

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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

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

For the transition period from _____ to _____

Commission file number: 000-49796

COMPUTER PROGRAMS AND SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
6600 Wall Street, Mobile, Alabama
(Address of Principal Executive Offices)

74-3032373
(I.R.S. Employer
Identification No.)
36695
(Zip Code)

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

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.001 per share	CPSI	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of August 4, 2020, there were 14,512,105 shares of the issuer's common stock outstanding.

COMPUTER PROGRAMS AND SYSTEMS, INC.
Quarterly Report on Form 10-Q
(For the three and six months ended June 30, 2020)
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,668	\$ 7,357
Accounts receivable (net of allowance for expected credit losses of \$1,668 and \$2,078, respectively)	32,159	38,819
Financing receivables, current portion, net (net of allowance for expected credit losses of \$128 and \$165, respectively)	11,605	12,032
Inventories	1,607	1,426
Prepaid income taxes	1,459	1,337
Prepaid expenses and other	7,650	5,861
Total current assets	73,148	66,832
Property and equipment, net	13,729	11,593
Software development costs, net	1,429	—
Operating lease assets	7,223	7,800
Financing receivables, net of current portion (net of allowance for expected credit losses of \$2,221 and \$2,806, respectively)	14,962	18,267
Other assets, net of current portion	2,159	1,771
Intangible assets, net	77,378	83,110
Goodwill	150,216	150,216
Total assets	\$ 340,244	\$ 339,589
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 8,095	\$ 8,804
Current portion of long-term debt	3,457	8,430
Deferred revenue	8,299	8,628
Accrued vacation	5,370	4,301
Other accrued liabilities	11,354	11,767
Total current liabilities	36,575	41,930
Long-term debt, net of current portion	98,649	99,433
Operating lease liabilities, net of current portion	5,656	6,256
Deferred tax liabilities	8,439	7,623
Total liabilities	149,319	155,242
Stockholders' equity:		
Common stock, \$0.001 par value; 30,000 shares authorized; 14,512 and 14,356 shares issued and outstanding, respectively	15	14
Additional paid-in capital	178,227	174,618
Retained earnings	12,683	9,715
Total stockholders' equity	190,925	184,347
Total liabilities and stockholders' equity	\$ 340,244	\$ 339,589

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Sales revenues:				
System sales and support	\$ 34,724	\$ 39,640	\$ 75,910	\$ 82,887
TruBridge	24,825	26,516	53,396	52,410
Total sales revenues	59,549	66,156	129,306	135,297
Costs of sales:				
System sales and support	15,687	17,673	34,273	36,010
TruBridge	13,756	13,948	28,813	27,637
Total costs of sales	29,443	31,621	63,086	63,647
Gross profit	30,106	34,535	66,220	71,650
Operating expenses:				
Product development	8,371	9,297	16,642	18,526
Sales and marketing	5,169	7,016	12,166	14,508
General and administrative	10,955	12,090	22,802	23,914
Amortization of acquisition-related intangibles	2,866	2,516	5,733	5,039
Total operating expenses	27,361	30,919	57,343	61,987
Operating income	2,745	3,616	8,877	9,663
Other income (expense):				
Other (expense) income	(38)	283	324	532
Loss on extinguishment of debt	(202)	—	(202)	—
Interest expense	(803)	(1,763)	(1,982)	(3,567)
Total other income (expense)	(1,043)	(1,480)	(1,860)	(3,035)
Income before taxes	1,702	2,136	7,017	6,628
(Benefit) provision for income taxes	(62)	473	1,163	1,521
Net income	\$ 1,764	\$ 1,663	\$ 5,854	\$ 5,107
Net income per common share—basic	\$ 0.12	\$ 0.12	\$ 0.41	\$ 0.36
Net income per common share—diluted	\$ 0.12	\$ 0.12	\$ 0.41	\$ 0.36
Weighted average shares outstanding used in per common share computations:				
Basic	14,067	13,794	13,985	13,725
Diluted	14,067	13,794	13,985	13,725
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in- Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Three Months Ended June 30, 2020 and 2019:					
Balance at March 31, 2020	14,512	\$ 15	\$ 176,975	\$ 12,370	\$ 189,360
Net income	—	—	—	1,764	1,764
Stock-based compensation	—	—	1,252	—	1,252
Dividends	—	—	—	(1,451)	(1,451)
Balance at June 30, 2020	14,512	\$ 15	\$ 178,227	\$ 12,683	\$ 190,925
Balance at March 31, 2019:					
Balance at March 31, 2019	14,355	\$ 14	\$ 167,229	\$ (3,002)	\$ 164,241
Net income	—	—	—	1,663	1,663
Stock-based compensation	—	—	2,691	—	2,691
Dividends	—	—	—	(1,436)	(1,436)
Balance at June 30, 2019	14,355	\$ 14	\$ 169,920	\$ (2,775)	\$ 167,159
Six Months Ended June 30, 2020 and 2019:					
Balance at December 31, 2019	14,356	\$ 14	\$ 174,618	\$ 9,715	\$ 184,347
Net income	—	—	—	5,854	5,854
Issuance of restricted stock	156	1	(1)	—	—
Stock-based compensation	—	—	3,610	—	3,610
Dividends	—	—	—	(2,886)	(2,886)
Balance at June 30, 2020	14,512	\$ 15	\$ 178,227	\$ 12,683	\$ 190,925
Balance at December 31, 2018:					
Balance at December 31, 2018	14,083	\$ 14	\$ 164,793	\$ (5,024)	\$ 159,783
Net income	—	—	—	5,107	5,107
Issuance of restricted stock	272	—	—	—	—
Stock-based compensation	—	—	5,127	—	5,127
Dividends	—	—	—	(2,858)	(2,858)
Balance at June 30, 2019	14,355	\$ 14	\$ 169,920	\$ (2,775)	\$ 167,159

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

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

	Six Months Ended June 30,	
	2020	2019
Operating Activities:		
Net income	\$ 5,854	\$ 5,107
Adjustments to net income:		
Provision for bad debt	1,708	1,990
Deferred taxes	816	1,177
Stock-based compensation	3,610	5,127
Depreciation	892	730
Amortization of acquisition-related intangibles	5,733	5,039
Amortization of software development costs	55	—
Amortization of deferred finance costs	169	173
Loss on extinguishment of debt	202	—
Changes in operating assets and liabilities:		
Accounts receivable	5,656	1,265
Financing receivables	3,028	2,718
Inventories	(181)	(371)
Prepaid expenses and other	(2,177)	(617)
Accounts payable	(709)	(840)
Deferred revenue	(329)	(514)
Other liabilities	633	(2,528)
Prepaid income taxes/income taxes payable	(122)	(995)
Net cash provided by operating activities	24,838	17,461
Investing Activities:		
Purchase of business, net of cash received	—	(10,840)
Investment in software development	(1,484)	—
Purchase of property and equipment	(3,028)	(1,022)
Net cash used in investing activities	(4,512)	(11,862)
Financing Activities:		
Dividends paid	(2,886)	(2,858)
Proceeds from long-term debt	65	—
Payments of long-term debt principal	(2,194)	(10,118)
Payments of contingent consideration	—	(206)
Proceeds from revolving line of credit	—	11,000
Payments of revolving line of credit	(4,000)	(2,300)
Net cash used in financing activities	(9,015)	(4,482)
Increase in cash and cash equivalents	11,311	1,117
Cash and cash equivalents at beginning of period	7,357	5,732
Cash and cash equivalents at end of period	\$ 18,668	\$ 6,849
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,812	\$ 3,388
Cash paid for income taxes, net of refund	\$ 469	\$ 1,339

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

COMPUTER PROGRAMS AND SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

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

Certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2019 was derived from the audited consolidated balance sheet at that date. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of Computer Programs and Systems, Inc. ("CPSI" or the "Company") for the year ended December 31, 2019 and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Principles of Consolidation

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Standards Adopted in 2020

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses*, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. We adopted this guidance as of January 1, 2020. Adoption of the standard did not have a material impact on our consolidated financial statements.

New Accounting Standards Yet to be Adopted

We do not believe that any other recently issued but not yet effective accounting standards, if adopted, would have a material impact on our consolidated financial statements.

3. REVENUE RECOGNITION

Revenue is recognized upon transfer of control of promised products or services to clients in an amount that reflects the consideration we expect to receive in exchange for those products and services. We enter into contracts that can include various combinations of products and services, which are generally distinct and accounted for as separate performance obligations. The Company employs the 5-step revenue recognition model under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, to: (1) identify the contract with the client, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized net of shipping charges and any taxes collected from clients, which are subsequently remitted to governmental authorities.

System Sales and Support

The Company enters into contractual obligations to sell perpetual software licenses, installation, conversion, training, hardware and software application support and hardware maintenance services to acute care and post-acute care community hospitals.

Non-recurring Revenues

- Perpetual software licenses, installation, conversion, and related training are not considered separate and distinct performance obligations due to the proprietary nature of our software and are, therefore, accounted for as a single performance obligation on a module-by-module basis. Revenue is recognized as each module's implementation is completed based on the module's stand-alone selling price ("SSP"), net of discounts. Fees for licenses, installation, conversion, and related training are typically due in three installments: (1) at placement of order, (2) upon installation of software and commencement of training, and (3) upon satisfactory completion of monthly accounting cycle or end-of-month operation by application and as applicable for each application. Often, short-term and/or long-term financing arrangements are provided for software implementations; refer to Note 11 - Financing Receivables for further information. Electronic health records ("EHR") implementations include a system warranty that terminates thirty days from the software go-live date, the date on which the client begins using the system in a live environment.
- Hardware revenue is recognized separately from software licenses at the point in time it is delivered to the client. The SSP of hardware is cost plus a reasonable margin. Payment is generally due upon delivery of the hardware to the client. Standard manufacturer warranties apply to hardware.

Recurring Revenues

- Software application support and hardware maintenance services sold with software licenses and hardware are separate and distinct performance obligations. Revenue for support and maintenance services is recognized based on SSP, which is the renewal price, ratably over the life of the contract, which is generally three to five years. Payment is due monthly for support services provided.
- Subscriptions to third party content revenue is recognized as a separate performance obligation ratably over the subscription term based on SSP, which is cost plus a reasonable margin. Payment is due monthly for subscriptions to third party content.
- Software as a Service ("SaaS") arrangements for EHR software and related conversion and training services are considered a single performance obligation. Revenue is recognized on a monthly basis as the SaaS service is provided to the client over the contract term. Payment is due monthly for SaaS services provided.

Refer to Note 17 - Segment Reporting, for further information, including revenue by client base (acute care or post-acute care) bifurcated by recurring and non-recurring revenue.

TruBridge

TruBridge provides an array of business processing services ("BPS") consisting of accounts receivable management, private pay services, insurance services, medical coding, electronic billing, statement processing, payroll processing, and contract management. Fees are recognized over the period of the client contractual relationship as the services are performed based on the SSP, net of discounts. Fees for many of these services are invoiced, and revenue recognized accordingly, based on the volume of transactions or a percentage of client accounts receivable collections. Payment is due monthly for BPS with certain amounts varying based on utilization and/or volumes.

TruBridge also provides professional IT services. Revenue from professional IT services is recognized as the services are performed based on SSP. Payment is due monthly as services are performed.

Deferred Revenue

Deferred revenue represents amounts invoiced to clients for which the services under contract have not been completed and revenue has not been recognized, including annual renewals of certain software subscriptions and customer deposits for implementations to be performed at a later date. Revenue is recognized ratably over the life of the software subscriptions as services are provided and at the point-in-time when implementations have been completed.

