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, 2021

☐ **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	**74-3032373**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
54 St. Emanuel Street, Mobile, Alabama	**36602**
(Address of Principal Executive Offices)	**(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:

Title of each class	Trading symbol	Name of each exchange on which registered
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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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 8, 2021, there were 14,648,442 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, 2021)

TABLE OF CONTENTS

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, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 17,114	$ 12,671
Accounts receivable (net of allowance for expected credit losses of $1,604 and $1,701, respectively)	30,542	32,414
Financing receivables, current portion, net (net of allowance for expected credit losses of $364 and $541, respectively)	7,277	10,821
Inventories	1,151	1,084
Prepaid income taxes	4,056	1,789
Prepaid expenses and other	10,837	8,365
Total current assets	70,977	67,144
Property and equipment, net	12,100	13,139
Software development costs, net	9,130	3,210
Operating lease assets	7,424	6,610
Financing receivables, net of current portion (net of allowance for expected credit losses of $465 and $948, respectively)	8,471	11,477
Other assets, net of current portion	3,209	2,787
Intangible assets, net	98,875	71,689
Goodwill	177,196	150,216
Total assets	$ 387,382	$ 326,272
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,454	$ 7,716
Current portion of long-term debt	3,926	3,457
Deferred revenue	10,844	8,130
Accrued vacation	5,145	5,353
Other accrued liabilities	16,245	12,786
Total current liabilities	41,614	37,442
Long-term debt, net of current portion	111,298	73,360
Operating lease liabilities, net of current portion	5,800	5,092
Deferred tax liabilities	12,684	10,378
Total liabilities	171,396	126,272
Stockholders' equity:		
Common stock, $0.001 par value; 30,000 shares authorized; 14,734 and 14,511 shares issued and outstanding, respectively	15	15
Additional paid-in capital	185,801	181,622
Retained earnings	32,653	19,624
Treasury stock, 86 shares and 47 shares, respectively	(2,483)	(1,261)
Total stockholders' equity	215,986	200,000
Total liabilities and stockholders' equity	$ 387,382	$ 326,272

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,	
	2021	2020	2021	2020
Sales revenues:				
System sales and support	$ 35,560	$ 40,388	$ 107,893	$ 116,297
TruBridge	34,531	27,945	98,736	81,342
Total sales revenues	70,091	68,333	206,629	197,639
Costs of sales:				
System sales and support	17,425	17,628	52,250	51,901
TruBridge	17,377	15,287	50,349	44,100
Total costs of sales	34,802	32,915	102,599	96,001
Gross profit	35,289	35,418	104,030	101,638
Operating expenses:				
Product development	7,700	8,549	22,598	25,190
Sales and marketing	5,200	6,359	15,813	18,526
General and administrative	14,184	11,440	38,322	34,242
Amortization of acquisition-related intangibles	3,674	2,866	10,114	8,599
Total operating expenses	30,758	29,214	86,847	86,557
Operating income	4,531	6,204	17,183	15,081
Other income (expense):				
Other income	123	916	1,160	1,241
Loss on extinguishment of debt	—	—	—	(202)
Interest expense	(825)	(850)	(2,249)	(2,832)
Total other income (expense)	(702)	66	(1,089)	(1,793)
Income before taxes	3,829	6,270	16,094	13,288
Provision for income taxes	1,085	1,002	3,065	2,165
Net income	$ 2,744	$ 5,268	$ 13,029	$ 11,123
Net income per common share—basic	$ 0.19	$ 0.36	$ 0.89	$ 0.77
Net income per common share—diluted	$ 0.19	$ 0.36	$ 0.89	$ 0.77
Weighted average shares outstanding used in per common share computations:				
Basic	14,334	14,095	14,276	14,022
Diluted	14,343	14,095	14,303	14,022
Dividends declared per common share	$ —	$ 0.10	$ —	$ 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		Additional Paid-in-Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Three Months Ended September 30, 2021 and 2020:						
Balance at June 30, 2021	14,734	$ 15	$ 184,101	$ 29,909	$ (2,483)	$ 211,542
Net income	—	—	—	2,744	—	2,744
Stock-based compensation	—	—	1,700	—	—	1,700
Balance at September 30, 2021	14,734	$ 15	$ 185,801	$ 32,653	$ (2,483)	$ 215,986
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
Nine Months Ended September 30, 2021 and 2020:						
Balance at December 31, 2020	14,511	$ 15	$ 181,622	$ 19,624	$ (1,261)	$ 200,000
Net income	—	—	—	13,029	—	13,029
Issuance of restricted stock	229	—	—	—	—	—
Forfeiture of restricted stock	(6)	—	—	—	—	—
Stock-based compensation	—	—	4,179	—	—	4,179
Treasury stock acquired	—	—	—	—	(1,222)	(1,222)
Balance at September 30, 2021	14,734	$ 15	$ 185,801	$ 32,653	$ (2,483)	$ 215,986
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

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,	
	2021	2020
Operating Activities:		
Net income	$ 13,029	$ 11,123
Adjustments to net income:		
Provision for credit losses	2,080	2,695
Deferred taxes	2,306	1,060
Stock-based compensation	4,179	5,174
Depreciation	1,641	1,334
Amortization of acquisition-related intangibles	10,114	8,599
Amortization of software development costs	527	79
Amortization of deferred finance costs	220	242
Loss on extinguishment of debt	—	202
Loss on disposal of PP&E	313	—
Changes in operating assets and liabilities:		
Accounts receivable	1,304	3,490
Financing receivables	5,962	2,701
Inventories	(67)	136
Prepaid expenses and other	(2,892)	(1,765)
Accounts payable	(2,723)	(817)
Deferred revenue	1,414	(1,174)
Other liabilities	(666)	553
Prepaid income taxes	(2,267)	(651)
Net cash provided by operating activities	34,474	32,981
Investing Activities:		
Purchase of business, net of cash acquired	(59,634)	—
Investment in software development	(6,447)	(2,356)
Purchase of property and equipment	(915)	(3,241)
Net cash used in investing activities	(66,996)	(5,597)
Financing Activities:		
Dividends paid	—	(4,338)
Proceeds from long-term debt	—	67
Payments of long-term debt principal	(2,813)	(3,132)
Proceeds from revolving line of credit	61,000	—
Payments of revolving line of credit	(20,000)	(15,561)
Treasury stock purchases	(1,222)	—
Net cash provided by (used in) financing activities	36,965	(22,964)
Increase in cash and cash equivalents	4,443	4,420
Cash and cash equivalents at beginning of period	12,671	7,357
Cash and cash equivalents at end of period	$ 17,114	$ 11,777
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,979	$ 2,588
Cash paid for income taxes, net of refund	$ 3,116	$ 1,756

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, 2020 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, 2020 and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

During the second quarter of 2021, we elected to change our method of estimating the labor costs incurred in developing software assets requiring capitalization under Accounting Standards Codification ("ASC") 350-40, *Internal Use Software.* Prior to this change, we estimated the associated labor costs using an estimated time-equivalent for workload metrics commonly utilized within agile software development environments. With this change, we now estimate these labor costs using the distribution of these agile workload metrics between capitalizable and non-capitalizable units of work. We believe this change is preferable as the new methodology better estimates capitalizable labor costs and is consistent with industry best practices. We have determined that this change is a change in accounting estimate effected by a change in accounting principle and, as such, has been accounted for on a prospective basis. See Note 6, "Software Development," for further information.

Principles of Consolidation

The condensed consolidated financial statements of CPSI include the accounts of TruBridge, LLC ("TruBridge"), Evident, LLC ("Evident"), Healthland Holding Inc. ("HHI"), iNetXperts, Corp. d/b/a Get Real Health ("Get Real Health"), and TruCode LLC (TruCode), 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 2021

There were no new accounting standards required to be adopted in 2021 that would 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 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 community hospitals and post-acute care providers.

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, 2021 and 2020, included in the condensed consolidated balance sheets:

(In thousands)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Beginning balance	$ 8,130	$ 8,628
Deferred revenue recorded	16,886	13,633
Deferred revenue acquired	1,300	—
Less deferred revenue recognized as revenue	(15,472)	(14,807)
Ending balance	$ 10,844	$ 7,454

The deferred revenue recorded during the nine months ended September 30, 2021 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, 2021 and 2020 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" in the accompanying condensed consolidated statements of income.

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, 2021 and 2020, included in the condensed consolidated balance sheets:

(In thousands)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Beginning balance	$ 5,992	$ 4,440
Costs to obtain and fulfill contracts capitalized	4,719	4,839
Less costs to obtain and fulfill contracts recognized as expense	(4,441)	(4,044)
Ending balance	$ 6,270	$ 5,235

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 TruCode

On May 12, 2021, we acquired all of the assets and liabilities of TruCode LLC, a Virginia limited liability company (“TruCode”), pursuant to a Stock Purchase Agreement dated May 12, 2021. Based in Alpharetta, Georgia, TruCode provides configurable, knowledge-based software that gives coders, clinical documentation improvement specialists and auditors the flexibility to code according to their knowledge, preferences and experience. The cloud-based medical coding solution will be bundled with the TruBridge solutions and services to enhance revenue cycle performance for healthcare organizations of all sizes.

