

**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 September 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 November 6, 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 nine months ended September 30, 2020)**  
**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1.	<a href="#"><u>Financial Statements</u></a>	<a href="#"><u>3</u></a>
	<a href="#"><u>Condensed Consolidated Balance Sheets (Unaudited) – September 30, 2020 and December 31, 2019</u></a>	<a href="#"><u>3</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Income (Unaudited) – Three and Nine Months Ended September 30, 2020 and 2019</u></a>	<a href="#"><u>4</u></a>
	<a href="#"><u>Condensed Consolidated Statement of Stockholders’ Equity (Unaudited) – Three and Nine Months Ended September 30, 2020 and 2019</u></a>	<a href="#"><u>5</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended September 30, 2020 and 2019</u></a>	<a href="#"><u>6</u></a>
	<a href="#"><u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u></a>	<a href="#"><u>7</u></a>
Item 2.	<a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>24</u></a>
Item 3.	<a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>	<a href="#"><u>38</u></a>
Item 4.	<a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>38</u></a>

**PART II. OTHER INFORMATION**

Item 1.	<a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>39</u></a>
Item 1A.	<a href="#"><u>Risk Factors</u></a>	<a href="#"><u>39</u></a>
Item 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	<a href="#"><u>39</u></a>
Item 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a>	<a href="#"><u>39</u></a>
Item 4.	<a href="#"><u>Mine Safety Disclosures</u></a>	<a href="#"><u>39</u></a>
Item 5.	<a href="#"><u>Other Information</u></a>	<a href="#"><u>40</u></a>
Item 6.	<a href="#"><u>Exhibits</u></a>	<a href="#"><u>41</u></a>

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,777	\$ 7,357
Accounts receivable (net of allowance for expected credit losses of \$2,155 and \$2,078, respectively)	33,698	38,819
Financing receivables, current portion, net (net of allowance for expected credit losses of \$158 and \$165, respectively)	12,535	12,032
Inventories	1,290	1,426
Prepaid income taxes	1,988	1,337
Prepaid expenses and other	6,990	5,861
<b>Total current assets</b>	<b>68,278</b>	<b>66,832</b>
Property and equipment, net	13,500	11,593
Software development costs, net	2,278	—
Operating lease assets	6,919	7,800
Financing receivables, net of current portion (net of allowance for expected credit losses of \$1,934 and \$2,806, respectively)	13,998	18,267
Other assets, net of current portion	2,407	1,771
Intangible assets, net	74,511	83,110
Goodwill	150,216	150,216
<b>Total assets</b>	<b>\$ 332,107</b>	<b>\$ 339,589</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 7,987	\$ 8,804
Current portion of long-term debt	3,457	8,430
Deferred revenue	7,454	8,628
Accrued vacation	5,520	4,301
Other accrued liabilities	11,099	11,767
<b>Total current liabilities</b>	<b>35,517</b>	<b>41,930</b>
Long-term debt, net of current portion	86,224	99,433
Operating lease liabilities, net of current portion	5,377	6,256
Deferred tax liabilities	8,683	7,623
<b>Total liabilities</b>	<b>135,801</b>	<b>155,242</b>
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	179,791	174,618
Retained earnings	16,500	9,715
<b>Total stockholders' equity</b>	<b>196,306</b>	<b>184,347</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 332,107</b>	<b>\$ 339,589</b>

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Sales revenues:</b>				
System sales and support	\$ 40,388	\$ 40,990	\$ 116,297	\$ 123,877
TruBridge	27,945	27,709	81,342	80,119
Total sales revenues	68,333	68,699	197,639	203,996
<b>Costs of sales:</b>				
System sales and support	17,628	18,761	51,901	54,776
TruBridge	15,287	14,023	44,100	41,660
Total costs of sales	32,915	32,784	96,001	96,436
Gross profit	35,418	35,915	101,638	107,560
<b>Operating expenses:</b>				
Product development	8,549	9,158	25,190	27,684
Sales and marketing	6,359	6,654	18,526	21,158
General and administrative	11,440	10,996	34,242	34,909
Amortization of acquisition-related intangibles	2,866	3,100	8,599	8,139
Total operating expenses	29,214	29,908	86,557	91,890
Operating income	6,204	6,007	15,081	15,670
<b>Other income (expense):</b>				
Other income	916	4	1,241	535
Loss on extinguishment of debt	—	—	(202)	—
Interest expense	(850)	(1,702)	(2,832)	(5,269)
Total other income (expense)	66	(1,698)	(1,793)	(4,734)
Income before taxes	6,270	4,309	13,288	10,936
Provision for income taxes	1,002	174	2,165	1,695
Net income	\$ 5,268	\$ 4,135	\$ 11,123	\$ 9,241
Net income per common share—basic	\$ 0.36	\$ 0.29	\$ 0.77	\$ 0.65
Net income per common share—diluted	\$ 0.36	\$ 0.29	\$ 0.77	\$ 0.65
Weighted average shares outstanding used in per common share computations:				
Basic	14,095	13,829	14,022	13,760
Diluted	14,095	13,829	14,022	13,760
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30

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 September 30, 2020 and 2019:					
Balance at June 30, 2020	14,512	\$ 15	\$ 178,227	\$ 12,683	\$ 190,925
Net income	—	—	—	5,268	5,268
Stock-based compensation	—	—	1,564	—	1,564
Dividends	—	—	—	(1,451)	(1,451)
Balance at September 30, 2020	14,512	\$ 15	\$ 179,791	\$ 16,500	\$ 196,306
Balance at June 30, 2019	14,355	\$ 14	\$ 169,920	\$ (2,775)	\$ 167,159
Net income	—	—	—	4,135	4,135
Common stock issued upon exercise of stock options	1	—	3	—	3
Stock-based compensation	—	—	2,170	—	2,170
Dividends	—	—	—	(1,436)	(1,436)
Balance at September 30, 2019	14,356	\$ 14	\$ 172,093	\$ (76)	\$ 172,031
Nine Months Ended September 30, 2020 and 2019:					
Balance at December 31, 2019	14,356	\$ 14	\$ 174,618	\$ 9,715	\$ 184,347
Net income	—	—	—	11,123	11,123
Issuance of restricted stock	156	1	(1)	—	—
Stock-based compensation	—	—	5,174	—	5,174
Dividends	—	—	—	(4,338)	(4,338)
Balance at September 30, 2020	14,512	\$ 15	\$ 179,791	\$ 16,500	\$ 196,306
Balance at December 31, 2018	14,083	\$ 14	\$ 164,793	\$ (5,024)	\$ 159,783
Net income	—	—	—	9,241	9,241
Common stock issued upon exercise of stock options	1	—	3	—	3
Issuance of restricted stock	272	—	—	—	—
Stock-based compensation	—	—	7,297	—	7,297
Dividends	—	—	—	(4,293)	(4,293)
Balance at September 30, 2019	14,356	\$ 14	\$ 172,093	\$ (76)	\$ 172,031