The following table details deferred revenue for the six months ended June 30, 2020 and 2019, included in the condensed consolidated balance sheets:

<i>(In thousands)</i>	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Beginning balance	\$ 8,628	\$ 10,201
Deferred revenue recorded	10,195	10,116
Deferred revenue acquired	—	430
Less deferred revenue recognized as revenue	(10,524)	(10,630)
Ending balance	<u>\$ 8,299</u>	<u>\$ 10,117</u>

The deferred revenue recorded during the six months ended June 30, 2020 is comprised primarily of the annual renewals of certain software subscriptions billed during the first quarter of each year and deposits collected for future EHR installations. The deferred revenue recognized as revenue during the six months ended June 30, 2020 and 2019 is comprised primarily of the periodic recognition of annual renewals that were deferred until earned and deposits for future EHR installations that were deferred until earned.

Costs to Obtain and Fulfill a Contract with a Customer

Costs to obtain a contract include the commission costs related to SaaS licensing agreements, which are capitalized and amortized ratably over the expected life of the customer. As a practical expedient, we generally recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset would have been one year or less, with the exception of commissions generated from TruBridge sales. TruBridge commissions, which are paid up to twelve months in advance of services performed, are capitalized and amortized over the prepayment period. Costs to obtain a contract are expensed within sales and marketing expenses in the accompanying condensed consolidated statements of income.

Contract fulfillment costs related to the implementation of SaaS arrangements are capitalized and amortized ratably over the expected life of the customer. Costs to fulfill contracts consist of the payroll costs for the implementation of SaaS arrangements, including time for training, conversion and installation that is necessary for the software to be utilized. Contract fulfillment costs are expensed within the caption "System sales and support - Cost of sales."

Costs to obtain and fulfill contracts related to SaaS arrangements are included within the "Prepaid expenses and other" and "Other assets, net of current portion" line items on our condensed consolidated balance sheets.

The following table details costs to obtain and fulfill contracts with customers for the six months ended June 30, 2020 and 2019, included in the condensed consolidated balance sheets:

<i>(In thousands)</i>	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Beginning balance	\$ 4,440	\$ 3,017
Costs to obtain and fulfill contracts capitalized	3,351	2,752
Less costs to obtain and fulfill contracts recognized as expense	(2,701)	(2,292)
Ending balance	<u>\$ 5,090</u>	<u>\$ 3,477</u>

Remaining Performance Obligations

Disclosures regarding remaining performance obligations are not considered material as the overwhelming majority of the Company's remaining performance obligations either (a) are related to contracts with an expected duration of one year or less, or (b) exhibit revenue recognition in the amount to which the Company has the right to invoice.

4. BUSINESS COMBINATION

Acquisition of Get Real Health

On May 3, 2019, we acquired all of the assets and liabilities of iNetXperts, Corp., a Maryland corporation doing business as Get Real Health ("Get Real Health"), pursuant to a Stock Purchase Agreement dated April 23, 2019, as amended on May 2, 2019. Based in Rockville, Maryland, Get Real Health delivers technology solutions to improve patient outcomes and engagement strategies with care providers.

Consideration for the acquisition included cash (net of cash of the acquired entity) of \$10.8 million (inclusive of seller's transaction expenses), plus a contingent earnout payment of up to \$14.0 million tied to Get Real Health's earnings before interest, tax, depreciation, and amortization ("EBITDA") (subject to certain pro-forma adjustments) for 2019. As of December 31, 2019, the \$5.0 million contingent consideration estimated in the allocation of purchase price paid was fully reversed as Get Real Health's earnings did not achieve the required level for earnout payment. During 2019, we incurred approximately \$0.6 million of pre-tax acquisition costs in connection with the acquisition of Get Real Health. Acquisition costs are included in general and administrative expenses in our consolidated statements of income.

Our acquisition of Get Real Health was treated as a purchase in accordance with ASC 805, *Business Combinations*, which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction. Our allocation of the purchase price was based on management's judgment after evaluating several factors, including a valuation assessment.

The allocation of the purchase price paid for Get Real Health was as follows:

<i>(In thousands)</i>	Purchase Price Allocation
Acquired cash	\$ 159
Accounts receivable	364
Prepaid expenses	107
Property and equipment	365
Operating lease asset	1,285
Intangible assets	7,890
Goodwill	9,767
Accounts payable and accrued liabilities	(594)
Deferred taxes, net	(1,736)
Operating lease liability	(1,285)
Contingent consideration	(5,000)
Deferred revenue	(430)
Net assets acquired	<u>\$ 10,892</u>

The intangible assets in the table above are being amortized on a straight-line basis over their estimated useful lives. The amortization is included in amortization of acquisition-related intangibles in our condensed consolidated statements of income.

The fair value measurements of tangible and intangible assets and liabilities were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value measurement hierarchy (see Note 16 - Fair Value). Level 3 inputs included, among others, discount rates that we estimated would be used by a market participant in valuing these assets and liabilities, projections of revenues and cash flows, client attrition rates and market comparables.

5. PROPERTY AND EQUIPMENT

Property and equipment, net was comprised of the following at June 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	June 30, 2020	December 31, 2019
Land	\$ 2,848	\$ 2,848
Buildings and improvements	8,039	8,039
Computer equipment	7,040	4,011
Leasehold improvements	1,712	1,712
Office furniture and fixtures	2,017	2,018
Automobiles	18	18
Property and equipment, gross	21,674	18,646
Less: accumulated depreciation	(7,945)	(7,053)
Property and equipment, net	\$ 13,729	\$ 11,593

6. SOFTWARE DEVELOPMENT

Software development costs are accounted for in accordance with ASC 350-40, *Internal-Use Software*. We capitalize incurred labor costs for software development from the time the preliminary project phase is completed until the software is available for general release. Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. We estimate the useful life of our capitalized software and amortize its value on a straight-line basis over that estimated life, which is estimated to be five years. If the actual life is shorter than our estimated useful life, we will amortize the remaining book value over the remaining useful life or the asset may be deemed to be impaired and, accordingly, a write-down of the value of the asset may be recorded as a charge to earnings. Upon the software's availability for general release, we commence amortization of the capitalized software costs on a module-by-module basis.

Software development, net was comprised of the following at June 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	June 30, 2020	December 31, 2019
Software development costs	\$ 1,484	\$ —
Less: accumulated amortization	(55)	—
Software development costs, net	\$ 1,429	\$ —

7. OTHER ACCRUED LIABILITIES

Other accrued liabilities was comprised of the following at June 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	June 30, 2020	December 31, 2019
Salaries and benefits	\$ 7,273	\$ 6,946
Severance	43	329
Commissions	679	1,037
Self-insurance reserves	1,409	1,382
Other	383	529
Operating lease liabilities, current portion	1,567	1,544
Other accrued liabilities	\$ 11,354	\$ 11,767

8. NET INCOME PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its common stock. Basic EPS is calculated by dividing the net income attributable to stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to stockholders of the Company and the weighted average number of shares of common stock outstanding during the period for the effects of all dilutive potential common shares, including awards under stock-based compensation arrangements.

The Company's unvested restricted stock awards (see Note 10) are considered participating securities under FASB Codification topic, *Earnings Per Share*, because they entitle holders to non-forfeitable rights to dividends until the awards vest or are forfeited. When a company has a security that qualifies as a "participating security," the Codification requires the use of the two-class method when computing basic EPS. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net income to allocate to common stockholders, income is allocated to both common stock and participating securities based on their respective weighted average shares outstanding for the period, with net income attributable to common stockholders ultimately equaling net income less net income attributable to participating securities. Diluted EPS for the Company's common stock is computed using the more dilutive of the two-class method or the treasury stock method.

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

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 1,764	\$ 1,663	\$ 5,854	\$ 5,107
Less: Net income attributable to participating securities	(51)	(62)	(181)	(194)
Net income attributable to common stockholders	\$ 1,713	\$ 1,601	\$ 5,673	\$ 4,913
Weighted average shares outstanding used in basic per common share computations	14,067	13,794	13,985	13,725
Add: Dilutive potential common shares	—	—	—	—
Weighted average shares outstanding used in diluted per common share computations	14,067	13,794	13,985	13,725
Basic EPS	\$ 0.12	\$ 0.12	\$ 0.41	\$ 0.36
Diluted EPS	\$ 0.12	\$ 0.12	\$ 0.41	\$ 0.36

During 2018, 2019 and 2020, performance share awards were granted to certain executive officers and key employees of the Company that will result in the issuance of time-vesting restricted stock or common stock if the predefined performance criteria are met. The awards provide for an aggregate target of 252,852 shares, none of which have been included in the calculation of diluted EPS for the three and six months ended June 30, 2020 because the related threshold award performance levels have not been achieved as of June 30, 2020. See Note 10 - Stock-Based Compensation for more information.

9. INCOME TAXES

The Company determines the tax provision for interim periods using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our effective tax rate for the three months ended June 30, 2020 decreased to a benefit of (3.6)% from an expense of 22.1% for the three months ended June 30, 2019, primarily due to increased estimates related to research and development ("R&D") tax credits, resulting in an incremental benefit to our effective tax rate of nearly 27% for the second quarter of 2020 compared to the second quarter of 2019.

Similarly, our effective tax rate for the six months ended June 30, 2020 decreased to 16.6% from 22.9% for the six months ended June 30, 2019, as increased estimates related to R&D tax credits resulted in an incremental benefit to our effective tax rate of nearly 6% for the first six months of 2020 compared to the first six months of 2019.

10. STOCK-BASED COMPENSATION

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

The following table details total stock-based compensation expense for the three and six months ended June 30, 2020 and 2019, included in the condensed consolidated statements of income:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Costs of sales	\$ 250	\$ 516	\$ 778	\$ 1,047
Operating expenses	1,001	2,175	2,832	4,080
Pre-tax stock-based compensation expense	1,251	2,691	3,610	5,127
Less: income tax effect	(275)	(592)	(794)	(1,128)
Net stock-based compensation expense	\$ 976	\$ 2,099	\$ 2,816	\$ 3,999

The Company's stock-based compensation awards are in the form of restricted stock and performance share awards granted pursuant to the Company's Amended and Restated 2012 Restricted Stock Plan for Non-Employee Directors, Amended and Restated 2014 Incentive Plan and 2019 Incentive Plan (the "Plans"). As of June 30, 2020, there was \$9.6 million of unrecognized compensation expense related to unvested stock-based compensation arrangements granted under the Plans, which is expected to be recognized over a weighted-average period of 1.8 years.

Restricted Stock

The Company grants restricted stock to executive officers, certain key employees and non-employee directors under the Plans with the fair value of the awards representing the fair value of the common stock on the date the restricted stock is granted. Shares of restricted stock generally vest in equal annual installments over the applicable vesting period, which ranges from one to three years. The Company records expenses for these grants on a straight-line basis over the applicable vesting periods. Shares of restricted stock may also be issued pursuant to the settlement of performance share awards, for which the Company records expenses in the manner described in the "Performance Share Awards" section below.

