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

FORM 10-Q

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

For the quarterly period ended June 30, 2023

☐ **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 August 4, 2023, there were 14,551,664 shares of the issuer's common stock outstanding.

COMPUTER PROGRAMS AND SYSTEMS, INC.
Quarterly Report on Form 10-Q
(For the three and six months ended June 30, 2023)

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 7,246	$ 6,951
Accounts receivable (net of allowance for expected credit losses of $2,796 and $2,854, respectively)	54,889	51,311
Financing receivables, current portion, net (net of allowance for expected credit losses of $111 and $223, respectively)	4,670	4,474
Inventories	962	784
Prepaid income taxes	1,811	701
Prepaid expenses and other	12,891	10,338
Total current assets	82,469	74,559
Property and equipment, net	8,744	9,884
Software development costs, net	36,088	27,257
Operating lease assets	5,421	7,567
Financing receivables, net of current portion (net of allowance for expected credit losses of $392 and $326, respectively)	2,223	3,312
Other assets, net of current portion	7,595	8,131
Intangible assets, net	93,971	102,000
Goodwill	198,253	198,253
Total assets	$ 434,764	$ 430,963
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 14,483	$ 7,035
Current portion of long-term debt	3,141	3,141
Deferred revenue	9,885	11,590
Accrued vacation	6,581	6,214
Other accrued liabilities	13,667	16,475
Total current liabilities	47,757	44,455
Long-term debt, net of current portion	141,420	136,388
Operating lease liabilities, net of current portion	3,812	5,651
Deferred tax liabilities	11,225	12,758
Total liabilities	204,214	199,252
Stockholders' equity:		
Common stock, $0.001 par value; 30,000 shares authorized; 15,099 and 14,913 shares issued, respectively	15	15
Additional paid-in capital	193,399	192,275
Retained earnings	54,168	53,921
Treasury stock, 570 shares and 483 shares, respectively	(17,032)	(14,500)
Total stockholders' equity	230,550	231,711
Total liabilities and stockholders' equity	$ 434,764	$ 430,963

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Sales revenues:				
RCM	$ 47,760	$ 46,814	$ 96,391	$ 87,325
EHR	34,967	34,143	70,158	68,905
Patient Engagement	1,895	1,769	4,306	4,367
Total sales revenues	84,622	82,726	170,855	160,597
Costs of sales:				
RCM	27,119	25,382	54,302	45,780
EHR	15,891	15,721	32,239	31,061
Patient Engagement	1,123	950	1,769	1,893
Total costs of sales	44,133	42,053	88,310	78,734
Gross profit	40,489	40,673	82,545	81,863
Operating expenses:				
Product development	10,595	8,107	20,434	16,169
Sales and marketing	8,132	8,226	15,089	15,269
General and administrative	19,654	14,994	34,604	28,421
Amortization of acquisition-related intangibles	4,014	4,758	8,029	8,430
Total operating expenses	42,395	36,085	78,156	68,289
Operating income (loss)	(1,906)	4,588	4,389	13,574
Other income (expense):				
Other income	78	278	346	435
Gain on contingent consideration	—	330	—	1,580
Loss on extinguishment of debt	—	(125)	—	(125)
Interest expense	(2,664)	(1,232)	(5,334)	(2,149)
Total other income (expense)	(2,586)	(749)	(4,988)	(259)
Income (loss) before taxes	(4,492)	3,839	(599)	13,315
Provision (benefit) for income taxes	(1,655)	763	(846)	2,126
Net income (loss)	$ (2,837)	$ 3,076	$ 247	$ 11,189
Net income (loss) per common share—basic	$ (0.20)	$ 0.21	$ 0.02	$ 0.76
Net income (loss) per common share—diluted	$ (0.20)	$ 0.21	$ 0.02	$ 0.76
Weighted average shares outstanding used in per common share computations:				
Basic	14,200	14,469	14,168	14,425
Diluted	14,200	14,469	14,168	14,425

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 June 30, 2023 and 2022:						
Balance at March 31, 2023	15,099	$ 15	$ 193,522	$ 57,005	$ (16,984)	$ 233,558
Net loss	—	—	—	(2,837)	—	(2,837)
Stock-based compensation	—	—	(123)	—	—	(123)
Treasury stock acquired	—	—	—	—	(48)	(48)
Balance at June 30, 2023	15,099	$ 15	$ 193,399	$ 54,168	$ (17,032)	$ 230,550
Balance at March 31, 2022	14,906	$ 15	$ 188,796	$ 46,167	$ (4,226)	$ 230,752
Net income	—	—	—	3,076	—	3,076
Forfeiture of common stock	(9)	—	—	—	—	—
Stock-based compensation	—	—	1,703	—	—	1,703
Treasury stock acquired	—	—	—	—	(2,598)	(2,598)
Balance at June 30, 2022	14,897	$ 15	$ 190,499	$ 49,243	$ (6,824)	$ 232,933
Six Months Ended June 30, 2023 and 2022:						
Balance at December 31, 2022	14,913	$ 15	$ 192,275	$ 53,921	$ (14,500)	$ 231,711
Net income	—	—	—	247	—	247
Issuance of restricted stock	186	—	—	—	—	—
Stock-based compensation	—	—	1,124	—	—	1,124
Treasury stock acquired	—	—	—	—	(2,532)	(2,532)
Balance at June 30, 2023	15,099	$ 15	$ 193,399	$ 54,168	$ (17,032)	$ 230,550
Balance at December 31, 2021	14,734	$ 15	$ 187,079	$ 38,054	$ (2,576)	$ 222,572
Net income	—	—	—	11,189	—	11,189
Issuance of restricted stock	171	—	—	—	—	—
Forfeiture of common stock	(9)	—	—	—	—	—
Stock-based compensation	—	—	3,420	—	—	3,420
Treasury stock acquired	—	—	—	—	(4,248)	(4,248)
Balance at June 30, 2022	14,897	$ 15	$ 190,499	$ 49,243	$ (6,824)	$ 232,933

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

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

	Six Months Ended June 30,	
	2023	2022
Operating Activities:		
Net income	$ 247	$ 11,189
Adjustments to net income:		
Provision for credit losses	181	1,202
Deferred taxes	(1,533)	(724)
Stock-based compensation	1,124	3,420
Depreciation	1,095	1,269
Loss on extinguishment of debt	—	125
Amortization of acquisition-related intangibles	8,029	8,430
Amortization of software development costs	3,312	1,259
Amortization of deferred finance costs	180	152
Gain on contingent consideration	—	(1,580)
Non-cash operating lease costs	1,211	940
Loss on disposal of PP&E	117	—
Changes in operating assets and liabilities:		
Accounts receivable	(3,806)	(9,934)
Financing receivables	940	3,376
Inventories	(178)	(273)
Prepaid expenses and other	(2,017)	(4,547)
Accounts payable	7,448	(469)
Deferred revenue	(1,705)	2,625
Operating lease liabilities	(1,067)	(940)
Other liabilities	(2,278)	1,126
Prepaid income taxes	(1,110)	2,457
Net cash provided by operating activities	10,190	19,103
Investing Activities:		
Purchase of business, net of cash acquired	—	(43,814)
Investment in software development	(12,143)	(8,739)
Purchase of property and equipment	(72)	(88)
Net cash used in investing activities	(12,215)	(52,641)
Financing Activities:		
Proceeds from long-term debt	—	575
Payments of long-term debt principal	(1,750)	(1,813)
Proceeds from revolving line of credit	11,602	48,000
Payments of revolving line of credit	(5,000)	(5,300)
Treasury stock purchases	(2,532)	(4,248)
Net cash provided by financing activities	2,320	37,214
Increase in cash and cash equivalents	295	3,676
Cash and cash equivalents at beginning of period	6,951	11,431
Cash and cash equivalents at end of period	$ 7,246	$ 15,107
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,413	$ 1,996
Cash paid for income taxes, net of refund	$ 1,783	$ 376

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, 2022 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, 2022 and the notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Commencing with the fourth quarter of 2022, the Company realigned its reporting structure due to certain organizational changes. As a result, the Company changed its three reportable segments from (i) TruBridge, (ii) Acute Care Electronic Health Record ("EHR"), and (iii) Post-acute Care EHR to (i) Revenue Cycle Management ("RCM"), (ii) EHR, and (iii) Patient Engagement. All prior segment information has been recast to reflect the Company's new segment structure and current period presentation. Refer to Note 17 - Segment Reporting for more information.

During the first quarter of 2023, we identified certain costs related to the implementation of our cloud strategy and our security operations center that were recorded within the caption "Costs of Sales - EHR" on our condensed consolidated statements of income, that we determined do not solely contribute to the production of EHR products and services, but support the overall business. Consequently, effective January 1, 2023, certain costs related to the implementation of our cloud strategy, which were formerly included within the caption "Costs of Sales - EHR," have been recorded as components of "Operating expenses - Product development". In addition, certain costs related to the Company's security operations center, which were formerly included within the caption "Costs of Sales - EHR," have been recorded as components of "Operating expenses - General and administrative". Additionally, immaterial travel costs were reclassified from within the caption "Costs of Sales - RCM" to "Operating expenses - Product development". Amounts presented for the three and six months ended June 30, 2022 have been reclassified to conform to the current presentation.

In addition, during the first quarter of 2023, we refined our operating expense allocation methodology to more accurately distribute the appropriate share of costs among operating segments. Amounts presented for the three and six months ended June 30, 2022 have been reclassified and are reflective of the current operating expense methodology in order to conform to the current presentation.

The following table provides the amounts reclassified and the impact of applying the current operating expense allocation methodology for the three and six months ended June 30, 2022.

