding our executive compensation program during the period between advisory votes on executive compensation.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE OPTION OF EVERY THREE YEARS AS THE PREFERRED FREQUENCY FOR FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION.**



**Table of Contents**

**OTHER MATTERS**

As of the date of this proxy statement, the Board of Directors of the Company does not know of any business which will be presented for consideration at the annual meeting other than that specified herein and in the Notice of Annual Meeting of Stockholders, but if other matters are presented, it is the intention of the persons designated as proxies to vote in accordance with their judgment on such matters.

**DEADLINE FOR STOCKHOLDER PROPOSALS**

Proposals of stockholders intended to be presented at our 2012 Annual Meeting of Stockholders must be received by us by December 2, 2011 to be considered for inclusion in our proxy statement relating to such meeting.

A stockholder must notify us before February 15, 2012 of a proposal for the 2012 Annual Meeting which the stockholder intends to present other than by inclusion in our proxy material. If we do not receive such notice prior to February 15, 2012, proxies solicited by our Board of Directors will be deemed to have conferred discretionary authority to vote upon any such matter. Any proposal must be submitted in writing by Certified Mail - Return Receipt Requested, to Computer Programs and Systems, Inc., Attention: David A. Dye, 6600 Wall Street, Mobile, Alabama 36695.

**A COPY OF OUR 2010 ANNUAL REPORT TO STOCKHOLDERS WHICH INCLUDES OUR FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE, IS ENCLOSED WITH THIS PROXY STATEMENT. IF THE ANNUAL REPORT IS NOT INCLUDED, PLEASE NOTIFY US IN WRITING AT COMPUTER PROGRAMS AND SYSTEMS, INC., ATTENTION: DAVID A. DYE, 6600 WALL STREET, MOBILE, ALABAMA 36695.**

**Table of Contents**

**REVOCABLE PROXY**

**COMPUTER PROGRAMS AND SYSTEMS, INC.**

**6600 WALL STREET**

**MOBILE, ALABAMA 36695**

**This Proxy is solicited on behalf of the Board of Directors of Computer Programs and Systems, Inc. (the Company ) for use at the Annual Meeting of Stockholders to be held on May 5, 2011, and at any postponements or adjournments thereof (the Annual Meeting ).**

The undersigned, being a stockholder of the Company, hereby appoints David A. Dye and J. Boyd Douglas, and each of them, as Proxies, each with the power to appoint his substitute, and hereby authorizes them, or either of them, to represent the undersigned at the Annual Meeting and to act with respect to all votes that the undersigned would be entitled to cast, if then personally present, on the following matters in accordance with the following instructions:

**(Continued and to be signed on the reverse side.)**

**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS OF  
COMPUTER PROGRAMS AND SYSTEMS, INC.**

**May 5, 2011**

**Important notice regarding the Internet availability of proxy materials  
for the Annual Meeting of Stockholders:**

The Proxy Statement and the 2010 Annual Report to Stockholders are available at:

<http://www.cpsinet.com/annualmeeting/>

Please sign, date and mail  
your proxy card in the  
envelope provided as soon  
as possible.

✂ Please detach along perforated line and mail in the envelope provided. ✂

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS,  
FOR PROPOSALS 2 AND 3 AND FOR EVERY THREE YEARS FOR PROPOSAL 4.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK  
AS SHOWN HERE x**

<p>1. To elect the following two persons as Class III directors to serve on the Board of Directors until the 2014 annual meeting or until their successors are duly elected and qualified:</p>	<p>2. To ratify the appointment of Grant Thornton LLP as independent registered public accountants for the year ending December 31, 2011.</p>	<p>FOR    AGAINST    ABSTAIN</p> <p>..       ..       ..</p>
<p>.. <b>NOMINEES:</b></p> <p>..</p>	<p>3. To adopt a resolution approving, on an advisory basis, the compensation paid to the Company's named executive officers, as disclosed in the Company's proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission.</p>	<p>FOR    AGAINST    ABSTAIN</p> <p>..       ..       ..</p>
<p>.. <b>FOR ALL NOMINEES</b> F.Ladd, III</p>	<p>Ernest</p>	

**WITHHOLD AUTHORITY** David A.  
Dye

**FOR ALL NOMINEES**

**FOR ALL EXCEPT**

(See instructions below)

	Every	Every	Every	
4. To select, on an advisory basis, the frequency of future shareholder advisory votes to approve the compensation of the Company's named executive officers.	3 years	2 years	year	ABSTAIN
	..	..	..	..

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here:

The undersigned acknowledges that the Annual Meeting may be postponed or adjourned to a date subsequent to the date set forth on the reverse side, and intends that this Proxy shall be effective at the Annual Meeting after such postponement(s) or adjournment(s). This Proxy is revocable, and the undersigned may revoke it at anytime by delivery of written notice of such revocation to the Company or its agent, American Stock Transfer & Trust Company, N.A., prior to the date of the Annual Meeting, or by attendance at the Annual Meeting.

**This Proxy when properly executed will be voted in the manner directed by the undersigned. If no direction is made, this Proxy will be voted FOR Proposals 1, 2 and 3 and for EVERY THREE YEARS for Proposal 4.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

..

Signature of Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.