A summary of restricted stock activity (including shares of restricted stock issued pursuant to the settlement of performance share awards) under the Plans during the six months ended June 30, 2020 and 2019 is as follows:

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Unvested restricted stock outstanding at beginning of period	525,859	\$ 30.51	475,132	\$ 32.00
Granted	136,771	26.16	133,936	30.89
Performance share awards settled through the issuance of restricted stock	19,678	30.15	138,566	29.80
Vested	(265,518)	30.85	(221,775)	33.48
Unvested restricted stock outstanding at end of period	416,790	\$ 28.85	525,859	\$ 30.51

Performance Share Awards

The Company granted performance share awards to executive officers and certain key employees under the Amended and Restated 2014 Incentive Plan prior to 2019 and under the 2019 Incentive Plan beginning in 2019. The number of shares of common stock earned and issuable under each award is determined at the end of a one-year or three-year performance period, based on the Company's achievement of performance goals predetermined by the Compensation Committee of the Board of Directors at the time of grant. The three-year performance share awards include a modifier to the total number of shares earned based on the Company's total shareholder return ("TSR") compared to an industry index. If certain levels of the performance objective are met, the award results in the issuance of shares of restricted stock or common stock corresponding to such level. One-year performance share awards are then subject to time-based vesting pursuant to which the shares of restricted stock vest in equal annual installments over the applicable vesting period, which is generally three years. Three-year performance share awards that result in the issuance of shares of common stock are not subject to time-based vesting at the conclusion of the three-year performance period.

In the event that the Company's financial performance meets the predetermined targets for the performance objectives of the one-year and three-year performance share awards, the Company will issue each award recipient the number of shares of restricted stock or common stock, as applicable, equal to the target award specified in the individual's underlying performance share award agreement. In the event the financial results of the Company exceed the predetermined targets, additional shares up to the maximum award may be issued. In the event the financial results of the Company fall below the predetermined targets, a reduced number of shares may be issued. If the financial results of the Company fall below the threshold performance levels, no shares will be issued. The total number of shares issued for the three-year performance share award may be increased, decreased, or unchanged based on the TSR modifier described above.

The recipients of performance share awards do not receive dividends or possess voting rights during the performance period and, accordingly, the fair value of the one-year and three-year performance share awards is the quoted market value of CPSI's common stock on the grant date less the present value of the expected dividends not received during the relevant period. The TSR modifier applicable to the three-year performance share awards is considered a market condition and therefore is reflected in the grant date fair value of the award. A Monte Carlo simulation has been used to account for this market condition in the grant date fair value of the award.

Expense of one-year performance share awards is recognized using the accelerated attribution (graded vesting) method over the period beginning on the date the Company determines that it is probable that the performance criteria will be achieved and ending on the last day of the vesting period for the restricted stock issued in satisfaction of such awards. Expense of three-year performance share awards is recognized using ratable straight-line amortization over the three-year performance period. In the event the Company determines it is no longer probable that the minimum performance level will be achieved, all previously recognized compensation expense related to the applicable awards is reversed in the period such a determination is made.

A summary of performance share award activity under the Plans during the six months ended June 30, 2020 and 2019 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Performance share awards outstanding at beginning of period	200,709	\$ 30.75	184,776	\$ 30.15
Granted	107,298	26.96	110,310	30.95
Adjusted for actual performance, net of forfeitures	(35,477)	30.15	44,189	29.77
Performance share awards settled through the issuance of restricted stock	(19,678)	30.15	(138,566)	29.80
Performance share awards outstanding at end of period	252,852	\$ 29.27	200,709	\$ 30.75

11. FINANCING RECEIVABLES

Short-Term Payment Plans

The Company provides fixed monthly payment arrangements ("short-term payment plans") over terms ranging from three to twelve months for meaningful use stage three and other add-on software installations. As a practical expedient, we do not adjust the amount of consideration recognized as revenue for the financing component as unearned income when we expect payment within one year or less. These receivables, included in the current portion of financing receivables, were comprised of the following at June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020	December 31, 2019
Short-term payment plans, gross	\$ 1,828	\$ 2,361
Less: allowance for losses	(128)	(165)
Short-term payment plans, net	\$ 1,700	\$ 2,196

Long-Term Financing Arrangements

Additionally, the Company provides financing for purchases of its information and patient care systems to certain healthcare providers under long-term financing arrangements expiring in various years through 2026. Under long-term financing arrangements, the transaction price is adjusted by a discount rate that reflects market conditions that would be used for a separate financing transaction between the Company and licensee at contract inception, and takes into account the credit characteristics of the licensee and market interest rates as of the date of the agreement. As such, the amount of fixed fee revenue recognized at the beginning of the license term will be reduced by the calculated financing component. As payments are received from the licensee, the Company recognizes a portion of the financing component as interest income, reported as other income in the condensed consolidated statements of income. These receivables typically have terms from two to seven years.

The components of these receivables were as follows at June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020	December 31, 2019
Long-term financing arrangements, gross	\$ 30,155	\$ 34,483
Less: allowance for expected credit losses	(2,221)	(2,806)
Less: unearned income	(3,067)	(3,574)
Long-term financing arrangements, net	\$ 24,867	\$ 28,103

Future minimum payments to be received subsequent to June 30, 2020 are as follows:

(In thousands)

Years Ending December 31,	
2020	\$ 6,385
2021	10,200
2022	6,666
2023	3,846
2024	2,228
Thereafter	830
Total minimum payments to be received	30,155
Less: allowance for expected credit losses	(2,221)
Less: unearned income	(3,067)
Receivables, net	\$ 24,867

Credit Quality of Financing Receivables and Allowance for Expected Credit Losses

The following table is a roll-forward of the allowance for expected credit losses for the six months ended June 30, 2020 and year ended December 31, 2019:

(In thousands)	Balance at Beginning of Period	Provision	Charge-offs	Recoveries	Balance at End of Period
June 30, 2020	\$ 2,971	\$ 703	\$ (1,325)	\$ —	\$ 2,349
December 31, 2019	\$ 2,567	\$ 970	\$ (566)	\$ —	\$ 2,971

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

Customer payments are considered past due if a scheduled payment is not received within contractually agreed upon terms. To facilitate customer collection and credit monitoring efforts, financing receivable amounts are invoiced and reclassified to trade accounts receivable when they become due, with all invoiced amounts placed on nonaccrual status. As a result, all past due amounts related to the Company's financing receivables are included in trade accounts receivable in the accompanying condensed consolidated balance sheets. The following is an analysis of the age of financing receivables amounts (excluding short-term payment plans) that have been reclassified to trade accounts receivable and were past due as of June 30, 2020 and December 31, 2019:

(In thousands)	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
June 30, 2020	\$ 974	\$ 406	\$ 342	\$ 1,722
December 31, 2019	\$ 1,480	\$ 150	\$ 207	\$ 1,837

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

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

The Company utilizes an aging of trade accounts receivable as the primary credit quality indicator for its financing receivables, which is facilitated by the reclassification of customer payment amounts to trade accounts receivable when they become due. The table below categorizes customer financing receivable balances (excluding short-term payment plans) based on the age of the oldest payment outstanding that has been reclassified to trade accounts receivable:

<i>(In thousands)</i>	June 30, 2020	December 31, 2019
Stratification of un invoiced client financing receivables based on aging of related trade accounts receivable:		
Uninvoiced client financing receivables related to trade accounts receivable that are 1 to 90 Days Past Due	\$ 10,663	\$ 18,015
Uninvoiced client financing receivables related to trade accounts receivable that are 91 to 180 Days Past Due	2,905	2,136
Uninvoiced client financing receivables related to trade accounts receivable that are 181 + Days Past Due	3,164	1,972
Total uninvoiced client financing receivables balances of clients with a trade accounts receivable	\$ 16,732	\$ 22,123
Total uninvoiced client financing receivables of clients with no related trade accounts receivable	10,356	8,786
Total financing receivables with contractual maturities of one year or less	1,828	2,361
Less: allowance for expected credit losses	(2,349)	(2,971)
Total financing receivables	\$ 26,567	\$ 30,299

12. INTANGIBLE ASSETS AND GOODWILL

Our purchased definite-lived intangible assets as of June 30, 2020 and December 31, 2019 are summarized as follows:

<i>(In thousands)</i>	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount as of December 31, 2018	\$ 82,300	\$ 10,900	\$ 24,100	\$ 117,300
Intangible assets acquired for year ended December 31, 2019	2,070	220	5,600	7,890
Accumulated amortization as of December 31, 2019	(26,456)	(3,449)	(12,175)	(42,080)
Net intangible assets as of December 31, 2019	\$ 57,914	\$ 7,671	\$ 17,525	\$ 83,110
Gross carrying amount as of June 30, 2020	\$ 84,370	\$ 11,120	\$ 29,700	\$ 125,190
Net intangible assets as of December 31, 2019	57,914	7,671	17,525	83,110
Amortization expenses as of June 30, 2020	(3,600)	(424)	(1,708)	(5,732)
Net intangible assets as of June 30, 2020	\$ 54,314	\$ 7,247	\$ 15,817	\$ 77,378
Weighted average remaining years of useful life	8	12	5	8

The following table represents the remaining amortization of definite-lived intangible assets as of June 30, 2020:

(In thousands)

For the year ended December 31,	
2020	\$ 5,689
2021	11,003
2022	10,904
2023	10,904
2024	9,681
Thereafter	29,197
Total	<u>\$ 77,378</u>

The following table sets forth the change in the carrying amount of goodwill by segment for the six months ended June 30, 2020:

(In thousands)	Post-acute Care		TruBridge	Total
	Acute Care EHR	EHR		
Balance as of December 31, 2019	\$ 97,095	\$ 29,570	\$ 23,551	\$ 150,216
Balance as of June 30, 2020	<u>\$ 97,095</u>	<u>\$ 29,570</u>	<u>\$ 23,551</u>	<u>\$ 150,216</u>

Goodwill is evaluated for impairment annually on October 1, or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist.

13. LONG-TERM DEBT

Long-term debt was comprised of the following at June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020	December 31, 2019
Term loan facility	\$ 75,000	\$ 88,823
Revolving credit facility	28,561	20,000
Debt obligations	103,561	108,823
Less: unamortized debt issuance costs	(1,455)	(960)
Debt obligation, net	102,106	107,863
Less: current portion	(3,457)	(8,430)
Long-term debt	<u>\$ 98,649</u>	<u>\$ 99,433</u>

As of June 30, 2020, the carrying value of debt approximated the fair value due to the variable interest rate, which reflected the market rate.

Credit Agreement

In conjunction with our acquisition of HHI in January 2016, we entered into a syndicated credit agreement with Regions Bank ("Regions") serving as administrative agent, which provided for a \$125 million term loan facility and a \$50 million revolving credit facility. On June 16, 2020, we entered into an Amended and Restated Credit Agreement that increased the aggregate principal amount of our credit facilities to \$185 million, which includes a \$75 million term loan facility and a \$110 million revolving credit facility.

Each of our credit facilities continues to bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) the Adjusted LIBOR rate for the relevant interest period, subject to a floor of 0.50%, (2) an alternate base rate determined by reference to the greater of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate, subject to the aforementioned floor, plus one percent per annum, or (3) a combination of (1) and (2). The applicable margin range for LIBOR loans and the letter of credit fee ranges from 1.8% to 3.0%. The applicable margin range for base rate loans ranges from 0.8% to 2.0%, in each case based on the Company's consolidated net leverage ratio.

Principal payments with respect to the term loan facility are due on the last day of each fiscal quarter beginning September 30, 2020, with quarterly principal payments of approximately \$0.9 million through June 30, 2022, approximately \$1.4 million through June 30, 2024 and approximately \$1.9 million through March 31, 2025, with maturity on June 16, 2025 or such earlier date as the obligations under the Amended and Restated Credit Agreement become due and payable pursuant to the terms of such agreement. Any principal outstanding under the revolving credit facility is due and payable on the maturity date.