Consideration for the acquisition included cash (net of cash of the acquired entity) of $59.6 million (inclusive of sellers' transaction expenses), plus a contingent earnout payment of up to $15.0 million tied to TruCode's earnings before interest, tax, depreciation, and amortization ("EBITDA") (subject to certain pro-forma adjustments) for the twelve-month period concluding on the anniversary date of the acquisition. During 2021, we have incurred approximately $0.9 million of pre-tax acquisition costs in connection with the acquisition of TruCode. Acquisition costs are included in general and administrative expenses in our consolidated statements of income.

Our acquisition of TruCode will be 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 is based on management's judgment after evaluating several factors, including a preliminary valuation assessment. The allocation is preliminary and subject to changes, which could be significant, as additional information becomes available and appraisals of intangible assets and deferred tax positions are finalized.

The preliminary allocation of the purchase price paid for TruCode as of September 30, 2021 was as follows:

(In thousands)		Purchase Price Allocation
Acquired cash	$	4,249
Accounts receivable		924
Prepaid expenses		2
Intangible assets		37,300
Goodwill		26,980
Accounts payable and accrued liabilities		(1,772)
Contingent consideration		(2,500)
Deferred revenue		(1,300)
Net assets acquired	$	63,883

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.

Our condensed consolidated statement of operations for the three and nine months ended September 30, 2021 includes revenues of approximately $2.6 million and $4.1 million, respectively, and pre-tax net income of approximately $1.4 million and $1.8 million, respectively, attributed to the acquired business since the May 12, 2021 acquisition date.

The following unaudited pro forma revenue, net income and earnings per share amounts for the three and nine months ended September 30, 2021 and 2020 give effect to the TruCode acquisition as if it had been completed on January 1, 2020. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the operating results actually would have been during the periods presented had the TruCode acquisition been completed during the periods presented. In addition, the unaudited pro forma financial information does not purport to project future operating results. The pro forma information does not fully reflect: (1) any anticipated synergies (or costs to achieve synergies) or (2) the impact of non-recurring items directly related to the TruCode acquisition.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2021	2020	2021	2020
Pro forma revenues	$ 70,478	$ 71,177	$ 212,449	$ 205,732
Pro forma net income	$ 3,115	$ 5,378	$ 15,060	$ 11,181
Pro forma diluted earnings per share	$ 0.22	$ 0.37	$ 1.03	$ 0.76

Pro forma net income was calculated by adjusting the results for the applicable period to reflect (i) the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied on January 1, 2020 and (ii) adjustments to amortized revenue during fiscal 2021 and 2020 as a result of the acquisition date valuation of assumed deferred revenue.

5. PROPERTY AND EQUIPMENT

Property and equipment, net was comprised of the following at September 30, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Land	$ 2,848	$ 2,848
Buildings and improvements	8,269	8,242
Computer equipment	7,863	7,144
Leasehold improvements	783	1,283
Office furniture and fixtures	682	829
Automobiles	18	18
Property and equipment, gross	20,463	20,364
Less: accumulated depreciation	(8,363)	(7,225)
Property and equipment, net	$ 12,100	$ 13,139

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. We evaluate capitalized software development costs for impairment when there is an indication that the useful life has changed or that the unamortized costs may not be recoverable. 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.

During the second quarter of 2021, our ongoing monitoring activities associated with the capitalization of software development costs and the related correlation between capitalization rates and operational metrics designed to reflect the distribution of work revealed that our then-current labor capitalization methodology did not fully reflect all of the critical activities necessary to develop software assets. Consequently, during the second quarter of 2021, we elected to change our method of estimating the labor costs incurred in developing software assets. Prior to this change, we estimated the associated labor costs using an estimated time-equivalent for workload metrics commonly utilized within agile software development environments. With this change, we now estimate these labor costs using the distribution of these agile workload metrics between capitalizable and non-capitalizable units of work. We believe this change is preferable as the new methodology better estimates capitalizable labor costs and is consistent with industry best practices. We have determined that this change in accounting for software development costs is a change in accounting estimate effected by a change in accounting principle and, as such, has been accounted for on a prospective basis. In connection with this change, we capitalized software development costs of $2.4 million and $6.5 million during the three and nine months ended September 30, 2021, respectively. We estimate that the effect of this change was to increase capitalized amounts by approximately $1.1 million and $3.0 million for the three and nine months ended September 30, 2021, respectively, with a corresponding decrease to product development costs.

Software development costs, net was comprised of the following at September 30, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Software development costs	$ 9,774	$ 3,328
Less: accumulated amortization	(644)	(118)
Software development costs, net	$ 9,130	$ 3,210

7. OTHER ACCRUED LIABILITIES

Other accrued liabilities was comprised of the following at September 30, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Salaries and benefits	$ 7,364	$ 7,876
Severance	506	25
Commissions	875	1,040
Self-insurance reserves	1,730	1,776
Contingent consideration	2,500	—
Other	1,646	551
Operating lease liabilities, current portion	1,624	1,518
Other accrued liabilities	$ 16,245	$ 12,786

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 ASC 260, *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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2021	2020	2021	2020
Net income	$ 2,744	$ 5,268	$ 13,029	$ 11,123
Less: Net income attributable to participating securities	(59)	(151)	(293)	(338)
Net income attributable to common stockholders	$ 2,685	$ 5,117	$ 12,736	$ 10,785
Weighted average shares outstanding used in basic per common share computations	14,334	14,095	14,276	14,022
Add: Dilutive potential common shares	9	—	27	—
Weighted average shares outstanding used in diluted per common share computations	14,343	14,095	14,303	14,022
Basic EPS	$ 0.19	$ 0.36	$ 0.89	$ 0.77
Diluted EPS	$ 0.19	$ 0.36	$ 0.89	$ 0.77

During 2019, 2020, and 2021, performance share awards were granted to certain executive officers and key employees of the Company that will result in the issuance of common stock if the predefined performance criteria are met. The awards provide for an aggregate target of 249,952 shares, of which 8,897 and 26,601 have been included in the calculation of diluted EPS for the three and nine months ended September 30, 2021, respectively. The remaining shares have been excluded from the calculation of diluted EPS because the related threshold award performance levels have not been achieved as of September 30, 2021. 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, 2021 increased to an expense of 28.3% from an expense of 16.0% for the three months ended September 30, 2020, due primarily to changes in the Company's periodic provision-to-return adjustments. Such adjustments increased our effective tax rate by 6.1% during the third quarter of 2021 and benefited our effective tax rate by 3.7% during the third quarter of 2020.

Our effective tax rate for the nine months ended September 30, 2021 increased to 19.0% from 16.3% for the nine months ended September 30, 2020, primarily due to decreased expectations related to expenditures qualifying for research and development ("R&D") tax credits.

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, 2021 and 2020, included in the condensed consolidated statements of income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Costs of sales	$ 311	$ 321	$ 793	$ 1,100
Operating expenses	1,389	1,243	3,386	4,074
Pre-tax stock-based compensation expense	1,700	1,564	4,179	5,174
Less: income tax effect	(374)	(344)	(919)	(1,138)
Net stock-based compensation expense	$ 1,326	$ 1,220	$ 3,260	$ 4,036

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 2014 Incentive Plan and 2019 Incentive Plan, as amended (the "Plans"). As of September 30, 2021, there was $9.0 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 2.1 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 have also been issued pursuant to the settlement of performance share awards with one-year performance periods, for which the Company records expenses in the manner described in the "Performance Share Awards" section below. Although no such one-year performance share awards were granted during the nine months ended September 30, 2021, shares issued pursuant to past one-year performance share awards are still subject to vesting.

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, 2021 and 2020 is as follows:

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	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	412,967	$ 28.87	525,859	$ 30.51
Granted	153,700	31.22	136,771	26.16
Performance share awards settled through the issuance of restricted stock	—	—	19,678	30.15
Vested	(245,455)	29.16	(265,518)	30.85
Forfeited	(6,329)	29.10	—	—
Unvested restricted stock outstanding at end of period	314,883	$ 29.79	416,790	$ 28.85

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, as amended, 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, 2021 and 2020 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	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	252,852	$ 29.27	200,709	$ 30.75
Granted	93,444	31.26	107,298	26.96
Adjusted for actual performance, net of forfeitures	(20,373)	29.92	(35,477)	30.15
Performance share awards settled through the issuance of restricted stock	—	—	(19,678)	30.15
Vested	(75,971)	30.50	—	—
Performance share awards outstanding at end of period	249,952	$ 29.59	252,852	$ 29.27

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 17,387 shares during the nine months ended September 30, 2021 and no shares during the nine months ended September 30, 2020. The approximate dollar value of shares that may yet be repurchased under the stock repurchase program was $28.2 million as of September 30, 2021. 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.

In addition to shares repurchased under the approved stock repurchase program, we purchased 21,444 shares during the nine months ended September 30, 2021 to fund required tax withholdings related to the vesting of restricted stock. Shares withheld to cover required tax withholdings related to the vesting of restricted stock do not reduce our total share repurchase authority.