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)

	Nine Months Ended September 30,	
	2020	2019
<b>Operating Activities:</b>		
Net income	\$ 11,123	\$ 9,241
Adjustments to net income:		
Provision for bad debt	2,695	1,975
Deferred taxes	1,060	376
Stock-based compensation	5,174	7,297
Depreciation	1,334	1,084
Amortization of acquisition-related intangibles	8,599	8,139
Amortization of software development costs	79	—
Amortization of deferred finance costs	242	259
Loss on extinguishment of debt	202	—
Changes in operating assets and liabilities:		
Accounts receivable	3,490	(157)
Financing receivables	2,701	3,483
Inventories	136	26
Prepaid expenses and other	(1,765)	(1,426)
Accounts payable	(817)	1,318
Deferred revenue	(1,174)	(1,975)
Other liabilities	553	(4,116)
Prepaid income taxes/income taxes payable	(651)	(11)
Net cash provided by operating activities	32,981	25,513
<b>Investing Activities:</b>		
Purchase of business, net of cash received	—	(10,733)
Investment in software development	(2,356)	—
Purchase of property and equipment	(3,241)	(1,670)
Net cash used in investing activities	(5,597)	(12,403)
<b>Financing Activities:</b>		
Dividends paid	(4,338)	(4,293)
Proceeds from long-term debt	67	—
Payments of long-term debt principal	(3,132)	(11,665)
Payments of contingent consideration	—	(206)
Proceeds from revolving line of credit	—	11,000
Payments of revolving line of credit	(15,561)	(9,693)
Proceeds from exercise of stock options	—	3
Net cash used in financing activities	(22,964)	(14,854)
Increase (decrease) in cash and cash equivalents	4,420	(1,744)
Cash and cash equivalents at beginning of period	7,357	5,732
Cash and cash equivalents at end of period	\$ 11,777	\$ 3,988
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 2,588	\$ 5,003
Cash paid for income taxes, net of refund	\$ 1,756	\$ 1,330

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 nine months ended September 30, 2020 and 2019, included in the condensed consolidated balance sheets:

<i>(In thousands)</i>	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Beginning balance	\$ 8,628	\$ 10,201
Deferred revenue recorded	13,633	13,888
Deferred revenue acquired	—	430
Less deferred revenue recognized as revenue	(14,807)	(15,863)
Ending balance	<u>\$ 7,454</u>	<u>\$ 8,656</u>

The deferred revenue recorded during the nine months ended September 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 nine months ended September 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 nine months ended September 30, 2020 and 2019, included in the condensed consolidated balance sheets:

<i>(In thousands)</i>	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Beginning balance	\$ 4,440	\$ 3,017
Costs to obtain and fulfill contracts capitalized	4,839	4,130
Less costs to obtain and fulfill contracts recognized as expense	(4,044)	(3,509)
Ending balance	<u>\$ 5,235</u>	<u>\$ 3,638</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 September 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Land	\$ 2,848	\$ 2,848
Buildings and improvements	8,147	8,039
Computer equipment	7,144	4,011
Leasehold improvements	1,712	1,712
Office furniture and fixtures	2,018	2,018
Automobiles	18	18
Property and equipment, gross	21,887	18,646
Less: accumulated depreciation	(8,387)	(7,053)
Property and equipment, net	\$ 13,500	\$ 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 September 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Software development costs	\$ 2,357	\$ —
Less: accumulated amortization	(79)	—
Software development costs, net	\$ 2,278	\$ —

## 7. OTHER ACCRUED LIABILITIES

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

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Salaries and benefits	\$ 6,382	\$ 6,946
Severance	7	329
Commissions	1,071	1,037
Self-insurance reserves	1,399	1,382
Other	698	529
Operating lease liabilities, current portion	1,542	1,544
Other accrued liabilities	\$ 11,099	\$ 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:

<i>(In thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 5,268	\$ 4,135	\$ 11,123	\$ 9,241
Less: Net income attributable to participating securities	(151)	(151)	(338)	(347)
Net income attributable to common stockholders	<u>\$ 5,117</u>	<u>\$ 3,984</u>	<u>\$ 10,785</u>	<u>\$ 8,894</u>
Weighted average shares outstanding used in basic per common share computations	14,095	13,829	14,022	13,760
Add: Dilutive potential common shares	—	—	—	—
Weighted average shares outstanding used in diluted per common share computations	<u>14,095</u>	<u>13,829</u>	<u>14,022</u>	<u>13,760</u>
Basic EPS	\$ 0.36	\$ 0.29	\$ 0.77	\$ 0.65
Diluted EPS	\$ 0.36	\$ 0.29	\$ 0.77	\$ 0.65

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 nine months ended September 30, 2020 because the related threshold award performance levels have not been achieved as of September 30, 2020. See Note 10 - Stock-Based Compensation and Equity 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 September 30, 2020 increased to 16.0% from 4.0% for the three months ended September 30, 2019, mostly as increased income before taxes during the third quarter of 2020 had the effect of reducing the effective tax rate impact related to research and development ("R&D") tax credits compared to the third quarter of 2019. R&D tax credits, inclusive of provision-to-return adjustments, benefited our effective tax rate by 10.7% during the third quarter of 2020 compared to a 20.0% benefit during the third quarter of 2019.

Similarly, our effective tax rate for the nine months ended September 30, 2020 increased to 16.3% from 15.5% for the nine months ended September 30, 2019, mostly as increased income before taxes during the first nine months of 2020 had the effect of reducing the effective tax rate impact related to R&D tax credits compared to the first nine months of 2019. R&D tax credits, inclusive of provision-to-return adjustments, benefited our effective tax rate by 12.4% during the first nine months of 2020 compared to a 12.8% benefit during the first nine months of 2019.

