News PDF

CPSI Announces Second Quarter 2023 Results

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MOBILE, Ala.--(BUSINESS WIRE)-- CPSI (NASDAQ: CPSI), a healthcare solutions company, today announced results for the second quarter ended June 30, 2023.

Second Quarter 2023 Financial Overview

All comparisons are to the quarter ended June 30, 2022, unless otherwise noted.

- Bookings of $21.9 million compared to $23.8 million
- Total revenue of $84.6 million compared to $82.7 million
- RCM revenue of $47.8 million compared to $46.8 million
    - RCM revenue represented 58.2% of CPSI's total recurring revenue and 56.4% of CPSI's total revenue
- GAAP net loss of $(2.8) million and non-GAAP net income of $5.7 million
- GAAP loss per diluted share of $(0.20) and non-GAAP earnings per diluted share of $0.40
- Adjusted EBITDA of $11.2 million compared to $13.2 million
- Cash provided by operations of $717,000 during the three months ended June 30, 2023

Chris Fowler, chief executive officer of CPSI, said, "This was a challenging quarter for CPSI. We are undergoing a significant and transformative change as an organization. The results we expect to ultimately come from the meaningful initiatives we have put in place over the past several quarters have not come to fruition just yet.

"Despite the headwinds we faced in the second quarter, we continued to grow our pipeline, saw further stabilization of our electronic health record (EHR) customer base, and underwent necessary measures to best position CPSI for the future. Our topline guidance for the year remains unchanged, but we have updated our expectations for adjusted EBITDA to reflect the impact from outsized expenses in 2023. I know we are in a stronger position today than when I stepped into this role, and I remain confident that this year will be an important one as we establish a foothold for the future of CPSI," added Fowler.

Financial Outlook[1]

For the full year 2023, the Company expects:

- Revenue of $340 million to $350 million, unchanged from prior guidance
- Adjusted EBITDA of $52.5 million to $54.5 million, a decrease from the prior guidance of $59 million to $63 million
- Non-GAAP net income of $25.6 million to $27.6 million (no prior guidance)

1 Excluding revenues, the Company does not reconcile Adjusted EBITDA or non-GAAP net income to the corresponding GAAP financial measures, as certain items that impact such GAAP financial measures such as severance and other nonrecurring charges, which may be significant, are outside the Company's control and/or cannot be reasonably predicted. Please see the "Explanation of Non-GAAP Financial Measures" at the end of this press release for detailed information on calculating non-GAAP measures. For a reconciliation of other non-GAAP financial measures, see the non-GAAP financial reconciliation tables in this release.

Conference Call Information
CPSI will hold a live webcast to discuss second quarter 2023 results today, Wednesday, August 9, 2023, at 3:30 p.m. Central time/4:30 p.m. Eastern time. A 30-day online replay will be available approximately one hour following the conclusion of the live webcast. To listen to the live webcast or access the replay, visit the Company's website, www.cpsi.com.

About CPSI
CPSI has over four decades of experience in connecting providers, patients and communities with innovative solutions that support both the clinical and financial side of healthcare delivery. We provide business, consulting, and managed information technology (IT) services, including our industry leading HFMA Peer Reviewed® suite of revenue cycle management (RCM) offerings, to help streamline day-to-day revenue functions, enhance productivity, and support the **financial health** of healthcare organizations. Our **patient engagement** solutions provide patients and providers with the critical information and tools they need to share existing clinical data and analytics that support value-based care, improve outcomes, and increase patient satisfaction. We support **efficient patient care** across an expansive base of community hospitals and post-acute care facilities with electronic health record (EHR) product offerings that successfully integrate data between care settings. We make healthcare accessible through data-driven insights that support informed decisions and deliver workflow efficiencies, while keeping patients at the center of care. We are a healthcare solutions company. We clear the way for care. For more information, please visit www.cpsi.com.