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, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Short-term payment plans, gross	$ 225	$ 1,973
Less: allowance for losses	(11)	(99)
Short-term payment plans, net	$ 214	$ 1,874

The significant decrease in short-term payment plan balances during the nine months ended September 30, 2021 is primarily the result of a small number of customer receivables existing as of December 31, 2020 that have since been fully collected or otherwise satisfied. This decrease is not indicative of any underlying trends within our business, and merely reflect customary negotiations and subsequent collections of certain customer balances.

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 significant decrease in long-term financing arrangement balances during the nine months ended September 30, 2021is primarily a result of evolving customer licensing preferences coupled with collections of previously outstanding amounts. Historically, perpetual licenses were the predominant licensing model for new Acute Care EHR customer installations, comprising approximately 75% of such installations during 2016. Customers acquiring our technology solutions under this licensing model frequently opted for our long-term self-financing option, giving rise to a significant accumulation of long-term financing arrangement balances in prior periods. During the intervening years, this customer license preference has shifted dramatically towards SaaS arrangements, which accounted for approximately 70% of 2020 new Acute Care EHR installations and approximately 60% of such activity during the nine months ended September 30, 2021. By nature of the revenue recognition requirements for SaaS arrangements coupled with recurring monthly payments, these arrangements do not give rise to long-term financing arrangements.

The components of these receivables were as follows at September 30, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Long-term financing arrangements, gross	$ 17,952	$ 24,082
Less: allowance for expected credit losses	(818)	(1,390)
Less: unearned income	(1,600)	(2,268)
Long-term financing arrangements, net	$ 15,534	$ 20,424

Future minimum payments to be received subsequent to September 30, 2021 are as follows:

(In thousands)	
Years Ending December 31,	
2021	$ 4,542
2022	6,013
2023	3,924
2024	2,393
2025	948
Thereafter	132
Total minimum payments to be received	17,952
Less: allowance for expected credit losses	(818)
Less: unearned income	(1,600)
Receivables, net	$ 15,534

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, 2021 and year ended December 31, 2020:

(In thousands)	Balance at Beginning of Period	Provision	Charge-offs	Recoveries	Balance at End of Period
September 30, 2021	$ 1,489	$ 588	$ (1,248)	$ —	$ 829
December 31, 2020	$ 2,971	$ 1,632	$ (3,114)	$ —	$ 1,489

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, 2021 and December 31, 2020:

(In thousands)	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due
September 30, 2021	$ 982	$ 56	$ 148	$ 1,186
December 31, 2020	$ 1,270	$ 227	$ 672	$ 2,169

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:

(In thousands)	September 30, 2021	December 31, 2020
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	$ 9,797	$ 11,719
Uninvoiced client financing receivables related to trade accounts receivable that are 91 to 180 Days Past Due	680	1,092
Uninvoiced client financing receivables related to trade accounts receivable that are 181 + Days Past Due	—	2,668
Total uninvoiced client financing receivables balances of clients with a trade accounts receivable	$ 10,477	$ 15,479
Total uninvoiced client financing receivables of clients with no related trade accounts receivable	5,875	6,335
Total financing receivables with contractual maturities of one year or less	225	1,973
Less: allowance for expected credit losses	(829)	(1,489)
Total financing receivables	$ 15,748	$ 22,298

12. INTANGIBLE ASSETS AND GOODWILL

Our purchased definite-lived intangible assets as of September 30, 2021 and December 31, 2020 are summarized as follows:

	September 30, 2021			
(In thousands)	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount, beginning of period	$ 84,370	$ 11,120	$ 29,700	125,190
Intangible assets acquired	28,200	1,200	7,900	37,300
Accumulated amortization	(39,534)	(4,952)	(19,129)	(63,615)
Net intangible assets as of September 30, 2021	$ 73,036	$ 7,368	$ 18,471	$ 98,875
Weighted average remaining years of useful life	9	13	8	10

	December 31, 2020			
(In thousands)	Customer Relationships	Trademark	Developed Technology	Total
Gross carrying amount, beginning of period	$ 84,370	$ 11,120	$ 29,700	$ 125,190
Accumulated amortization	(33,612)	(4,297)	(15,592)	(53,501)
Net intangible assets as of December 31, 2020	$ 50,758	$ 6,823	$ 14,108	$ 71,689

The following table represents the remaining amortization of definite-lived intangible assets as of September 30, 2021:

(In thousands)	
For the year ended December 31,	
2021	$ 3,672
2022	14,688
2023	12,800
2024	11,266
2025	10,950
Thereafter	45,499
Total	$ 98,875

The following table sets forth the change in the carrying amount of goodwill by segment for the nine months ended September 30, 2021:

(In thousands)	Acute Care EHR	Post-acute Care EHR	TruBridge	Total
Balance as of December 31, 2020	$ 97,095	$ 29,570	$ 23,551	$ 150,216
Goodwill acquired	—	—	26,980	26,980
Balance as of September 30, 2021	$ 97,095	$ 29,570	$ 50,531	$ 177,196

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, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Term loan facility	$ 70,312	$ 73,125
Revolving credit facility	46,000	5,000
Debt obligations	116,312	78,125
Less: unamortized debt issuance costs	(1,088)	(1,308)
Debt obligation, net	115,224	76,817
Less: current portion	(3,926)	(3,457)
Long-term debt	$ 111,298	$ 73,360

As of September 30, 2021, 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, 2021:

(In thousands)	
2021	$ 936
2022	4,688
2023	5,625
2024	6,563
2025	98,500
Thereafter	—
	$ 116,312

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, 2021.

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 2020 was not required during the first quarter of 2021.

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 2021 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.

On July 28,2021, the Company terminated its lease agreement for approximately 45,000 square feet of office space in Fairhope, Alabama. Pursuant to a Termination of Lease Agreement dated July 28, 2021, the Company paid $0.9 million to the landlord as consideration for the early termination.

In connection with the lease termination, the Company derecognized the assets and liabilities associated with the operating lease and recorded a $0.3 million loss on the disposal of leasehold improvements.

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

(In thousands)	September 30, 2021
Operating lease assets	
Operating lease assets	$ 7,424
Operating lease liabilities	
Other accrued liabilities	$ 1,624
Operating lease liabilities, net of current portion	5,800
Total operating lease liabilities	$ 7,424
Weighted average remaining lease term in years	6
Weighted average discount rate	4.6%

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, 2021 are as follows:

(In thousands)		
2021	$	409
2022		1,592
2023		1,520
2024		1,411
2025		1,202
Thereafter		2,340
Total lease payments		8,474
Less imputed interest		(1,050)
Total	$	7,424

Total lease expense for the nine months ended September 30, 2021 and 2020 was $1.4 million and $1.2 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, 2021 was $2.3 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, 2021, we measured the fair value of contingent consideration that represents the potential earnout incentive for TruCode's former equity holders. We estimated the fair value of the contingent consideration based on the probability of TruCode meeting EBITDA targets (subject to certain pro-forma adjustments). We did not have any other instruments that required fair value measurement as of September 30, 2021.

The following table summarizes the carrying amounts and fair value of the contingent consideration at September 30, 2021:

		Fair Value at September 30, 2021 Using		
(In thousands)	Carrying Amount at 9/30/2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Contingent consideration	$ 2,500	$ —	$ —	$ 2,500
Total	$ 2,500	$ —	$ —	$ 2,500

We did not have any instruments that required fair value measurement at December 31, 2020.

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, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Revenues:				
Acute Care EHR				
Recurring revenue	$ 26,776	$ 26,421	$ 80,792	$ 78,586
Non-recurring revenue	4,350	9,502	13,786	24,213
Total Acute Care EHR revenue	31,126	35,923	94,578	102,799
Post-acute Care EHR				
Recurring revenue	4,010	4,026	12,402	12,157
Non-recurring revenue	424	439	913	1,341
Total Post-acute Care EHR revenue	4,434	4,465	13,315	13,498
TruBridge	34,531	27,945	98,736	81,342
Total revenues	$ 70,091	$ 68,333	$ 206,629	$ 197,639
Cost of sales:				
Acute Care EHR	$ 16,200	$ 16,488	$ 48,645	$ 48,288
Post-acute Care EHR	1,225	1,140	3,605	3,613
TruBridge	17,377	15,287	50,349	44,100
Total cost of sales	$ 34,802	$ 32,915	$ 102,599	$ 96,001
Gross profit:				
Acute Care EHR	$ 14,926	$ 19,435	$ 45,933	$ 54,511
Post-acute Care EHR	3,209	3,325	9,710	9,885
TruBridge	17,154	12,658	48,387	37,242
Total gross profit	$ 35,289	$ 35,418	$ 104,030	$ 101,638
Corporate operating expenses	$ (30,758)	$ (29,214)	$ (86,847)	$ (86,557)
Other income	123	916	1,160	1,241
Loss on extinguishment of debt	—	—	—	(202)
Interest expense	(825)	(850)	(2,249)	(2,832)
Income before taxes	$ 3,829	$ 6,270	$ 16,094	$ 13,288

18. 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. The Company began experiencing adverse business conditions beginning in the latter half of March 2020, which have persisted through the date of this report, including our results of operations for the three and nine months ended September 30, 2021. 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.