## 10. STOCK-BASED COMPENSATION AND EQUITY

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 nine months ended September 30, 2020 and 2019, included in the condensed consolidated statements of income:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Costs of sales	\$ 321	\$ 467	\$ 1,100	\$ 1,514
Operating expenses	1,243	1,703	4,074	5,783
Pre-tax stock-based compensation expense	1,564	2,170	5,174	7,297
Less: income tax effect	(344)	(477)	(1,138)	(1,605)
Net stock-based compensation expense	<u>\$ 1,220</u>	<u>\$ 1,693</u>	<u>\$ 4,036</u>	<u>\$ 5,692</u>

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, as amended (the "Plans"). As of September 30, 2020, there was \$6.8 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 1.6 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 nine months ended September 30, 2020 and 2019 is as follows:

	Nine Months Ended September 30, 2020		Nine Months Ended September 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 nine months ended September 30, 2020 and 2019 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Nine Months Ended September 30, 2020		Nine Months Ended September 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	<u>252,852</u>	<u>\$ 29.27</u>	<u>200,709</u>	<u>\$ 30.75</u>

### Stock Repurchases

On September 4, 2020, our Board of Directors approved a stock repurchase program under which we may repurchase up to \$30.0 million of our common stock through September 3, 2022. We repurchased no shares during the three or nine months ended September 30, 2020. The approximate dollar value of shares that may yet be repurchased under the stock repurchase program was \$30.0 million as of September 30, 2020. Any future stock repurchase transactions may be made through open market purchases, privately-negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. Any repurchase activity will depend on many factors, such as the availability of shares of our common stock, general market conditions, the trading price of our common stock, alternative uses for capital, the Company's financial performance, compliance with the terms of our Amended and Restated Credit Agreement and other factors. Concurrent with the authorization of this stock repurchase program, the Board of Directors opted to indefinitely suspend all quarterly dividends.

## 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 September 30, 2020 and December 31, 2019:

(In thousands)	September 30, 2020	December 31, 2019
Short-term payment plans, gross	\$ 3,156	\$ 2,361
Less: allowance for losses	(158)	(165)
Short-term payment plans, net	<u>\$ 2,998</u>	<u>\$ 2,196</u>

### 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 September 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Long-term financing arrangements, gross	\$ 28,290	\$ 34,483
Less: allowance for expected credit losses	(1,934)	(2,806)
Less: unearned income	(2,821)	(3,574)
Long-term financing arrangements, net	<u>\$ 23,535</u>	<u>\$ 28,103</u>

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

<i>(In thousands)</i>	
Years Ending December 31,	
2020	\$ 3,495
2021	9,863
2022	6,964
2023	4,375
2024	2,651
Thereafter	942
Total minimum payments to be received	28,290
Less: allowance for expected credit losses	(1,934)
Less: unearned income	(2,821)
Receivables, net	<u>\$ 23,535</u>

### 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 nine months ended September 30, 2020 and year ended December 31, 2019:

<i>(In thousands)</i>	Balance at Beginning of Period	Provision	Charge-offs	Recoveries	Balance at End of Period
September 30, 2020	\$ 2,971	\$ 1,065	\$ (1,944)	\$ —	\$ 2,092
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 September 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
September 30, 2020	\$ 1,109	\$ 303	\$ 722	\$ 2,134
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>	September 30, 2020	December 31, 2019
Stratification of uninvoiced 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	\$ 14,869	\$ 18,015
Uninvoiced client financing receivables related to trade accounts receivable that are 91 to 180 Days Past Due	1,133	2,136
Uninvoiced client financing receivables related to trade accounts receivable that are 181 + Days Past Due	3,779	1,972
Total uninvoiced client financing receivables balances of clients with a trade accounts receivable	<u>\$ 19,781</u>	<u>\$ 22,123</u>
Total uninvoiced client financing receivables of clients with no related trade accounts receivable	5,688	8,786
Total financing receivables with contractual maturities of one year or less	3,156	2,361
Less: allowance for expected credit losses	(2,092)	(2,971)
Total financing receivables	<u>\$ 26,533</u>	<u>\$ 30,299</u>

## 12. INTANGIBLE ASSETS AND GOODWILL

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

<i>(In thousands)</i>	September 30, 2020			
	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount, beginning of period	\$ 84,370	\$ 11,120	\$ 29,700	125,190
Accumulated amortization	(31,856)	(4,085)	(14,738)	(50,679)
Net intangible assets as of September 30, 2020	\$ 52,514	\$ 7,035	\$ 14,962	\$ 74,511
Weighted average remaining years of useful life	8	12	5	8

<i>(In thousands)</i>	December 31, 2019			
	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount, beginning of period	\$ 82,300	\$ 10,900	\$ 24,100	\$ 117,300
Intangible assets acquired	2,070	220	5,600	7,890
Accumulated amortization	(26,456)	(3,449)	(12,175)	(42,080)
Net intangible assets as of December 31, 2019	\$ 57,914	\$ 7,671	\$ 17,525	\$ 83,110

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

<i>(In thousands)</i>	
For the year ended December 31,	
2020	\$ 2,822
2021	11,003
2022	10,904
2023	10,904
2024	9,681
Thereafter	29,197
Total	\$ 74,511

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

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

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 September 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Term loan facility	\$ 74,063	\$ 88,823
Revolving credit facility	17,000	20,000
Debt obligations	91,063	108,823
Less: unamortized debt issuance costs	(1,382)	(960)
Debt obligation, net	89,681	107,863
Less: current portion	(3,457)	(8,430)
Long-term debt	<u>\$ 86,224</u>	<u>\$ 99,433</u>

As of September 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 September 30, 2020:

<i>(In thousands)</i>	
2020	\$ 938
2021	3,750
2022	4,687
2023	5,625
2024	6,563
Thereafter	69,500
	<u>\$ 91,063</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 September 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>	September 30, 2020
<b>Operating lease assets:</b>	
Operating lease assets	\$ 6,919
<b>Operating lease liabilities:</b>	
Other accrued liabilities	\$ 1,542
Operating lease liabilities, net of current portion	5,377
Total operating lease liabilities	\$ 6,919
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 September 30, 2020 are as follows:

(In thousands)

2020	\$	394
2021		1,519
2022		1,436
2023		1,363
2024		980
Thereafter		2,382
Total lease payments		8,074
Less imputed interest		(1,155)
Total	\$	6,919

Total rent expense for the nine months ended September 30, 2020 and 2019 was \$1.2 million and \$1.6 million, respectively.