Anticipated annual future maturities of the term loan facility and revolving credit facility are as follows as of June 30, 2020:

(In thousands)

2020	\$	1,875
2021		3,750
2022		4,687
2023		5,625
2024		6,563
Thereafter		81,061
	\$	<u>103,561</u>

Our credit facilities are secured pursuant to an Amended and Restated Pledge and Security Agreement, dated June 16, 2020, among the parties identified as obligors therein and Regions, as collateral agent, on a first priority basis by a security interest in substantially all of the tangible and intangible assets (subject to certain exceptions) of the Company and certain subsidiaries of the Company, as guarantors (collectively, the “Subsidiary Guarantors”), including certain registered intellectual property and the capital stock of certain of the Company’s direct and indirect subsidiaries. Our obligations under the Amended and Restated Credit Agreement are also guaranteed by the Subsidiary Guarantors.

The Amended and Restated Credit Agreement provides incremental facility capacity of \$50 million, subject to certain conditions. The Amended and Restated Credit Agreement includes a number of restrictive covenants that, among other things and in each case subject to certain exceptions and baskets, impose operating and financial restrictions on the Company and the Subsidiary Guarantors, including the ability to incur additional debt; incur liens and encumbrances; make certain restricted payments, including paying dividends on the Company’s equity securities or payments to redeem, repurchase or retire the Company’s equity securities (which are subject to our compliance, on a pro forma basis to give effect to the restricted payment, with the fixed charge coverage ratio and consolidated net leverage ratio described below); enter into certain restrictive agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into sale and leaseback transactions; engage in transactions with affiliates; and materially alter the business we conduct. The Amended and Restated Credit Agreement requires the Company to maintain a minimum fixed charge coverage ratio of 1.25:1.00 throughout the duration of such agreement. Under the Amended and Restated Credit Agreement, the Company is required to comply with a maximum consolidated net leverage ratio of 3.50:1.00. The Amended and Restated Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. We believe that we were in compliance with the covenants contained in such agreement as of June 30, 2020.

The Amended and Restated Credit Agreement requires the Company to mandatorily prepay the credit facilities with 50% of excess cash flow (minus certain specified other payments). This mandatory prepayment requirement is applicable only if the Company’s consolidated net leverage ratio exceeds 2.50:1.00. The Company is permitted to voluntarily prepay the credit facilities at any time without penalty, subject to customary “breakage” costs with respect to prepayments of LIBOR rate loans made on a day other than the last day of any applicable interest period. An excess cash flow prepayment related to excess cash flow generated during 2019 was not required during the first quarter of 2020.

14. OPERATING LEASES

The Company leases office space in various locations in Alabama, Louisiana, Pennsylvania, Minnesota, Maryland, and Mississippi. These leases have terms expiring from 2020 through 2030 but do contain optional extension terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Supplemental balance sheet information related to operating leases was as follows:

<i>(In thousands)</i>	June 30, 2020
Operating lease assets:	
Operating lease assets	\$ 7,223
Operating lease liabilities:	
Other accrued liabilities	\$ 1,567
Operating lease liabilities, net of current portion	5,656
Total operating lease liabilities	\$ 7,223
Weighted average remaining lease term in years	6
Weighted average discount rate	5.1%

Because our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. We used the incremental borrowing rate on January 1, 2019, for operating leases that commenced prior to that date.

The future minimum lease payments payable under these operating leases subsequent to June 30, 2020 are as follows:

<i>(In thousands)</i>	
2020	\$ 786
2021	1,519
2022	1,436
2023	1,363
2024	980
Thereafter	2,382
Total lease payments	8,466
Less imputed interest	(1,243)
Total	\$ 7,223

Total rent expense for the six months ended June 30, 2020 and 2019 was \$0.8 million and \$1.3 million, respectively.

Total cash paid for amounts included in the measurement of lease liabilities within operating cash flows from operating leases for the six months ended June 30, 2020 was \$0.8 million.

15. COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. Management does not believe it is reasonably possible that such matters will have a material adverse effect on the Company's financial statements.

16. FAIR VALUE

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

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

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

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

As of June 30, 2020 and December 31, 2019, we did not have any instruments that require fair value measurement.

17. SEGMENT REPORTING

Our chief operating decision makers ("CODM") utilize three operating segments, "Acute Care EHR," "Post-acute Care EHR" and "TruBridge," based on our three distinct business units with unique market dynamics and opportunities. Revenues and cost of sales are primarily derived from the provision of services and sales of our proprietary software, and our CODM assess the performance of these three segments at the gross profit level. Operating expenses and items such as interest, income tax, capital expenditures and total assets are managed at a consolidated level and thus are not included in our operating segment disclosures. Our CODM group is comprised of the Chief Executive Officer, Chief Growth Officer, Chief Operating Officer, and Chief Financial Officer. Accounting policies for each of the reportable segments are the same as those used on a consolidated basis.

The following table presents a summary of the revenues and gross profits of our three operating segments for the three and six months ended June 30, 2020 and 2019:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Acute Care EHR				
Recurring revenue	\$ 25,728	\$ 27,091	\$ 52,166	\$ 54,479
Non-recurring revenue	4,634	6,957	14,711	17,016
Total Acute Care EHR revenue	30,362	34,048	66,877	71,495
Post-acute Care EHR				
Recurring revenue	3,997	4,424	8,131	8,902
Non-recurring revenue	365	1,168	902	2,490
Total Post-acute Care EHR revenue	4,362	5,592	9,033	11,392
TruBridge	24,825	26,516	53,396	52,410
Total revenues	\$ 59,549	\$ 66,156	\$ 129,306	\$ 135,297
Cost of sales:				
Acute Care EHR	\$ 14,542	\$ 16,346	\$ 31,801	\$ 33,412
Post-acute Care EHR	1,145	1,327	2,472	2,598
TruBridge	13,756	13,948	28,813	27,637
Total cost of sales	\$ 29,443	\$ 31,621	\$ 63,086	\$ 63,647
Gross profit:				
Acute Care EHR	\$ 15,820	\$ 17,702	\$ 35,076	\$ 38,083
Post-acute Care EHR	3,217	4,265	6,561	8,794
TruBridge	11,069	12,568	24,583	24,773
Total gross profit	\$ 30,106	\$ 34,535	\$ 66,220	\$ 71,650
Corporate operating expenses	\$ (27,361)	\$ (30,919)	\$ (57,343)	\$ (61,987)
Other (expense) income	(38)	283	324	532
Loss on extinguishment of debt	(202)	—	(202)	—
Interest expense	(803)	(1,763)	(1,982)	(3,567)
Income before taxes	\$ 1,702	\$ 2,136	\$ 7,017	\$ 6,628

18. SUBSEQUENT EVENTS

On August 4, 2020, the Company announced a dividend for the third quarter of 2020 in the amount of \$0.10 per share, payable on August 31, 2020, to stockholders of record as of the close of business on August 17, 2020.

19. COVID-19 PANDEMIC

In December 2019, a novel coronavirus disease (“COVID-19”) was reported and in January 2020, the World Health Organization (“WHO”) declared it a Public Health Emergency of International Concern. In February 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and in March 2020, the WHO characterized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency.

The COVID-19 pandemic has caused, and is continuing to cause, severe economic, market and other disruptions to the U.S. and global economies. Although the pandemic had a muted impact on our results for the first quarter of 2020, the Company began experiencing increasingly adverse business conditions beginning in the latter half of March through the date of this report, including our results of operations for the second quarter of 2020. Most notably:

- Travel restrictions and social distancing protocols have created an additional challenge to our on-site implementation and sales teams. Although we have shown success with remote implementation models and our sales representatives are engaging in remote contact with existing customers and prospects, these restrictions and protocols are expected to continue to have an incrementally negative impact on implementation revenues and new sales generation.
- Patient volumes at our client hospitals have experienced a severe decline from historical levels. As the overwhelming majority of TruBridge revenues are directly or indirectly correlated with client patient volumes, these reduced patient volumes are expected to continue to negatively impact our related revenues.
- Although we have experienced no notable disruption to our operating cash flows through the date of this report, we currently expect that the aforementioned limitations on travel and decreased client patient volumes will ultimately result in decreased cash collections from our customers as long as these conditions persist. These decreases in cash collections could be further negatively impacted by the amount and extent to which the pandemic impacts the financial condition and liquidity of our customers.

Despite these adverse business conditions, the pandemic has had a muted impact on our financial condition as of June 30, 2020.

At this time, the Company is uncertain of the potential full magnitude or duration of the business and economic impacts from the unprecedented public health efforts to contain and combat the spread of COVID-19, and while the extent to which the COVID-19 pandemic continues to impact the Company’s results will depend on future developments, the outbreak could result in a material impact to the Company’s future financial position, results of operations, cash flows and liquidity.

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

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

This discussion and analysis contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified generally by the use of forward-looking terminology and words such as "expects," "anticipates," "estimates," "believes," "predicts," "intends," "plans," "potential," "may," "continue," "should," "will" and words of comparable meaning. Without limiting the generality of the preceding statement, all statements in this report relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and future financial results are forward-looking statements. We caution investors that any such forward-looking statements are only predictions and are not guarantees of future performance. Certain risks, uncertainties and other factors may cause actual results to differ materially from those projected in the forward-looking statements. Such factors may include:

- the impact of COVID-19 and related economic disruptions have materially affected our revenue and could materially affect our gross margin and income, as well as our financial position and/or liquidity;
- saturation of our target market and hospital consolidations;
- changes in customer purchasing priorities, capital expenditures and demand for information technology systems;
- overall business and economic conditions affecting the healthcare industry, including the effects of the federal healthcare reform legislation enacted in 2010, and implementing regulations, on the businesses of our hospital customers;
- government regulation of our products and services and the healthcare and health insurance industries, including changes in healthcare policy affecting Medicare and Medicaid reimbursement rates and qualifying technological standards;
- competition with companies that have greater financial, technical and marketing resources than we have;
- future acquisitions that may be expensive, time consuming, and subject to other inherent risks which may jeopardize our ability to realize anticipated benefits;
- our ability to attract and retain qualified client service and support personnel;
- failure to properly manage growth in new markets we may enter;
- exposure to numerous and often conflicting laws, regulations or other requirements through our international business activities and processes;
- failure to develop new technology and products in response to market demands;
- failure of our products to function properly resulting in claims for medical and other losses;
- breaches of security and viruses in our systems resulting in customer claims against us and harm to our reputation;
- failure to maintain customer satisfaction through new product releases free of undetected errors or problems;
- failure to convince customers to migrate to current or future releases of our products;
- failure to maintain our margins and service rates for implementation services;
- potential liability arising out of the licensing of our software and provision of services and our dependency on our licenses of rights, products and services from third parties;
- misappropriation of our intellectual property rights and potential intellectual property claims and litigation against us;
- interruptions in our power supply and/or telecommunications capabilities, including those caused by natural disaster;

- general economic conditions, including changes in the financial and credit markets that may affect the availability and cost of credit to us or our customers;
- our substantial indebtedness, and our ability to incur additional indebtedness in the future;
- our potential inability to generate sufficient cash in order to meet our debt service obligations;
- restrictions on our current and future operations because of the terms of our senior secured credit facilities;
- market risks related to interest rate changes;
- changes in accounting principles generally accepted in the United States of America; and
- significant charges to earnings if our goodwill or intangible assets become impaired; and fluctuations in quarterly financial performance due to, among other factors, timing of customer installations.

Additional information concerning these and other factors that could cause differences between forward-looking statements and future actual results is discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and this Quarterly Report on Form 10-Q.