	Three Months Ended June 30, 2022				
(in thousands)	**As previously reported**	**Re-classifications**	**As reclassified**	**Impact of operating expense allocations**	**As currently reported**
Costs of sales					
RCM	$ 25,396	$ (14)	$ 25,382	$ —	$ 25,382
EHR	16,976	(608)	16,368	(647)	15,721
Gross Profit	39,404	622	40,026	647	40,673
Operating expenses					
Product development	7,095	365	7,460	647	8,107
General and administrative	14,737	257	14,994	—	14,994
Total operating expenses	$ 34,816	$ 622	$ 35,438	$ 647	$ 36,085

	Six Months Ended June 30, 2022				
(in thousands)	**As previously reported**	**Re-classifications**	**As reclassified**	**Impact of operating expense allocations**	**As currently reported**
Costs of sales					
RCM	$ 45,807	$ (27)	$ 45,780	$ —	$ 45,780
EHR	33,659	(1,295)	32,364	(1,303)	31,061
Gross Profit	79,238	1,322	80,560	1,303	81,863
Operating expenses					
Product development	14,214	652	14,866	1,303	16,169
General and administrative	27,751	670	28,421	—	28,421
Total operating expenses	$ 65,664	$ 1,322	$ 66,986	$ 1,303	$ 68,289

Principles of Consolidation

The condensed consolidated financial statements of CPSI include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Standards Adopted in 2023

There were no new accounting standards required to be adopted in 2023 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.

- ***Revenue Cycle Management***

  Our RCM business unit 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 stand-alone selling price ("SSP"), net of discounts. SSP for BPS services is determined based on observable stand-alone selling prices. 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.

  Our RCM business unit also provides professional IT services. Revenue from professional IT services is recognized as the services are performed based on SSP, which is determined by observable stand-alone selling prices. Payment is due monthly as services are performed.

  Lastly, our RCM business unit also provides certain software solutions and related support under Software as a Service ("SaaS") arrangements and time-based software licenses. Revenue from SaaS arrangements is recognized in a manner consistent with SaaS arrangements for EHR software, as discussed below. Revenue from time-based software licenses is recognized upon delivery to the client ("point in time") and revenue from non-license components (i.e., support) is recognized ratably over the respective contract term ("over time"). SSP for time-based licenses is determined using the residual approach, while the non-license component is based on cost plus reasonable margin.

- ***Electronic Health Records***

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

  - **Non-recurring Revenues**

    - Perpetual software licenses and installation, conversion, and related training services 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 SSP, net of discounts. We determine each module's SSP using the residual method. Fees for licenses and installation, conversion, and related training services 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. EHR implementations include a system warranty that terminates thirty days from the software go-live date, the date 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 and revenue is recognized on a gross basis. 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 and maintenance 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, and revenue is recognized on a gross basis. Payment is due monthly for subscriptions to third party content.
  - 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 of the consolidated financial statements for further information, including revenue by client base (acute care or post-acute care) bifurcated by recurring and non-recurring revenue.

- ***Patient Engagement***

  The Company enters into contractual obligations to sell perpetual and term-based software licenses, implementation and customization professional services, and software application support services to a variety of healthcare organizations including hospital systems, health ministries, and government and non-profit organizations.

  - **Non-recurring Revenues**
    - Perpetual software licenses are sold only to one re-seller client and are considered a separate and distinct performance obligation. Revenue is recognized at the point in time perpetual licenses are delivered to the client, which occurs at the time of sale. The SSP of perpetual licenses is directly observable. Payment is generally due upon delivery of licenses.
    - Implementation and customization services are considered a separate and distinct performance obligation. Revenue is recognized over time based on SSP, which is generally directly observable. Payment for professional services is typically due in two installments: (1) upon signature of the agreement and (2) upon customer acceptance of the delivered services.
  - **Recurring Revenues**
    - Term-based software licenses are considered a separate and distinct performance obligation. Revenue is recognized based on SSP, which is directly observable, at the point in time the term-based licenses are delivered to the client or upon annual renewal. Payment is generally due upon delivery of licenses or upon annual renewal.
    - Software application support services sold with software licenses are separate and distinct performance obligations. The related revenues are 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 generally due for the full amount of annual support fees at the beginning of an annual license term.

Refer to Note 17 of the condensed consolidated financial statements for further information.

Deferred Revenue

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

The following table details deferred revenue for the six months ended June 30, 2023 and 2022, included in the condensed consolidated balance sheets:

(In thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Beginning balance	$ 11,590	$ 11,529
Deferred revenue recorded	10,623	15,329
Less deferred revenue recognized as revenue	(12,328)	(12,704)
Ending balance	$ 9,885	$ 14,154

The deferred revenue recorded during the six months ended June 30, 2023 and 2022 is comprised primarily of the annual renewals of certain software subscriptions billed during the first quarter of each year and deposits collected for future EHR installations. The deferred revenue recognized as revenue during the six months ended June 30, 2023 and 2022 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 and RCM arrangements, 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. Costs to obtain a contract are expensed within the caption "Operating expenses - Sales and marketing" 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, conversions, and installation that is necessary for the software to be utilized. Contract fulfillment costs are expensed within the caption "Costs of sales - EHR" in the accompanying condensed consolidated statements of income.

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

The following table details costs to obtain and fulfill contracts with customers for the six months ended June 30, 2023 and 2022, included in the condensed consolidated balance sheets:

(In thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Beginning balance	$ 11,577	$ 7,312
Costs to obtain and fulfill contracts capitalized	3,690	5,390
Less costs to obtain and fulfill contracts recognized as expense	(2,691)	(3,419)
Ending balance	$ 12,576	$ 9,283

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 Healthcare Resource Group

On March 1, 2022, we acquired all of the assets and liabilities of Healthcare Resource Group, Inc., a Washington corporation ("HRG"), pursuant to a Stock Purchase Agreement dated March 1, 2022. Based in Spokane, Washington, HRG is a leading provider of customized revenue cycle management ("RCM") solutions and consulting services that enable hospitals and clinics to improve efficiency, profitability, and patient satisfaction.

Consideration for the acquisition included cash (net of cash of the acquired entity) of $43.6 million (inclusive of seller's transaction expenses). During 2022, we incurred approximately $1.2 million of pre-tax acquisition costs in connection with the acquisition of HRG. Acquisition costs are included in general and administrative expenses in our consolidated statements of income.

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

The allocation of the purchase price paid for HRG was as follows:

(In thousands)		Purchase Price Allocation
Acquired cash	$	3,989
Accounts receivable		5,655
Prepaid expenses		398
Property and equipment		467
Other assets		73
Intangible assets		24,200
Operating lease assets		1,315
Goodwill		20,750
Accounts payable and accrued liabilities		(2,403)
Deferred taxes, net		(5,565)
Operating lease liability		(1,315)
Net assets acquired	$	47,564

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

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

5. PROPERTY AND EQUIPMENT

Property and equipment, net was comprised of the following at June 30, 2023 and December 31, 2022:

(In thousands)		June 30, 2023		December 31, 2022
Land	$	2,848	$	2,848
Buildings and improvements		8,358		8,320
Computer equipment		8,246		8,228
Leasehold improvements		607		783
Office furniture and fixtures		1,024		1,008
Automobiles		18		18
Property and equipment, gross		21,101		21,205
Less: accumulated depreciation		(12,357)		(11,321)
Property and equipment, net	$	8,744	$	9,884

6. SOFTWARE DEVELOPMENT

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

Software development costs, net was comprised of the following at June 30, 2023 and December 31, 2022:

(In thousands)	June 30, 2023	December 31, 2022
Software development costs	$ 43,932	$ 31,789
Less: accumulated amortization	(7,844)	(4,532)
Software development costs, net	$ 36,088	$ 27,257

7. OTHER ACCRUED LIABILITIES

Other accrued liabilities was comprised of the following at June 30, 2023 and December 31, 2022:

(In thousands)	June 30, 2023	December 31, 2022
Salaries and benefits	$ 3,128	$ 8,430
Severance	4,848	2,504
Commissions	942	1,280
Self-insurance reserves	—	1,358
Operating lease liabilities, current portion	1,900	2,063
Other	2,849	840
Other accrued liabilities	$ 13,667	$ 16,475

Prior to 2023, our employee health benefits plan was administered as a self-insured plan, with the Company bearing the risk of claims (partially limited by related stop-loss insurance, as is industry norm). Under a self-insured plan, we maintained reserves for an estimate of the liability from claims that have been incurred but were not yet reported at the end of the period. Effective January 1, 2023, our employee health benefits plan is now administered as a fully-insured plan, with full risk of claims exposure transferred to the health insurance carrier, thus ceasing the need for self-insurance reserves.

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 June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2023	2022	2023	2022
Net income (loss)	$ (2,837)	$ 3,076	$ 247	$ 11,189
Less: Net (income) loss attributable to participating securities	64	(58)	(5)	(219)
Net income (loss) attributable to common stockholders	$ (2,773)	$ 3,018	$ 242	$ 10,970
Weighted average shares outstanding used in basic per common share computations	14,200	14,469	14,168	14,425
Add: Dilutive potential common shares	—	—	—	—
Weighted average shares outstanding used in diluted per common share computations	14,200	14,469	14,168	14,425
Basic EPS	$ (0.20)	$ 0.21	$ 0.02	$ 0.76
Diluted EPS	$ (0.20)	$ 0.21	$ 0.02	$ 0.76

During 2021, 2022, and 2023, 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 278,377 shares, of which none have been included in the calculation of diluted EPS for the three or six months ended June 30, 2023 because the related threshold award performance levels have not been achieved as of June 30 2023. 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 June 30, 2023 increased to 36.8% from 19.9% for the three months ended June 30, 2022, with the largest contributing factor being the impact of the research and development ("R&D") tax credit. This credit, which is not correlated with taxable income, resulted in an incremental benefit of 10.7% over the corresponding benefit during the second quarter of 2022. In periods with taxable income, the benefit from the R&D tax credit serves to reduce income tax expense, thereby lowering the effective tax rate. However, in periods with taxable loss, the benefit from the R&D tax credit serves to increase the income tax benefit, thereby increasing the effective tax rate.