Total cash paid for amounts included in the measurement of lease liabilities within operating cash flows from operating leases for the nine months ended September 30, 2020 was \$1.2 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 September 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 nine months ended September 30, 2020 and 2019:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Revenues:</b>				
Acute Care EHR				
Recurring revenue	\$ 26,421	\$ 26,982	\$ 78,586	\$ 81,462
Non-recurring revenue	9,502	8,983	24,213	25,999
<b>Total Acute Care EHR revenue</b>	<b>35,923</b>	<b>35,965</b>	<b>102,799</b>	<b>107,461</b>
Post-acute Care EHR				
Recurring revenue	4,026	4,312	12,157	13,214
Non-recurring revenue	439	713	1,341	3,202
<b>Total Post-acute Care EHR revenue</b>	<b>4,465</b>	<b>5,025</b>	<b>13,498</b>	<b>16,416</b>
TruBridge	27,945	27,709	81,342	80,119
<b>Total revenues</b>	<b>\$ 68,333</b>	<b>\$ 68,699</b>	<b>\$ 197,639</b>	<b>\$ 203,996</b>
<b>Cost of sales:</b>				
Acute Care EHR	\$ 16,488	\$ 17,382	\$ 48,288	\$ 50,798
Post-acute Care EHR	1,140	1,379	3,613	3,978
TruBridge	15,287	14,023	44,100	41,660
<b>Total cost of sales</b>	<b>\$ 32,915</b>	<b>\$ 32,784</b>	<b>\$ 96,001</b>	<b>\$ 96,436</b>
<b>Gross profit:</b>				
Acute Care EHR	\$ 19,435	\$ 18,583	\$ 54,511	\$ 56,663
Post-acute Care EHR	3,325	3,646	9,885	12,438
TruBridge	12,658	13,686	37,242	38,459
<b>Total gross profit</b>	<b>\$ 35,418</b>	<b>\$ 35,915</b>	<b>\$ 101,638</b>	<b>\$ 107,560</b>
Corporate operating expenses	\$ (29,214)	\$ (29,908)	\$ (86,557)	\$ (91,890)
Other income	916	4	1,241	535
Loss on extinguishment of debt	—	—	(202)	—
Interest expense	(850)	(1,702)	(2,832)	(5,269)
<b>Income before taxes</b>	<b>\$ 6,270</b>	<b>\$ 4,309</b>	<b>\$ 13,288</b>	<b>\$ 10,936</b>

## 18. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of the Quarterly Report on Form 10-Q and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

## 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 third 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 September 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, which 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;
- 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, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, 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 3,100 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.

Chief among these cross-selling opportunities is the ability to continue to sell TruBridge services into our Acute Care EHR customer base. As a result, retention of existing Acute Care EHR customers is a key component of our long-term growth strategy by protecting this base of potential TruBridge customers, while at the same time serving as a leading indicator of our

market position and stability of revenues and cash flows. We determine retention rates by reference to the amount of beginning-of-period Acute Care EHR recurring revenues that have been lost due to customer attrition from our production environment customer base. Historically, these retention rates had consistently remained in the mid-to-high 90th percentile ranges. However, fiscal years 2017 through 2019 saw retention rates decrease to the low 90th percentile ranges due to, among other factors, (i) post-acquisition customer concerns regarding our long-term commitment to the Centriq platform, acquired in January 2016, (ii) an intensified competitive market, primarily due to aggressive pricing and marketing by a highly disruptive new entrant into the Acute Care EHR marketplace, and (iii) the announced sunset of the Classic platform, also acquired in January 2016. During the first nine months of 2020, retention rates are trending back towards the mid-90th percentile ranges, as (i) the lingering effects of the Centriq acquisition continue to abate, (ii) the competitive environment continues to normalize as the aforementioned disruptive new entrant into this market has since departed the market altogether, and (iii) the Classic platform was sunset in the fourth quarter of 2019.

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. Financing receivables have decreased during 2020, and we expect them to continue to decrease during the remainder of 2020 and 2021, 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 and the highly uncertain nature of this challenge, its impact on the Company’s results in the first nine months of 2020 may not be indicative of its impact on the Company’s results for the remainder of 2020.

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 and showed gradual signs of improvement during the third 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 was 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 nine months ended September 30, 2020, we generated revenues of \$197.6 million from the sale of our products and services, compared to \$204.0 million during the nine months ended September 30, 2019, a decrease of 3% that is primarily attributed to reduced MU3 revenue opportunities as the related October 1, 2019 compliance deadline has passed and the impact of COVID-19 on client purchasing and implementation plans. Our net income for the nine months ended September 30, 2020 increased by \$1.9 million to \$11.1 million from the nine months ended September 30, 2019, primarily as the aforementioned revenue declines have been offset by corresponding decreases in operating expenses and decreased interest expense arising from our long-term debt obligations. Net cash provided by operating activities increased by \$7.5 million to \$33.0 million during the nine months ended September 30, 2020, primarily due to changes in working capital and the aforementioned increase in net income.

