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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2020

or

**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: 001-35628

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**PERFORMANT FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-0484934**

(I.R.S. Employer  
Identification No.)

**Performant Financial Corporation**

**333 North Canyons Parkway**

**Livermore, CA 94551**

**(925) 960-4800**

(Address, including zip code and telephone number, including area code of registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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.

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Common Stock, par value \$.0001 per share	PFMT	The Nasdaq Stock Market LLC

The number of shares of Common Stock outstanding as of May 27, 2020 was 54,428,324.

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**PERFORMANT FINANCIAL CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED MARCH 31, 2020**  
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**PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES**  
Consolidated Balance Sheets  
(In thousands)

	March 31, 2020 (Unaudited)	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,574	\$ 3,373
Restricted cash	1,622	1,622
Trade accounts receivable, net of allowance for doubtful accounts of \$518 and \$237, respectively	27,276	27,170
Contract assets	1,201	1,339
Prepaid expenses and other current assets	3,780	3,329
Income tax receivable	3,989	164
Total current assets	46,442	36,997
Property, equipment, and leasehold improvements, net	18,361	18,769
Identifiable intangible assets, net	866	925
Goodwill	55,372	74,372
Right-of-use assets	6,235	6,834
Other assets	986	975
Total assets	\$ 128,262	\$ 138,872
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current maturities of notes payable to related party, net of unamortized debt issuance costs of \$111 and \$130, respectively	\$ 3,339	\$ 3,320
Accrued salaries and benefits	7,676	6,126
Accounts payable	3,007	2,532
Other current liabilities	3,830	3,659
Estimated liability for appeals and disputes	1,169	1,018
Lease liabilities	2,601	2,775
Total current liabilities	21,622	19,430
Notes payable to related party, net of current portion and unamortized debt issuance costs of \$1,938 and \$2,301, respectively	58,062	58,562
Deferred income taxes	35	35
Earnout payable	475	475
Lease liabilities	4,481	4,984
Other liabilities	1,839	1,761
Total liabilities	86,514	85,247
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value. Authorized, 500,000 shares at March 31, 2020 and December 31, 2019 respectively; issued and outstanding 54,022 and 53,900 shares at March 31, 2020 and December 31, 2019, respectively	5	5
Additional paid-in capital	81,196	80,589
Accumulated deficit	(39,453)	(26,969)
Total stockholders' equity	41,748	53,625
Total liabilities and stockholders' equity	\$ 128,262	\$ 138,872

See accompanying notes to consolidated financial statements.

**PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Operations  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenues	\$ 45,888	\$ 34,876
Operating expenses:		
Salaries and benefits	28,805	29,116
Other operating expenses	12,220	12,953
Impairment of goodwill	19,000	—
Total operating expenses	60,025	42,069
Loss from operations	(14,137)	(7,193)
Interest expense	(2,227)	(1,136)
Interest income	6	11
Loss before provision for income taxes	(16,358)	(8,318)
Provision for (benefit from) income taxes	(3,874)	171
Net loss	\$ (12,484)	\$ (8,489)
Net loss per share		
Basic	\$ (0.23)	\$ (0.16)
Diluted	\$ (0.23)	\$ (0.16)
Weighted average shares		
Basic	53,943	53,059
Diluted	53,943	53,059

See accompanying notes to consolidated financial statements.

**PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES**

## Consolidated Statement of Changes in Stockholders' Equity

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2020					Three Months Ended March 31, 2019				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount				Shares	Amount			
Balances at beginning of period	53,900	\$ 5	\$80,589	\$ (26,969)	\$ 53,625	52,999	\$ 5	\$77,370	\$ (149)	\$ 77,226
Common stock issued under stock plans, net of shares withheld for employee taxes	122	—	(84)	—	(84)	147	—	(122)	—	(122)
Stock-based compensation expense	—	—	691	—	691	—	—	499	—	499
Net loss	—	—	—	(12,484)	(12,484)	—	—	—	(8,489)	(8,489)
Balances at end of period	54,022	\$ 5	\$81,196	\$ (39,453)	\$ 41,748	53,146	\$ 5	\$77,747	\$ (8,638)	\$ 69,114

See accompanying notes to consolidated financial statements.

## PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net loss	\$ (12,484)	\$ (8,489)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment of goodwill	19,000	—
Depreciation and amortization	1,540	2,312
Right-of-use assets amortization	599	660
Deferred income taxes	—	31
Stock-based compensation	691	499
Interest expense from debt issuance costs	382	232
Earnout mark-to-market	—	276
Changes in operating assets and liabilities:		
Trade accounts receivable	(106)	3,002
Contract assets	138	—
Prepaid expenses and other current assets	(451)	(372)
Income tax receivable	(3,825)	165
Other assets	(11)	—
Accrued salaries and benefits	1,550	1,605
Accounts payable	475	587
Other current liabilities	171	483
Estimated liability for appeals and disputes	151	45
Lease liabilities	(677)	(723)
Other liabilities	78	43
Net cash provided by operating activities	<u>7,221</u>	<u>356</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, equipment, and leasehold improvements	(1,073)	(1,486)
Net cash used in investing activities	<u>(1,073)</u>	<u>(1,486)</u>
<b>Cash flows from financing activities:</b>		
Repayment of notes payable	(863)	—
Taxes paid related to net share settlement of stock awards	(84)	(156)
Proceeds from exercise of stock options	—	34
Net cash used in financing activities	<u>(947)</u>	<u>(122)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	5,201	(1,252)
Cash, cash equivalents and restricted cash at beginning of period	4,995	7,275
Cash, cash equivalents and restricted cash at end of period	<u>\$ 10,196</u>	<u>\$ 6,023</u>
<b>Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:</b>		
Cash and cash equivalents	\$ 8,574	\$ 4,364
Restricted cash	1,622	1,659
Total cash, cash equivalents and restricted cash at end of period	<u>\$ 10,196</u>	<u>\$ 6,023</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash received for income taxes	\$ 72	\$ 54
Cash paid for interest	<u>\$ 1,845</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

**PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES**

Notes To Consolidated Financial Statements  
For the Three Months Ended March 31, 2020 and 2019  
(Unaudited)

**1. Organization and Description of Business**

***(a) Basis of Presentation and Organization***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary (consisting only of normal recurring adjustments) for a fair presentation of our financial position at March 31, 2020, and the results of our operations for the three months ended March 31, 2020 and 2019 and cash flows for the three months ended March 31, 2020 and 2019. Interim financial statements are prepared on a basis consistent with our annual consolidated financial statements. The interim financial statements included herein should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2019.

Performant Financial Corporation (the "Company" or "we") is a leading provider of technology-enabled recovery and analytics services in the United States. The Company's services help identify, restructure and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Clients of the Company typically operate in complex and regulated environments and contract for their recovery needs in order to reduce losses on defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. The Company generally provides services on an outsourced basis; handling many or all aspects of the clients' recovery processes.

The Company's consolidated financial statements include the operations of Performant Financial Corporation (Performant), its wholly-owned subsidiaries Premiere Credit of North America, LLC (Premiere) and Performant Business Services, Inc. (PBS), and PBS's wholly-owned subsidiaries Performant Recovery, Inc. (Recovery) and Performant Technologies, LLC (PTL). Performant is a Delaware corporation headquartered in California and was formed in 2003. Premiere is an Indiana limited liability company acquired by Performant on August 31, 2018. PBS is a Nevada corporation founded in 1997. Recovery is a California corporation founded in 1976. PTL is a California limited liability company that was originally formed in 2004. All intercompany balances and transactions have been eliminated in consolidation.

The Company is managed and operated as one business, with a single management team that reports to the Chief Executive Officer.

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, primarily accounts receivable, contract assets, intangible assets, goodwill, right-of-use assets, estimated liability for appeals and disputes, lease liabilities, earnout payable, other liabilities, deferred income taxes and income tax expense (benefit) and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Our actual results could differ from those estimates.

***(b) Liquidity***

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will be able to realize assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to any adjustments that would be necessary should the Company be required to liquidate its assets. The ability of the Company to continue to fund its business plans is dependent upon realizing sufficient cash flows in the future. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In March 2020, the World Health Organization declared the outbreak of novel coronavirus ("COVID-19") a pandemic. COVID-19 has had, and will likely continue to have, an impact on the Company's business, both operationally and financially. For example, all states in which the Company has offices are under state of emergency and continue to have shelter-in-place or equivalent orders as of the filing of this Form 10-Q, which has resulted in both management and employees continuing to work remotely (from home).



The United States Government passed multiple new laws designed to help companies respond to the COVID-19 pandemic. Specifically, on March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) which included several student loan-related changes. These changes have had an impact on the Company’s financial results and management expects that they will continue to affect the Company’s financial results into the foreseeable future.

The CARES Act included changes to student loans owned by the Department of Education. These changes include the suspension of payments, the ceasing of accruing interest, and stopping involuntary collections of payments (e.g., wage garnishments). The changes are in effect through September 30, 2020. While these changes impact the set-up of new loan rehabilitation agreements by defaulted student loan borrowers, the Department of Education will consider each month during the period of suspended payments as an eligible month towards achieving loan rehabilitation, which is an element in determining future revenue to which the Company is entitled. In addition, student loan revenue and related cash flows will continue during this period because the Company earns revenue for a number of months from existing in-process borrower rehabilitation agreements. Further, while not mandated by the CARES Act, all of the Company’s Guaranty Agency clients (who administer the Federal Family Education Loan Program) are largely complying with the provisions of the Act, with the exception of counting missed payments toward qualification for loan rehabilitation. Given the CARES Act impacts on the Company’s recovery activities through September 30, 2020, the Company has furloughed more than 500 employees to date, which will result in annual savings of more than \$18 million.

The Company’s healthcare business has not experienced, and is not currently expected to experience, a similar level of impact as the recovery business due to the fact that only two healthcare customers have been impacted by congressional regulations to date. While a few healthcare customers placed short term pauses on audit activities, the Company has continued to see growth and expansion in other healthcare offerings; notably, the Company’s Third Party Liability contracts have not experienced any contractions to date. Additionally, the Company does not foresee any permanent negative effects to its relationships or overall contract expectations within the healthcare markets.

With respect to favorable impacts to the Company’s liquidity, the CARES Act provided the right to carryback net operating losses from 2018 and 2019 to earlier periods. The Company has already filed for a refund request for the 2013 tax year which will result in an approximately \$2.4 million cash refund, and the Company will file a refund request for the 2014 tax year which is expected to result in a refund of approximately \$1.5 million. The CARES Act also allows deferrals and credits for payroll tax amounts, which is expected to provide approximately \$3 million in cash savings through the remainder of 2020.