Similarly, our effective tax rate for the six months ended June 30, 2023 increased to 141.2% from 16.0% for the six months ended June 30, 2022, as the R&D tax credit resulted in an incremental benefit of 104.3% over the corresponding benefit during the first six months of 2022.

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 six months ended June 30, 2023 and 2022, included in the condensed consolidated statements of income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Costs of sales	$ 140	$ 291	$ 320	$ 577
Operating expenses	(263)	1,412	804	2,843
Pre-tax stock-based compensation expense	(123)	1,703	1,124	3,420
Less: income tax effect	27	(375)	(247)	(752)
Net stock-based compensation expense	$ (96)	$ 1,328	$ 877	$ 2,668

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 2019 Incentive Plan (the "Plan"). As of June 30, 2023, there was $8.4 million of unrecognized compensation expense related to unvested and unearned, as applicable, stock-based compensation arrangements granted under the Plan, 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 Plan with the fair value of the awards representing the fair value of the common stock on the date the restricted stock is granted. During the vesting period, recipients of restricted stock are entitled to dividends and possess voting rights. 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.

A summary of restricted stock activity under the Plan during the six months ended June 30, 2023 and 2022 is as follows:

	Six Months Ended June 30, 2023		Six Months Ended June 30, 2022	
	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	281,161	$ 32.24	314,883	$ 29.79
Granted	186,822	29.23	144,064	34.44
Vested	(139,760)	31.31	(181,405)	29.79
Forfeited	—	—	(8,936)	31.60
Unvested restricted stock outstanding at end of period	328,223	$ 30.92	268,606	$ 32.22

Performance Share Awards

The Company grants performance share awards to executive officers and certain key employees under the Plan, with the number of shares of common stock earned and issuable under each award determined at the end of a 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. These performance share awards include a modifier to the total number of shares earned based on the Company's total shareholder return ("TSR") compared to a small-cap stock market index. If certain levels of the performance objective are met, the award results in the issuance of shares of common stock corresponding to such level. 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 performance share awards, the Company will issue each award recipient the number of shares of common stock 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 may be issued. The total number of shares issued for the 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 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 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 related to 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 Plan during the six months ended June 30, 2023 and 2022 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Six Months Ended June 30, 2023		Six Months Ended June 30, 2022	
	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	252,375	$ 31.84	249,952	$ 29.59
Granted	122,071	31.21	101,799	37.98
Forfeited or unearned	(96,069)	26.96	(45,060)	31.70
Earned and issued	—	—	(27,317)	31.75
Performance share awards outstanding at end of period	278,377	$ 33.25	279,374	$ 32.09

Stock Repurchases

On September 4, 2020, our Board of Directors approved a stock repurchase program under which we were authorized to repurchase up to $30.0 million of our common stock through September 3, 2022. On July 27, 2022, the Board of Directors extended the expiration date of the stock repurchase program to September 4, 2024. We repurchased 49,789 shares during the six months ended June 30, 2023 and 78,799 shares during the six months ended June 30, 2022. The approximate dollar value of shares that may yet be repurchased under the stock repurchase program was $16.5 million as of June 30, 2023. 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 in September 2020, the Board of Directors opted to indefinitely suspend all quarterly dividends.

In addition to shares repurchased under the approved stock repurchase program, we purchased 37,989 shares during the six months ended June 30, 2023 and 52,905 shares during the six months ended June 30, 2022 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 certain add-on software installations. As a practical expedient, we do not adjust the amount of consideration recognized as revenue for the financing component as unearned income when we expect payment within one year or less. These receivables, included in the current portion of financing receivables, were comprised of the following at June 30, 2023 and December 31, 2022:

(In thousands)	June 30, 2023	December 31, 2022
Short-term payment plans, gross	$ 1,214	$ 330
Less: allowance for losses	(61)	(16)
Short-term payment plans, net	$ 1,153	$ 314

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 2028. 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 decrease in long-term financing arrangement balances during the six months ended June 30, 2023 is primarily a result of the continued evolution of customer licensing preferences. Although the overwhelming majority of our historical EHR installations prior to 2019 were made under a perpetual license model, the dramatic shift in customer preferences to a SaaS license model began during 2019 with 49% of the year's new acute care EHR installations being performed in a SaaS model, compared to only 12% in 2018. The shift in customer preference toward a SaaS model has since continued, with SaaS installations representing approximately 68% of new acute care EHR installations in 2020, 63% in 2021, and 100% in 2022 and the six months ended June 30, 2023. Due to the 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 June 30, 2023 and December 31, 2022:

(In thousands)	June 30, 2023	December 31, 2022
Long-term financing arrangements, gross	$ 6,670	$ 8,683
Less: allowance for expected credit losses	(442)	(533)
Less: unearned income	(488)	(678)
Long-term financing arrangements, net	$ 5,740	$ 7,472

Future minimum payments to be received subsequent to June 30, 2023 are as follows:

(In thousands)		
Years Ending December 31,		
2023	$	2,283
2024		2,841
2025		1,365
2026		153
2027		15
Thereafter		13
Total minimum payments to be received		6,670
Less: allowance for expected credit losses		(442)
Less: unearned income		(488)
Receivables, net	$	5,740

Credit Quality of Financing Receivables and Allowance for Expected Credit Losses

The following table is a roll-forward of the allowance for expected credit losses for the six months ended June 30, 2023 and year ended December 31, 2022:

(In thousands)	Balance at Beginning of Period		Provision		Charge-offs		Recoveries		Balance at End of Period	
June 30, 2023	$	549	$	(46)	$	—	$	—	$	503
December 31, 2022	$	722	$	(211)	$	38	$	—	$	549

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

Customer payments are considered past due if a scheduled payment is not received within contractually agreed upon terms. To facilitate customer collection and credit monitoring efforts, financing receivable amounts are invoiced and reclassified to trade accounts receivable when they become due, with all invoiced amounts placed on nonaccrual status. As a result, all past due amounts related to the Company's financing receivables are included in trade accounts receivable in the accompanying condensed consolidated balance sheets. The following is an analysis of the age of financing receivables amounts (excluding short-term payment plans) that have been reclassified to trade accounts receivable and were past due as of June 30, 2023 and December 31, 2022:

(In thousands)	1 to 90 Days Past Due		91 to 180 Days Past Due		181 + Days Past Due		Total Past Due	
June 30, 2023	$	535	$	128	$	219	$	882
December 31, 2022	$	1,086	$	278	$	283	$	1,647

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)	June 30, 2023	December 31, 2022
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	$ 2,927	$ 3,876
Uninvoiced client financing receivables related to trade accounts receivable that are 91 to 180 Days Past Due	1,192	1,369
Uninvoiced client financing receivables related to trade accounts receivable that are 181 + Days Past Due	808	1,894
Total uninvoiced client financing receivables balances of clients with a trade accounts receivable	$ 4,927	$ 7,139
Total uninvoiced client financing receivables of clients with no related trade accounts receivable	1,255	866
Total financing receivables with contractual maturities of one year or less	1,214	330
Less: allowance for expected credit losses	(503)	(549)
Total financing receivables	$ 6,893	$ 7,786

12. INTANGIBLE ASSETS AND GOODWILL

Our purchased definite-lived intangible assets as of June 30, 2023 and December 31, 2022 are summarized as follows:

	June 30, 2023				
(In thousands)	Customer Relationships	Trademark	Developed Technology	Non-Compete Agreements	Total
Gross carrying amount, beginning of period	$ 132,170	$ 12,320	$ 40,800	$ 1,400	$ 186,690
Accumulated amortization	(57,869)	(6,525)	(27,952)	(373)	(92,719)
Net intangible assets as of June 30, 2023	$ 74,301	$ 5,795	$ 12,848	$ 1,027	$ 93,971
Weighted average remaining years of useful life	8	13	8	4	10

	December 31, 2022				
(In thousands)	Customer Relationships	Trademark	Developed Technology	Non-Compete Agreements	Total
Gross carrying amount, beginning of period	$ 112,570	$ 12,320	$ 37,600	$ —	$ 162,490
Intangible assets acquired	19,600	—	3,200	1,400	24,200
Accumulated amortization	(52,371)	(6,076)	(26,010)	(233)	(84,690)
Net intangible assets as of December 31, 2022	$ 79,799	$ 6,244	$ 14,790	$ 1,167	$ 102,000

The following table represents the remaining amortization of definite-lived intangible assets as of June 30, 2023:

(In thousands)		
For the year ended December 31,		
2023	$	8,029
2024		14,523
2025		14,208
2026		12,919
2027		9,047
Thereafter		35,245
Total	$	93,971

The following table sets forth the change in the carrying amount of goodwill by segment for the six months ended June 30, 2023:

(In thousands)		RCM		EHR		Patient Engagement		Total
Balance as of December 31, 2022	$	61,821	$	126,665	$	9,767	$	198,253
Goodwill impairment		—		—		—		—
Balance as of June 30, 2023	$	61,821	$	126,665	$	9,767	$	198,253

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

13. LONG-TERM DEBT

Long-term debt was comprised of the following at June 30, 2023 and December 31, 2022:

(In thousands)		June 30, 2023		December 31, 2022
Term loan facility	$	65,625	$	67,375
Revolving credit facility		80,302		73,700
Debt obligations		145,927		141,075
Less: unamortized debt issuance costs		(1,366)		(1,546)
Debt obligation, net		144,561		139,529
Less: current portion		(3,141)		(3,141)
Long-term debt	$	141,420	$	136,388

As of June 30, 2023, 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, including a $75 million term loan facility and a $110 million revolving credit facility. On May 2, 2022, we entered into a First Amendment (the "First Amendment") to the Amended and Restated Credit Agreement, that increased the aggregate principal amount of our credit facilities to $230 million, which includes a $70 million term loan facility and a $160 million revolving credit facility. In addition, the interest rate provisions of the First Amendment reflect the transition from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR") as the new benchmark interest rate for each loan.