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

<i>(In thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
<b>INCOME DATA:</b>								
Sales revenues:								
System sales and support:								
Acute Care EHR	\$ 35,923	52.6 %	\$ 35,965	52.4 %	\$ 102,799	52.0 %	\$ 107,461	52.7 %
Post-acute Care EHR	4,465	6.5 %	5,025	7.3 %	13,498	6.8 %	16,416	8.0 %
Total System sales and support	40,388	59.1 %	40,990	59.7 %	116,297	58.8 %	123,877	60.7 %
TruBridge	27,945	40.9 %	27,709	40.3 %	81,342	41.2 %	80,119	39.3 %
Total sales revenues	68,333	100.0 %	68,699	100.0 %	197,639	100.0 %	203,996	100.0 %
Costs of sales:								
System sales and support:								
Acute Care EHR	16,488	24.1 %	17,382	25.3 %	48,288	24.4 %	50,798	24.9 %
Post-acute Care EHR	1,140	1.7 %	1,379	2.0 %	3,613	1.8 %	3,978	2.0 %
Total System sales and support	17,628	25.8 %	18,761	27.3 %	51,901	26.3 %	54,776	26.9 %
TruBridge	15,287	22.4 %	14,023	20.4 %	44,100	22.3 %	41,660	20.4 %
Total costs of sales	32,915	48.2 %	32,784	47.7 %	96,001	48.6 %	96,436	47.3 %
Gross profit	35,418	51.8 %	35,915	52.3 %	101,638	51.4 %	107,560	52.7 %
Operating expenses:								
Product development	8,549	12.5 %	9,158	13.3 %	25,190	12.7 %	27,684	13.6 %
Sales and marketing	6,359	9.3 %	6,654	9.7 %	18,526	9.4 %	21,158	10.4 %
General and administrative	11,440	16.7 %	10,996	16.0 %	34,242	17.3 %	34,909	17.1 %
Amortization of acquisition-related intangibles	2,866	4.2 %	3,100	4.5 %	8,599	4.4 %	8,139	4.0 %
Total operating expenses	29,214	42.8 %	29,908	43.5 %	86,557	43.8 %	91,890	45.0 %
Operating income	6,204	9.1 %	6,007	8.7 %	15,081	7.6 %	15,670	7.7 %
Other income (expense):								
Other income	916	1.3 %	4	— %	1,241	0.6 %	535	0.3 %
Loss on extinguishment of debt	—	— %	—	— %	(202)	(0.1)%	—	— %
Interest expense	(850)	(1.2)%	(1,702)	(2.5)%	(2,832)	(1.4)%	(5,269)	(2.6)%
Total other income (expense)	66	0.1 %	(1,698)	(2.5)%	(1,793)	(0.9)%	(4,734)	(2.3)%
Income before taxes	6,270	9.2 %	4,309	6.3 %	13,288	6.7 %	10,936	5.4 %
Provision for income taxes	1,002	1.5 %	174	0.3 %	2,165	1.1 %	1,695	0.8 %
Net income	\$ 5,268	7.7 %	\$ 4,135	6.0 %	\$ 11,123	5.6 %	\$ 9,241	4.5 %

### Three Months Ended September 30, 2020 Compared with Three Months Ended September 30, 2019

#### Revenues

Total revenues for the three months ended September 30, 2020 decreased by \$0.4 million, or less than 1%, compared to the three months ended September 30, 2019.

System sales and support revenues decreased by \$0.6 million, or 1%, compared to the third quarter of 2019. System sales and support revenues were comprised of the following during the respective periods:

<i>(In thousands)</i>	Three Months Ended September 30,	
	2020	2019
Recurring system sales and support revenues <sup>(1)</sup>		
Acute Care EHR	\$ 26,421	\$ 26,982
Post-acute Care EHR	4,026	4,312
Total recurring system sales and support revenues	30,447	31,294
Non-recurring system sales and support revenues <sup>(2)</sup>		
Acute Care EHR	9,502	8,983
Post-acute Care EHR	439	713
Total non-recurring system sales and support revenues	9,941	9,696
Total system sales and support revenue	\$ 40,388	\$ 40,990

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

<sup>(2)</sup> 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 \$0.8 million, or 3%, compared to the third quarter of 2019. Acute Care EHR recurring revenues decreased by \$0.6 million, or 2%, as attrition from the Thrive and Centriq customer base outweighed new Thrive customer growth and additional support and SaaS fees. Post-acute Care EHR recurring revenues decreased by \$0.3 million, or 7%, 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 increased by \$0.2 million, or 3%. Acute Care EHR non-recurring revenues increased by \$0.5 million, or 6%. We installed our Acute Care EHR solutions at eight new hospital clients during the third quarter of 2020 (three of which were under a SaaS arrangement, resulting in revenue being recognized ratably over the contract term) compared to five new hospital clients during the third quarter of 2019 (one under a SaaS arrangement). Acute Care EHR revenues from new system implementations increased by \$3.1 million, an increase that was mostly offset by a \$2.4 million decrease in add-on sales to existing customers, nearly three-quarters of which is attributable to the aforementioned reduced revenue opportunity for MU3 applications. Non-recurring Post-acute Care EHR revenues decreased by \$0.3 million, or 38%, as compliance catalysts in place during 2019 have largely abated as Patient Driven Payment Model ("PDMP"), as required by CMS, became effective for post-acute care facilities beginning October 1, 2019.

TruBridge revenues increased by \$0.2 million, or 1%, compared to the third quarter of 2019, mostly due to a \$0.3 million, or 9%, increase in managed IT services revenues as demand for our cloud hosting services continues to strengthen. The revenue contributions from recent client wins for our accounts receivable management, private pay, and medical coding service offerings have largely been offset by the impact of COVID-19 on the patient volumes of our community hospital customers, as the overwhelming majority of the related revenues are based on such volumes. These three revenue streams combined for a net \$0.1 million, or less than 1%, reduction in revenues from the third quarter of 2019.

#### *Costs of Sales*

Total costs of sales increased by less than 1%, or \$0.1 million, compared to the third quarter of 2019. As a percentage of total revenues, costs of sales remained flat at 48% of revenues in both the third quarter of 2020 and the third quarter of 2019.

Costs of Acute Care EHR system sales and support decreased by \$0.9 million, or 5%, compared to the third quarter of 2019, primarily due to travel costs savings of approximately \$0.7 million due to the impact of COVID-19 on associate travel. The gross margin on Acute Care EHR system sales and support increased to 54% in the third quarter of 2020, compared to 52% in the third quarter of 2019.

Costs of Post-acute Care EHR system sales and support decreased by \$0.2 million, or 17%, compared to the third quarter of 2019, primarily due to reduced third party software costs and improved personnel efficiency. The gross margin on Post-acute Care EHR system sales and support increased to 74% in the third quarter of 2020, compared to 73% in the third quarter of 2019.