The Company continues to analyze the impact of COVID-19. However, the Company believes that its forecasted results, considering the impact of COVID-19, will be sufficient to fund the Company’s current operations, for at least a year from the issuance of these consolidated financial statements. While the Company believes its financial projections are attainable, there can be no assurances that the financial results will be recognized in a timeframe necessary to meet the Company’s ongoing cash requirements.

To address the Company’s liquidity needs, the Company may need to execute various actions to increase cash necessary for operations. These actions include, but are not limited to, additional reductions in workforce (both through furloughs and layoffs), reduce or delay capital expenditures, seek additional capital infusions through public and/or private means, sales of real estate assets or operations, and scaling back of certain lower margin operations.

***(c) Revenues, Accounts Receivable, and Estimated Liability for Appeals***

The Company derives its revenues primarily from providing recovery services and healthcare audit services. Revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the performance obligations are satisfied

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company's contracts generally contain a single performance obligation, delivered over time as a series of services that are substantially the same and have the same pattern of transfer to the client, as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, the Company would allocate the contract's transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct service in the contract. The Company determines the standalone selling prices by taking into consideration the value of the services being provided, the client type and how similar services are priced in other contracts on a standalone basis.

The Company's contracts are composed primarily of variable consideration. Fees earned under the Company's recovery service contracts consist primarily of contingency fees based on a specified percentage of the amount the Company enables its clients to recover. The contingency fee percentage for a particular recovery depends on the type of recovery or claim facilitated. In certain contracts the Company can earn additional performance-based consideration determined based on its performance relative to the client's other contractors providing similar services.

Revenue from contingency fees earned upon recovery of funds is generally recognized as amounts are invoiced based on either the 'as-invoiced' practical expedient when such amounts reflect the value of the services completed to-date, or an output measure based on milestones which is used to measure progress of the satisfaction of its performance obligation. The Company estimates any performance-based variable consideration and recognizes such revenue over the performance period only if it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Under certain contracts, consideration can include periodic performance-based bonuses which can be awarded based on the Company's performance under the specific contract. These performance-based awards are considered variable and may be constrained by the Company until there is not a risk of a material reversal.

For contracts that contain a refund right, these amounts are considered variable consideration and the Company estimates its refund liability for each claim and recognizes revenue net of such estimate.

The Company generally either applies the as-invoiced practical expedient where its right to consideration corresponds directly to its right to invoice its clients, or the variable consideration allocation exception where the variable consideration is attributable to one or more, but not all, of the services promised in a series of distinct services that form part of a single performance obligation. As such the Company has elected the optional exemptions related to the as-invoiced practical expedient and the variable consideration allocation exception whereby the disclosure of the amount of transaction price allocated to the remaining performance obligations is not required.

The Company has applied the as-invoiced practical expedient or the variable consideration allocation exception to contracts with performance obligations that have an average remaining duration of less than a year.

Revenue is recognized upon the collection of defaulted loan and debt payments. Loan rehabilitation revenue is recognized when the rehabilitated loans are sold (funded) by clients. Incentive revenue is recognized upon receipt of official notification of incentive award from customers.

Under the Company's Medicare Secondary Payer (MSP) Commercial Payment Center (CPC) contract with Centers for Medicare and Medicaid Services (CMS), the Company recognizes revenues when insurance companies or other responsible parties remit payment to reimburse CMS for claims for which they are responsible, and the remittance has been applied in the CMS database. Under the Company's Medicare Recovery Audit Contractor (RAC) contract with CMS, the Company recognizes revenues when the healthcare provider has paid CMS for a given claim or has agreed to an offset against other claims by the provider.

For healthcare claims audit contracts with commercial clients, the Company may recognize revenue upon delivering the results of claims audits, when sufficient reliable information is available to the Company for estimating the variable consideration earned, as it is a reasonable measure of the Company's progress toward complete satisfaction of our performance obligation. For coordination-of-benefits contracts with commercial clients, the Company recognizes revenue when insurance companies or other responsible parties have remitted payments to the client.

For customer care / outsourced services clients, the Company recognizes revenues based on the volume of processed transactions or the quantity of labor hours provided.

The following table presents revenue disaggregated by category for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Healthcare	17,524	9,020
Recovery <sup>(1)</sup>	24,265	21,375
Customer Care / Outsourced Services	4,099	4,481
Total Revenues	\$ 45,888	\$ 34,876

(1) Represents student lending, state and municipal tax authorities, IRS and Department of Treasury markets, select financial institutions, as well as Premiere Credit of North America.

Healthcare providers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of CMS or other healthcare clients under the RAC or other commercial healthcare contracts, respectively. Under the MSP contract, insurance companies or other responsible parties may dispute the Company's findings regarding Medicare not being the primary payer of healthcare claims. Total estimated liability for appeals and disputes was \$1.2 million and \$1.0 million as of March 31, 2020 and December 31, 2019, respectively. This represents the Company's best estimate of the amount probable of being refunded to the Company's healthcare clients following successful appeals of claims for which commissions were previously collected.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company determines the allowance for doubtful accounts by specific identification. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful account was \$0.5 million and \$0.2 million at March 31, 2020 and December 31, 2019, respectively.

The Company determined that it does not have any costs related to obtaining or fulfilling a contract that are recoverable and as such, these contract costs are expensed as incurred.