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 SOFR 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 SOFR rate, subject to the aforementioned floor, plus one percent per annum, or (3) a combination of (1) and (2). The applicable margin range for SOFR 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 June 30, 2022, with quarterly principal payments of approximately $0.9 million through March 31, 2027, with maturity on May 2, 2027 or such earlier date as the obligations under the Amended and Restated Credit Agreement as amended by the First Amendment become due and payable pursuant to the terms of such agreement. Any principal outstanding under the revolving credit facility is due and payable on the maturity date.

Anticipated annual future maturities of the term loan facility and revolving credit facility are as follows as of June 30, 2023:

(In thousands)		
2023	$	1,750
2024		3,500
2025		3,500
2026		3,500
2027		133,677
Thereafter		—
	$	145,927

Our credit facilities are secured pursuant to the Amended and Restated Credit Agreement, dated as of 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 First Amendment provides incremental facility capacity of $75 million, subject to certain conditions. The Amended and Restated Credit Agreement, as amended by the First Amendment, 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 First Amendment requires the Company to maintain a minimum fixed charge coverage ratio of 1.25:1.00 throughout the duration of such agreement. Under the First Amendment, the Company is required to comply with a maximum consolidated net leverage ratio of 3.50:1.00. Further, under the First Amendment, in connection with any acquisition by the Company exceeding $25 million, the Company may elect to increase the maximum permitted consolidated net leverage ratio for the fiscal quarter in which the acquisition occurs and each of the following three fiscal quarters by 0.50:1.00 above the otherwise permitted maximum. If the consolidated net leverage ratio is less than 2.50:1.00, there is no limit on the amount of incremental facilities. The Amended and Restated Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. On March 9, 2023, the calculation of the fixed charge coverage ratio was amended to specifically exclude from the definition of fixed charges the Company's share repurchases conducted during the third and fourth quarters of 2022. We believe that we were in compliance with the covenants contained in such agreement as of June 30, 2023.

The First Amendment removed the requirement that the Company mandatorily prepay the credit facilities with excess cash flow generated during the prior fiscal year. 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 SOFR rate loans made on a day other than the last day of any applicable interest period.

14. OPERATING LEASES

The Company leases office space in various locations in Alabama, Pennsylvania, Minnesota, Maryland, Mississippi, and Washington. These leases have terms expiring from 2023 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 April 30, 2023, the company terminated its lease agreement for approximately 12,500 square feet of office space in Plymouth, Minnesota. Pursuant to a Termination of Lease Agreement dated April 18, 2023, the Company paid $1.1 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 $0.1 million loss on the disposal of leasehold improvement.

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

(In thousands)	June 30, 2023	December 31, 2022
Operating lease assets		
Operating lease assets	$ 5,421	$ 7,567
Operating lease liabilities		
Other accrued liabilities	1,900	2,063
Operating lease liabilities, net of current portion	3,812	5,651
Total operating lease liabilities	$ 5,712	$ 7,714
Weighted average remaining lease term in years	4	5
Weighted average discount rate	4.2%	4.4%

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

The future minimum lease payments payable under these operating leases subsequent to June 30, 2023 are as follows:

(In thousands)	
2023	$ 945
2024	1,804
2025	1,063
2026	1,025
2027	706
Thereafter	693
Total lease payments	6,236
Less imputed interest	(524)
Total	$ 5,712

Total lease expense for the six months ended June 30, 2023 and 2022 was $1.1 million and $0.9 million, respectively.

Total cash paid for amounts included in the measurement of lease liabilities within operating cash flows from operating leases for the six months ended June 30, 2023 and 2022 was $1.1 million and $0.9 million, respectively.

15. COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. In March 2022, the Company was served with a *qui tam* complaint (United States, ex. rel. Kruse v. Computer Programs and Systems, Inc., et. al., Case No. 3cv18-938 (N.D. Tex.)). The complaint alleges that at various times since 2012, CPSI, TruBridge and three hospital customers violated and conspired to violate the federal False Claims Act, 31 U.S.C. 3729(a)(1)(A), (B), (C) and (G), and (a)(3), the Oklahoma Medicaid False Claims Act, the Texas False Claims Act, and the New Mexico False Claims Act, and demands unspecified damages. The complaint further alleges that TruBridge retaliated against the relator in violation of 31 U.S.C. 3730(h), when it terminated the relator's employment in May 2017. Although the U.S. Department of Justice and all of the state and local governments have declined to intervene, the relator continues to pursue the case. The court has set a trial date for February 2025. The Company believes that the claims in this matter are without merit and intends to vigorously defend against all allegations. Given the current status of these matters, the Company is unable to express a view regarding the ultimate outcome or, if the outcome is adverse, to estimate an amount or range of reasonably possible loss. Depending on the outcome of these matters, there could be a material impact on the Company's financial statements.

16. FAIR VALUE

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

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

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

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

As of June 30, 2023, we did not have any instruments that require fair value measurement.

17. SEGMENT REPORTING

Our chief operating decision makers ("CODM") previously utilized the following three operating segments, "Acute Care EHR", "Post-acute Care EHR" and "TruBridge". However, in the fourth quarter of 2022, the Company made a number of changes to its organizational structure and management system to better align the Company's operating model to its strategic initiatives. As a result of these changes, the Company revised its operating segments. The new operating and reportable segments, based on our three distinct business units with unique market dynamics and opportunities, are "RCM", "EHR", and "Patient Engagement". These segments represent the components of the Company for which separate financial information is available that is utilized on a regular basis by the CODM in assessing segment performance and in allocating the Company's resources. Management evaluates the performance of the segments based on revenues and adjusted EBITDA. The Company previously evaluated the performance of the segments based on segment gross profit. Management believes adjusted EBITDA is a useful measure to assess the performance and liquidity of the Company as it provides meaningful operating results by excluding the effects of expenses that are not reflective of its operating business performance. Our CODM group is comprised of the Chief Executive 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 segment disclosures below for the three and six months ended June 30, 2022 have been recast to conform to the current year presentation.

Adjusted EBITDA consists of GAAP net income as reported and adjusts for (i) deferred revenue purchase accounting adjustments arising from purchase allocation adjustments related to business acquisitions; (ii) depreciation expense; (iii) amortization of software development costs; (iv) amortization of acquisition-related intangible assets; (v) stock-based compensation; (vi) severance and other non-recurring charges; (vii) interest expense and other, net; (viii) gain on contingent consideration; and (ix) the provision for income taxes. There are no intersegment revenues to be eliminated in computing segment revenue.

The CODM do not evaluate operating segments nor make decisions regarding operating segments based on assets. Consequently, we do not disclose total assets by reportable segment.

The following table presents a summary of the revenues and adjusted EBITDA of our three operating segments for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Revenues by segment:				
RCM	$ 47,760	$ 46,814	$ 96,391	$ 87,325
EHR				
Recurring revenue				
Acute EHR	28,349	26,732	55,962	54,097
Post-acute EHR	3,729	3,792	7,636	7,687
Total recurring EHR revenue	32,078	30,524	63,598	61,784
Non-recurring revenue				
Acute EHR	2,544	2,939	5,835	5,966
Post-acute EHR	345	680	725	1,155
Total non-recurring EHR revenue	2,889	3,619	6,560	7,121
Total EHR revenue	$ 34,967	$ 34,143	$ 70,158	$ 68,905
Patient Engagement	1,895	1,769	4,306	4,367
Total revenues	$ 84,622	$ 82,726	$ 170,855	$ 160,597
Adjusted EBITDA by segment:				
RCM	$ 5,682	$ 8,064	$ 13,580	17,645
EHR	5,568	5,707	11,725	11,870
Patient Engagement	(23)	(602)	564	(192)
Total adjusted EBITDA	$ 11,227	$ 13,169	$ 25,869	$ 29,323

The following table reconciles net income to adjusted EBITDA:

(In thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net income (loss), as reported	$ (2,837)	$ 3,076	247	11,189
Deferred revenue and other purchase accounting adjustments	—	30	—	109
Depreciation expense	597	690	1,095	1,269
Amortization of software development costs	1,826	733	3,312	1,259
Amortization of acquisition-related intangibles	4,014	4,758	8,029	8,430
Stock-based compensation	(123)	1,703	1,124	3,420
Severance and other non-recurring charges	6,819	667	7,920	1,262
Interest expense and other, net	2,586	1,079	4,988	1,839
Gain on contingent consideration	—	(330)	—	(1,580)
Provision (benefit) for income taxes	(1,655)	763	(846)	2,126
Total adjusted EBITDA	$ 11,227	$ 13,169	$ 25,869	$ 29,323

Certain of the items excluded or adjusted to arrive at adjusted EBITDA are described below:

- Deferred revenue and other purchase accounting adjustments - Deferred revenue purchase accounting adjustments includes acquisition-related deferred revenue adjustments, which reflect the fair value adjustments to deferred revenues acquired in business acquisitions. The fair value of deferred revenue represents an amount equivalent to the estimated cost plus an appropriate profit margin, to perform services related to the acquiree's software and product support, which assumes a legal obligation to do so, based on the deferred revenue balance as of the acquisition date. We add back deferred revenue and other adjustments for adjusted EBITDA because we believe the inclusion of this amount directly correlates to the underlying performance of our operations.

- Amortization of acquisition-related intangibles - Acquisition related amortization expense is a non-cash expense arising primarily from the acquisition of intangibles in connection with acquisitions or investments. We exclude acquisition-related amortization expense from adjusted EBITDA because we believe (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of new acquisitions and full amortization of previously acquired intangible assets.

- Stock-based compensation - Stock-based compensation expense is a non-cash expense arising from the grant of stock-based awards. We exclude stock-based compensation expense from adjusted EBITDA because we believe (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of the timing and valuation of grants of new stock-based awards, including grants in connection with acquisitions.

- Severance and other non-recurring charges - Non-recurring charges relate to certain severance and other charges incurred in connection with activities that are considered non-recurring. We exclude non-recurring expenses (primarily related to costs associated with our recent business transformation initiative and non-recurring lease termination costs) and transaction-related costs from adjusted EBITDA because we believe (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods.