- Although patient volumes at our client hospitals have largely recovered from the severe declines in such volumes experienced during much of 2020, there can be no guarantee as to the permanence of this recovery. As the overwhelming majority of TruBridge revenues are directly or indirectly correlated with client patient volumes, any further reduction in these patient volumes may negatively impact our related revenues.

- Although we have experienced no notable disruption to our operating cash flows through the date of this report, the aforementioned limitations on travel and decreased client patient volumes increase the risk of decreased cash collections from our customers as long as these conditions persist. Such 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, 2021. However, the ultimate impact of COVID-19 on our operations and financial performance in future periods remains uncertain and will depend on future pandemic related developments, including the duration of the pandemic, any potential subsequent waves of COVID-19 infection, emergence of new variants, the effectiveness, distribution, and acceptance of COVID-19 vaccines, and related government actions to prevent and manage disease spread, all of which are uncertain and cannot be predicted. Consequently, the ongoing pandemic 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:

Risks Related to Our Industry

- the ongoing COVID-19 pandemic and related economic disruption;
- 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;

Risks Related to Our Business

- 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;
- our potential inability to manage our growth in the 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;

Risks Related to Our Products and Services

- potential failure to develop new products or enhance current products that keep pace with market demands;
- exposure to claims if our products fail to provide accurate and timely information for clinical decision-making;
- exposure to claims for breaches of security and viruses in our systems;
- undetected errors or problems in new products or enhancements;
- our potential inability 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;
- a failure to protect our intellectual property rights;
- exposure to significant license fees or damages for intellectual property infringement;
- service interruptions resulting from loss of power and/or telecommunications capabilities;

Risks Related to Our Indebtedness

- our potential inability to secure additional financing on favorable terms to meet our future capital needs;
- substantial indebtedness that may adversely affect our business operations;
- our ability to incur substantially more debt;
- pressures on cash flow to service our outstanding debt;
- restrictive terms of our credit agreement on our current and future operations;

Risks Related to Our Common Stock and Other General Risks

- changes in and interpretations of financial accounting matters that govern the measurement of our performance;
- the potential for our goodwill or intangible assets to become impaired;

- quarterly fluctuations in our financial results due to various factors;
- volatility in our stock price;
- failure to maintain effective internal control over financial reporting;
- lack of employment or non-competition agreements with most of our key personnel;
- inherent limitations in our internal control over financial reporting;
- vulnerability to significant damage from natural disasters; and
- exposure to market risk related to interest rate changes.

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, 2020.

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 five companies - Evident, LLC ("Evident"), TruBridge, LLC ("TruBridge"), American HealthTech, Inc. ("AHT"), iNetXperts, Corp. d/b/a Get Real Health ("Get Real Health"), and TruCode LLC ("TruCode"). 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.

- TruCode, included within our TruBridge segment, provides configurable, knowledge-based software that gives coders, CDI specialists and auditors the flexibility to code according to their knowledge, preferences and experience.

Our companies currently support acute care facilities and post-acute care facilities with a geographically diverse customer mix within the domestic community healthcare market. Our target market for our acute care solutions includes community hospitals with fewer than 200 acute care beds. Our primary focus within this defined target market is on hospitals with fewer than 100 beds, which comprise approximately 98% of our acute care hospital EHR client base. The target market for our post-acute care solutions consists of approximately 15,500 skilled nursing facilities that are either independently owned or part of a larger management group with multiple facilities. Our target market for our TruBridge services includes community hospitals with fewer than 600 acute care beds.

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 not been lost due to customer attrition from our production environment customer base. Production environment customers are those that are using our applications to document live patient encounters, as opposed to legacy environment customers that have view-only access to historical patient records. 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 2020 and through the third quarter of 2021, retention rates returned to 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, with all related customers having either changed EHR vendors or migrated to one of our EHR solutions.

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. 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 key components of our long-term growth strategy, aided by the aforementioned focus on customer retention. This 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.

During 2020, we took pause and engaged a top-tier international consulting firm to assess our company-wide growth strategy. The outcome of this eight-week effort was the confirmation of our current strategy of cross-selling TruBridge into the existing EHR base, expanding TruBridge market share with sales to new community and larger health systems, and pursuing competitive EHR takeaway opportunities in the acute and post-acute markets. We may also seek to grow through acquisitions of businesses, technologies or products if we determine that such acquisitions are likely to help us meet our strategic goals.

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. However, in the immediate future, we anticipate incremental margin pressure from the continued client transition from perpetual license arrangements to “Software as a Service” arrangements as described below.

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 that incentivizes high-quality, cost effective-care via value-based reimbursement. 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, the dramatic shift in customer preferences to a SaaS license model continued in 2020, with 68% of the year's new acute care EHR installations being performed in a SaaS model, compared to 43% in 2019 and only 12% in 2018. This shift in customer preference toward the SaaS license model has continued into 2021, representing approximately 60% of our acute care EHR installations this year to date. 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. A more substantial reduction in total financing receivables occurred in 2020 and has continued into the first nine months of 2021.

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).

On February 1, 2021, we committed to a reduction in force that resulted in the termination of approximately 1.0% of our workforce (21 employees). The reduction in force is a component of a broader strategic review of the Company's operations that is intended to more effectively align our resources with business priorities. Substantially all of the employees impacted by the reduction in force exited the Company in the first quarter of 2021, with the last of the impacted employees exiting in the third quarter. The Company incurred expenses of approximately $2.7 million related to the reduction in force.These expenses consist of one-time termination benefits to the affected employees, including but not limited to severance payments, healthcare benefits, and payments for accrued vacation time. The Company expects to pay for the expenses from cash flow from operations and does not expect to incur any debt. As a result of the reduction in force, the Company expects to realize approximately $3.9 million in annual savings compared to prior expense levels.

During the second quarter of 2021, our ongoing monitoring activities associated with the capitalization of software development costs and the related correlation between capitalization rates and operational metrics designed to reflect the distribution of work revealed that our then-current labor capitalization methodology did not fully reflect all of the critical activities necessary to develop software assets. Consequently, during the second quarter of 2021, we elected to change our method of estimating the labor costs incurred in developing software assets. Prior to this change, we estimated the associated labor costs using an estimated time-equivalent for workload metrics commonly utilized within agile software development environments. With this change, we now estimate these labor costs using the distribution of these agile workload metrics between capitalizable and non-capitalizable units of work. We believe this change is preferable as the new methodology better estimates capitalizable labor costs and is consistent with industry best practices. We have determined that this change in accounting for software development costs is a change in accounting estimate effected by a change in accounting principle and, as such, has been accounted for on a prospective basis. In connection with this change, we capitalized software development costs of $2.4 million and $6.4 million during the three and nine months ended September 30, 2021, respectively. We estimate that the effect of this change was to increase capitalized amounts by approximately $1.1 million and $3.0 million for the three and nine months ended September 30, 2021, respectively, with a corresponding decrease to product development costs.

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 continue to evolve in ways that are difficult or impossible to anticipate.

As a result of COVID-19, community hospital patient volume in the United States and other countries around the world rapidly deteriorated. Although recent operational metrics indicate promising signs that these patient volumes have mostly recovered, 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. Gradual signs of improvements started in the third quarter of 2020 and have continued through the third quarter of 2021. However, uncertainty remains with respect to the pace of economic recovery, as well as the potential for resurgence in transmission of COVID-19 and related business closures due to the emergence of virus variants and vaccine hesistancy and refusal among various populations.

The Company expects the negative impacts of the pandemic to continue for the foreseeable future, 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. Although we have recently seen some improvement in TruBridge revenues, we cannot predict the potential negative impacts any COVID-19 resurgence will have on patient volumes and the resulting revenues.
- 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. While travel has begun to rebound with the easing of certain COVID-19 travel restrictions, any COVID-19 resurgence may result in the re-imposition of travel restrictions.
- 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 first nine months of 2021, we generated revenues of $206.6 million from the sale of our products and services, compared to $197.6 million million during the first nine months of 2020, an increase of 5% that is primarily attributed to the aforementioned improvement in hospital patient volumes from the early days of the COVID-19 pandemic and the corresponding positive impact on TruBridge revenues. This increase in revenues is the primary driver behind the corresponding increase in net income, which increased by $1.9 million to $13.0 million from the first nine months of 2020. Net cash provided by operating activities increased by $1.5 million, from $33.0 million during the first nine months of 2020 to $34.5 million during the first nine months of 2021, primarily due to the aforementioned improved profitability.