Forward-Looking Statements
This press release 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 press release relating to the Company's future financial and operational 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: a public health crisis, such as the COVID-19 pandemic, and related economic disruptions; saturation of our target market and hospital consolidations; unfavorable economic or market conditions that may cause a decline in spending for information technology and services; significant legislative and regulatory uncertainty in the healthcare industry; exposure to liability for failure to comply with regulatory requirements; transition to a subscription-based recurring revenue model and modernization of our technology; competition with companies that have greater financial, technical and marketing resources than we have; potential future acquisitions that may be expensive, time

consuming, and subject to other inherent risks; our ability to attract and retain qualified client service and support personnel; disruption from periodic restructuring of our sales force; potential inability to properly manage growth in new markets we may enter; exposure to numerous and often conflicting laws, regulations, policies, standards or other requirements through our international business activities; potential litigation against us; our reliance on an international workforce which exposes us to various business disruptions; potential failure to develop new products or enhance current products that keep pace with 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; increase in the percentage of total revenues represented by service revenues, which have lower gross margins; exposure to liability in the event we provide inaccurate claims data to payors; exposure to liability claims arising out of the licensing of our software and provision of services; dependence on 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; potential inability to secure additional financing on favorable terms to meet our future capital needs; our substantial indebtedness, and our ability to incur additional indebtedness in the future; pressures on cash flow to service our outstanding debt; restrictive terms of our credit agreement on our current and future operations; changes in and interpretations of financial accounting matters that govern the measurement of our performance; significant charges to earnings if our goodwill or intangible assets become impaired; fluctuations in quarterly financial performance due to, among other factors, timing of customer installations; volatility in our stock price; failure to maintain effective internal control over financial reporting; lack of employment or non-competition agreement with most of our key personnel; inherent limitations in our internal control over financial reporting; vulnerability to significant damage from natural disasters; market risks related to interest rate changes; potential material adverse effects due to macroeconomic conditions, including bank failures or changes in related regulation; and other risk factors described from time to time in our public releases and reports filed with the Securities and Exchange Commission, including, but not limited to, our most recent Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023. We also caution investors that the forward-looking information described herein represents our outlook only as of this date, and we undertake no obligation to update or revise any forward-looking statements to reflect events or developments after the date of this press release.

Computer Programs and Systems, Inc.

Condensed Consolidated Statements of Income

(In '000s, except per share data)

(Unaudited)

	Three Months Ended June 30,				*Six Months Ended June 30,*			
	2023		2022		2023		2022	
Sales revenues:								
RCM	$	47,760	$	46,814	$	96,391	$	87,325
EHR	34,967		34,143		70,158		68,905	
Patient engagement	1,895		1,769		4,306		4,367	
Total sales revenues	**84,622**		**82,726**		**170,855**		**160,597**	
	56.4	%	56.6	%				
Costs of sales:								
RCM	27,119		25,382		54,302		45,780	
EHR	15,891		15,721		32,239		31,061	
Patient engagement	1,123		950		1,769		1,893	
Total costs of sales	**44,133**		**42,053**		**88,310**		**78,734**	
Gross profit	**40,489**		**40,673**		**82,545**		**81,863**	

Operating expenses:				
Product development	10,595	8,107	20,434	16,169
Sales and marketing	8,132	8,226	15,089	15,269
General and administrative	19,654	14,994	34,604	28,421
Amortization of acquisition-related intangibles	4,014	4,758	8,029	8,430
Total operating expenses	**42,395**	**36,085**	**78,156**	**68,289**
Operating income (loss)	**(1,906)**	**4,588**	**4,389**	**13,574**
Other income (expense):				
Other income	78	278	346	435
Gain on contingent consideration	-	330	-	1,580
Loss on extinguishment of debt	-	(125)	-	(125)
Interest expense	(2,664)	(1,232)	(5,334)	(2,149)
Total other income (expense)	**(2,586)**	**(749)**	**(4,988)**	**(259)**

Income (loss) before taxes	**(4,492)**	**3,839**	**(599)**	**13,315**
Provision (benefit) for income taxes	**(1,655)**	**763**	**(846)**	**2,126**
Net income (loss)	**$ (2,837)**	**$ 3,076**	**$ 247**	**$ 11,189**
Net income (loss) per common share—basic	$ (0.20)	$ 0.21	$ 0.02	$ 0.76
Net income (loss) per common share—diluted	$ (0.20)	$ 0.21	$ 0.02	$ 0.76

Computer Programs and Systems, Inc.