- Gain on contingent consideration - The purchase agreement for our acquisition of TruCode in 2021 contained contingent consideration, or "earnout," provisions whereby the previous shareholders of TruCode would receive additional consideration at the conclusion of a one-year period beginning on the acquisition date and ending on the first anniversary of the acquisition date, depending on the achievement of certain profitability targets. After the initial measurement period, U.S. GAAP requires that any adjustments to the estimated fair value of this contingent liability, including upon final determination of amounts due, should be recorded in the relevant period's earnings. We exclude gains on contingent consideration from adjusted EBITDA because we believe (i) the amount of such gains in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such gains can vary between periods.

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

- a public health crisis, such as the 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

- transition to a subscription-based recurring revenue model and modernization of our technology;
- competition with companies that have greater financial, technical and marketing resources than we have;
- potential future acquisitions that may be expensive, time consuming, and subject to other inherent risks;
- our ability to attract and retain qualified 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 and investigations;
- our use of offshore third-party resources;

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;
- exposure to market risk related to interest rate changes;
- potential material adverse effects due to macroeconomic conditions; and
- potential material adverse effects due to bank failures or changes in related legislation or regulation.

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, 2022 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023.

Background

CPSI is a leading provider of healthcare solutions and services for community hospitals, their clinics and other healthcare systems. Founded in 1979, CPSI is the parent of six companies – Evident, LLC ("Evident"), American HealthTech, Inc. ("AHT"), TruBridge, LLC ("TruBridge"), iNetXperts, Corp. d/b/a Get Real Health ("Get Real Health"), TruCode LLC ("TruCode"), and Healthcare Resource Group, Inc. ("HRG"). Our combined companies are focused on helping improve the health of the communities we serve, connecting communities for a better patient care experience, and improving the financial operations of our customers. Evident provides comprehensive acute care electronic healthcare record ("EHR") solutions for community hospitals and their affiliated clinics. AHT is one of the nation’s largest providers of post-acute care EHR solutions and services for post-acute care facilities. TruBridge focuses on providing business, consulting and managed IT services, along with its complete revenue cycle management ("RCM") solution, for all care settings. Get Real Health focuses on solutions aimed at improving patient engagement for individuals and healthcare providers. TruCode provides medical coding software that enables complete and accurate code assignment for optimal reimbursement. HRG provides specialized RCM solutions for facilities of all sizes.

Commencing with the fourth quarter of 2022, the Company operates its business in three operating segments, which are also our reportable segments: RCM, EHR, and Patient Engagement. The individual companies align with the reporting segments and contribute towards the combined focus of improving the health of the communities we serve as follows:

- The RCM reporting segment includes TruBridge, HRG, and TruCode, and focuses on providing business management, consulting, and managed IT services along with its complete RCM solution for all care settings, regardless of their primary healthcare information solutions provider.

- The EHR segment includes Evident and AHT, and provides comprehensive acute and post-acute care EHR solutions and related services for community hospitals, their physician clinics, and skilled nursing and assisted living facilities.

- The Patient Engagement segment offers comprehensive patient engagement and empowerment technology solutions through Get Real Health to improve patient outcomes and engagement strategies with care providers.

Our companies currently support community hospitals and other healthcare systems with a geographically diverse patient mix within the domestic community healthcare market. Our target market for our RCM, EHR, and Patient Engagement solutions includes community hospitals with fewer than 400 acute care beds and their clinics, as well as independent or small to medium sized chains of skilled nursing facilities. 98% of our acute care hospital EHR customer base is comprised of hospitals with fewer than 100 beds. 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.

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

Management Overview

Strategy

Our core strategy is to achieve meaningful long-term revenue growth by cross-selling RCM services into our existing EHR customer base, expanding RCM market share with sales to new community hospitals and larger health systems, and pursuing competitive EHR takeaway opportunities in the acute and post-acute markets. During 2020, we engaged a top-tier international consulting firm to assess our core growth strategy, with the outcome of this eight-week engagement being the confirmation of our current core strategy and the identification of other innovative potential growth opportunities. 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.

The opportunity to cross-sell RCM services is greatest within our Acute Care EHR customer base. As such, retention of existing Acute Care EHR customers is a key component of our long-term growth strategy by protecting this base of potential RCM 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. Since 2019, these retention rates have consistently remained in the mid-to-high 90th percentile ranges. Specifically, the annualized retention rate in the first half of 2023 was 94.4% , and we achieved retention rates of 94.9% in 2022, 98.2% in 2021 and 94.9% in 2020. We have increased customer retention efforts by enhancing support services, investing in tooling and instrumentation to proactively monitor for potential disruptions, and deploying in-application experience software that delivers application-specific insights while using our products.

As we pursue meaningful long-term revenue growth by leveraging RCM as a growth agent, we are placing ever-increasing value in further developing our already significant recurring revenue base to further stabilize our revenues and cash flows. 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 RCM services beyond our EHR customer base.

While the combination of revenue growth and operating leverage results in increased margin realization, we also look to increase margins through specific 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” ("SaaS") arrangements as described below.

Industry Dynamics

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. 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 the fee-for-service reimbursement model 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.

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 while those with the necessary capital have become more selective in their investments. Despite these challenges, we believe healthcare IT will be an area of continued investment due to its unique potential to improve safety and efficiency and reduce costs while meeting current and future regulatory, compliance and government reimbursement requirements.

EHR License Model Preferences

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.

The overwhelming majority of our historical EHR installations have been under a perpetual license model, but new customer demand has dramatically shifted towards a SaaS license model in the past several years. SaaS license models made up only 12% of annual new acute care EHR installations in 2018, increasing to 100% during 2022 and the first six months of 2023. These SaaS offerings are 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 EHR revenues in the period of installation in exchange for increased recurring periodic revenues (reflected in EHR 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 traditional 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 have comprised the majority of our perpetual license installations over the past several years, and include short-term payment plans and longer-term lease financing through us or third-party financing companies. The aforementioned shift in customer preference towards SaaS arrangements has significantly reduced the frequency of new financing arrangements for customer purchases under a perpetual license. When combined with scheduled payments on existing financing arrangements, the reduced frequency of new financing arrangements has resulted in a substantial reduction in financing receivables during 2022 and the first six months of 2023.

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).

Margin Optimization Efforts

Our core growth strategy includes an element geared towards margin optimization by identifying opportunities to further improve our cost structure by executing against initiatives related to organizational realignment, expanded use of offshore partnerships and the use of automation to increase the efficiency and value of our associates' efforts.

Initial organizational realignment efforts began during 2021, when we committed to a reduction in force intended to more effectively align our resources with business priorities. Other related initiatives include our ongoing implementation of the Scaled Agile Framework® throughout our EHR product development, implementation and support functions to enhance cohesion, time-to-market and customer satisfaction. This framework is a set of organization and workflow patterns intended to guide enterprises in scaling lean and agile practices and promote alignment, collaboration, and delivery across large numbers of agile teams.

The remaining margin optimization initiatives of enhanced leveraging of offshore partnerships and automation have commenced and, to date, have provided meaningful efficiencies to our operations, particularly within RCM. As a service organization, RCM's cost structure is heavily dependent upon human capital, subjecting it to the complexities and risks associated with this resource. Chief among these complexities and risks is the ever-present pressure of wage inflation, which has recently become a reality as national and international economies recover from the economic downturn caused by the COVID-19 pandemic and has compelled the Company to make compensation adjustments that are outside of historical norms. We believe that our efforts towards margin optimization are well-timed, enabling a rapid response to actual or expected wage inflation in order to preserve RCM gross margins, but we cannot guarantee that these efforts will fully eliminate any related margin deterioration.

In addition to wage inflation, we are a party to contracts with certain third-party suppliers and vendors that allow for annual price adjustments indexed to inflation. While we continually seek to proactively manage controllable expenses, inflationary pressure on costs has led to, and could lead to, erosion of margins.

Results of Operations

In the fourth quarter of 2022, the Company made a number of changes to its organizational structure and management system to align the Company's operating model to its strategic initiatives. With these changes the Company revised its reportable segments to RCM, EHR, and Patient Engagement, but this realignment of the Company's reportable segments did not impact its consolidated financial statements. Throughout this discussion, prior-year results have been recast to conform with the change in reportable segments noted above.

During the first six months of 2023, we generated revenues of $170.9 million from the sale of our products and services, compared to $160.6 million during the first six months of 2022, an increase of 6% that is due to the combination of inorganic growth through our recent acquisition of HRG and organic growth as RCM solutions continue to gain traction in the domestic healthcare landscape. Despite this increase in revenues, net income decreased by $10.9 million to $0.2 million during the first six months of 2023 from the prior-year period due to the combined effects of (i) increased severance costs associated with employees displaced by our ongoing implementation of the Scaled Agile Framework®, (ii) increased non-recurring charges largely resulting from past business acquisitions, exploratory efforts related to future acquisitions, and lease termination costs related to our efforts to right-size our real estate footprint, (iii) increased interest expense due to acquisition-fueled growth in long-term debt and a rising interest rate environment, (iv) increased costs related to our strategy to migrate to a public cloud environment in order to increase business agility and improve security, and (v) increased amortization of capitalized software development costs.