Background

CPSI is a leading provider of healthcare solutions and services for community hospitals and other healthcare systems and post-acute care facilities. Founded in 1979, CPSI offers its products and services through four companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), American HealthTech, Inc. ("AHT"), and iNetXperts, Corp. d/b/a Get Real Health ("Get Real Health"). These combined companies are focused on improving the health of the communities we serve, connecting communities for a better patient care experience, and improving the financial operations of our clients. The individual contributions of each of these companies towards this combined focus are as follows:

- Evident, which makes up our Acute Care EHR reporting segment, provides comprehensive acute care electronic health record ("EHR") solutions, Thrive and Centriq, and related services for community hospitals and their physician clinics.
- AHT, which makes up our Post-acute Care EHR reporting segment, provides a comprehensive post-acute care EHR solution and related services for skilled nursing and assisted living facilities.
- TruBridge, our third reporting segment, focuses on providing business management, consulting, and managed IT services along with its complete revenue cycle management ("RCM") solution for all care settings, regardless of their primary healthcare information solutions provider.
- Get Real Health, included within our TruBridge segment, delivers technology solutions to improve patient outcomes and engagement strategies with care providers.

Our companies currently support approximately 800 acute care facilities and approximately 3,300 post-acute care facilities with a geographically diverse customer mix within the domestic community healthcare market. Our clients primarily consist of community hospitals with fewer than 200 acute care beds, with hospitals having fewer than 100 beds comprising approximately 98% of our acute care EHR client base.

See Note 17 to the condensed consolidated financial statements included herein for additional information on our three reportable segments.

Management Overview

Through much of our history, our strategy has been to achieve meaningful long-term revenue growth through sales of healthcare IT systems and related services to existing and new clients within our target market. Prospectively, our ability to continue to realize long-term revenue growth is largely dependent on our ability to sell new and additional products and services to our existing customer base, including cross-selling opportunities presented between our operating segments, Acute Care EHR, Post-acute Care EHR, and TruBridge. As a result, retention of existing EHR customers is a key component of our long-term growth strategy by protecting this base of potential cross-sell customers, while at the same time serving as a leading indicator of our market position and stability of revenues and cash flows.

Additionally, as we consider the long-term growth prospects of our business, we are seeking to further stabilize our revenues and cash flows and leverage TruBridge services as a growth agent in light of a relatively mature EHR marketplace. As a result, we are placing ever-increasing value in further developing our already significant recurring revenue base. As such, maintaining

and growing recurring revenues are additional key components of our long-term growth strategy, aided by the aforementioned focus on customer retention, and includes a renewed focus on driving demand for subscriptions for our existing technology solutions and expanding the footprint for TruBridge services beyond our EHR customer base.

Our business model is designed such that, as revenue growth materializes, earnings and profitability growth are naturally bolstered through the increased margin realization afforded us by operating leverage. Once a hospital has installed our solutions, we continue to provide support services to the customer on a continuing basis and make available to the customer our broad portfolio of business management, consulting, and managed IT services, all of which contribute to recurring revenue growth. The provision of these recurring revenue services typically requires fewer resources than the initial system installation, resulting in increased overall gross margins and operating margins. We also look to increase margins through cost containment measures where appropriate as we continue to leverage opportunities for greater operating efficiencies of the combined entity.

Turbulence in the U.S. and worldwide economies and financial markets impacts almost all industries. While the healthcare industry is not immune to economic cycles, we believe it is more significantly affected by U.S. regulatory and national health initiatives than by the economic cycles of our economy. Additionally, healthcare organizations with a large dependency on Medicare and Medicaid populations, such as community hospitals, have been affected by the challenging financial condition of the federal government and many state governments and government programs. Accordingly, we recognize that prospective hospital clients often do not have the necessary capital to make investments in information technology. Additionally, in response to these challenges, hospitals have become more selective regarding where they invest capital, resulting in a focus on strategic spending that generates a return on their investment. Despite these challenges, we believe healthcare information technology is often viewed as more strategically beneficial to hospitals than other possible purchases because the technology also plays an important role in healthcare by improving safety and efficiency and reducing costs. Additionally, we believe most hospitals recognize that they must invest in healthcare information technology to meet current and future regulatory, compliance and government reimbursement requirements.

In recent years, there have been significant changes to provider reimbursement by the U.S. federal government, followed by commercial payers and state governments. There is increasing pressure on healthcare organizations to reduce costs and increase quality while replacing fee-for-service in part by enrolling in an advanced payment model. This pressure could further encourage adoption of healthcare IT and increase demand for business management, consulting, and managed IT services, as the future success of these healthcare providers is greatly dependent upon their ability to engage patient populations and to coordinate patient care across a multitude of settings, while optimizing operating efficiency along the way.

Much of the variability in our periodic revenues and profitability has been and will continue to be due to changing demand for different license models for our technology solutions, with variability in operating cash flows further impacted by the financing decisions within those license models. Our technology solutions are generally deployed in one of two license models: (1) perpetual licenses, for which the related revenue is recognized effectively upon installation, and (2) "Software as a Service" or "SaaS" arrangements, including our Cloud Electronic Health Record ("Cloud EHR") offering, which generally result in revenue being recognized monthly as the services are provided over the term of the arrangement.

Although the overwhelming majority of our historical installations have been under a perpetual license model, 2019 marked a dramatic shift in customer preferences in license model, with 43% of the year's new acute care EHR installations being performed in a SaaS model, compared to only 12% in 2018. These SaaS offerings are becoming increasingly attractive to our clients because this configuration allows them to obtain access to advanced software products without a significant initial capital outlay. We expect this trend to continue for the foreseeable future, with the resulting impact on the Company's financial statements being reduced system sales revenues in the period of installation in exchange for increased recurring periodic revenues (reflected in system sales and support revenues) over the term of the SaaS arrangement. This naturally places downward pressure on short-term revenue growth and profitability metrics, but benefits long-term revenue growth and profitability which, in our view, is consistent with our goal of delivering long-term shareholder value.

For customers electing to purchase our technology solutions under a perpetual license, we have historically made financing arrangements available on a case-by-case basis, depending on the various aspects of the proposed contract and customer attributes. These financing arrangements continue to comprise the majority of our perpetual license installations, and include short-term payment plans and longer-term lease financing through us or third-party financing companies. During 2018, total financing receivables increased dramatically and had a significant impact on operating cash flows. This increase in financing arrangements was primarily due to two reasons. First, meaningful use stage 3 ("MU3") installations are primarily financed through short-term payment plans and demand for such installations increased significantly in late 2017. Second, competitor financing options, primarily through accounts receivable management collections and Cloud EHR arrangements, have applied pressure to reduce initial customer capital investment requirements for new EHR installations, leading to the offering of long-term lease options. In 2019, we experienced a modest reduction in total financing receivables due to the natural exhaustion of the MU3 opportunity and the aforementioned dramatic shift in license preferences towards SaaS arrangements, the former of

which also resulted in a positive impact to operating cash flows. We expect financing receivables to continue to decrease during 2020, with a corresponding beneficial impact to operating cash flows, as the trends related to MU3 purchases and SaaS arrangements continue.

For those perpetual license clients not seeking a financing arrangement, the payment schedule of the typical contract is structured to provide for a scheduling deposit due at contract signing, with the remainder of the contracted fees due at various stages of the installation process (delivery of hardware, installation of software and commencement of training, and satisfactory completion of a monthly accounting cycle or end-of-month operation by each respective application, as applicable).

In May 2019, the Company closed its acquisition of Get Real Health. Based in Rockville, Maryland, Get Real Health delivers technology solutions to improve patient outcomes and engagement strategies with care providers. Through this acquisition, the Company strengthened its position in community healthcare by offering three new comprehensive patient engagement and empowerment solutions that are offered by Get Real Health.

COVID-19

The continuing impacts of COVID-19 and related economic conditions on the Company's results are highly uncertain and outside the Company's control. The scope, duration and magnitude of the direct and indirect effects of COVID-19 are evolving rapidly in ways that are difficult or impossible to anticipate. In addition, because COVID-19 did not begin to affect the Company's financial results until late in the first quarter of 2020, its impact on the Company's results in the first six months of 2020 is not indicative of its impact on the Company's results for the remainder of 2020. For additional information on the risks posed by COVID-19, see "The impact of COVID-19 and related economic disruptions have materially affected our revenue and could materially affect our gross margin and income, as well as our financial position and/or liquidity" included in Part II, "Item 1A. Risks Factors" in this Quarterly Report on Form 10-Q.

As a result of COVID-19, community hospital patient volume in the United States and other countries around the world have rapidly deteriorated. Although recent operational metrics indicate promising signs that these patient volumes are improving, the persistence of the pandemic and the unprecedented nature of the resulting challenges it has imposed on national and global healthcare and economic systems are likely to continue to negatively impact patient volumes and make uncertain the exact path to recovery for community hospitals. These decreased levels of our hospital clients' patient volumes have negatively impacted, and will continue to negatively impact, our revenues, gross margins, and income for our TruBridge service offerings. Additionally, new EHR system installations have been, and will continue to be, negatively impacted by restrictive travel and social distancing protocols. The Company began to experience this impact in March 2020, which increased in significance during the second quarter of 2020. The Company expects these impacts to continue for the remainder of 2020 and beyond, but the degree of the impact will depend on the ability of our community hospital clients to return to normal operations and patient volume. We believe that COVID-19 has impacted, and will continue to impact, our business results in the following additional areas:

- Bookings – A decline in new business and add-on bookings as certain client purchasing decisions and projects are delayed to focus on treating patients, procuring necessary medical supplies, and managing their organization through this crisis. This decline in bookings eventually results in reduced backlog and lower subsequent revenue.
- TruBridge Revenues - Decreased levels of patient volume within our community hospital client base will negatively impact our revenues for our TruBridge service offerings as the overwhelming majority of TruBridge revenues are directly or indirectly correlated with client patient volumes. This decline in revenues will have a negative impact on gross margins and income.
- Associate productivity – A decline in associate productivity, primarily for our implementation personnel, as a large amount of work is typically done at client sites, which is being impacted by travel restrictions and our clients' focus on the pandemic. Our clients' focus on the pandemic has also led to pauses on existing projects and postponed start dates for others, which translates into lower implementation revenues, gross margin and income. We are mitigating this by doing more work remotely than we have in the past, but we cannot fully offset the negative impact.
- Travel – Associate travel restrictions reduce client-related travel, which reduces reimbursed travel revenues and lowers our costs of sales as a percent of revenues. Such restrictions also reduce non-reimbursable travel, which lowers operating expenses.

- Cash collections – A delay in client cash collections due to COVID-19’s impact on national reimbursement processes, and client focus on managing their own organizations’ liquidity during this time, could impact our cash collections. The federal government has allocated unprecedented resources specifically designed to assist healthcare providers with their operating and capital needs during the pandemic, allocating a total of \$175 billion through the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund. Further, \$10 billion has been specifically targeted for rural providers, which is of particular interest to our client base, which is comprised mostly of non-urban community hospitals. Of this \$10 billion, the average rural hospital is expected to receive a total of approximately \$3.6 million in direct financial relief. While these funds certainly help mitigate the financial pressures our clients face, the clinical and operational challenges remain immense and are likely to cause certain of our customers to more aggressively manage cash resources in order to preserve liquidity, resulting in uncharacteristic aging of our trade accounts receivable. Additionally, the aforementioned decrease in community hospital patient volumes has had, and will continue to have, a negative impact on TruBridge billings for services and resulting revenues. These factors would translate to lower cash flows from operating activities. Lower cash flows from operating activities may impact how we execute under our capital allocation strategy and may adversely affect our financial condition.

Results of Operations

During the six months ended June 30, 2020, we generated revenues of \$129.3 million from the sale of our products and services, compared to \$135.3 million during the six months ended June 30, 2019, a decrease of 4% that is primarily attributed to reduced MU3 revenue opportunities as the October 1, 2019 deadline has passed and the impact of COVID-19 on client purchasing and implementation plans. Our net income for the six months ended June 30, 2020 increased by \$0.7 million to \$5.9 million from the six months ended June 30, 2019, primarily as a result of decreased long-term debt interest. Net cash provided by operating activities increased by \$7.4 million to \$24.8 million during the six months ended June 30, 2020, primarily due to changes in working capital.