Condensed Consolidated Balance Sheets

(In '000s, except per share data)

	June 30, 2023 *(unaudited)*	Dec. 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 7,246	$ 6,951
Accounts receivable, net of allowance for expected credit losses of $2,796 and $2,854, respectively	54,889	51,311

Financing receivables, current portion (net of allowance for expected credit losses of $111 and $223, respectively)	4,670	4,474
Inventories	962	784
Prepaid income taxes	1,811	701
Prepaid expenses and other	12,891	10,338
Total current assets	82,469	74,559
Property & equipment, net	8,744	9,884
Software development costs, net	36,088	27,257
Operating lease assets	5,421	7,567
Financing receivables, net of current portion (net of allowance for expected credit losses of $392 and $326, respectively)	2,223	3,312
Other assets, net of current portion	7,595	8,131
Intangible assets, net	�� 93,971	102,000
Goodwill	198,253	198,253
Total assets	**$ 434,764**	**$ 430,963**

Liabilities & Stockholders' Equity

Current liabilities		
Accounts payable	$ 14,483	$ 7,035
Current portion of long-term debt	3,141	3,141
Deferred revenue	9,885	11,590
Accrued vacation	6,581	6,214
Other accrued liabilities	13,667	16,475
Total current liabilities	47,757	44,455
Long-term debt, net of current portion	141,420	136,388
Operating lease liabilities, net of current portion	3,812	5,651
Deferred tax liabilities	11,225	12,758
Total liabilities	204,214	199,252
Stockholders' Equity		
Common stock, $0.001 par value; 30,000 shares authorized; 15,099 and 14,913 shares issued, respectively	15	15
Treasury stock, 570 and 483 shares, respectively	(17,032)	(14,500)

Additional paid-in capital	193,399	192,275
Retained earnings	54,168	53,921
Total stockholders' equity	230,550	231,711
Total liabilities and stockholders' equity	**$ 434,764**	**$ 430,963**

Computer Programs and Systems, Inc.

Condensed Consolidated Statements of Cash Flows

(In '000s)

(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Operating activities:		
Net income	$ 247	$ 11,189
Adjustments to net income:		
Provision for credit losses	181	1,202
Deferred taxes	(1,533)	(724)
Stock-based compensation	1,124	3,420

Depreciation	1,095	1,269
Loss on extinguishment of debt	-	125
Amortization of acquisition-related intangibles	8,029	8,430
Amortization of software development costs	3,312	1,259
Amortization of deferred finance costs	180	152
Gain on contingent consideration	-	(1,580)
Non-cash operating lease costs	1,211	940
Loss on disposal of PP&E	117	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,806)	(9,934)
Financing receivables	940	3,376
Inventories	(178)	(273)
Prepaid expenses and other	(2,017)	(4,547)
Accounts payable	7,448	(469)
Deferred revenue	(1,705)	2,625
Operating lease liabilities	(1,067)	(940)
Other liabilities	(2,278)	1,126
Prepaid income taxes	(1,110)	2,457
Net cash provided by operating activities	10,190	19,103

Investing activities:		
Purchase of business, net of cash acquired	-	(43,814)
Investment in software development	(12,143)	(8,739)
Purchases of property and equipment	(72)	(88)
Net cash used in investing activities	(12,215)	(52,641)
Financing activities:		
Treasury stock purchases	(2,532)	(4,248)
Proceeds from long-term debt	-	575
Payments of long-term debt principal	(1,750)	(1,813)
Proceeds from revolving line of credit	11,602	48,000
Payments of revolving line of credit	(5,000)	(5,300)
Net cash provided by (used in) financing activities	2,320	37,214
Net increase in cash and cash equivalents	295	3,676
Cash and cash equivalents, beginning of period	6,951	11,431
Cash and cash equivalents, end of period	$ 7,246	$ 15,107

Computer Programs and Systems, Inc.

Consolidated Bookings

(In '000s)

	Three Months Ended		*Six Months Ended*	
In '000s	6/30/2023	6/30/2022	6/30/2023	6/30/2022
RCM[1]	$ 13,648	$ 14,847	$ 25,748	$ 23,414
EHR[2]	7,433	8,222	15,751	18,468
Patient engagement[1]	867	730	1,343	2,314
Total	$ 21,948	$ 23,799	$ 42,842	$ 44,196

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

(2) Generally calculated as the total contract price (for system sales) and annualized contract value (for support) for perpetual license system sales and total contract price for SaaS sales.