The Company has contract assets of \$1.2 million and \$1.3 million as of March 31, 2020 and December 31, 2019, respectively. The contract assets relate to the Company's rights to consideration for services completed during the three months ended March 31, 2020 and year ended December 31, 2019, but not invoiced at the reporting date. The decrease in contract assets is primarily due to timing of invoices issued. Contract assets are recorded to accounts receivable when the rights become unconditional and amounts are invoiced.

The Company has contract liabilities of \$0.1 million as of March 31, 2020 and December 31, 2019, respectively, which are included in other current liabilities in the consolidated balance sheets. The Company's contract liability relates to an advance recovery commission payment received from a customer, for which the Company anticipates revenue to be recognized as services are delivered.

***(d) Prepaid Expenses and Other Current Assets***

At March 31, 2020, prepaid expenses and other current assets were \$3.8 million and included approximately \$2.1 million related to prepaid software licenses and maintenance agreements, \$0.8 million for prepaid insurance, and \$0.9 million for various other prepaid expenses. At December 31, 2019, prepaid expenses and other current assets were \$3.3 million and included approximately \$2.2 million related to prepaid software licenses and maintenance agreements, \$0.7 million for prepaid insurance, and \$0.4 million for various other prepaid expenses.

***(e) Impairment of Goodwill and Long-Lived Assets***

Goodwill is reviewed for impairment at least annually. The balance of goodwill was \$55.4 million as of March 31, 2020 and \$74.4 million as of December 31, 2019, respectively. The economic impact from the COVID-19 pandemic was a triggering factor requiring an interim assessment of goodwill for impairment. In performing the quantitative assessment of goodwill, if the carrying value of the Company, as one reporting unit, exceeds its fair value, goodwill is considered impaired. The amount of impairment loss is measured as the difference between the carrying value and the fair value of the reporting unit.

Impairment testing is based upon the best information available and estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. Significant assumptions and estimates are required, including, but not limited to, our market capitalization, projecting future cash flows and other assumptions, to estimate the fair value of the reporting unit. Although the Company believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the amount of impairment. Based on management's quantitative analysis, we concluded that the carrying value of our reporting unit was greater than its fair value, which resulted in a non-cash goodwill impairment charge of \$19.0 million. The goodwill impairment charge had no impact on the Company's cash flows or compliance with debt covenants.

Long-lived assets and intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. There was no need to impair long-lived assets or intangible assets as of March 31, 2020.

***(f) Other Current Liabilities***

At March 31, 2020, other current liabilities primarily included \$2.5 million for services received for which we have not received an invoice, \$0.6 million for insurance premium financing payables, and \$0.3 million for estimated workers' compensation claims incurred but not reported. At December 31, 2019, other current liabilities primarily included \$2.2 million for services received for which we have not received an invoice, \$0.6 million for insurance premium financing payables, \$0.3 million for accrued subcontractor fees, and \$0.3 million for estimated workers' compensation claims incurred but not reported.

***(g) New Accounting Pronouncements***

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurements", which eliminates, adds or modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. The Company adopted this pronouncement on January 1, 2020, noting no impact to the consolidated financial statements as the amounts subject to Level 3 fair value measurements are not material.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments" as modified by subsequently issued ASU's 2018-19, 2019-04, 2019-05 and 2019-11. This ASU requires estimating all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted, for public entities, except for Smaller Reporting Companies. This ASU is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2022. The Company is evaluating the effect of the adoption of this pronouncement.

## 2. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019
Land	\$ 1,943	\$ 1,943
Building and leasehold improvements	8,146	8,124
Furniture and equipment	6,257	6,257
Computer hardware and software	80,117	79,066
	<u>96,463</u>	<u>95,390</u>
Less accumulated depreciation and amortization	(78,102)	(76,621)
Property, equipment and leasehold improvements, net	<u>\$ 18,361</u>	<u>\$ 18,769</u>

Depreciation expense of property, equipment and leasehold improvements was \$1.5 million and \$2.3 million for the three months ended March 31, 2020 and 2019, respectively.

## 3. Credit Agreement

On August 7, 2017, we, through our wholly-owned subsidiary Performant Business Services, Inc. (the "Borrower"), entered into a credit agreement (as amended, the "Credit Agreement") with ECMC Group, Inc. Before the amendment described below, the Credit Agreement provided for a term loan facility in the initial amount of \$44 million (the "Initial Term Loan") and for up to \$15 million of additional term loans ("Additional Term Loans"; and together with the Initial Term Loan, the "Loans") which original Additional Term Loans were initially able to be drawn until the second anniversary of the funding of the Initial Term Loans, subject to the satisfaction of customary conditions. On August 31, 2018, we entered into Amendment No. 2 to the Credit Agreement to among other things (i) extend the maturity date of the Initial Term Loan and any Additional Term Loans by one year to August 2021, (ii) expand the Additional Term Loans commitment from \$15 million to \$25 million, (iii) extend the period during which Additional Term Loans can be borrowed by one year to August 2020, and (iv) relieve the Borrower from its obligation to comply with the financial covenants in the Credit Agreement during the six fiscal quarters following the Premiere acquisition.

On March 21, 2019, we entered into Amendment No. 3 to the Credit Agreement to, among other things, relieve the Borrower from its obligation to comply with the financial covenants in the Credit Agreement until the quarter ending June 30, 2020. As of September 30, 2019, the Company has borrowed all of the \$25 million available as Additional Term Loans.

As of March 31, 2020, \$63.5 million was outstanding under the Credit Agreement.