The following table sets forth certain items included in our results of operations for the three and six months ended June 30, 2023 and 2022, expressed as a percentage of our total revenues for these periods:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
(In thousands)	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
INCOME DATA:								
Sales revenues:								
RCM	$ 47,760	56.4 %	$ 46,814	56.6 %	$ 96,391	56.4 %	$ 87,325	54.4 %
EHR	34,967	41.3 %	34,143	41.3 %	70,158	41.1 %	68,905	42.9 %
Patient Engagement	1,895	2.2 %	1,769	2.1 %	4,306	2.5 %	4,367	2.7 %
Total sales revenues	84,622	100.0 %	82,726	100.0 %	170,855	100.0 %	160,597	100.0 %
Costs of sales:								
RCM	27,119	32.0 %	25,382	30.7 %	54,302	31.8 %	45,780	28.5 %
EHR	15,891	18.8 %	15,721	19.0 %	32,239	18.9 %	31,061	19.3 %
Patient Engagement	1,123	1.3 %	950	1.1 %	1,769	1.0 %	1,893	1.2 %
Total costs of sales	44,133	52.2 %	42,053	50.8 %	88,310	51.7 %	78,734	49.0 %
Gross profit	40,489	47.8 %	40,673	49.2 %	82,545	48.3 %	81,863	51.0 %
Operating expenses:								
Product development	10,595	12.5 %	8,107	9.8 %	20,434	12.0 %	16,169	10.1 %
Sales and marketing	8,132	9.6 %	8,226	9.9 %	15,089	8.8 %	15,269	9.5 %
General and administrative	19,654	23.2 %	14,994	18.1 %	34,604	20.3 %	28,421	17.7 %
Amortization of acquisition-related intangibles	4,014	4.7 %	4,758	5.8 %	8,029	4.7 %	8,430	5.2 %
Total operating expenses	42,395	50.1 %	36,085	43.6 %	78,156	45.7 %	68,289	42.5 %
Operating income (loss)	(1,906)	(2.3)%	4,588	5.5 %	4,389	2.6 %	13,574	8.5 %
Other income (expense):						— %		— %
Other income	78	0.1 %	278	0.3 %	346	0.2 %	435	0.3 %
Gain on contingent consideration	—	— %	330	0.4 %	—	— %	1,580	1.0 %
Loss on extinguishment of debt	—	— %	(125)	(0.2)%	—	— %	(125)	(0.1)%
Interest expense	(2,664)	(3.1)%	(1,232)	(1.5)%	(5,334)	(3.1)%	(2,149)	(1.3)%
Total other income (expense)	(2,586)	(3.1)%	(749)	(0.9)%	(4,988)	(2.9)%	(259)	(0.2)%
Income (loss) before taxes	(4,492)	(5.3)%	3,839	4.6 %	(599)	(0.4)%	13,315	8.3 %
Provision (benefit) for income taxes	(1,655)	(2.0)%	763	0.9 %	(846)	(0.5)%	2,126	1.3 %
Net income (loss)	$ (2,837)	(3.4)%	$ 3,076	3.7 %	$ 247	0.1 %	$ 11,189	7.0 %

Three Months Ended June 30, 2023 Compared with Three Months Ended June 30, 2022

Revenues

Total revenues for the three months ended June 30, 2023 increased by $1.9 million, or approximately 2%, compared to the three months ended June 30, 2022.

RCM revenues increased by $0.9 million, or 2%, compared to the second quarter of 2022 as customer attrition, most notably within our medical coding service line, offset much of the revenue gains from new contract wins over the trailing twelve months.

EHR revenues increased by $0.8 million, or 2%, compared to the second quarter of 2022, and were comprised of the following during the respective periods:

	Three Months Ended June 30,	
(In thousands)	2023	2022
Recurring EHR revenues [1]		
Acute Care EHR	$ 28,349	$ 26,732
Post-acute Care EHR	3,729	3,792
Total recurring EHR revenues	32,078	30,524
Non-recurring EHR revenues [2]		
Acute Care EHR	2,544	2,939
Post-acute Care EHR	345	680
Total non-recurring EHR revenues	2,889	3,619
Total EHR revenue	$ 34,967	$ 34,143

[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 EHR revenues increased by $1.6 million, or 5%, compared to the second quarter of 2022. Post-acute Care EHR recurring revenues were effectively flat compared to the second quarter of 2022, while Acute Care EHR recurring revenues increased by $1.6 million, or 6%, as continued efforts to emphasize SaaS arrangements have led to the accumulation of significant sources of recurring revenue.

Non-recurring EHR revenues decreased by $0.7 million, or 20%, compared to the second quarter of 2022. The consequence of our continued focus on increasing recurring revenues has been the de-emphasizing of nonrecurring, perpetual license sales.

Patient Engagement revenues increased by $0.1 million, or 7%, compared to the prior year period.

Costs of Sales

Total costs of sales increased by $2.1 million compared to the second quarter of 2022. As a percentage of total revenues, costs of sales increased to 52% of revenues during the second quarter of 2023 compared to 51% during the second quarter of 2022.

Our costs associated with RCM sales and support increased by $1.7 million, or 7%, compared to the second quarter of 2022, as the necessary responses to domestic labor market challenges have increased costs associated with our people-intensive service offerings. While efforts are well underway to mitigate these domestic labor market challenges through expansion of our offshore partnerships, these efforts have yet to reach the scale necessary to fully offset the impact of domestic wage inflation. Adding to these challenges, (i) revenue growth in the trailing twelve months has largely come from lower margin revenue streams; (ii) we experienced the loss of a single large customer with a margin profile well beyond our typical customer margin profile; and (iii) we faced increased costs associated with enhancing our compliance function within the RCM business unit to accommodate scale. As a result, the gross margin on RCM services decreased to 43% during the second quarter of 2023 from 46% during the second quarter of 2022.

Costs of EHR system sales and support increased by $0.2 million, or 1%, compared to the second quarter of 2022, primarily driven by increased travel costs related to customer implementations and customer optimization efforts. The related gross margins increased to 55% in the second quarter of 2023 from 54% in the second quarter of 2022.

Costs of Patient Engagement sales and support increased by $0.2 million, or 18%, primarily due to increased hosting infrastructure costs. The related gross margins decreased to 41% in the second quarter of 2023 from 46% in the second quarter of 2022.

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 increased by $2.5 million, or 31%, compared to the second quarter of 2022, primarily due to increased costs related to our strategy to migrate to a public cloud environment and increased amortization of capitalized software development costs.

Sales and Marketing

Sales and marketing costs remained relatively unchanged, decreasing by $0.1 million, or 1%, compared to the second quarter of 2022.

General and Administrative

General and administrative expenses increased by $4.7 million, or 31%, compared to the second quarter of 2022. Our ongoing implementation of the Scaled Agile Framework® resulted in job displacement for a number of our employees, resulting in a $3.6 million increase in related non-recurring severance costs. Other non-recurring charges increased by $2.6 million, largely as the result of past acquisitions, exploratory efforts related to future acquisitions, and lease termination costs related to our efforts to right-size our real estate footprint. Partially offsetting these increases was a $1.2 million decrease in stock-based compensation, as developing margin pressures resulted in lowered achievement expectations relative to the targets underlying outstanding performance share awards.

Amortization of Acquisition-Related Intangibles

Amortization expense associated with acquisition-related intangible assets decreased by $0.7 million, or 16%, compared to the second quarter of 2022, as some intangible assets became fully-amortized prior to the second quarter of 2023.

Total Operating Expenses

As a percentage of total revenues, total operating expenses increased to 50% of revenues in the second quarter of 2023, compared to 44% in the second quarter of 2022.

Total Other Income (Expense)

Total other income (expense) decreased to expense of $2.6 million during the second quarter of 2023 compared to expense of $0.7 million during the second quarter of 2022, as a rising interest rate environment and a higher level of funded debt caused a $1.4 million increase in interest expense.

Income (Loss) Before Taxes

As a result of the foregoing factors, income (loss) before taxes decreased by $8.3 million, to a loss before taxes of $4.5 million in the second quarter of 2023 compared to income before taxes of $3.8 million in the second quarter of 2022.

Provision (Benefit) for Income Taxes

Our effective tax rate for the three months ended June 30, 2023 increased to 36.8% from 19.9% for the three months ended June 30, 2022, with the largest contributing factor being the impact of the research and development ("R&D") tax credit. This credit, which is not correlated with taxable income, resulted in an incremental benefit of 10.7% over the corresponding benefit during the second quarter of 2022. In periods with taxable income, the benefit from the R&D tax credit serves to reduce income tax expense, thereby lowering the effective tax rate. However, in periods with taxable loss, the benefit from the R&D tax credit serves to increase the income tax benefit, thereby increasing the effective tax rate.

Net Income (Loss)

Net income (loss) for the second quarter of 2023 decreased by $5.9 million to a net loss of $2.8 million, or negative $0.20 per basic and diluted share, compared with net income of $3.1 million, or $0.21 per basic and diluted share, for the second quarter of 2022.

Six Months Ended June 30, 2023 compared with Six months ended June 30, 2022

Revenues

Total revenues for the six months ended June 30, 2023 increased by $10.3 million, or approximately 6%, compared to the six months ended June 30, 2022.

RCM revenues increased by $9.1 million, or 10%, compared to the first six months of 2022, as acquisition-fueled growth from our March 2022 acquisition of HRG added to the organic growth of our RCM offerings.

EHR revenues increased by $1.3 million, or 2%, compared to the first six months of 2022, and were comprised of the following during the respective periods:

	Six Months Ended June 30,	
(In thousands)	2023	2022
Recurring EHR revenues [1]		
Acute Care EHR	$ 55,962	$ 54,097
Post-acute Care EHR	7,636	7,687
Total recurring EHR revenues	63,598	61,784
Non-recurring EHR revenues [2]		
Acute Care EHR	5,835	5,966
Post-acute Care EHR	725	1,155
Total non-recurring EHR revenues	6,560	7,121
Total EHR revenue	$ 70,158	$ 68,905

[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 EHR revenues increased by $1.8 million, or 3%, compared to the first six months of 2022. While Post-acute Care EHR recurring revenues were relatively flat compared to the prior-year period, Acute Care EHR recurring revenues increased by $1.9 million, or 3%, as continued efforts to emphasize SaaS arrangements have led to the accumulation of significant sources of recurring revenue.

Non-recurring EHR revenues decreased by $0.6 million, or 8%, compared to the first six months of 2022.

Patient Engagement revenues were relatively flat compared to the prior-year period, decreasing by only $0.1 million, or 1%, compared to the first six months of 2022.