Computer Programs and Systems, Inc.

Bookings Composition

(In '000s, except per share data)

(Unaudited)

	Three Months Ended		*Six Months Ended*	
	6/30/2023	6/30/2022	6/30/2023	6/30/2022
RCM				
Net new[(1)]	$ 3,196	$ 4,404	$ 7,616	$ 8,760
Cross-sell[(1)]	10,122	7,734	15,868	11,807
TruCode	330	2,709	2,264	2,847
EHR				
Non-subscription sales[(2)]	4,047	4,873	8,111	8,139
Subscription revenue[(3)]	2,408	2,383	5,615	8,454
Other	978	966	2,025	1,875
Patient engagement	867	730	1,343	2,314
Total	**$ 21,948**	**$ 23,799**	**$ 42,842**	**$ 44,196**

(1) "Net new" represents bookings from outside the Company's core EHR client base, and "Cross-sell" represents bookings from existing EHR customers. In each case, such bookings are generally comprised of recurring revenues to be recognized ratably over a one-year period and an average timeframe for commencement of bookings-to-revenue conversion of four to six months following contract execution.

(2) Represents nonrecurring revenues that generally exhibit a timeframe for bookings-to-revenue conversion of five to six months following contract execution.

(3) Represents recurring revenues to be recognized on a monthly basis over a weighted-average contract period of five years, with a start date in the next 12 months and an average timeframe

for commencement of bookings-to-revenue conversion of five to six months following contract execution.

Computer Programs and Systems, Inc.

Electronic Health Record (EHR)Revenue Composition

(In '000s)

(Unaudited)

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2023	2022	2023	2022
Recurring revenues - EHR				
Acute Care EHR	$ 28,349	$ 26,732	$ 55,962	$ 54,097
Post-acute Care EHR	3,729	3,792	7,636	7,687
Total recurring revenues - EHR	32,078	30,524	63,598	61,784
Nonrecurring revenues - EHR				
Acute Care EHR	2,544	2,939	5,835	5,966
Post-acute Care EHR	345	680	725	1,155

Total nonrecurring revenues - EHR	2,889	3,619	6,560	7,121
Total EHR revenues	**$ 34,967**	**$ 34,143**	**$ 70,158**	**$ 68,905**

Computer Programs and Systems, Inc.

Client Net Patient Revenue ("NPR")

(In millions)

(Unaudited)

	As of:					
	3/31/2022	6/30/2022	9/30/2022	12/31/2022	3/31/2023	6/30/2023
Client NPR[1]	$ 2,880	$ 2,946	$ 2,958	$ 2,991	$ 3,033	$ 3,205

[1] Client NPR defined as the aggregate annual net patient revenue for hospital customers contracted for our full-service revenue cycle outsourcing solution.

Computer Programs and Systems, Inc.

Adjusted EBITDA - by Segment

(In '000s)

	Three Months Ended		*Six Months Ended*	
In '000s	6/30/2023	6/30/2022	6/30/2023	6/30/2022
RCM	$ 5,682	$ 8,064	$ 13,580	$ 17,645
EHR	5,568	5,707	11,725	11,870
Patient engagement	(23)	(602)	564	(192)
Total	$ 11,227	$ 13,169	$ 25,869	$ 29,323

Computer Programs and Systems, Inc.

Reconciliation of Non-GAAP Financial Measures

(In '000s)

(Unaudited)

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Adjusted EBITDA:	2023	2022	2023	2022
Net income (loss), as reported	**$ (2,837)**	**$ 3,076**	**$ 247**	**$ 11,189**

Deferred revenue and other purchase accounting-related adjustments	-	30	-	109
Depreciation expense	597	690	1,095	1,269
Amortization of software development costs	1,826	733	3,312	1,259
Amortization of acquisition-related intangibles	4,014	4,758	8,029	8,430
Stock-based compensation	(123)	1,703	1,124	3,420
Severance and other nonrecurring charges	6,819	667	7,920	1,262
Interest expense and other, net	2,586	1,079	4,988	1,839
Gain on contingent consideration	-	(330)	-	(1,580)
Provision (benefit) for income taxes	(1,655)	763	(846)	2,126
Total Adjusted EBITDA	**$ 11,227**	**$ 13,169**	**$ 25,869**	**$ 29,323**

Computer Programs and Systems, Inc.