The following table sets forth certain items included in our results of operations for the three and six months ended June 30, 2020 and 2019, expressed as a percentage of our total revenues for these periods:

<i>(In thousands)</i>	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
INCOME DATA:								
Sales revenues:								
System sales and support:								
Acute Care EHR	\$ 30,362	51.0 %	\$ 34,048	51.5 %	\$ 66,877	51.7 %	\$ 71,495	52.8 %
Post-acute Care EHR	4,362	7.3 %	5,592	8.5 %	9,033	7.0 %	11,392	8.4 %
Total System sales and support	34,724	58.3 %	39,640	59.9 %	75,910	58.7 %	82,887	61.3 %
TruBridge	24,825	41.7 %	26,516	40.1 %	53,396	41.3 %	52,410	38.7 %
Total sales revenues	59,549	100.0 %	66,156	100.0 %	129,306	100.0 %	135,297	100.0 %
Costs of sales:								
System sales and support:								
Acute Care EHR	14,542	24.4 %	16,346	24.7 %	31,801	24.6 %	33,412	24.7 %
Post-acute Care EHR	1,145	1.9 %	1,327	2.0 %	2,472	1.9 %	2,598	1.9 %
Total System sales and support	15,687	26.3 %	17,673	26.7 %	34,273	26.5 %	36,010	26.6 %
TruBridge	13,756	23.1 %	13,948	21.1 %	28,813	22.3 %	27,637	20.4 %
Total costs of sales	29,443	49.4 %	31,621	47.8 %	63,086	48.8 %	63,647	47.0 %
Gross profit	30,106	50.6 %	34,535	52.2 %	66,220	51.2 %	71,650	53.0 %
Operating expenses:								
Product development	8,371	14.1 %	9,297	14.1 %	16,642	12.9 %	18,526	13.7 %
Sales and marketing	5,169	8.7 %	7,016	10.6 %	12,166	9.4 %	14,508	10.7 %
General and administrative	10,955	18.4 %	12,090	18.3 %	22,802	17.6 %	23,914	17.7 %
Amortization of acquisition-related intangibles	2,866	4.8 %	2,516	3.8 %	5,733	4.4 %	5,039	3.7 %
Total operating expenses	27,361	45.9 %	30,919	46.7 %	57,343	44.3 %	61,987	45.8 %
Operating income	2,745	4.6 %	3,616	5.5 %	8,877	6.9 %	9,663	7.1 %
Other income (expense):								
Other (expense) income	(38)	(0.1)%	283	0.4 %	324	0.3 %	532	0.4 %
Loss on extinguishment of debt	(202)	(0.3)%	—	— %	(202)	(0.2)%	—	— %
Interest expense	(803)	(1.3)%	(1,763)	(2.7)%	(1,982)	(1.5)%	(3,567)	(2.6)%
Total other income (expense)	(1,043)	(1.8)%	(1,480)	(2.2)%	(1,860)	(1.4)%	(3,035)	(2.2)%
Income before taxes	1,702	2.9 %	2,136	3.2 %	7,017	5.4 %	6,628	4.9 %
(Benefit) provision for income taxes	(62)	(0.1)%	473	0.7 %	1,163	0.9 %	1,521	1.1 %
Net income	\$ 1,764	3.0 %	\$ 1,663	2.5 %	\$ 5,854	4.5 %	\$ 5,107	3.8 %

Three Months Ended June 30, 2020 Compared with Three Months Ended June 30, 2019

Revenues

Total revenues for the three months ended June 30, 2020 decreased by \$6.6 million, or 10%, compared to the three months ended June 30, 2019.

System sales and support revenues decreased by \$4.9 million, or 12%, compared to the second quarter of 2019. System sales and support revenues were comprised of the following during the respective periods:

<i>(In thousands)</i>	Three Months Ended June 30,	
	2020	2019
Recurring system sales and support revenues ⁽¹⁾		
Acute Care EHR	\$ 25,728	\$ 27,091
Post-acute Care EHR	3,997	4,424
Total recurring system sales and support revenues	29,725	31,515
Non-recurring system sales and support revenues ⁽²⁾		
Acute Care EHR	4,634	6,957
Post-acute Care EHR	365	1,168
Total non-recurring system sales and support revenues	4,999	8,125
Total system sales and support revenue	\$ 34,724	\$ 39,640

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

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

Recurring system sales and support revenues decreased by \$1.8 million, or 6%, compared to the second quarter of 2019. Acute Care EHR recurring revenues decreased by \$1.4 million, or 5%, as attrition from the Thrive and Centriq customer base outweighed new Thrive customer growth and additional support fees. Post-acute Care EHR recurring revenues decreased by \$0.4 million, or 10%, due to attrition attributed to an aggressive competitive environment as we make technological improvements to the AHT product line.

Non-recurring system sales and support revenues decreased by \$3.1 million, or 38%. Acute Care EHR non-recurring revenues decreased by \$2.3 million, or 33%. We installed our Acute Care EHR solutions at five new hospital clients during the second quarter of 2020 (three of which were under a SaaS arrangement, resulting in revenue being recognized ratably over the contract term) compared to six new hospital clients during the second quarter of 2019 (three under a SaaS arrangement). Acute Care EHR revenues from new system implementations decreased by \$0.8 million, and were further exacerbated by a \$1.9 million decrease in add-on sales to existing customers, nearly half of which is attributable to the aforementioned reduced revenue opportunity for MU3 applications. Non-recurring Post-acute Care EHR revenues decreased by \$0.8 million, or 69%, as compliance catalysts in place during 2019 have largely abated.

TruBridge revenues decreased by 6%, or \$1.7 million, compared to the second quarter of 2019. This revenue decrease was primarily attributable to the impact of COVID-19 on the patient volumes of our community hospital customers. With the overwhelming majority of TruBridge revenues based on such volumes, resulting revenue declines were experienced in nearly all of our revenue sources. Most notably, accounts receivable management services revenues decreased \$1.3 million, or 14%, and revenues from our private pay services offering decreased \$0.4 million, or 11%.

Costs of Sales

Total costs of sales decreased by 7%, or \$2.2 million, compared to the second quarter of 2019. As a percentage of total revenues, costs of sales increased to 49% of revenues in the second quarter of 2020 compared to 48% of revenues in the second quarter of 2019.

Costs of Acute Care EHR system sales and support decreased by \$1.8 million, or 11%, compared to the second quarter of 2019, primarily due to travel costs savings of approximately \$1.0 million due to the impact of COVID-19 on associate travel, while hardware costs decreased \$0.4 million due to a decline in related revenues. The gross margin on Acute Care EHR system sales and support remained relatively consistent at 52% for both periods.

Costs of Post-acute Care EHR system sales and support decreased by \$0.2 million, or 14%, compared to the second quarter of 2019, primarily due to travel costs savings due to the impact of COVID-19 on associate travel. The gross margin on Post-acute Care EHR system sales and support decreased to 74% in the second quarter of 2020, compared to 76% in the second quarter of 2019.

Our costs associated with TruBridge sales and support decreased by 1%, or \$0.2 million, compared to the second quarter of 2019, primarily due to travel costs savings due to the impact of COVID-19 on associate travel. At the onset of the pandemic,

we notified our employees, including those whose roles were negatively impacted by the declining patient volumes at our community hospital clients, that we would not execute any payroll cost mitigation efforts in response to COVID-19 through July 31, 2020. As a result, we have not executed any reduction-in-force or furlough action plans as a result of the pandemic, which severely limited our ability to offset revenue declines with cost savings. The gross margin on these services decreased to 45% in the second quarter of 2020, compared to 47% in the second quarter of 2019.

Product Development

Product development expenses consist primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs decreased by \$0.9 million, or 10%, compared to the second quarter of 2019, primarily due to a \$0.4 million decrease in third-party development costs, with an additional \$0.6 million of payroll capitalized for software development.

Sales and Marketing

Sales and marketing expenses decreased by \$1.8 million, or 26%, compared to the second quarter of 2019, mostly due to the varying impacts of COVID-19 on our sales execution. Specifically, stock-based compensation expense decreased by \$0.5 million as the expected impact of the pandemic on our operations has resulted in a reduced near-term outlook, resulting in reduced expected achievement levels for performance share awards granted to executives and certain key employees in 2018 through 2020. Commission expense decreased by \$0.5 million due to the aforementioned decline in revenues, which are partly attributable to the pandemic. Lastly, travel costs decreased by \$0.5 million, as travel restrictions and social distancing guidelines pose challenges to in-person sales efforts.

General and Administrative

General and administrative expenses decreased by \$1.1 million, mostly due to a \$1 million decrease in costs associated with our annual client conference. This conference, typically held during the second quarter of each year, was originally scheduled for May 2020. In response to the COVID-19 pandemic, we initially postponed the conference until August 2020, subsequently cancelling the 2020 event altogether.

Amortization of Acquisition-Related Intangibles

Amortization expense associated with acquisition-related intangible assets increased by \$0.4 million, compared to the second quarter of 2019, due to the inclusion of Get Real Health intangibles.

Total Operating Expenses

As a percentage of total revenues, total operating expenses decreased to 46% of revenues in the second quarter of 2020, compared to 47% in the second quarter of 2019.

Total Other Income (Expense)

Total other income (expense) decreased by \$0.4 million to an expense of \$1.0 million in the second quarter of 2020 compared to expense of \$1.5 million in the second quarter of 2019, primarily as our long-term debt and accompanying interest rate have both decreased from the second quarter of 2019.

Income Before Taxes

As a result of the foregoing factors, income before taxes decreased by \$0.4 million, compared to the second quarter of 2019.

Provision for Income Taxes

Our effective tax rate for the three months ended June 30, 2020 decreased to a benefit of (3.6)% from an expense of 22.1% for the three months ended June 30, 2019, primarily due to increased estimates related to research and development ("R&D") tax credits, resulting in an incremental benefit to our effective tax rate of nearly 27% for the second quarter of 2020 compared to the second quarter of 2019.

Net Income

Net income for the three months ended June 30, 2020 increased by \$0.1 million to \$1.8 million, or \$0.12 per basic and diluted share, compared with net income of \$1.7 million, or \$0.12 per basic and diluted share, for the three months ended June 30, 2019. Net income represented 3% of revenue for the three months ended June 30, 2020 and June 30, 2019.

Six Months Ended June 30, 2020 Compared with Six Months Ended June 30, 2019

Revenues

Total revenues for the six months ended June 30, 2020 decreased by \$6.0 million, or 4%, compared to the six months ended June 30, 2019.

System sales and support revenues decreased by \$7.0 million, or 8%, compared to the six months ended June 30, 2019. System sales and support revenues were comprised of the following during the respective periods:

(In thousands)	Six Months Ended June 30,	
	2020	2019
Recurring system sales and support revenues ⁽¹⁾		
Acute Care EHR	\$ 52,166	\$ 54,479
Post-acute Care EHR	8,131	8,902
Total recurring system sales and support revenues	60,297	63,381
Non-recurring system sales and support revenues ⁽²⁾		
Acute Care EHR	14,711	17,016
Post-acute Care EHR	902	2,490
Total non-recurring system sales and support revenues	15,613	19,506
Total system sales and support revenue	\$ 75,910	\$ 82,887

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

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

Recurring system sales and support revenues decreased by \$3.1 million, or 5%, compared to the six months ended June 30, 2019. Acute Care EHR recurring revenues decreased by \$2.3 million, or 4%, as attrition from the Thrive and Centriq customer base outweighed new Thrive customer growth and additional support fees. Post-acute Care EHR recurring revenues decreased by \$0.8 million, or 9%, due to attrition attributed to an aggressive competitive environment as we make technological improvements to the AHT product line.