We have the option to extend the maturity of the Loans for two additional one-year periods, subject to the satisfaction of customary conditions. The Loans bear interest at the one-month LIBOR rate (subject to a 1% per annum floor) plus a margin which may vary from 5.5% per annum to 10.0% per annum based on our total debt to EBITDA ratio. Our annual interest rate at March 31, 2020 was 11.0% and 11.8% at December 31, 2019. We are required to pay 5% of the original principal balance of the Loans annually in quarterly installments and to make mandatory prepayments of the Loans with a percentage of our excess cash flow which may vary between 75% and 0% depending on our total debt to EBITDA ratio and from the net cash proceeds of certain asset dispositions and debt not otherwise permitted under the Credit Agreement, in each case, subject to the lender's right to decline to receive such payments.

The Credit Agreement contains certain restrictive financial covenants which are not effective until the quarter ending June 30, 2020, at which point, we will be required to (1) achieve a minimum fixed charge coverage ratio of 1.0 through December 31, 2020 and 1.25 to 1.0 through June 30, 2022 if the maturity date of the Loans is extended until the fifth anniversary of the Closing Date and (2) maintain a maximum total debt to EBITDA ratio of 6.00 to 1.00. The Credit Agreement also contains covenants that restrict the Company's and its subsidiaries' ability to incur certain types or amounts of indebtedness, incur liens on certain assets, make material changes in corporate structure or the nature of its business, dispose of material assets, engage in a change in control transaction, make certain foreign investments, enter into certain restrictive agreements, or engage in certain transactions with affiliates. The Credit Agreement also contains various customary events of default, including with respect to change of control of the Company or its ownership of the Borrower.

The obligations under the Credit Agreement are secured by substantially all of our subsidiaries' assets and are guaranteed by the Company and its subsidiaries, other than the Borrower.

In consideration for, and concurrently with, the origination of the Initial Term Loan in accordance with the terms of the Credit Agreement, we issued a warrant to the lender to purchase up to an aggregate of 3,863,326 shares of the Company's common stock (representing approximately up to 7.5% of our diluted common stock as calculated using the "treasury stock" method as defined under U.S. GAAP for the three month period ended June 30, 2017) with an exercise price of \$1.92 per share (the "Exercise Price").

Upon borrowing of the Additional Term Loans, the Company was required to issue additional warrants at the same Exercise Price to purchase up to an aggregate of 77,267 additional shares of common stock (which represents approximately 0.15% of our diluted common stock calculated using the "treasury stock" method as defined under U.S. GAAP for the fiscal quarter ended June 30, 2017) for each \$1.0 million of such Additional Term Loans. Similarly, upon our election to extend the maturity of the loans for two additional one year periods, we will be required to issue additional warrants at the same Exercise Price to purchase up to an aggregate of 515,110 additional shares of common stock for the first year, and to purchase up to an aggregate of 772,665 additional shares of common stock for the second year (which represent approximately 1.0% and 1.5% of our diluted common stock for the first and second years, respectively, calculated using the "treasury stock" method as defined under U.S. GAAP for the fiscal quarter ended June 30, 2017).

The Company has accounted for these warrants as equity instruments since the warrants are indexed to the Company's common shares and meet the criteria for classification in shareholders' equity. The relative fair values of the warrants are noted below and were treated as a discount to the associated debt. These amounts are being amortized to interest expense under the effective interest method over the life of the Term Loan and Additional Term Loans, respectively, which is a period of 48 months. The Company estimated the value of the warrants using the Black-Scholes model. The key information and assumptions used to value the warrants are as follows:

	August 2017 Issuance	October 2018 Issuance	April 2019 Issuance	May 2019 Issuance	August 2019 Issuance	September 2019 Issuance
Exercise price	\$1.92	\$1.92	\$1.92	\$1.92	\$1.92	\$1.92
Share price on date of issuance	\$1.85	\$1.93	\$2.24	\$1.75	\$1.11	\$1.10
Volatility	50.0%	55.0%	57.5%	57.5%	67.5%	67.5%
Risk-free interest rate	1.83%	3.01%	2.31%	2.15%	1.53%	1.60%
Expected dividend yield	—%	—%	—%	—%	—%	—%
Contractual term (in years)	5	5	5	5	5	5
Number of shares	3,863,326	309,066	386,333	463,599	386,333	386,333
Relative fair value of each warrant	\$3.3 million	\$0.2 million	\$0.4 million	\$0.4 million	\$0.2 million	\$0.2 million

In addition, at the closing of the Initial Term Loan, the Company paid transaction costs of \$0.6 million, which were recorded as a discount on the debt and are being amortized to interest expense using the effective interest method over the life of the Initial Term Loan, which is a period of 48 months.