Reconciliation of Non-GAAP Financial Measures

(In '000s, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
Non-GAAP Net Income and Non-GAAP EPS:	2023	2022	2023	2022
Net income (loss), as reported	**$ (2,837)**	**$ 3,076**	**$ 247**	**$ 11,189**
Pre-tax adjustments for Non-GAAP EPS:				
Deferred revenue and other purchase accounting-related adjustments	-	30	-	109
Amortization of acquisition-related intangible assets	4,014	4,758	8,029	8,430
Stock-based compensation	(123)	1,703	1,124	3,420
Severance and other nonrecurring charges	6,819	667	7,920	1,262
Non-cash interest expense	90	79	180	152

Loss on extinguishment of debt	-	125	-	125
After-tax adjustments for Non-GAAP EPS:				
Tax-effect of pre-tax adjustments, at 21%	(2,268)	(1,546)	(3,623)	(2,835)
Tax shortfall (windfall) from stock-based compensation	7	-	57	(112)
Gain on contingent consideration	-	(330)	-	(1,580)
Non-GAAP net income	**$ 5,702**	**$ 8,562**	**$ 13,934**	**$ 20,160**
Weighted average shares outstanding, diluted	14,200	14,469	14,168	14,425
Non-GAAP EPS	$ 0.40	$ 0.59	$ 0.98	$ 1.40

Explanation of Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States of America, or “GAAP.” However, management believes that, in order to properly understand our short-term and long-term financial and operational trends, investors may wish to consider the impact of certain non-cash or non-recurring items, when used as a supplement to financial performance measures that are prepared in accordance with GAAP. These items result from facts and circumstances that vary in frequency and impact on continuing operations. Management uses these non-GAAP financial measures in order to evaluate the operating performance of the Company and compare it against past periods, make operating decisions, and serve as a basis for strategic planning. These non-GAAP financial measures provide management with additional means to understand and evaluate the operating results and trends in our ongoing business by eliminating certain non-cash expenses and other items that management believes might otherwise make comparisons of our ongoing business with prior periods more difficult, obscure trends in ongoing operations, or reduce management's ability to make useful forecasts. In addition, management understands that some investors and financial analysts find these non-GAAP financial measures helpful in analyzing our financial and operational performance and comparing this performance to our peers and competitors.

As such, to supplement the GAAP information provided, we present in this press release and during the live webcast discussing our financial results the following non-GAAP financial measures: Adjusted EBITDA, Non-GAAP net income, and Non-GAAP earnings per share ("EPS").

We calculate each of these non-GAAP financial measures as follows:

- Adjusted EBITDA – Adjusted EBITDA consists of GAAP net income as reported and adjusts for (i) deferred revenue purchase and other accounting adjustments arising from purchase allocation adjustments related to business acquisitions; (ii) depreciation expense; (iii) amortization of software development costs; (iv) amortization of acquisition-related intangibles; (v) stock-based compensation; (vi) severance and other non-recurring charges; (vii) interest expense and other, net; (viii) gain on contingent consideration; and (ix) the provision for income taxes.
- Non-GAAP net income – Non-GAAP net income consists of GAAP net income as reported and adjusts for (i) deferred revenue and other purchase accounting adjustments arising from purchase allocation adjustments related to business acquisitions; (ii) amortization of acquisition-related intangible assets; (iii) stock-based compensation; (iv) severance and other non-recurring charges; (v) non-cash interest expense; (vi) loss on extinguishment of debt and (vii) the total tax effect of items (i) through (v). Adjustments to Non-GAAP net income also include the after-tax effect of the shortfall (windfall) from stock-based compensation and gain on contingent consideration.
- Non-GAAP EPS – Non-GAAP EPS consists of Non-GAAP net income, as defined above, divided by weighted average shares outstanding (diluted) in the applicable period.