Our costs associated with TruBridge sales and support increased by 9%, or \$1.3 million, compared to the third quarter of 2019, primarily due to a combined \$1.2 million, or 12%, increase in payroll and temporary labor costs. At the onset of the COVID-19 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 and have not, to-date, executed any such efforts. 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. This decision, while socially responsible in providing much needed job security to our employees and their families during a period of unprecedented economic hardship, also serves the long-term interests of our shareholders by strengthening our team, improving customer satisfaction, and better positioning us to capture opportunities as our markets recover. The gross margin on these services decreased to 45% in the third quarter of 2020, compared to 49% during the third 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 \$0.6 million, or 7%, compared to the third quarter of 2019, as \$0.9 million of costs were capitalized for software development during the third quarter of 2020 with none in the third quarter of 2019. The incremental benefit from the increased capitalization of software development costs was partially offset by a \$0.3 million increase in development costs associated with Get Real Health, which was acquired in May 2019.

#### *Sales and Marketing*

Sales and marketing costs decreased by \$0.3 million, or 4%, compared to the third quarter of 2019. Commission expense increased by \$0.7 million, or 39%, largely due to the aforementioned increase in Acute Care EHR non-recurring revenues from new system implementations. More than offsetting this increase in commission expense was a \$0.5 million decrease in travel costs as travel restrictions and social distancing guidelines pose challenges to in-person sales efforts and a \$0.4 million decrease in marketing program spend.

#### *General and Administrative*

General and administrative expenses increased by \$0.4 million, mostly due to a \$1.0 million increase in bad debt expense as collection efforts related to a recently closed community hospital customer have been exhausted, requiring a substantial increase in the related allowance for uncollectible financing receivables. This increase in bad debt expense was partially offset by improved health claims experience, resulting in a \$0.7 million decrease in costs associated with health benefits we offer to our employees through our self-insured health plans.

#### *Amortization of Acquisition-Related Intangibles*

Amortization expense associated with acquisition-related intangible assets decreased by \$0.2 million, compared to the third quarter of 2019, due to miscellaneous adjustments to amortization expense associated with Get Real Health intangibles recorded during the third quarter of 2019.

#### *Total Operating Expenses*

As a percentage of total revenues, total operating expenses decreased to 43% of revenues in the third quarter of 2020, compared to 44% in the third quarter of 2019.

#### *Total Other Income (Expense)*

Total other income (expense) improved to income of \$0.1 million during the third quarter of 2020 compared to expense of \$1.7 million during the third quarter of 2019. The achievement of shared savings related to our Rural Accountable Care Organization (ACO) Program resulted in a \$0.6 million increase in related income, and the combined effects of a decreasing interest rate environment and lowered amounts outstanding under our long-term debt facilities resulted in a \$0.9 million decrease in related interest expense.

#### *Income Before Taxes*

As a result of the foregoing factors, income before taxes increased by \$2.0 million, compared to the third quarter of 2019.

#### *Provision for Income Taxes*

Our effective tax rate for the three months ended September 30, 2020 increased to 16% from 4% for the three months ended September 30, 2019, mostly as increased income before taxes during the third quarter of 2020 had the effect of reducing the

effective tax rate impact related to research and development ("R&D") tax credits compared to the third quarter of 2019. R&D tax credits, inclusive of provision-to-return adjustments, benefited our effective tax rate by 11% during the third quarter of 2020 compared to a 20% benefit during the third quarter of 2019.

#### Net Income

Net income for the three months ended September 30, 2020 increased by \$1.1 million to \$5.3 million, or \$0.36 per basic and diluted share, compared with net income of \$4.1 million, or \$0.29 per basic and diluted share, for the three months ended September 30, 2019. Net income represented 8% of revenue for the three months ended September 30, 2020, compared to 6% of revenue for the three months ended September 30, 2019.

#### Nine Months Ended September 30, 2020 Compared with Nine Months Ended September 30, 2019

#### Revenues

Total revenues for the nine months ended September 30, 2020 decreased by \$6.4 million, or 3%, compared to the nine months ended September 30, 2019.

System sales and support revenues decreased by \$7.6 million, or 6%, compared to the nine months ended September 30, 2019. System sales and support revenues were comprised of the following during the respective periods:

(In thousands)	Nine Months Ended September 30,	
	2020	2019
Recurring system sales and support revenues <sup>(1)</sup>		
Acute Care EHR	\$ 78,586	\$ 81,462
Post-acute Care EHR	12,157	13,214
Total recurring system sales and support revenues	90,743	94,676
Non-recurring system sales and support revenues <sup>(2)</sup>		
Acute Care EHR	24,213	25,999
Post-acute Care EHR	1,341	3,202
Total non-recurring system sales and support revenues	25,554	29,201
Total system sales and support revenue	\$ 116,297	\$ 123,877

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

<sup>(2)</sup> 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 \$3.9 million, or 4%, compared to the nine months ended September 30, 2019. Acute Care EHR recurring revenues decreased by \$2.9 million, or 4%, as attrition from the Thrive and Centriq customer base outweighed new Thrive customer growth and additional support and SaaS fees. Post-acute Care EHR recurring revenues decreased \$1.1 million, or 8%, 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 \$3.6 million, or 12%. Acute Care EHR non-recurring revenues decreased by \$1.8 million, or 7%, mostly due to a \$3.5 million decrease in revenues for MU3 applications due to the aforementioned reduced revenue opportunities that was partially offset by a \$1.1 million increase in special project-related revenues. We installed our Acute Care EHR solutions at 22 new hospital clients during the first nine months of 2020 (14 of which were under a SaaS arrangement, resulting in revenue being recognized ratably over the contract term) compared to 16 new hospital clients during the first nine months of 2019 (five of which were under a SaaS arrangement). Acute Care EHR revenues from new system implementations and add-on sales to existing customers increased \$0.5 million from the first nine months of 2019. Non-recurring Post-acute Care EHR revenues decreased by \$1.9 million, or 58%, as compliance catalysts in place during 2019 have largely abated.

TruBridge revenues increased by \$1.2 million, or 2%, compared to the nine months ended September 30, 2019. Get Real Health, which was acquired during the second quarter of 2019, contributed \$2.2 million of revenues during the first nine months of 2020 compared to only \$0.7 million during the first nine months of 2019. This \$1.5 million increase in Get Real Health revenues was largely offset by combined declining revenues in our remaining revenue sources, as the COVID-19 pandemic and the resulting impact on patient volumes for our community hospital customers offset the revenue gains from recent new client wins. Most notably, revenues from our private pay services offering decreased by \$1.3 million, or 13%.