The following table sets forth certain items included in our results of operations for the three and nine months ended September 30, 2021 and 2020, expressed as a percentage of our total revenues for these periods:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
(In thousands)	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
INCOME DATA:								
Sales revenues:								
System sales and support:								
Acute Care EHR	$ 31,126	44.4 %	$ 35,923	52.6 %	$ 94,578	45.8 %	$ 102,799	52.0 %
Post-acute Care EHR	4,434	6.3 %	4,465	6.5 %	13,315	6.4 %	13,498	6.8 %
Total System sales and support	35,560	50.7 %	40,388	59.1 %	107,893	52.2 %	116,297	58.8 %
TruBridge	34,531	49.3 %	27,945	40.9 %	98,736	47.8 %	81,342	41.2 %
Total sales revenues	70,091	100.0 %	68,333	100.0 %	206,629	100.0 %	197,639	100.0 %
Costs of sales:								
System sales and support:								
Acute Care EHR	16,200	23.1 %	16,488	24.1 %	48,645	23.5 %	48,288	24.4 %
Post-acute Care EHR	1,225	1.7 %	1,140	1.7 %	3,605	1.7 %	3,613	1.8 %
Total System sales and support	17,425	24.9 %	17,628	25.8 %	52,250	25.3 %	51,901	26.3 %
TruBridge	17,377	24.8 %	15,287	22.4 %	50,349	24.4 %	44,100	22.3 %
Total costs of sales	34,802	49.7 %	32,915	48.2 %	102,599	49.7 %	96,001	48.6 %
Gross profit	35,289	50.3 %	35,418	51.8 %	104,030	50.3 %	101,638	51.4 %
Operating expenses:								
Product development	7,700	11.0 %	8,549	12.5 %	22,598	10.9 %	25,190	12.7 %
Sales and marketing	5,200	7.4 %	6,359	9.3 %	15,813	7.7 %	18,526	9.4 %
General and administrative	14,184	20.2 %	11,440	16.7 %	38,322	18.5 %	34,242	17.3 %
Amortization of acquisition-related intangibles	3,674	5.2 %	2,866	4.2 %	10,114	4.9 %	8,599	4.4 %
Total operating expenses	30,758	43.9 %	29,214	42.8 %	86,847	42.0 %	86,557	43.8 %
Operating income	4,531	6.5 %	6,204	9.1 %	17,183	8.3 %	15,081	7.6 %
Other income (expense):								
Other income	123	0.2 %	916	1.3 %	1,160	0.6 %	1,241	0.6 %
Loss on extinguishment of debt	—	— %	—	— %	—	— %	(202)	(0.1)%
Interest expense	(825)	(1.2)%	(850)	(1.2)%	(2,249)	(1.1)%	(2,832)	(1.4)%
Total other income (expense)	(702)	(1.0)%	66	0.1 %	(1,089)	(0.5)%	(1,793)	(0.9)%
Income before taxes	3,829	5.5 %	6,270	9.2 %	16,094	7.8 %	13,288	6.7 %
Provision for income taxes	1,085	1.5 %	1,002	1.5 %	3,065	1.5 %	2,165	1.1 %
Net income	$ 2,744	3.9 %	$ 5,268	7.7 %	$ 13,029	6.3 %	$ 11,123	5.6 %

Three Months Ended September 30, 2021 Compared with Three Months Ended September 30, 2020

Revenues

Total revenues for the three months ended September 30, 2021 increased by $1.8 million, or approximately 3%, compared to the three months ended September 30, 2020.

System sales and support revenues decreased by $4.8 million, or 12%, compared to the third quarter of 2020. System sales and support revenues were comprised of the following during the respective periods:

	Three Months Ended September 30,	
(In thousands)	2021	2020
Recurring system sales and support revenues [1]		
Acute Care EHR	$ 26,776	$ 26,421
Post-acute Care EHR	4,010	4,026
Total recurring system sales and support revenues	30,786	30,447
Non-recurring system sales and support revenues [2]		
Acute Care EHR	4,350	9,502
Post-acute Care EHR	424	439
Total non-recurring system sales and support revenues	4,774	9,941
Total system sales and support revenue	$ 35,560	$ 40,388

[1] Mostly comprised of support and maintenance, third-party subscriptions, and SaaS revenues.

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

Recurring system sales and support revenues increased by $0.3 million, or 1%, compared to the third quarter of 2020. Acute Care EHR recurring revenues increased by $0.4 million, or 1%, as attrition from the Thrive and Centriq customer base has normalized to more historical levels and our SaaS customer base has continued to grow, strengthening recurring revenues. Post-acute Care EHR recurring revenues remained relatively consistent at $4.0 million in each period.

Non-recurring system sales and support revenues decreased by $5.2 million, or 52%, compared to the third quarter of 2020. This was wholly attributable to Acute Care EHR non-recurring revenues which decreased by $5.2 million compared to the third quarter of 2020, due mostly to a decrease in the number of perpetual license installations of our Acute Care EHR solutions. We installed our Acute Care EHR solutions at five new hospital clients during the third quarter of 2021 (two of which are under SaaS arrangements, resulting in revenue being recognized ratably over the contract term) compared to eight new hospital clients during the third quarter of 2020 (three under a SaaS arrangement). Post-acute Care EHR nonrecurring revenues remained unchanged at $0.4 million for both periods.

TruBridge revenues increased by $6.6 million, or 24%, compared to the third quarter of 2020. Our hospital clients operate in an environment typified by rising costs and increased complexity and are increasingly seeking to alleviate themselves of the ever-increasing administrative burden of operating their own business office functions. This increasing demand for services, coupled with the aforementioned impact of improving hospital patient volumes on TruBridge revenues, resulted in revenue increases of $1.3 million, or 12%, for our accounts receivable management services; $1.5 million, or 19%, for our insurance services division; and $0.3 million, or 15%, for our medical coding services. Lastly, the acquisition of TruCode in May 2021 resulted in an additional $2.6 million of revenue during the third quarter of 2021.

Costs of Sales

Total costs of sales increased by $1.9 million, or 6%, compared to the third quarter of 2020. As a percentage of total revenues, costs of sales increased slightly to 50% of revenues in the third quarter of 2021 compared to 48% of revenues in the third quarter of 2020.

Costs of Acute Care EHR system sales and support decreased by $0.3 million, or 2%, compared to the third quarter of 2020, as the reduced number of on-premise EHR system installations resulted in a decrease in hardware costs of $0.8 million. Reduced hardware costs were partially offset by a $0.5 million increase in third-party software costs resulting from our increased usage of vendor partnerships to fulfill customer needs. The gross margin on Acute Care EHR system sales and support decreased to 48% in the third quarter of 2021, compared to 54% in the third quarter of 2020, as the decrease in costs of sales was outpaced by the related decrease in revenues.

Costs of Post-acute Care EHR system sales and support increased by $0.1 million, or 7%, compared to the third quarter of 2020. The gross margin on Post-acute Care EHR system sales and support decreased to 72% in the third quarter of 2021, compared to 74% in the third quarter of 2020, as slight decreases in revenues worked in tandem with slight cost increases to decrease margins.

Our costs associated with TruBridge sales and support increased by $2.1 million, or 14%, compared to the third quarter of 2020, primarily driven by resource expansion necessitated by the growing customer base and improved patient volumes. The acquisition of TruCode in May 2021 resulted in an additional $0.4 million of costs of sales during the third quarter of 2021. The gross margin on these services increased to 50% in the third quarter of 2021, compared to 45% during the third quarter of 2020, as the growing recurring revenue base worked in tandem with operational efficiencies to increase margins.

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 $0.8 million, or 10%, compared to the third quarter of 2020, with the primary driver being a $1.3 million, or 151%, increase in product development labor capitalization pursuant to the aforementioned change in our method of estimating the labor costs incurred in developing software assets requiring capitalization under ASC 350-40, *Internal Use Software*. This increased capitalization rate was partially offset by increased amortization of the related assets and increased contract development costs associated with expanding resources. The acquisition of TruCode in May 2021 resulted in $0.3 million of additional product development expenses during the third quarter of 2021.

Sales and Marketing

Sales and marketing costs decreased by $1.2 million, or 18%, compared to the third quarter of 2020, with $0.5 million payroll and other cost savings from the aforementioned reduction-in-force combined with a decrease of $0.7 million commission expenses resulting from decreased EHR revenues. The acquisition of TruCode in May 2021 resulted in $0.2 million of additional sales and marketing expenses during the third quarter of 2021.

General and Administrative

General and administrative expenses increased by $2.7 million, or 24%, compared to the third quarter of 2020, primarily driven by worsening employee health claims experience, resulting in a $1.3 million increase in costs associated with health benefits we offer to our employees through our self-insured plan. In addition, severance costs increased by $0.3 million as a result of the aforementioned reduction-in-force, and reorganization related expenses increased by $0.2 million due to trailing transaction-related costs associated with our acquisition of TruCode and the $0.9 million buyout of our Fairhope office lease in the third quarter of 2021. The acquisition of TruCode in May 2021 resulted in $0.4 million of additional general and administrative expenses during the third quarter of 2021.

Amortization of Acquisition-Related Intangibles

Amortization expense associated with acquisition-related intangible assets increased by $0.8 million, or 28%, compared to the third quarter of 2020, due to changes in estimates regarding the remaining useful lives of certain of our acquired intangible assets combined with the amortization of intangibles acquired in the TruCode acquisition.

Total Operating Expenses

Total operating expenses increased by $1.5 million, or 5%, compared to the third quarter of 2020. As a percentage of total revenues, total operating expenses increased to 44% of revenues in the third quarter of 2021, compared to 43% in the third quarter of 2020.