Non-recurring system sales and support revenues decreased by \$3.9 million, or 20%. Acute Care EHR non-recurring revenues decreased by \$2.3 million, or 14%, mostly due to a \$3.3 million decrease in revenues for MU3 applications due to the aforementioned reduced revenue opportunities. We installed our Acute Care EHR solutions at 14 new hospital clients during the first six months of 2020 (11 of which were under a SaaS arrangement, resulting in revenue being recognized ratably over the contract term) compared to 11 new hospital clients during the first six months of 2019 (four of which were under a SaaS arrangement). Non-recurring Post-acute Care EHR revenues decreased by \$1.6 million, or 64%, as compliance catalysts in place during 2019 have largely abated.

TruBridge revenues increased by \$1.0 million, or 2%, compared to the six months ended June 30, 2019. Get Real Health, which was acquired during the second quarter of 2019, contributed \$1.7 million of revenues during the first six months of 2020 compared to only \$0.2 million during the first six months of 2019. This \$1.5 million increase in Get Real Health revenues were largely offset by declining revenues in nearly all other revenue sources resulting from the COVID-19 pandemic and the resulting impact on patient volumes for our community hospital customers. Most notably, revenues from our private pay services offering decreased by \$0.7 million, or 10%.

Costs of Sales

Total costs of sales decreased by 1%, or \$0.6 million, compared to the six months ended June 30, 2019. As a percentage of total revenues, costs of sales were 49% of revenues in the six months ended June 30, 2020 compared to 47% of revenues in the six months ended June 30, 2019.

Costs of Acute Care EHR system sales and support decreased by \$1.6 million, or 5%, compared to the first six months of 2019, as hardware costs decreased by \$0.9 million due to a decline in related revenues. Additionally, the impact of COVID-19 on associate travel resulted in reduced travel costs of \$0.8 million. The gross margin on Acute Care EHR system sales and support decreased to 52% during the first six months of 2020 from 53% during the first six months of 2019.

Costs of Post-acute Care EHR system sales and support decreased by \$0.1 million, or 5%, compared to the first six months of 2019, primarily due to travel costs savings due to the impact of COVID-19 on associate travel. The gross margin on Post-acute Care EHR system sales and support decreased to 73% for the first six months of 2020, compared to 77% for the first six months of 2019.

Our costs associated with TruBridge sales and support increased by 4%, or \$1.2 million, compared to the first six months of 2019, despite declining revenues. The primary driver was a payroll increase of \$1.5 million, propelled by increasing demand in the second half of 2019 and early 2020 for our accounts receivable management services. At the onset of the pandemic, we notified our employees, including those whose roles were negatively impacted by the declining patient volumes at our community hospital clients, that we would not execute any payroll cost mitigation efforts in response to COVID-19 through July 31, 2020. As a result, we have not executed any reduction-in-force or furlough action plans as a result of the pandemic, which severely limited our ability to offset revenue declines with cost savings. The gross margin on these services decreased to 46% in the first six months of 2020, compared to 47% in the first six months of 2019.

Product Development

Product development expenses consist primarily of compensation and other employee-related costs (including stock-based compensation) and infrastructure costs incurred, but not capitalized, for new product development and product enhancements. Product development costs decreased by \$1.9 million, or 10%, compared to the first six months of 2019, primarily due to a \$0.7 million decrease in third-party development costs, with an additional \$1.4 million of payroll capitalized for software development.

Sales and Marketing

Sales and marketing expenses decreased by \$2.3 million, or 16%, compared to the first six months of 2019, mostly due to the varying impacts of COVID-19 on our sales execution. Specifically, stock-based compensation expense decreased by \$0.6 million as the expected impact of the pandemic on our operations has resulted in a reduced near-term outlook, resulting in reduced expected achievement levels for performance share awards granted to executives and certain key employees in 2018 through 2020. Commission expense decreased by \$0.6 million due to the aforementioned decline in revenues, which are partly attributable to the pandemic. Lastly, travel costs decreased by \$0.6 million as travel restrictions and social distancing guidelines pose challenges to in-person sales efforts and general marketing program spend decreased by \$0.4 million.

General and Administrative

General and administrative expenses decreased by \$1.1 million, as the \$1.9 million increase in employee health claims related to our self-insured health benefits plan for our employees have largely been offset by decreases in nonrecurring severance and transaction-related expenses and decreased costs associated with our annual client conference. Severance and transaction-related expenses decreased by \$2.2 million, mostly due to the closing of our acquisition of Get Real Health in the first six months of 2019. Costs associated with our annual client conference decreased by \$0.8 million. This conference, typically held during the second quarter of each year, was originally scheduled for May 2020. In response to the COVID-19 pandemic, we initially postponed the conference until August 2020, subsequently cancelling the 2020 event altogether.

Amortization of Acquisition-Related Intangibles

Amortization expense associated with acquisition-related intangible assets increased by \$0.7 million, compared to the first six months of 2019, due to the inclusion of Get Real Health intangibles.

Total Operating Expenses

As a percentage of total revenues, total operating expenses decreased to 44% of revenues in the first six months of 2020, compared to 46% in the first six months of 2019.

Total Other Income (Expense)

Total other income (expense) decreased by \$1.2 million to an expense of \$1.9 million during the first six months of 2020 compared to expense of \$3.0 million during the first six months of 2019, primarily as our long-term debt and accompanying interest rate have both decreased from the first six months of 2019.

Income Before Taxes

As a result of the foregoing factors, income before taxes increased by \$0.4 million, compared to the first six months of 2019.

Provision for Income Taxes

Our effective tax rate for the six months ended June 30, 2020 decreased to 16.6% from 22.9% for the six months ended June 30, 2019, as increased estimates related to R&D tax credits resulted in an incremental benefit to our effective tax rate of nearly 6% for the first six months of 2020 compared to the first six months of 2019.

Net Income

Net income for the six months ended June 30, 2020 increased by \$0.7 million to \$5.9 million, or \$0.41 per basic and diluted share, compared with net income of \$5.1 million, or \$0.36 million per basic and diluted share, for the six months ended June 30, 2019. Net income represented 5% of revenue for the six months ended June 30, 2020, compared to 4% of revenue for the six months ended June 30, 2019.

Liquidity and Capital Resources

The Company's liquidity and capital resources were not materially impacted by COVID-19 and related economic conditions during the the six months ended June 30, 2020. For further discussion regarding the potential future impacts of COVID-19 and related economic conditions on the Company's liquidity and capital resources, see "COVID-19" in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, "Item 1A. Risk Factors" below.

Sources of Liquidity

As of June 30, 2020, our principal sources of liquidity consisted of cash and cash equivalents of \$18.7 million and our remaining borrowing capacity under the revolving credit facility of \$81.4 million, compared to \$7.4 million of cash and cash equivalents and \$30.0 million of remaining borrowing capacity under the revolving credit facility as of December 31, 2019. In conjunction with our acquisition of HHI in January 2016, we entered into a syndicated credit agreement which provided for a \$125 million term loan facility and a \$50 million revolving credit facility. On June 16, 2020, we entered into an Amended and Restated Credit Agreement that increased the aggregate principal amount of our credit facilities to \$185 million, which includes a \$75 million term loan facility and a \$110 million revolving credit facility.

As of June 30, 2020, we had \$103.6 million in principal amount of indebtedness outstanding under the credit facilities. We believe that our cash and cash equivalents of \$18.7 million as of June 30, 2020, the future operating cash flows of the combined entity, and our remaining borrowing capacity under the revolving credit facility of \$81.4 million as of June 30, 2020, taken together, provide adequate resources to fund ongoing cash requirements for the next twelve months. We cannot provide assurance that our actual cash requirements will not be greater than we expect as of the date of filing of this Form 10-Q. If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations during the next twelve months, we may be required to obtain additional sources of funds through additional operational improvements, capital market transactions, asset sales or financing from third parties, a combination thereof or otherwise. We cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms.

Operating Cash Flow Activities

Net cash provided by operating activities increased by \$7.4 million from \$17.5 million provided by operations for the six months ended June 30, 2019 to \$24.8 million provided by operations for the six months ended June 30, 2020. The increase in cash flows provided by operations is primarily due to advantageous changes in working capital, which was a net use of cash during the first six months of 2019 in the amount of \$1.9 million, compared to a net inflow of cash during the first six months of 2020 of \$5.8 million.

Investing Cash Flow Activities

Net cash used in investing activities decreased by \$7.4 million, with \$4.5 million used in the six months ended June 30, 2020 compared to \$11.9 million used during the six months ended June 30, 2019. Most notably, we used \$10.8 million of cash during the first six months of 2019 to fund our acquisition of Get Real Health. The first six months of 2020 included \$1.5 million in capitalized software development costs compared to none during the first six months of 2019. Cash outflows for purchases of property and equipment increased from \$1.0 million in the first six months of 2019 to \$3.0 million during the first six months of 2020, mostly due to the addition of a West Coast data center to enhance our remote hosting capabilities. We do not anticipate the need for significant capital expenditures during the remainder of 2020.

Financing Cash Flow Activities

During the six months ended June 30, 2020, our financing activities used net cash of \$9.0 million, as we paid a net \$6.2 million in long-term debt principal and declared and paid dividends in the amount of \$2.9 million. During the six months ended June 30, 2019, we made a \$7.0 million prepayment on the term loan facility in accordance with the excess cash flow mandatory prepayment requirements of the credit agreement. Financing cash flow activities used \$4.5 million during the six months ended June 30, 2019, primarily due to \$1.4 million net paid in long-term debt principal and \$2.9 million cash paid in dividends.

We believe that paying dividends is an effective way of providing an investment return to our stockholders and a beneficial use of our cash. However, the declaration of dividends by CPSI is subject to compliance with the terms of our Amended and Restated Credit Agreement and the discretion of our Board of Directors, which may decide to change or terminate the Company's dividend policy at any time. Our Board of Directors will continue to take into account such matters as general business conditions, capital needs, our financial results and other such factors the Board of Directors may deem relevant.

Credit Agreement

As of June 30, 2020, we had \$75.0 million in principal amount outstanding under the term loan facility and \$28.6 million in principal amount outstanding under the revolving credit facility. Each of our credit facilities continues to bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) the Adjusted LIBOR rate for the relevant interest period, subject to a floor of 0.50%, (2) an alternate base rate determined by reference to the greater of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate, subject to the aforementioned floor, plus one percent per annum, or (3) a combination of (1) and (2). The applicable margin range for LIBOR loans and the letter of credit fee ranges from 1.8% to 3.0%. The applicable margin range for base rate loans ranges from 0.8% to 2.0%, in each case based on the Company's consolidated net leverage ratio.

Principal payments with respect to the term loan facility are due on the last day of each fiscal quarter beginning September 30, 2020, with quarterly principal payments of approximately \$0.9 million through June 30, 2022, approximately \$1.4 million through June 30, 2024 and approximately \$1.9 million through March 31, 2025, with maturity on June 16, 2025 or such earlier date as the obligations under the Amended and Restated Credit Agreement become due and payable pursuant to the terms of such agreement. Any principal outstanding under the revolving credit facility is due and payable on the maturity date.