Costs of Sales

Total costs of sales increased by $9.6 million compared to the first six months of 2022. As a percentage of total revenues, costs of sales increased to 52% of revenues during the first six months of 2023 compared to 49% during the first six months of 2022. Our costs associated with RCM sales and support increased by $8.5 million, or 19%, compared to the first six months of 2022. This increase has primarily been driven by our recent acquisition of HRG and the aforementioned necessary responses to domestic labor market challenges, which have increased the costs associated with our people-intensive service offerings. Additionally, (i) revenue growth in the trailing twelve months has largely come from lower margin revenue streams; (ii) we experienced the loss of a single large customer with a margin profile well beyond our typical customer margin profile; and (iii) we faced increased costs associated with enhancing our compliance function within the RCM business unit to accommodate scale. As a result, the gross margin on RCM services decreased to 44% during the first six months of 2023 from 48% during the first six months of 2022.

Costs of EHR system sales and support increased by $1.2 million, or 4%, compared to the first six months of 2022, primarily driven by increased amortization of accumulated contract fulfillment costs. The related gross margins decreased to 54% in the first six months of 2023 from 55% in the first six months of 2022.

Costs of Patient Engagement sales and support decreased by $0.1 million, or 7%, as we experienced heightened resource needs during the first half of 2022 to support an aggressive onboarding schedule related to recent contract wins. With these costs abating during the trailing twelve months, the related gross margins increased to 59% in the first six months of 2023 from 57% in the first six months of 2022.

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 increased by $4.3 million, or 26%, compared to the first six months of 2022, primarily due to increased costs related to our strategy to migrate to a public cloud environment and increased amortization of capitalized software development costs.

Sales and Marketing

Sales and marketing costs remained relatively unchanged, decreasing by $0.2 million, or 1%, compared to the first six months of 2022.

General and Administrative

General and administrative expenses increased by $6.2 million, or 22%, compared to the first six months of 2022. Our ongoing implementation of the Scaled Agile Framework® resulted in job displacement for a number of our employees, resulting in a $3.7 million increase in related non-recurring severance costs. Other non-recurring charges increased by $2.9 million, largely as result of past acquisitions, exploratory efforts related to future acquisitions, and lease termination costs related to our efforts to right-size our real estate footprint.

Amortization of Acquisition-Related Intangibles

Amortization expense associated with acquisition-related intangible assets decreased by $0.4 million, or 5%, compared to the first six months of 2022, as some intangible assets became fully-amortized during the first six months of 2023.

Total Operating Expenses

As a percentage of total revenues, total operating expenses increased to 46% of revenues in the first six months of 2023, compared to 43% in the first six months of 2022.

Total Other Income (Expense)

Total other income (expense) decreased to expense of $5.0 million during the first six months of 2023 compared to expense of $0.3 million during the first six months of 2022. A rising interest rate environment and a higher level of funded debt caused a $3.2 million increase in interest expense. Additionally, during the first six months of 2022, $1.6 million of the original $2.5 million contingent consideration estimated in determining the TruCode purchase price was reversed as updated estimates of TruCode's earnings over the earnout period were less than estimated on the date of acquisition. There were no such adjustments to contingent consideration arrangements recorded during the first six months of 2023 as the related earnout payments were made during 2022.

Income (Loss) Before Taxes

As a result of the foregoing factors, income (loss) before taxes decreased by $13.9 million, to a loss before taxes of $0.6 million in the first six months of 2023 compared to income before taxes of $13.3 million in the first six months of 2022.

Provision (Benefit) for Income Taxes

Our effective tax rate for the six months ended June 30, 2023 increased to 141.2% from 16.0% for the six months ended June 30, 2022, with the largest contributing factor being the impact of the R&D tax credit. This credit, which is not correlated with taxable income, resulted in an incremental benefit of 104.3% over the corresponding benefit during the first six months of 2022.

Net Income

Net income for the first six months of 2023 decreased by $10.9 million to $0.2 million, or $0.02 per basic and diluted share, compared with $11.2 million, or $0.76 per basic and diluted share, for the first six months of 2022.

Supplemental Segment Information

Our reportable segments have been determined in accordance with ASC 280 - *Segment Reporting*. We have three reportable operating segments: RCM, EHR, and Patient Engagement. We evaluate each of our three operating segments based on segment revenues and segment adjusted EBITDA.

Adjusted EBITDA consists of GAAP net income as reported and adjusts for (i) deferred revenue purchase accounting adjustments arising from purchase allocation adjustments related to business acquisitions; (ii) depreciation expense; (iii) amortization of software development costs; (iv) amortization of acquisition-related intangible assets; (v) stock-based compensation; (vi) severance and other non-recurring charges; (vii) interest expense and other, net; (viii) gain on contingent consideration; and (ix) the provision for income taxes. The segment measurements provided to and evaluated by the chief operating decision makers ("CODM") are described in Note 17 to the condensed consolidated financial statements. These results should be considered in addition to, and not as a substitute for, results reported in accordance with GAAP.

The following table presents a summary of the revenues and adjusted EBITDA of our three operating segments for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2023	2022	$	%	2023	2022	$	%
(In thousands)								
Revenues by segment:								
RCM	$ 47,760	$ 46,814	$ 946	2 %	$ 96,391	$ 87,325	$ 9,066	10 %
EHR	34,967	34,143	824	2 %	70,158	68,905	1,253	2 %
Patient Engagement	1,895	1,769	126	7 %	4,306	4,367	(61)	(1)%
Adjusted EBITDA by segment:								
RCM	$ 5,682	$ 8,064	$ (2,382)	(30)%	$ 13,580	$ 17,645	$ (4,065)	(23)%
EHR	5,568	5,707	(139)	(2)%	11,725	11,870	(145)	(1)%
Patient Engagement	(23)	(602)	579	96 %	564	(192)	756	394 %

Segment Revenues

Refer to the corresponding discussion of revenues for each of our reportable segments previously provided under the *Revenues* heading of this Management's Discussion and Analysis. There are no intersegment revenues to be eliminated in computing segment revenue.

Segment Adjusted EBITDA - Three Months Ended June 30, 2023 Compared with Three Months Ended June 30, 2022

RCM adjusted EBITDA decreased by $2.4 million, or 30%, compared to the second quarter of 2022. Modest revenue growth of $0.9 million, or 2%, was offset by a 250 basis point decrease in gross margins primarily due to upward pressure on costs associated with our people-intensive service offerings. The gross margin compression was compounded by expanding operating expenses to exert downward pressure on adjusted EBITDA.

EHR adjusted EBITDA decreased by $0.1 million, or 2%, compared to the second quarter of 2022. Although gross margins improved by 60 basis points, the expansion of operating expenses resulted in a slight decrease in adjusted EBITDA.

Patient Engagement adjusted EBITDA increased by $0.6 million, or 96%, compared to the second quarter of 2022. Although gross margins decreased by 560 basis points, adjusted EBITDA benefited from a $0.6 million decrease in sales and marketing expense.

Segment Adjusted EBITDA - Six Months Ended June 30, 2023 Compared with Six Months Ended June 30, 2022

RCM adjusted EBITDA decreased by $4.1 million, or 23%, compared to the first six months of 2022. With costs of sales increasing in proportion with revenue in the first six months of 2023, adjusted EBITDA compressed due to expanded operating expenses driven by the aforementioned product development costs related to our strategy to migrate to the public cloud and general and administrative costs related to our ongoing implementation of the Scaled Agile Framework®.

EHR adjusted EBITDA decreased by $0.1 million, or 1%, compared to the first six months of 2022. Although gross margins improved by 90 basis points, the expansion of operating expenses resulted in a slight decrease in adjusted EBITDA.

Patient Engagement adjusted EBITDA increased by $0.8 million, or 394%, compared to the first six months of 2022. Although there was a 1% decrease in revenues in the first six months of 2023 compared to the first six months of 2022, a 230 basis point increase in gross margins combined with decreased sales and marketing expense to benefit adjusted EBITDA.

Liquidity and Capital Resources

Sources of Liquidity

As of June 30, 2023, our principal sources of liquidity consisted of cash and cash equivalents of $7.2 million and our remaining borrowing capacity under the revolving credit facility of $79.7 million, compared to $7.0 million of cash and cash equivalents and $86.3 million of remaining borrowing capacity under the revolving credit facility as of December 31, 2022. 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 included a $75 million term loan facility and a $110 million revolving credit facility. On May 2, 2022, we entered into a First Amendment to the Amended Restated Credit Agreement that further increased the aggregate principal amount of our credit facilities to $230 million, which included a $70 million term loan facility and a $160 million revolving credit facility.

As of June 30, 2023, we had $145.9 million in principal amount of indebtedness outstanding under the credit facilities. We believe that our cash and cash equivalents of $7.2 million as of June 30, 2023, the future operating cash flows of the combined entity, and our remaining borrowing capacity under the revolving credit facility of $79.7 million as of June 30, 2023, taken together, provide adequate resources to fund ongoing cash requirements for the next twelve months and beyond. 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. Aside from normal operating cash requirements, obligations under our Credit Agreement (as discussed below) and operating leases, and opportunistic uses of capital in share repurchases and business acquisition transactions, we do not have any material cash commitments or planned cash commitments. Although the Company currently has no obligations related to planned acquisitions, the Company's strategy includes the potential for future acquisitions, which may be funded thorough draws on the credit facilities or the use of the other sources of liquidity described above.

Operating Cash Flow Activities

Net cash provided by operating activities decreased by $8.9 million from $19.1 million provided by operations for the six months ended June 30, 2022 to $10.2 million provided by operations for the six months ended June 30, 2023. The decrease in cash flows provided by operations is primarily due to the aforementioned decrease in net income.