Total Other Income (Expense)

Total other income (expense) decreased to expense of $0.7 million during the third quarter of 2021 compared to income of $0.1 million during the third quarter of 2020, primarily as we recognized a loss of $0.3 million for leasehold improvement assets written off in relation to our buyout of the Fairhope office lease in the third quarter of 2021 coupled with a $0.3 million decrease in interest income due to declining financing receivables.

Income Before Taxes

As a result of the foregoing factors, income before taxes decreased by $2.4 million in the third quarter of 2021 compared to the third quarter of 2020.

Provision for Income Taxes

Our effective tax rate for the three months ended September 30, 2021 increased to an expense of 28.3% from an expense of 16.0% for the three months ended September 30, 2020, due primarily to changes in the Company's periodic provision-to-return adjustments. Such adjustments increased our effective tax rate by 6.1% during the third quarter of 2021 and benefited our effective tax rate by 3.7% during the third quarter of 2020.

Net Income

Net income for the third quarter of 2021 decreased by $2.5 million to $2.7 million, or $0.19 per basic and diluted share, compared with net income of $5.3 million, or $0.36 per basic and diluted share, for the third quarter of 2020. Net income represented 4% of revenue for the third quarter of 2021, compared to 8% of revenue for the third quarter of 2020.

Nine Months Ended September 30, 2021 Compared with Nine Months Ended September 30, 2020

Revenues

Total revenues for the first nine months of 2021 increased by $9.0 million, or approximately 5%, compared to the first nine months of 2020.

System sales and support revenues decreased by $8.4 million, or 7%, compared to the first nine months of 2021. System sales and support revenues were comprised of the following during the respective periods:

	Nine Months Ended September 30,	
(In thousands)	2021	2020
Recurring system sales and support revenues [(1)]		
Acute Care EHR	$ 80,792	$ 78,586
Post-acute Care EHR	12,402	12,157
Total recurring system sales and support revenues	93,194	90,743
Non-recurring system sales and support revenues [(2)]		
Acute Care EHR	13,786	24,213
Post-acute Care EHR	913	1,341
Total non-recurring system sales and support revenues	14,699	25,554
Total system sales and support revenue	$ 107,893	$ 116,297

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

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

Recurring system sales and support revenues increased by $2.5 million, or 3%, compared to the first nine months of 2020. Acute Care EHR recurring revenues increased by $2.2 million, or 3%, as attrition from the Thrive and Centriq customer base has normalized to more historically typical levels and our SaaS customer base has continued to grow, strengthening recurring revenues. Post-acute Care EHR recurring revenues increased by $0.2 million, or 2%, as attrition has stabilized as we continue to make technological improvements to the AHT product line.

Non-recurring system sales and support revenues decreased by $10.9 million, or 42%, compared to the first nine months of 2020. Acute Care EHR non-recurring revenues decreased by $10.4 million, or 43%. We installed our Acute Care EHR solutions at fourteen new hospital clients during the first nine months of 2021 (eight of which were under a SaaS arrangement, resulting in revenue being recognized ratably over the contract term) compared to 22 new hospital clients during the first nine months of 2020 (14 of which were under a SaaS arrangement). In addition to the decrease in the number of non-SaaS new customer implementations, the related non-recurring revenues decreased as the first nine months of 2020 benefited from a high volume of late-installing applications for non-SaaS implementations that went live in prior periods. Comparatively, the continued shift in customer preference towards SaaS arrangements and the continuing impacts of COVID-19 on client purchasing and implementation plans has decreased the opportunities for such follow-on revenue activities for recent implementations.

TruBridge revenues increased by $17.4 million, or 21%, compared to the first nine months of 2020. Our hospital clients operate in an environment typified by rising costs and increased complexity and are increasingly seeking to alleviate themselves of the ever-increasing administrative burden of operating their own business office functions. This increasing demand for services, coupled with the aforementioned impact of improving hospital patient volumes on TruBridge revenues, resulted in revenue increases of $6.5 million, or 22%, for our accounts receivable management services; $4.4 million, or 19%, for our insurance services division; and $1.0 million, or 16%, for our medical coding services. Lastly, the acquisition of TruCode in May 2021 resulted in an additional $4.1 million of revenue during the first nine months of 2021.

Costs of Sales

Total costs of sales increased by $6.6 million, or 7%, compared to the first nine months of 2020. As a percentage of total revenues, costs of sales increased slightly to 50% of revenues in the first nine months of 2021, compared to 49% of revenues in the first nine months of 2020.

Costs of Acute Care EHR system sales and support increased by $0.3 million, or 1%, compared to the first nine months of 2020, as our increased usage of vendor partnerships to fulfill customer needs increased the related costs of third-party software by $2.7 million, which was partially offset by a $2.1 million decrease in hardware costs associated with the decrease in non-recurring revenues. The gross margin on Acute Care EHR system sales and support decreased to 49% in the first nine months of 2021, compared to 53% in the first nine months of 2020, as the increase in costs of sales worked in tandem with decreased non-recurring revenues to decrease margins.

Costs of Post-acute Care EHR system sales and support remained unchanged at $3.6 million for the first nine months of both 2021 and 2020. The gross margin on Post-acute Care EHR system sales and support also remained relatively unchanged at 73% for both periods.

Our costs associated with TruBridge sales and support increased by $6.2 million, or 14%, compared to the first nine months of 2020, primarily driven by resource expansion necessitated by the growing customer base and improved patient volumes. The acquisition of TruCode in May 2021 resulted in an additional $1.0 million of costs of sales during the first nine months of 2021. The gross margin on these services increased to 49% in the first nine months of 2021, compared to 46% during the first nine months of 2020, as the growing recurring revenue base worked in tandem with operational efficiences to increase margins.

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 $2.6 million, or 10%, compared to the first nine months of 2020, with the primary driver being a $3.8 million, or 160%, increase in product development labor capitalization pursuant to the aforementioned change in our method of estimating the labor costs incurred in developing software assets requiring capitalization under ASC 350-40, *Internal Use Software*. This increased capitalization rate was partially offset by increased amortization of the related assets and increased payroll costs associated with expanding resources. The acquisition of TruCode in May 2021 resulted in $0.5 million of additional product development expenses during the first nine months of 2021.

Sales and Marketing

Sales and marketing costs decreased by $2.7 million, or 15%, compared to the first nine months of 2020. The aforementioned reduction-in-force combined with reduced non-recurring revenues resulted in decreased payroll and commission expenses, while travel restrictions related to COVID-19 resulted in decreased travel costs. Finally, stock compensation expense decreased due mostly to lowered expectations regarding eventual achievement of targets associated with our long-term performance share awards. The acquisition of TruCode in May 2021 resulted in $0.2 million of additional sales and marketing expenses during the first nine months of 2021.

General and Administrative

General and administrative expenses increased by $4.1 million, or 12%, compared to the first nine months of 2020, mostly due to $2.5 million in reduction-in-force-related severance costs in the first nine months of 2021, $0.9 million in transaction-related costs associated with our acquisition of TruCode, and an increase of $1.0 million in employee health claims.

Amortization of Acquisition-Related Intangibles

Amortization expense associated with acquisition-related intangible assets increased by $1.5 million, or 18%, compared to the first nine months of 2020, due to changes in estimates regarding the remaining useful lives of certain of our acquired intangible assets combined with the amortization of intangibles acquired in the TruCode acquisition.

Total Operating Expenses

Total operating expenses remained essentially unchanged at $87.0 million for both periods. As a percentage of total revenues, total operating expenses decreased to 42% of revenues in the first nine months of 2021, compared to 44% in the first nine months of 2020.

Total Other Income (Expense)

Total other income (expense) improved to expense of $1.1 million in the first nine month of 2021 compared to expense of $1.8 in the first nine months of 2020. This improvement was mostly attributable to a decreasing interest rate environment and lowered average amounts outstanding under our long-term debt facilities resulted in a $0.6 million decrease in related interest expense.

Income Before Taxes

As a result of the foregoing factors, income before taxes increased by $2.8 million, or 21%, in the first nine months of 2021 compared to the first nine months of 2020.

Provision for Income Taxes

Our effective tax rate for the nine months ended September 30, 2021 increased to 19.0% from 16.3% for the nine months ended September 30, 2020, primarily due to decreased expectations related to expenditures qualifying for research and development ("R&D") tax credits.

Net Income

Net income for the first nine months of 2021 increased by $1.9 million to $13.0 million, or $0.89 per basic and diluted share, compared with net income of $11.1 million, or $0.77 per basic and diluted share, for the first nine months of 2020. Net income represented 6% of revenue for both the first nine months of 2021 and 2020.