#### *Costs of Sales*

Total costs of sales decreased by less than 1%, or \$0.4 million, compared to the nine months ended September 30, 2019. As a percentage of total revenues, costs of sales were 49% of revenues in the nine months ended September 30, 2020 compared to 47% of revenues in the nine months ended September 30, 2019.

Costs of Acute Care EHR system sales and support decreased by \$2.5 million, or 5%, compared to the first nine months of 2019, as hardware costs decreased by \$0.6 million due to a decline in related revenues. Additionally, the impact of COVID-19 on associate travel resulted in reduced travel costs of \$1.4 million while improved personnel efficiency combined with natural employee turnover and lowered incentive compensation expense resulted in an \$0.8 million decrease in payroll-related costs. The gross margin on Acute Care EHR system sales and support remained flat at 53% during both the first nine months of 2020 and the first nine months of 2019.

Costs of Post-acute Care EHR system sales and support decreased by \$0.4 million, or 9%, compared to the first nine months of 2019, primarily due to improved personnel efficiency and 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 nine months of 2020, compared to 76% for the first nine months of 2019.

Our costs associated with TruBridge sales and support increased by 6%, or \$2.4 million, compared to the first nine months of 2019, despite overall declining revenues for non-Get Real Health revenue sources. The primary driver was a payroll increase of \$2.6 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 and have not, to-date, executed any such efforts. 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. This decision, while socially responsible in providing much needed job security to our employees and their families during a period of unprecedented economic hardship, also serves the long-term interests of our shareholders by strengthening our team, improving customer satisfaction, and better positioning us to capture opportunities as our markets recover. The gross margin on these services decreased to 46% in the first nine months of 2020, compared to 48% in the first nine 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 \$2.5 million, or 9%, compared to the first nine months of 2019, primarily due to \$2.4 million of payroll capitalized for software development during the first nine months of 2020 with no such costs capitalized during the first nine months of 2019.

#### *Sales and Marketing*

Sales and marketing expenses decreased by \$2.6 million, or 12%, compared to the first nine months of 2019, mostly due to the varying impacts of COVID-19 on our sales execution. Specifically, stock-based compensation expense decreased by \$0.7 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. Travel costs decreased by \$1.1 million as travel restrictions and social distancing guidelines pose challenges to in-person sales efforts and general marketing program spend decreased by \$0.9 million.

#### *General and Administrative*

General and administrative expenses decreased by \$0.7 million, as the \$1.3 million increase in employee health claims related to our self-insured health benefits plan for our employees has 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 \$1.2 million, due in part to the closing of our acquisition of Get Real Health in the first nine

months of 2019. Costs associated with our annual client conference decreased by \$1.1 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 \$0.5 million, compared to the first nine 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 nine months of 2020, compared to 45% in the first nine months of 2019.

#### *Total Other Income (Expense)*

Total other income (expense) decreased by \$2.9 million to an expense of \$1.8 million during the first nine months of 2020 compared to expense of \$4.7 million during the first nine months of 2019, primarily as our long-term debt and accompanying interest rate have both decreased from the first nine months of 2019.

#### *Income Before Taxes*

As a result of the foregoing factors, income before taxes increased by \$2.4 million, compared to the first nine months of 2019.

#### *Provision for Income Taxes*

Our effective tax rate for the nine months ended September 30, 2020 increased to 16% from 15% for the nine months ended September 30, 2019, mostly as increased income before taxes during the first nine months of 2020 had the effect of reducing the effective tax rate impact related to R&D tax credits compared to the first nine months of 2019. R&D tax credits, inclusive of provision-to-return adjustments, benefited our effective tax rate by 12% during the first nine months of 2020 compared to a 13% benefit during the first nine months of 2019.

#### *Net Income*

Net income for the nine months ended September 30, 2020 increased by \$1.9 million to \$11.1 million, or \$0.77 per basic and diluted share, compared with net income of \$9.2 million, or \$0.65 million per basic and diluted share, for the nine months ended September 30, 2019. Net income represented 6% of revenue for the nine months ended September 30, 2020, compared to 5% of revenue for the nine months ended September 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 nine months ended September 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" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.

#### **Sources of Liquidity**

As of September 30, 2020, our principal sources of liquidity consisted of cash and cash equivalents of \$11.8 million and our remaining borrowing capacity under the revolving credit facility of \$91.0 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 September 30, 2020, we had \$91.1 million in principal amount of indebtedness outstanding under the credit facilities. We believe that our cash and cash equivalents of \$11.8 million as of September 30, 2020, the future operating cash flows of the combined entity, and our remaining borrowing capacity under the revolving credit facility of \$91.0 million as of September 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 \$7.5 million from \$25.5 million provided by operations for the nine months ended September 30, 2019 to \$33.0 million provided by operations for the nine months ended September 30, 2020. The increase in cash flows provided by operations is primarily due to increased net income and advantageous changes in working capital, which was a net use of cash during the first nine months of 2019 in the amount of \$2.9 million, compared to a net inflow of cash during the first nine months of 2020 of \$2.5 million.

#### ***Investing Cash Flow Activities***

Net cash used in investing activities decreased by \$6.8 million, with \$5.6 million used in the nine months ended September 30, 2020 compared to \$12.4 million used during the nine months ended September 30, 2019. Most notably, we used \$10.7 million of cash during the first nine months of 2019 to fund our acquisition of Get Real Health. The first nine months of 2020 included \$2.4 million in capitalized software development costs compared to none during the first nine months of 2019. Cash outflows for purchases of property and equipment increased from \$1.7 million in the first nine months of 2019 to \$3.2 million during the first nine 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 nine months ended September 30, 2020, our financing activities used net cash of \$23.0 million, as we paid a net \$18.6 million in long-term debt principal and declared and paid dividends in the amount of \$4.3 million. During the nine 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 \$14.9 million during the nine months ended September 30, 2019, primarily due to \$10.4 million net paid in long-term debt principal and \$4.3 million cash paid in dividends.

On September 4, 2020, our Board of Directors approved a stock repurchase program to repurchase up to \$30 million in aggregate amount of the Company's outstanding shares of common stock through open market purchases, privately-negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. These shares may be purchased from time to time over a two-year period depending upon market conditions. Our ability to repurchase shares is subject to compliance with the terms of our Amended and Restated Credit Agreement. Concurrent with the authorization of this stock repurchase program, the Board of Directors opted to indefinitely suspend all quarterly dividends.