Our credit facilities are secured pursuant to an Amended and Restated Pledge and Security Agreement, dated June 16, 2020, among the parties identified as obligors therein and Regions, as collateral agent, on a first priority basis by a security interest in substantially all of the tangible and intangible assets (subject to certain exceptions) of the Company and certain subsidiaries of the Company, as guarantors (collectively, the "Subsidiary Guarantors"), including certain registered intellectual property and the capital stock of certain of the Company's direct and indirect subsidiaries. Our obligations under the Amended and Restated Credit Agreement are also guaranteed by the Subsidiary Guarantors.

The Amended and Restated Credit Agreement provides incremental facility capacity of \$50 million, subject to certain conditions. The Amended and Restated Credit Agreement includes a number of restrictive covenants that, among other things and in each case subject to certain exceptions and baskets, impose operating and financial restrictions on the Company and the Subsidiary Guarantors, including the ability to incur additional debt; incur liens and encumbrances; make certain restricted payments, including paying dividends on the Company's equity securities or payments to redeem, repurchase or retire the Company's equity securities (which are subject to our compliance, on a pro forma basis to give effect to the restricted payment, with the fixed charge coverage ratio and consolidated net leverage ratio described below); enter into certain restrictive agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into sale and leaseback transactions; engage in transactions with affiliates; and materially alter the business we conduct. The Amended and Restated Credit Agreement requires the Company to maintain a minimum fixed charge coverage ratio of 1.25:1.00 throughout the duration of such agreement. Under the Amended and Restated Credit Agreement, the Company is required to comply with a maximum consolidated net leverage ratio of 3.50:1.00. The Amended and Restated Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. We believe that we were in compliance with the covenants contained in such agreement as of June 30, 2020.

The Amended and Restated Credit Agreement requires the Company to mandatorily prepay the credit facilities with 50% of excess cash flow (minus certain specified other payments). This mandatory prepayment requirement is applicable only if the Company's consolidated net leverage ratio exceeds 2.50:1.00. The Company is permitted to voluntarily prepay the credit facilities at any time without penalty, subject to customary "breakage" costs with respect to prepayments of LIBOR rate loans made on a day other than the last day of any applicable interest period. An excess cash flow prepayment related to excess cash flow generated during 2019 was not required during the first quarter of 2020.

Backlog

Backlog consists of revenues we reasonably expect to recognize over the next twelve months under all existing contracts, including those with remaining performance obligations that have original expected durations of one year or less and those with fees that are variable in which we estimate future revenues. The revenues to be recognized may relate to a combination of one-time fees for system sales and recurring fees for support and maintenance and TruBridge services. As of June 30, 2020, we had a twelve-month backlog of approximately \$14 million in connection with non-recurring system purchases and approximately \$220 million in connection with recurring payments under support and maintenance, Cloud EHR contracts, and TruBridge services. As of June 30, 2019, we had a twelve-month backlog of approximately \$17 million in connection with non-recurring system purchases and approximately \$227 million in connection with recurring payments under support and maintenance and TruBridge services.

Bookings

Bookings is a key operational metric used by management to assess the relative success of our sales generation efforts, and were as follows for the six months ended June 30, 2020 and 2019:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
System sales and support ⁽¹⁾				
Acute Care EHR	\$ 11,933	\$ 9,851	\$ 20,852	\$ 18,135
Post-acute Care EHR	2,166	1,735	3,079	3,166
Total system sales and support	14,099	11,586	23,931	21,301
TruBridge ⁽²⁾	5,905	3,096	15,416	7,324
Total bookings	\$ 20,004	\$ 14,682	\$ 39,347	\$ 28,625

⁽¹⁾ Generally calculated as the total contract price (for system sales) and annualized contract value (for support).

⁽²⁾ Generally calculated as the total contract price (for non-recurring, project-related amounts) and annualized contract value (for recurring amounts).

Acute Care EHR bookings in the second quarter of 2020 increased by \$2.1 million, or 21%, over the second quarter of 2019, and increased by \$2.7 million, or 15%, year-to-date 2020 compared to year-to-date 2019, mostly propelled by increased demand for new EHR installations. New EHR installation bookings increased by \$1.6 million over the second quarter of 2019 and \$3.8 million over the first six months of 2019, with the first six months of 2019 being negatively impacted by a \$1.8 million decrease in MU3-related bookings.

Post-acute Care EHR bookings in the second quarter of 2020 increased by \$0.4 million, or 25%, over the second quarter of 2019, and were relatively flat in the first six months of 2020 compared to the first six months of 2019. The increase in bookings during the second quarter of 2020 was mostly attributable to successful execution of a particularly large EHR opportunity.

TruBridge bookings increased by \$2.8 million, or 91%, over the second quarter of 2019, and increased by \$8.1 million, or 110%, over the first six months of 2019. These increases are mostly due to the combined impacts of (1) our recently-introduced initiative to expand our TruBridge footprint outside of our traditional EHR customers base, resulting in significant client wins, and (2) a poor sales environment during the first half of 2019 driven by a lack of urgency on the part of prospective customers, impacting the timing of customer decisions for purchasing TruBridge services.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements, as defined by Item 303(a)(4) of SEC Regulation S-K, as of June 30, 2020.

Critical Accounting Policies and Estimates

Our Management Discussion and Analysis is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make subjective or complex judgments that may affect the reported financial condition and results of operations. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported values of assets, liabilities, revenues, expenses and other financial amounts that are not readily apparent from other sources. Actual results may differ from these estimates and these estimates may differ under different assumptions or conditions. We continually evaluate the information used to make these estimates as our business and the economic environment changes.

In our Annual Report on Form 10-K for the year ended December 31, 2019, we identified our critical accounting policies related to revenue recognition, allowance for doubtful accounts, allowance for credit losses, and estimates. There have been no significant changes to these critical accounting policies during the six months ended June 30, 2020.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk relates primarily to the potential change in the British Bankers Association London Interbank Offered Rate ("LIBOR"). We had \$103.6 million of outstanding borrowings under our credit facilities with Regions Bank at June 30, 2020. The term loan facility and revolving credit facility bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) the Adjusted LIBOR rate for the relevant interest period, subject to a floor of 0.50%, (2) an alternate base rate determined by reference to the greater of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus one half of one percent per annum and (c) the one month LIBOR rate, subject to the aforementioned floor, plus one percent per annum, or (3) a combination of (1) and (2). Accordingly, we are exposed to fluctuations in interest rates on borrowings under the credit facilities. A one hundred basis point change in interest rate on our borrowings outstanding as of June 30, 2020 would result in a change in interest expense of approximately \$1.0 million annually.

We did not have investments and do not utilize derivative financial instruments to manage our interest rate risks.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in routine litigation that arises in the ordinary course of business. We are not currently involved in any claims outside the ordinary course of business that are material to our financial condition or results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition or operating results. Other than as described below, there have been no material changes to the risk factors disclosed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K.

The impact of COVID-19 and related economic disruptions have materially affected our revenue and could materially affect our gross margin and income, as well as our financial position and/or liquidity.

Beginning in March 2020, the global pandemic related to the novel coronavirus COVID-19 began to impact the global economy and our results of operations. Because of the size and breadth of this pandemic, all of the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. Risks presented by the ongoing effects of COVID-19 include the following:

- *Revenues, Gross Margins and Income.* The impact of COVID-19 on our community hospital client base, and the related decrease in patient volumes, have negatively impacted, and will continue to negatively impact, our variable revenues, gross margins and income driven by collection volume. Additionally, new EHR system installations have been, and will continue to be, negatively impacted by restrictive travel and social distancing protocols. We began to experience this impact in March 2020, which increased in significance in the second quarter of 2020. The Company expects these impacts to continue for the remainder of 2020 and beyond, but the degree of the impact will depend on the ability of our community hospital clients to return to normal operations and patient volume. In addition, although we have experienced no notable disruption to our operating cash flows through the date of this report, we currently expect that the aforementioned limitations on travel and decreased client patient volumes will ultimately result in decreased cash collections from our customers as long as these conditions persist. For further discussion, see *"Failure to maintain our margins and services rates for implementation services could have a material adverse effect on our operating performance and financial conditions"* in the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.
- *Adverse Legislative and/or Regulatory Action.* Federal, state and local government actions to address and contain the impact of COVID-19 may adversely affect us. For further discussion, see *"There is significant uncertainty in the healthcare industry, both as a result of recently enacted legislation and changing government regulation, which may have a material adverse impact on the businesses of our hospital clients and ultimately on our business, financial condition and results of operations"* in the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.
- *Operational Disruptions and Heightened Cybersecurity Risks.* Our operations could be disrupted if key members of our senior management or a significant percentage of our workforce or the workforce of our client community hospitals are unable to work because of illness, government directives or otherwise. Having shifted to remote working arrangements, we also face a heightened risk of cybersecurity attacks or data security incidents and are more dependent on the internet and telecommunications access and capabilities. For further discussion, see *"Breaches of security and viruses in our systems could result in client claims against us and harm to our reputation causing us to*

incur expenses and/or lose clients” in the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.

The extent to which the COVID-19 pandemic will impact our financial condition and results of operations will depend on future developments, which are highly uncertain and difficult to predict, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may experience material adverse impacts to our business as a result of the global or U.S. economic impact and any recession that has occurred or may occur in the future. There are no comparable recent events that provided guidance as to effect the COVID-19 pandemic may have, and, as a result, the ultimate impact of the pandemic on our operations and financial results is highly uncertain and subject to change.

Additionally, concerns over the economic impact of the COVID-19 pandemic have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and may adversely impact our ability to access capital, at all or on reasonable terms. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described under “Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not Applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 3.1 [Certificate of Incorporation \(filed as Exhibit 3.4 to CPSI's Registration Statement on Form S-1 \(Registration No. 333-84726\) and incorporated herein by reference\)](#)
- 3.2 [Amended and Restated Bylaws \(filed as Exhibit 3 to CPSI's Current Report on Form 8-K dated October 28, 2013 and incorporated herein by reference\)](#)
- 3.3 [Amendment to Amended and Restated Bylaws \(filed as Exhibit 3.1 to CPSI's Current Report on Form 8-K dated January 22, 2019 and incorporated herein by reference\)](#)
- 10.1 [Amended and Restated Credit Agreement, dated as of June 16, 2020, by and among Computer Programs and Systems, Inc., certain of its subsidiaries, as guarantors, certain lenders named therein, and Regions Bank, as administrative agent and collateral agent \(filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated June 18, 2020 and incorporated herein by reference\).](#)
- 10.2 [Amended and Restated Pledge and Security Agreement, dated as of June 16, 2020, by and among the parties identified as Obligors therein and Regions Bank, as collateral agent \(filed as Exhibit 10.2 to CPSI's Current Report on Form 8-K dated June 18, 2020 and incorporated herein by reference\).](#)
- 31.1 [Certification of the Chief Executive Officer pursuant to Rule 13a-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of the Chief Financial Officer pursuant to Rule 13a-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 Interactive Data Files for CPSI's Form 10-Q for the period ended June 30, 2020

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUTER PROGRAMS AND SYSTEMS, INC.

August 5, 2020

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

August 5, 2020

By: /s/ Matt J. Chambless
Matt J. Chambless
Chief Financial Officer

CERTIFICATION

I, J. Boyd Douglas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Computer Programs and Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ J. Boyd Douglas

J. Boyd Douglas
President and Chief
Executive Officer

CERTIFICATION

I, Matt J. Chambless, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Computer Programs and Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ Matt J. Chambless
Matt J. Chambless
Chief Financial Officer

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Computer Programs and Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), J. Boyd Douglas, President and Chief Executive Officer of the Company, and Matt J. Chambless, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 5, 2020

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

/s/ Matt J. Chambless
Matt J. Chambless
Chief Financial Officer