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, 2021. 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 I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Sources of Liquidity

As of September 30, 2021, our principal sources of liquidity consisted of cash and cash equivalents of $17.1 million and our remaining borrowing capacity under the revolving credit facility of $64.0 million, compared to $12.7 million of cash and cash equivalents and $105.0 million of remaining borrowing capacity under the revolving credit facility as of December 31, 2020. 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, 2021, we had $116.3 million in principal amount of indebtedness outstanding under the credit facilities. We believe that our cash and cash equivalents of $17.1 million as of September 30, 2021, the future operating cash flows of the combined entity, and our remaining borrowing capacity under the revolving credit facility of $64.0 million as of September 30, 2021, 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 $1.5 million from $33.0 million provided by operations for the nine months ended September 30, 2020 to $34.5 million provided by operations for the nine months ended September 30, 2021. The increase in cash flows provided by operations is primarily due to increased net income.

Investing Cash Flow Activities

Net cash used in investing activities increased by $61.4 million, with $67.0 million used in the nine months ended September 30, 2021 compared to $5.6 million used during the nine months ended September 30, 2020. We completed our $59.6 million acquisition of TruCode during the second quarter of 2021. Cash outflows for purchases of property and equipment decreased from $3.2 million in the first nine months of 2020 to $0.9 million during the first nine months of 2021. This decrease in cash outflows is mostly due to the addition of a West Coast data center to enhance our remote hosting capabilities in 2020 without similar capital expenditures during the first nine months of 2021. Lastly, cash outflows related to capitalized internal software development efforts increased by $4.1 million due to the aforementioned change in methodology for estimating labor costs eligible for capitalization.

Financing Cash Flow Activities

During the nine months ended September 30, 2021, our financing activities were a net source of cash in the amount of $37.0 million, as $61.0 million in borrowings from our revolving line of credit were offset by long-term debt principal payments of $22.8 million and $1.2 million used to repurchase shares of our common stock, which are treated as treasury stock. Financing activities used $23.0 million during the nine months ended September 30, 2020, primarily due to $18.6 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 $30.0 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, 2021, we had $70.3 million in principal amount outstanding under the term loan facility and $46 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, 2021.

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 2020 was not required during the first quarter of 2021.

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, 2021, we had a twelve-month backlog of approximately $6 million in connection with non-recurring system purchases and approximately $272 million in connection with recurring payments under support and maintenance, Cloud EHR contracts, 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.

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, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
System sales and support [1]				
Acute Care EHR	$ 15,298	$ 11,535	$ 30,437	$ 32,387
Post-acute Care EHR	951	2,180	2,204	5,259
Total system sales and support	16,249	13,715	32,641	37,646
TruBridge [2]	13,073	7,760	22,009	23,176
Total bookings	$ 29,322	$ 21,475	$ 54,650	$ 60,822

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

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

Sales activities during the first six months of 2021 suffered from a number of incremental headwinds, chief among them being (a) COVID-19 related distractions, including increased infection rates for certain geographies and widespread focus on eventual vaccine rollouts, (b) reorganization transitions related to our February 2021 reduction-in-force, and (c) lower-value regulatory purchases required by the Centers for Medicare and Medicaid Services' Hospital Price Transparency mandate requiring hospitals to provide clear, accessible pricing information online. These topics disproportionately dominated sales discussions and resources. Such headwinds began dissipating during the third quarter of 2021, resulting in overall bookings growth of $7.8 million, or 37%, over the third quarter of 2020. However, the significant impact of these headwinds placed severe pressure on bookings for the first six months of the year, resulting in bookings for the first nine months of 2021 that are $6.2 million, or 10%, below levels from the first nine months of 2020.

Acute Care EHR bookings in the third quarter of 2021 increased by $3.8 million, or 33%, from the third quarter of 2020, as the aforementioned dissipating headwinds allowed for substantial growth in new EHR installation contract signings. Year-to-date Acute Care EHR bookings decreased approximately $2.0 million compared to the first nine months of 2020, as the recent increased strength in demand for new EHR installations could not make up for the the significant decreases in booking experienced in the first six months of 2021.

Post-acute Care EHR bookings decreased $1.2 million, or 56%, compared to the third quarter of 2020 and $3.1 million, or 58%, compared to the first nine months of 2020. Bookings volumes during the second and third quarters of 2020 were unusually high, representing the highest bookings periods for this business segment since 2016. By comparison, bookings normalized to historical averages during the third quarter of 2021, while bookings for the first nine months of 2021 were severely impacted by the aforementioned headwinds.

TruBridge bookings increased $5.3 million, or 68%, compared to the third quarter of 2020, reaching a record high that is mostly attributed to large international client wins for GRH's patient engagement solutions. Despite the third quarter of 2021's record bookings levels, the aforementioned headwinds placed severe pressure on bookings in the first six months of the year, resulting in bookings for the first nine months of 2021 that are $1.2 million, or 5%, below levels for the first nine months of 2020.

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, 2021.

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, 2020, we identified our critical accounting polices related to revenue recognition, allowance for credit losses, estimates, and business combinations, including purchased intangible assets. During the second quarter of 2021, we elected to change our method of estimating the labor costs incurred in developing software assets requiring capitalization under ASC 350-40, *Internal Use Software*. Prior to this change, we estimated the associated labor costs using an estimated time-equivalent for workload metrics commonly utilized within agile software development environments. With this change, we now estimate these labor costs using the distribution of these agile workload metrics between capitalizable and non-capitalizable units of work. We believe this change is preferable as the new methodology better estimates capitalizable labor costs and is consistent with industry best practices. We have determined that this change is a change in accounting estimate effected by a change in accounting principle and, as such, has been accounted for on a prospective basis.

Aside from the addition of our accounting estimates related to capitalization of software development costs and related policies as a critical accounting policy and estimate, there have been no significant changes to these critical accounting policies during the nine months ended September 30, 2021.

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 $117.3 million of outstanding borrowings under our credit facilities with Regions Bank at September 30, 2021. 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, 2021 would result in a change in interest expense of approximately $1.2 million annually.

The Intercontinental Exchange Benchmark Administration has announced its intention to cease publication of all United States Dollar LIBOR rates after June 30, 2023. No consensus currently exists as to what benchmark rate or rates may become accepted alternatives to LIBOR. We cannot currently predict the effect of the discontinuation of, or other changes to, LIBOR or any establishment of alternative reference rates. The uncertainty regarding the future of LIBOR, as well as the transition from LIBOR to any alternative reference rate or rates, could have adverse impacts on floating rate obligations and other financial instruments that currently use LIBOR as a benchmark rate, including our credit facilities with Regions Bank. There is no guarantee that a shift from LIBOR to a new reference rate will not result in increases to our borrowing costs.

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

On May 12, 2021, we acquired TruCode, as further described in Note 4 of the notes to the condensed consolidated financial statements. We continue to integrate policies, processes, people, technology, and operations for our combined operations, and we will continue to evaluate the impact of any related changes to internal control over financial reporting during the fiscal year. 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, 2021 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, 2020, 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. 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.

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

Repurchases of Equity Securities

The following table provides information about our repurchases of common stock during the three months ended September 30, 2021:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(1)]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[(2)]
Beginning of Period				$ 28,184,550
July 1, 2021 - July 31, 2021	—	—	—	28,184,550
August 1, 2021 - August 31, 2021	—	—	—	28,184,550
September 1, 2021 - September 30, 2021	—	—	—	$ 28,184,550
Total	—	—	—	

[(1)] Shares purchased during the three months ended September 30, 2021 pursuant to our previously announced stock repurchase program.

[(2)] 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. 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.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Termination of a Lease Agreement

The information set forth below is included herein for the purpose of providing disclosure under Item 1.01 (Entry into a Material Definitive Agreement) of Form 8-K. On July 28, 2021, the Company and SEP Ecor Rouge Unit 2 LLC (Landlord) entered into a Termination of Lease Agreement (the "Termination Agreement") related to the premises located at Ecor Rouge Shopping Center, 100 Greeno Road, Fairhope, Alabama, which location previously served as corporate offices. The original Lease Agreement was entered into on March 19, 2012 and was scheduled to expire on February 28, 2024. Pursuant to the Termination Agreement, the Company paid $0.9 million to Landlord as consideration for the early termination. The Company was relieved of its obligations under the lease to pay for operating costs, utility payments, taxes, insurance and other charges and costs as of July 28, 2021.

Compensatory Arrangement with a Named Executive Officer

The information set forth below is included herein for the purpose of providing disclosure under Item 5.02(e) (Compensatory Arrangements of Certain Officers) of Form 8-K. The Company and Troy D. Rosser, Senior Vice President of Sales, entered into a new compensation plan (the “Sales Compensation Plan”) on November 1, 2021. The Sales Compensation Plan sets forth Mr. Rosser’s compensation, including his sales incentives, for the period from October 1, 2021 through December 31, 2021. Pursuant to the Sales Compensation Plan, Mr. Rosser’s base salary decreased from $300,000 to $262,500 and he was granted target cash incentives of (i) $78,750 pursuant to the Company’s management incentive program, which target will be achieved if the Company achieves its budgeted Adjusted EBITDA for 2021, and (ii) $183,750 pursuant to a sales incentive program, which payment is based on specified commission rates that apply to certain bookings for qualifying products and services achieved by Mr. Rosser and his team members. As with Mr. Rosser’s previous compensation plan (which has been replaced by the Sales Compensation Plan), Mr. Rosser’s incentive compensation opportunity is not subject to any specified threshold or maximum amounts. In the event that a customer defaults on payment for software, hardware or services, all commissions paid to Mr. Rosser on the defaulted accounts will be deducted from future commissions. In the event that partial payment from a customer is received, commissions will be deducted pro rata based on the amount of the payment received. Other than in the event of Mr. Rosser’s death, the Company will discontinue all commission payments upon termination of his employment with the Company. The foregoing description of the Sales Compensation Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the Sales Compensation Plan, a copy of which is filed herewith as Exhibit 10.1 and is incorporated herein by reference.