Outstanding debt obligations are as follows (in thousands):

	<b>March 31, 2020</b>
Principal amount	\$ 63,450
Less: unamortized discount and debt issuance costs	(2,049)
Notes payable less unamortized discount and debt issuance costs	61,401
Less: current maturities, net of unamortized discount and debt issuance costs	(3,339)
Long-term notes payable, net of current maturities and unamortized discount and debt issuance costs	<u>\$ 58,062</u>

#### 4. Leases

The Company has entered into various non-cancelable operating lease agreements for office facilities and equipment with original lease periods expiring between 2020 and 2025. Certain of these arrangements have free rent periods and/or escalating rent payment provisions. As such, we recognize rent expense under such arrangements on a straight-line basis in accordance with U.S. GAAP. Some leases include options to renew. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

Operating lease expense was \$0.8 million and \$0.8 million for the three months ended March 31, 2020 and 2019, respectively. Supplemental cash flow and other information related to operating leases was as follows:

	<b>March 31, 2020</b>	<b>March 31, 2019</b>
Weighted Average Remaining Lease Term (in years)	3.3	4.5
Weighted Average Discount Rate	6.3%	6.4%
Cash paid for amounts included in the measurement of operating lease liabilities	\$0.8 million	\$0.9 million

The following is a schedule, by years, of maturities of lease liabilities as of March 31, 2020 (in thousands):

<b><u>Year Ending December 31,</u></b>	<b><u>Amount</u></b>
Remainder of 2020	2,375
2021	2,313
2022	1,690
2023	569
2024	579
Thereafter	397
Total undiscounted cash flows	<u>\$ 7,923</u>
Less imputed interest	\$ (841)
Present value of lease liabilities	<u>\$ 7,082</u>

## 5. Stock-based Compensation

### (a) Stock Options

Total stock-based compensation expense charged as salaries and benefits expense in the consolidated statements of operations was \$0.7 million and \$0.5 million for the three months ended March 31, 2020 and 2019, respectively.

The following table sets forth a summary of the Company's stock option activity for the three months ended March 31, 2020:

	Outstanding Options	Weighted average exercise price per share	Weighted average remaining contractual life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2019	1,991,166	\$ 10.06	2.89	\$ —
Granted	—	—		
Forfeited	(141,105)	7.55		
Exercised	—	—		
Outstanding at March 31, 2020	1,850,061	\$ 10.25	2.70	\$ —
Vested and exercisable at March 31, 2020	1,850,061	\$ 10.25	2.70	\$ —

The Company recognizes share-based compensation costs as expense on a straight-line basis over the option vesting period, which generally is four years.

### (b) Restricted Stock Units and Performance Stock Units

The following table summarizes restricted stock unit and performance stock unit activity for the three months ended March 31, 2020:

	Number of Awards	Weighted average grant date fair value per share
Outstanding at December 31, 2019	3,254,254	\$ 2.12
Granted	55,000	1.07
Forfeited	(52,375)	2.23
Vested and converted to shares, net of units withheld for taxes	(122,529)	1.72
Units withheld for taxes	(73,346)	1.72
Outstanding at March 31, 2020	3,061,004	\$ 2.13
Expected to vest at March 31, 2020	2,730,719	\$ 2.13

Restricted stock units and performance stock units granted under the Performant Financial Corporation Amended and Restated 2012 Stock Incentive Plan generally vest over periods ranging from one to four years.

## 6. Income Taxes

Our effective income tax rate changed to 24% for the three months ended March 31, 2020 from (2)% for the three months ended March 31, 2019. The change in the effective tax rate is primarily driven by the net operating loss ("NOL") carryback benefit recorded as a result of the newly enacted provisions of the CARES Act for the three months ended March 31, 2020.

We file income tax returns with the U.S. federal government and various state jurisdictions. We operate in a number of state and local jurisdictions, most of which have never audited our records. Accordingly, we are subject to state and local income tax examinations based upon the various statutes of limitations in each jurisdiction. For tax years before 2016, the Company is no longer subject to Federal and certain other state tax examinations. We are currently being examined by the Franchise Tax Board of California for tax years 2011 through 2014 and by the Internal Revenue Service for tax year 2017.



On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. This modification significantly impacts the Company by allowing for the carryback of 2018 and 2019 NOL to tax years 2013 and 2014, respectively. These NOL carryforwards had been represented in the December 31, 2019 financial statements by deferred tax assets (“DTA”) for which a valuation allowance had been recorded as the Company did not expect that these DTA would be more likely than not realizable in future periods. As a result of carrying back the NOL, the Company is recognizing an income tax benefit of \$3.9 million associated with these previously unrecognized DTA in the three months ended March 31, 2020.

## 7. Loss per Share

For the three months ended March 31, 2020 and 2019, basic loss per share is calculated by dividing net loss by the sum of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of common stock and dilutive common share equivalents outstanding during the period. Common share equivalents consist of stock options, restricted stock units, performance stock units, and warrants. When there is a loss in the period, dilutive common share equivalents are excluded from the calculation of diluted earnings per share, as their effect would be anti-dilutive. For example, for the three months ended March 31, 2020 and 2019, respectively, diluted weighted average shares outstanding are the same as basic average shares outstanding. When there is net income in the period, the Company excludes stock options, restricted stock units, performance stock units and warrants from the calculation of diluted earnings per share when their combined exercise price and unamortized fair value exceeds the average market price of the Company's common stock because their effect would be anti-dilutive.