Certain of the items excluded or adjusted to arrive at these non-GAAP financial measures are described below:

- Deferred revenue and other purchase accounting adjustments – Deferred revenue purchase accounting adjustments includes acquisition-related deferred revenue adjustments, which reflect the fair value adjustments to deferred revenues acquired in business acquisitions. The fair value of deferred revenue represents an amount equivalent to the estimated cost plus an appropriate profit margin, to perform services related to the acquiree's software and product support, which assumes a legal obligation to do so, based on the deferred revenue balances as of the acquisition date. We add back deferred revenue and other adjustments for non-GAAP financial measures because we believe the inclusion of this amount directly correlates to the underlying performance of our operations.
- Amortization of acquisition-related intangibles – Acquisition-related amortization expense is a non-cash expense arising primarily from the acquisition of intangible assets in connection with acquisitions or investments. We exclude acquisition-related amortization expense from non-GAAP financial measures because we believe (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of new acquisitions and full amortization of previously acquired intangible assets. Investors should note that the use of these intangible assets contributed to revenue in the periods presented and will contribute to future revenue generation, and the related amortization expense will recur in future periods.

- Stock-based compensation – Stock-based compensation expense is a non-cash expense arising from the grant of stock-based awards. We exclude stock-based compensation expense from non-GAAP financial measures because we believe (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of the timing and valuation of grants of new stock-based awards, including grants in connection with acquisitions. Investors should note that stock-based compensation is a key incentive offered to employees whose efforts contributed to the operating results in the periods presented and are expected to contribute to operating results in future periods, and such expense will recur in future periods.
- Severance and other nonrecurring charges – Non-recurring charges relate to certain severance and other charges incurred in connection with activities that are considered non-recurring. We exclude non-recurring expenses (primarily related to costs associated with our recent business transformation initiative and transaction-related costs) from non-GAAP financial measures because we believe (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods.
- Non-cash interest expense – Non-cash interest expense includes amortization of deferred debt issuance costs. We exclude non-cash interest expense from non-GAAP financial measures because we believe these non-cash amounts relate to specific transactions and, as such, may not directly correlate to the underlying performance of our business operations.
- Tax shortfall (windfall) from stock-based compensation – ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, became effective for the Company during the third quarter of 2017 and changes the treatment of tax shortfall and excess tax benefits arising from stock-based compensation arrangements. Prior to ASU 2016-09, these amounts were recorded as an increase (for excess benefits) or decrease (for shortfalls) to additional paid-in capital. With the adoption of ASU 2016-09, these amounts are now captured in the period's income tax expense. We exclude this component of income tax expense from non-GAAP financial measures because we believe (i) the amount of such expenses or benefits in any specific period may not directly correlate to the underlying performance of our business operations; and (ii) such expenses or benefits can vary significantly between periods as a result of the valuation of grants of new stock-based awards, the timing of vesting of awards, and periodic movements in the fair value of our common stock.
- Gain on contingent consideration – The purchase agreement for our acquisition of TruCode in 2021 contained contingent consideration, or "earnout," provisions whereby the previous shareholders of TruCode would receive additional consideration at the conclusion of a one-year period beginning on the acquisition date and ending on the first anniversary of the acquisition date, depending on the achievement of certain profitability targets. After the initial measurement period, U.S. GAAP requires that any adjustments to the estimated fair value of this contingent liability, including upon final determination of amounts due, should be recorded in the relevant period's earnings. We exclude gains on contingent consideration from non-GAAP financial measures because we believe (i) the amount of such gains in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such gains can vary significantly between periods.

Management considers these non-GAAP financial measures to be important indicators of our operational strength and performance of our business and a good measure of our historical operating trends, in particular the extent to which ongoing operations impact our overall financial performance. In addition, management may use Adjusted EBITDA, Non-GAAP net income and/or Non-GAAP EPS to measure the achievement of performance objectives under the Company's stock and cash incentive programs. Note, however, that these non-GAAP financial measures are performance measures only, and they do not provide any measure of cash flow or liquidity. Non-

GAAP financial measures are not alternatives for measures of financial performance prepared in accordance with GAAP and may be different from similarly titled non-GAAP measures presented by other companies, limiting their usefulness as comparative measures. Non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. Additionally, there is no certainty that we will not incur expenses in the future that are similar to those excluded in the calculations of the non-GAAP financial measures presented in this press release. Investors and potential investors are encouraged to review the “Unaudited Reconciliation of Non-GAAP Financial Measures” above.

View source version on businesswire.com: https://www.businesswire.com/news/home/20230809463619/en/

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