Investing Cash Flow Activities

Net cash used in investing activities decreased by $40.4 million, with $12.2 million used in the six months ended June 30, 2023 compared to $52.6 million used during the six months ended June 30, 2022. Most notably, we completed our $43.6 million acquisition of HRG during the first quarter of 2022 with no similar activity in the first six months of 2023. Partially offsetting this significant decrease in cash outflows related to acquisition activity was a $3.4 million increase in cash outflows related to capitalized software development efforts. Specifically, cash outflows related to capitalized software development efforts increased from $8.7 million during the first six months of 2022 to $12.1 million during the first six months of 2023 as our workload mix has shifted away from addressing deficiencies in legacy code related to existing applications towards adding features and functionalities to our cloud-native solutions and increased development efforts related to non-customer-facing, internal-use software.

Financing Cash Flow Activities

During the six months ended June 30, 2023, our financing activities were a net source of cash in the amount of $2.3 million, as $6.6 million in borrowings from our revolving line of credit were partially offset by long-term debt principal payments of $1.8 million and $2.5 million used to repurchase share of our common stock, which are treated as treasury stock. Financing activities were a net source of cash in the amount of $37.2 million during the six months ended June 30, 2022, as $48.0 million in borrowings from our revolving line of credit were partially offset by long-term principal payments of $7.1 million and $4.2 million used to repurchase shares of our common stock.

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. On July 27, 2022, our Board of Directors extended the expiration of the stock repurchase program to September 4, 2024. These shares may be purchased from time to time throughout the duration of the stock repurchase program 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 June 30, 2023, we had $65.6 million in principal amount outstanding under the term loan facility and $80.3 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 SOFR 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 SOFR rate, subject to the aforementioned floor, plus one percent per annum, or (3) a combination of (1) and (2). The applicable margin for SOFR loans and the letter of credit fee ranges from 1.8% to 3.0%. The applicable margin 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 June 30, 2022, with quarterly principal payments of approximately $0.9 million through March 31, 2027, with maturity on May 2, 2027 or such earlier date as the obligations under the Amended and Restated Credit Agreement as amended by the First Amendment 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 the Amended and Restated Credit Agreement, dated as of 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 First Amendment provides incremental facility capacity of $75 million, subject to certain conditions. The Amended and Restated Credit Agreement, as amended by the First Amendment, 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 First Amendment requires the Company to maintain a minimum fixed charge coverage ratio of 1.25:1.00 throughout the duration of such agreement. Under the First Amendment, the Company is required to comply with a maximum consolidated net leverage ratio of 3.50:1.00. Further, under the First Amendment, in connection with any acquisition by the Company exceeding $25 million, the Company may elect to increase the maximum permitted consolidated net leverage ratio for the fiscal quarter in which the acquisition occurs and each of the following three fiscal quarters by 0.50:1.00 above the otherwise permitted maximum. If the consolidated net leverage ratio is less than 2.50:1:00, there is no limit on the incremental facility. The Amended and Restated Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default. We believe that we were in compliance with the covenants contained in such agreement as of June 30, 2023. On March 10, 2023, the calculation of the fixed charge coverage ratio was amended to specifically exclude from the definition of fixed charges the Company's share repurchases conducted during the third and fourth quarters of 2022. Any failure by us to comply with this or another covenant in the future may result in an event of default. There can be no assurance that we will be able to continue to comply with this covenant or obtain amendments to avoid future covenant violations, or that such amendments will be available on commercially acceptable terms.

The First Amendment removed the requirement that the Company mandatorily prepay the credit facilities with excess cash flow generated during the prior fiscal year. 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 SOFR rate loans made on a day other than the last day of any applicable interest period.

Backlog

Backlog consists of revenues we reasonably expect to recognize over the next twelve months under existing contracts. 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 RCM services. As of June 30, 2023, we had a twelve-month backlog of approximately $10 million in connection with non-recurring system purchases and approximately $321 million in connection with recurring payments under support and maintenance and RCM services. As of June 30, 2022, we had a twelve-month backlog of approximately $6 million in connection with non-recurring system purchases and approximately $321 million in connection with recurring payments under support and maintenance and RCM 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 six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
RCM [1]	$ 13,648	$ 14,847	$ 25,748	$ 23,414
EHR[2]	7,433	8,222	15,751	18,468
Patient Engagement [1]	867	730	1,343	2,314
Total bookings	$ 21,948	$ 23,799	$ 42,842	$ 44,196

[1] Generally calculated as the total contract price (for non-recurring, project-related amounts) and annualized contract value (for recurring amounts).
[2] Generally calculated as the total contract price (for system sales) including annualized contract value (for support) for perpetual license system sales and total contract price for SaaS sales.

RCM

RCM bookings during the second quarter of 2023 decreased by $1.2 million, or 8%, from the second quarter of 2022 as strength in bookings from our existing EHR customer base ("cross-sell") were outpaced by declining bookings from healthcare providers utilizing competing EHR products ("net-new"). Cross-sell bookings increased by $2.1 million, or 25%, compared to the second quarter of 2022 as the increasing complexity of our typical customer's hospital revenue cycle combined with domestic labor shortages have spurred growing demand for outsourced RCM services. Net-new bookings decreased by $3.3 million, or 49%, as our efforts to expand our footprint for RCM services outside of our EHR customer base are characteristically volatile, which is to be expected as these efforts continue to scale.

Compared to the first six months of 2022, RCM bookings increased by $2.3 million, or 10%, as strength in cross-sell bookings outpaced relative weakness in net-new client wins, for the same reasons as described above. Cross-sell bookings increased by $4.0 million, or 33%, while net-new bookings decreased by $1.7 million, or 15%.

EHR

EHR bookings decreased by $0.8 million, or 10%, compared to the second quarter of 2022 and by $2.7 million, or 15%, compared to the first six months of 2022. Acute Care EHR bookings decreased by $0.9 million compared to the second quarter of 2022 and $3.0 million compared to the first six months of 2022, primarily due to a challenging decision environment for new Acute Care EHR system sales arrangements.

Patient Engagement

Patient Engagement bookings were relatively flat compared to the second quarter of 2022, but decreased $1.0 million, or 42%, compared to the first six months of 2022. The first six months of 2022 benefited from one reseller's purchases of block licenses for the deployment of Get Real Health's products in Canada, with no such large purchases in the first six months of 2023. As a relatively small operator in a still-nascent market, volatility in bookings is expected to remain a characteristic of our patient engagement business as the industry matures and the business grows to scale.

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, 2022, we identified our critical accounting polices and estimates related to revenue recognition, allowance for credit losses, estimates, business combinations, including purchased intangible assets, and software development costs. There have been no significant changes to these critical accounting policies during the six months ended June 30, 2023.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk relates primarily to the potential fluctuations in the Secured Overnight Financing Rate ("SOFR"), which replaced the British Bankers Association London Interbank Offered Rate ("LIBOR") as the new benchmark interest rate for our credit facilities. We had $145.9 million of outstanding borrowings under our credit facilities with Regions Bank at June 30, 2023. 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 SOFR 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 SOFR rate, subject to the aforementioned floor, plus one percent per annum, or (3) a combination of (1) and (2). Accordingly, we are exposed to fluctuations in interest rates on borrowings under the credit facilities. A one hundred basis point change in interest rate on our borrowings outstanding as of June 30, 2023 would result in a change in interest expense of approximately $1.5 million annually.

We did not have investments as of June 30, 2023 and do not utilize derivative financial instruments to manage our interest rate risks.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended June 30, 2023 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 have been and may again become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any litigation or legal proceedings that we believe to be material and we are not aware of any pending or threatened litigation against us that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows. See Note 15 – Commitments and Contingencies included in the notes to our condensed consolidated financial statements included elsewhere in this Form 10-Q for information concerning other potential contingencies.

On November 2, 2022, the Company received a subpoena from the U.S. Securities and Exchange Commission (the “SEC”) primarily relating to certain accounting matters, including, but not limited to those relating to revenue recognition and impairment testing of goodwill, during the period from May 1, 2019 to the date of the subpoena. The Company is cooperating in providing documents and information to the SEC in connection with the subpoena and intends to continue to do so. The Company cannot predict the timing or outcome of this investigation.

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, 2022, 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 and Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023.

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 June 30, 2023:

Period	Total Number of Shares Purchased[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(2)]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[(3)]
Beginning of Period				$ 16,471,896
April 1, 2023 - April 30, 2023	—	—	—	16,471,896
May 1, 2023 - May 31, 2023	1,894	$ 25.82	—	16,471,896
June 1, 2023 - June 30, 2023	—	—	—	16,471,896
Total	1,894	$ 25.82	—	

(1) We repurchased 1,894 shares during the three months ended June 30, 2023 that were not made pursuant to our previously announced stock repurchase program, but were purchased 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.

(2) Shares purchased during the three months ended June 30, 2023 pursuant to our previously announced stock repurchase program.

(3) On September 4, 2020, our Board of Directors approved a stock repurchase program under which we were authorized to repurchase up to $30.0 million of our common stock through September 3, 2022. On July 27, 2022, the Board of Directors extended the expiration date of the stock repurchase program to September 4, 2024. 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.

(c) During the fiscal quarter ended June 30, 2023, none of the Company's directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act or any "non-Rule 10b5-1 trading arrangement" (as defined in Item 408(c) of Regulation S-K).

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 3.1 to CPSI's Current Report on Form 8-K dated October 26, 2022 and incorporated herein by reference)
10.1	Form of Executive Severance Agreement entered into between Computer Programs and Systems, Inc and each executive officer (other than Christopher L. Fowler) (filed as Exhibit 10.1 to CPSI's Current Report on Form 8-K dated June 26, 2023 and incorporated herein by reference)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in inline eXtensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statement of Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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.	
8/9/2023	By:	/s/ Christopher L. Fowler
		Christopher L. Fowler President and Chief Executive Officer
8/9/2023	By:	/s/ Matt J. Chambless
		Matt J. Chambless Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Christopher L. Fowler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Computer Programs and Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

/s/ Christopher L. Fowler

Christopher L. Fowler
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: August 9, 2023

/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 June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher L. Fowler, President and Chief Executive Officer of the Company, and Matt J. Chambless, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 9, 2023

/s/ Christopher L. Fowler
Christopher L. Fowler
President and Chief Executive Officer

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