The following table reconciles the basic to diluted weighted average shares outstanding using the treasury stock method (shares in thousands):

	Three Months Ended March 31,	
	2020	2019
Weighted average shares outstanding – basic	53,943	53,059
Dilutive effect of stock options	—	—
Weighted average shares outstanding – diluted	53,943	53,059

## 8. Subsequent Events

We have evaluated subsequent events through the date these consolidated financial statements were filed with the Securities and Exchange Commission and there are no other events that have occurred that would require adjustments or disclosures to our consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

*You should read the following discussion in conjunction with our consolidated financial statements (unaudited) and related notes included elsewhere in this report. This report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The words "believe," "may," "will," "estimate," "continue," "anticipate," "design," "intend," "expect" and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors" under Item 1A of Part II of this report. In light of these risks, uncertainties and assumptions, the forward-looking events and trends discussed in this report may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements include, but are not limited to, statements about: the impact of COVID-19 on our business and operations, opportunities and expectations for growth in the student lending, healthcare and other markets; anticipated trends and challenges in our business and competition in the markets in which we operate; our client relationships and our ability to maintain such client relationships; our ability to generate sufficient cash flows to fund our ongoing operations and other liquidity needs; our ability to maintain compliance with the covenants in our debt agreements; our ability to generate revenue following long implementation periods associated with new customer contracts; the adaptability of our technology platform to new markets and processes; our ability to invest in and utilize our data and analytics capabilities to expand our capabilities; our growth strategy of expanding in our existing markets and considering strategic alliances or acquisitions; maintaining, protecting and enhancing our intellectual property; our expectations regarding future expenses; expected future financial performance; and our ability to comply with and adapt to industry regulations and compliance demands. The forward-looking statements in this report speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

### Overview

We provide technology-enabled audit, recovery, outsource services and related analytics services in the United States. Our services help identify improper payments, and in some markets, restructure and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their audit and recovery needs in order to reduce losses on billions of dollars of improper healthcare payments, delinquent state and federal tax and federal treasury, defaulted student loans and other receivables. We also provide complex outsource services for clients across our various markets, where we handle many or all aspects of our clients' various processes.

Our revenue model is generally success-based as we earn fees on the aggregate correct audits and/or amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and offer our clients the opportunity to recover significant funds otherwise lost. Because our model is based upon the success of our efforts, our business objectives are aligned with those of our clients and we are generally not reliant on their spending budgets. Furthermore, our business model does not require significant capital as we do not purchase loans or obligations.

### COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 pandemic has become widespread in the United States, including the areas in which the Company conducts its business operations. State and local governments in places where our primary offices are located, as well as certain of our clients, have enacted stay-at-home orders as well as restrictions to travel and business activities, all of which have had a significant negative impact on our business as well as global economic conditions.

We took proactive actions early on to protect the health of our employees and their families, including limiting the number of people permitted to be present in any particular meeting, curtailing business travel, and encouraging videoconferencing whenever possible. In addition, as the COVID-19 pandemic worsened throughout March and into April 2020, we required almost all personnel to work remotely and we restricted access to our sites to personnel who are required to perform critical business continuity activities.

While we currently believe we have taken steps that will allow us to function in a virtual or remote fashion as a result of the COVID-19 pandemic, the extent of the COVID-19 pandemic's effect on our operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, additional protective measures implemented by governmental authorities or by us to protect our employees, and effects of the pandemic and such protective measures on our clients, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain or predict the overall long-term impact of the COVID-19 pandemic on our business. To date, certain of our customers, including federal and state governments, have chosen to delay the recovery and audit services that we provide, which may have a material negative impact on our revenues and results of operations. For example, pursuant to the terms of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") enacted in March 2020, the U.S. Federal government suspended payments, ceased accruing interest, and stopped involuntary collections of payments (e.g., wage garnishments) for student loans owned by the Department of Education through September 30, 2020. To date, we have furloughed over 500 employees in our recovery business in response to the suspension of certain of our customer contracts. In addition, as a large portion of our employees continue to be subject to shelter-in-place or other quarantine orders, which may result in the complete or partial closure of one or more of our recovery call centers or other disruptions in our ongoing business operations. If the COVID-19 pandemic continues to increase in severity or if overall global or localized economic activity continues to contract for any appreciable length of time, it will continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our healthcare business has not experienced, and is not currently expected to experience, a similar level of impact as the recovery business due to the fact that only two healthcare customers have been impacted by congressional regulations to date. While a few healthcare customers placed short term pauses on audit activities, we have continued to see growth and expansion in other healthcare offerings.

There continues to be significant uncertainty around the breadth and duration of business disruptions related to COVID-19 pandemic, as well as its impact on the U.S. economy, the ongoing business operations of our clients or our results of operations and financial condition. While our management team is actively monitoring the impacts of the COVID-19 pandemic and may take further actions altering our business operations that we determine are in the best interests of our employees and clients or as required by federal, state, or local authorities, the full impact of the COVID-19 pandemic on our results of operations, financial condition, or liquidity for fiscal year 2020 and beyond cannot be estimated at this point. The following discussions are subject to the future effects of the COVID-19 outbreak on our ongoing business operations.

### Sources of Revenues

We derive our revenues from services for clients in a variety of different markets. These markets include our two largest markets, healthcare and student lending, as well as our other markets which include but are not limited to outsourced call center services, delinquent state and federal taxes and federal treasury and other receivables.

	Three Months Ended March 31,	
	2020	2019 (2)
	(in thousands)	
Healthcare	17,524	9,020
Recovery (1)	24,265	21,375
Customer Care / Outsourced Services	4,099	4,481
Total Revenues	<u>\$ 45,888</u>	<u>\$ 34,876</u>

(1) Represents student lending, state and municipal tax authorities, IRS and Department of Treasury markets, select financial institutions, as well as Premiere Credit of North America.

(2) Revenue amounts by category for the first quarter of 2019 have been revised to conform to the 2020 presentation format adopted in the second quarter of 2019.