#### ***Credit Agreement***

As of September 30, 2020, we had \$74.1 million in principal amount outstanding under the term loan facility and \$17.0 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 September 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 September 30, 2020, we had a twelve-month backlog of approximately \$9 million in connection with non-recurring system purchases and approximately \$233 million in connection with recurring payments under support and maintenance, Cloud EHR contracts, and TruBridge services. As of September 30, 2019, we had a twelve-month backlog of approximately \$14 million in connection with non-recurring system purchases and approximately \$231 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 three and nine months ended September 30, 2020 and 2019:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
System sales and support <sup>(1)</sup>				
Acute Care EHR	\$ 11,535	\$ 12,299	\$ 32,387	\$ 30,436
Post-acute Care EHR	2,180	1,066	5,259	4,232
Total system sales and support	13,715	13,365	37,646	34,668
TruBridge <sup>(2)</sup>	7,760	10,248	23,176	17,572
Total bookings	\$ 21,475	\$ 23,613	\$ 60,822	\$ 52,240

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

<sup>(2)</sup> 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 third quarter of 2020 decreased by \$0.8 million, or 6%, from the third quarter of 2019 as increased strength in demand for new EHR installations was more than offset by a decline in bookings for add-on applications to existing customers. Year-to-date, this increased strength in demand for new EHR installations has propelled Acute Care EHR bookings to a \$2.0 million, or 6%, increase over the first nine months of 2019.

Bookings for our Post-acute Care EHR segment more than doubled in the third quarter of 2020 from the third quarter of 2019 and have increased 24% in the first nine months of 2020 from the first nine months of 2019, primarily as recent investments in AHT's technology solutions are driving demand within the existing AHT customer base for additional applications and upgrades.

TruBridge bookings in the third quarter of 2020 decreased \$2.5 million, or 24%, from the third quarter of 2019, primarily as the third quarter of 2019 marked the second-highest bookings period in TruBridge history due to extraordinary strength in bookings from outside of our Acute Care and Post-acute Care EHR customer bases. Year-to-date, TruBridge bookings have increased \$5.6 million, or 32%, 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 September 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, estimates, and business combinations, including purchased intangible assets. There have been no significant changes to these critical accounting policies during the nine months ended September 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 \$91.1 million of outstanding borrowings under our credit facilities with Regions Bank at September 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 September 30, 2020 would result in a change in interest expense of approximately \$0.9 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 September 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 and in Part II, Item 1A. Risk Factor in our Quarterly Report on Form 10-Q for the Quarter ended June 30, 2020 (The "Second Quarter Form 10-Q"), 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 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K and the Second Quarter Form 10-Q.

**Our stock repurchase program could affect the price of our common stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock.**

In September 2020, our Board of Directors approved a program to repurchase up to a maximum of \$30 million of our common through September 3, 2022. Although our Board has authorized a stock repurchase program, this program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The timing and actual number of shares repurchased under the stock repurchase program depends on a variety of factors, including price, general business and market conditions, and alternative investment opportunities. We may effect repurchases under the stock repurchase program from time to time in the open market, in privately negotiated transactions or otherwise. Repurchases pursuant to the stock repurchase program could affect our stock price and increase its volatility. The existence of the stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. The stock repurchase program may be suspended or discontinued at any time, which could cause the market price of our common stock to decline.

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

On September 4, 2020, our Board of Directors approved a stock repurchase program under which we may repurchase up to \$30.0 million of our common stock through September 3, 2022. We repurchased no shares during the three or nine months ended September 30, 2020. The approximate dollar value of shares that may yet be repurchased under the stock repurchase program was \$30.0 million as of September 30, 2020. Any future stock repurchase transactions may be made through open market purchases, privately-negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. Any repurchase activity will depend on many factors, such as the availability of shares of our common stock, general market conditions, the trading price of our common stock, alternative uses for capital, the Company's financial performance, compliance with covenants in our credit agreement and other factors. Concurrent with the authorization of this stock repurchase program, the Board of Directors opted to indefinitely suspend all quarterly dividends.

**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 [First Amendment to Computer Programs and Systems, Inc. 2019 Incentive Plan](#)
- 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 September 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.

November 9, 2020

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

November 9, 2020

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

**FIRST AMENDMENT TO THE  
COMPUTER PROGRAMS AND SYSTEMS, INC. 2019 INCENTIVE PLAN**  
(as approved by the Board of Directors on October 13, 2020)

**WHEREAS**, the Board of Directors (the “Board”) of Computer Programs and Systems, Inc., a Delaware corporation (the “Company”), adopted the Computer Programs and Systems, Inc. 2019 Incentive Plan (the “Plan”) on March 7, 2019 (the “Effective Date”); and

**WHEREAS**, the Board has determined it to be in the best interests of the Company to amend the Plan in order to revise Section 4.4 of the Plan and clarify that the annual limit on Awards that may be granted during a single Fiscal Year to any Director, together with any cash fees paid to such Director during the Fiscal Year, was intended to apply solely to any “Non-Employee Director” instead of any “Director” (as such terms are defined in the Plan); and

**WHEREAS**, under the terms of the Plan, the Board has the ability to amend the Plan.

**NOW, THEREFORE, BE IT RESOLVED**, that the Plan is hereby amended as follows:

1. Amendment to the Plan. Section 4.4 of the Plan is hereby deleted in its entirety and replaced with the following:

“4.4 The maximum number of shares of Common Stock subject to Awards granted during a single Fiscal Year to any Non-Employee Director, together with any cash fees paid to such Non-Employee Director during the Fiscal Year, shall not exceed a total value of \$400,000 (calculating the value of any Awards based on the grant date fair value for financial reporting purposes).”

2. Effectiveness of Amendment. This Amendment shall be effective as of the Effective Date. In the event of any inconsistency or conflict between the Plan and this Amendment, the terms, conditions and provisions of this Amendment shall govern and control.
3. Miscellaneous. Except as herein expressly amended, the Plan is ratified and confirmed in all respects and shall remain in full force and effect in accordance with its terms.

## 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: November 9, 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: November 9, 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 September 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: November 9, 2020

/s/ J. Boyd Douglas

J. Boyd Douglas  
President and Chief  
Executive Officer

/s/ Matt J. Chambless

Matt J. Chambless  
Chief Financial Officer