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	Senior Vice President of Sales Compensation Plan for Troy D. Rosser
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, 2021

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.	
11/9/2021	By:	/s/ J. Boyd Douglas
		J. Boyd Douglas President and Chief Executive Officer
11/9/2021	By:	/s/ Matt J. Chambless
		Matt J. Chambless Chief Financial Officer

Senior Vice President of Sales Compensation Plan
Oct 1, 2021 – Dec 31, 2021

This document describes the agreement between the employee listed below ("**Employee**") and Computer Programs and Systems, Inc. ("**CPSI**"). Regarding terms related to sales incentive compensation. CPSI and Employee enter into this agreement whereby Employee provides services to CPSI in return for compensation specified in this agreement.

Position Title: Senior Vice President of Sales – Troy Rosser

Teams responsible for: Evident Net New Acute EHR - International, Evident Net New Acute EHR, AHT Net New Post-acute EHR

Target Total Comp: $ 525,000
- Base Pay: $ 262,500
- MIP Target Incentive: $ 78,750
- SIP Target Incentive: $183,750

MIP Pay Structure: Target Incentive Pay includes a Management Incentive Program (MIP) component that rewards Sales Leaders for the company's bottom-line performance. For purposes of this 2021 plan, one-fourth of the target MIP incentive will be paid as a one-time cash bonus in the event CPSI achieves its budgeted 2021 Adjusted EBITDA goal that is set by the CPSI Board at the beginning of the fiscal year. This bonus will be paid at the same time the company pays all other participants in the 2021 Management Incentive Compensation Program.

SIP Pay Structure: Target Incentive Pay includes a Sales Incentive Program (**SIP**) component that rewards Sales Leaders for their teams' sales production performance.

- The SIP pays a goal-based incentive for total qualified bookings.
- Total qualified bookings are calculated using Net New business listed in the Qualified Bookings Goal chart below and explicitly excludes TruBridge Out-of-Family Bookings ("**Qualified Bookings**"). "**Out-of-Family** Bookings" are considered bookings associated with customers that do not currently use a CPSI EHR product. "**Add-on Business**" is defined as an individual hospital or organization with a current contractual relationship with CPSI. Net new clients sold in the Territory will transition from new business to Add-on Business ninety (90) days after the new client has gone live.
- Incentive is paid on performance to the qualified annual bookings goal (the "**Bookings Goal**") entered below.
- There is no percent performance to Bookings Goal threshold that must be achieved before the incentive is earned.
- Payout accelerates to 1.5x for all Qualified Bookings over Bookings Goal ("**Excellence**")
    - Below Bookings Goal; Linear 1:1 rate (1% of performance to Bookings Goal = 1% of SIP Target Incentive)
    - Above Bookings Goal; 1:1.5 rate (1% of performance to Bookings Goal = 1.5% of SIP Target Incentive)
    - Above goal rate is not paid out until the annual goal is achieved and is earned only for that portion of total bookings that are over the Bookings Goal.
- Qualified bookings do not include any strategic product premium. Strategic Products are products that CPSI designates as very important to company growth objectives and are published in the current "CPSI Strategic Products List".
- Incentives are paid quarterly based on year-to-date performance (month after quarter end). Although the incentives are paid quarterly, each quarter uses the cumulative performance to the Bookings Goal to true-up any underpayment or overpayment from the prior quarter. See the Payout Example below for a demonstration. Additionally, the 150% premium payment is not applicable until the entire (i.e. not quarterly) Bookings Goal is achieved.

Qualified Bookings Goal:

Bookings Type	Qualified Annual Gross Bookings
Evident Net New Acute EHR International	$10,200,000
Evident Net New Acute EHR	$12,240,000
AHT Net New Post-acute EHR	$1,250,000
Total Qualified Bookings Goal	**$23,690,000**

The quarterly sales incentive is based on "Total Qualified Bookings Goal", not by individual bookings type.

Payout Example:

SIP PAYOUT EXAMPLE					
Targets		Threshold		Excellence	
Bookings Goal	$ 23,000,000	Threshold %	0%	Threshold %	101%
TI	$ 183,750	Payout %	100%	Payout %	150%

	Q1	Q2	Q3	Q4
YTD Goal	$ 5,750,000	$ 11,500,000	$ 17,250,000	$ 23,000,000
YTD TI	$ 45,938	$ 91,875	$ 137,813	$ 183,750
Qtr Results	$ 6,000,000	$ 4,000,000	$ 8,000,000	$ 6,000,000
YTD Results	$ 6,000,000	$ 10,000,000	$ 18,000,000	$ 24,000,000
% of YTD Goal	104.3%	87.0%	104.3%	104.3%
YTD TI Earned	$ 45,938	$ 79,891	$ 137,813	$ 195,734
Less Prior TI	$ -	$ 45,938	$ 79,891	$ 137,813
Total TI Paid	$ 45,938	$ 33,954	$ 57,921	$ 57,921

Splits

To the extent relevant, CPSI has full discretion to split any and all commissions due in the event that more than one CPSI employee is involved in a sale.

Standard Transition Period Plan

For any change in territory or sales position, the following transition plan will be in effect unless specifically noted otherwise, in writing, on the individual's current compensation plan.

Bookings will be credited under the individual's compensation plan and territory in effect at the time of the change if the opportunity is open as of the effective date and closed and won within ninety (90) days of the effective date.

As noted below, a Transition Period will not apply in the case of termination or resignation.

2021 Specific Transition Plan

EHR acute goals are based on goals as originally calculated for annual corporate goals for 2021.

Performance to booking goal for 2021 will be a combination of gross bookings from Jan 1st – Sept 30th and the new performance to booking calculation for bookings in the 4th quarter.

All sales and bookings closed prior to October 1st will be paid based on prior compensation plans at install and subsequent year anniversary.

No 90-day transition period for open opportunities as of the transition effective date.

Payment Default by Client
In the event of a payment default on the part of the client for billed software, hardware or services, all commissions paid on the defaulted items are payable to CPSI and will be deducted from future Qualified Bookings. In the event partial payment has been received, the Qualified Bookings to be deducted will be prorated based upon the payment amount received.

Post Employment Commission Payment
No payments will be made under this sales compensation plan to any individual who is no longer an employee of the Sales Department of CPSI for any reason. This includes, but is not limited to, those who have resigned or whose employment has been terminated.

In the event of an untimely death while employed in good standing, commissions will be paid according to sales role under the following criteria to the estate/beneficiary(ies) as listed in the employee's last will and testament, limited as follows:

1. Items on order and invoiced or subsequent year TB rollovers invoiced within three months of the employee's passing.
2. Initial year of TB new business contracts or items invoiced within three months of the initial installation date for new sites that are under contract but not yet installed at the time of the employee's passing.

Employment at Will
Notwithstanding anything contained in this agreement, Employee understands and agrees that Employee is an employee at will and that nothing contained in this agreement is intended to, or does, create an employment contract for any amount of time and that employee is terminable at will by CPSI for any or no reason

Employee agrees to follow all federal, state, and local laws in the performance of employee's position outlined in this compensation plan, including but not limited to the Anti-Kickback Statute and Stark Law. Employee will contact CPSI's corporate counsel immediately should any legal concerns arise during employee's performance of services. Additionally, employee will employ ethical and moral practices while engaging in all sales activities.

Employee shall not engage in any other employment during the term of employee's employment without prior approval as outlined in the CPSI Moonlighting Policy. CPSI reserves the right to require employee to terminate any such other employment at CPSI's sole discretion.

Employee agrees to protect all confidential material including but not limited to prospect data, sales data, and client information belonging to CPSI and shall take all reasonable care in making sure that such confidential material is not disbursed to anyone outside the company. Employee shall forfeit compensation for any material violation of the terms of this sales compensation plan.

CPSI may, in its sole discretion and at any time, adjust, discontinue, the Plan outlined where, in the opinion of CPSI, business conditions are such that changes or termination of the Plan are necessitated. Such modifications or termination may be made at the sole discretion of CPSI. This sales compensation plan is governed by the laws of the state of Alabama and the parties shall attorn to the jurisdiction of the state and federal courts contained in Mobile, Alabama for any dispute that arises.

Senior Vice President: _________________________ Date: __________

Chief Growth Officer: _________________________ Date: __________

Exhibit 31.1

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, 2021

/s/ J. Boyd Douglas

J. Boyd Douglas

President and Chief Executive Officer

Exhibit 31.2

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, 2021

/s/ Matt J. Chambless

Matt J. Chambless

Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Computer Programs and Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2021, 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, 2021

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

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