## **Healthcare**

We derive revenues from both commercial and government clients in the healthcare market. Revenues earned under contracts in the healthcare market are driven by auditing, identifying, and sometimes recovering improperly paid claims through both automated and manual review of such claims. We are paid contingency fees by our clients based on a percentage of the dollar amount of improper claims recovered as a result of our efforts. The revenues we recognize are net of our estimate of claims that we believe will be overturned by appeal following payment by the provider.

For our commercial healthcare business, our business strategy is focused on utilizing our technology-enabled services platform to provide audit, third-party liability recovery and analytical services for private healthcare payers. Revenues from our commercial healthcare clients were \$6.5 million for the three months ended March 31, 2020 compared to revenues of \$3.1 million that we earned from our commercial healthcare clients during the three months ended March 31, 2019.

On October 5, 2017, we announced that we were awarded the MSP CRC contract by the CMS. Under this agreement, we are responsible for identifying and recovering payments in situations where Medicare should not be the primary payer of healthcare claims because a beneficiary has other forms of insurance coverage, such as through an employer group health plan or certain other payers.

On October 26, 2016, CMS awarded two new RAC contracts, for audit Regions 1 and 5. The RAC contract award for Region 1 allows us to continue our audit of payments under Medicare's Part A and Part B for all provider types other than DMEPOS and home health and hospice within an 11 state region in the Northeast and Midwest. The Region 5 RAC contract provides for the post-payment review of DMEPOS and home health and hospice claims nationally. While audit and recovery activity under these contracts commenced in April 2017, the scope of audit permitted by CMS has been limited to 0.5% of claims.

Healthcare providers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of the healthcare providers. In addition, healthcare providers or other insurers may dispute our findings regarding Medicare not being the primary payer of healthcare claims. Our total estimated liability for appeals and disputes was \$1.2 million and \$1.0 million as of March 31, 2020 and December 31, 2019, respectively. This represents our best estimate of the amount probable of being refunded to our healthcare clients following successful appeals of claims for which commissions were previously collected.

## **Recovery**

Recovery market revenues are derived from student lending, Internal Revenue Services (IRS), state and municipal tax authorities, the Department of Treasury, select financial institutions and Premiere Credit of North America.

In the Spring of 2017, the IRS named us as one of four companies to perform recovery services under its private collection program. This program, authorized under a federal law, calls for the use of private companies to recover outstanding inactive tax receivables on the government's behalf.

We also service the federal agency market, which consists of government debt subrogated to the Department of the Treasury by numerous different federal agencies, comprising a mix of commercial and individual obligations and a diverse range of receivables. These debts are managed by the Bureau of the Fiscal Service (formerly the Department of Financial Management Service), or FS, a bureau of the Department of the Treasury.

For state and municipal tax authorities, we analyze a portfolio of delinquent tax and other receivables placed with us, develop a recovery plan and execute a recovery process designed to maximize the recovery of funds. In some instances, we have also run state tax amnesty programs, which provide one-time relief for delinquent tax obligations, and other debtor management services for our clients. We currently have relationships with numerous state and municipal governments. Delinquent obligations are placed with us by our clients and we utilize a process that is similar to the student loan recovery process for recovering these obligations.

Student lending revenues are contract-based and consist primarily of contingency fees based on a specified percentage of the amount we enable our clients to recover. Our contingency fee percentage for a particular recovery depends on the type of recovery facilitated. Our clients in the student loan recovery market mainly consist of several of the largest guaranty agencies, or GAs. We believe the size and the composition of our student loan inventory at any point provides us with a significant degree of revenue visibility for our student loan revenues. Based on data compiled from over two decades of experience with the recovery of defaulted student loans, at the time we receive a placement of student loans, we are able to make a reasonably accurate estimate of the recovery outcomes likely to be derived from such placement and the revenues we are likely able to generate based on the anticipated recovery outcomes.

An important metric in evaluating our student lending business is Placement Volume. Our Placement Volume represents the dollar volume of defaulted student loans first placed with us during the specified period by public and private clients for recovery. Placement Volume allows us to measure and track trends in the amount of inventory our clients in the student lending market are placing with us during any period. The revenues associated with the recovery of a portion of these loans may be recognized in subsequent accounting periods, which assists management in estimating future revenues and in allocating resources necessary to address current Placement Volumes. As a result of the Department of Education’s termination of our January 2018 contract and its last procurement in its entirety, all of our Placement Volume is currently coming from GAs. For the three months ended March 31, 2020 and 2019, the placement volume was \$189.2 million, and \$1.1 billion, respectively.

There are five potential outcomes to the student loan recovery process from which we generate revenues. These outcomes include: full repayment, recurring payments, rehabilitation, loan restructuring and wage garnishment. Of these five potential outcomes, our ability to rehabilitate defaulted student loans is the most significant component of our revenues in this market. Generally, a loan is considered successfully rehabilitated after the student loan borrower has made nine consecutive qualifying monthly payments and our client has notified us that it is recalling the loan. Once we have structured and implemented a repayment program for a defaulted borrower, we (i) earn a percentage of each periodic payment collected up to and including the final periodic payment prior to the loan being considered “rehabilitated” by our clients, and (ii) if the loan is “rehabilitated,” then we are paid a one-time percentage of the total amount of the remaining unpaid balance for each rehabilitated loan. The fees we are paid vary by recovery outcome as well as by contract. For non-government-supported student loans we are generally only paid contingency fees on two outcomes: full repayment or recurring repayments. The table below describes our typical fee structure for each of these five outcomes.

<b>Student Loan Recovery Outcomes</b>				
<b>Full Repayment</b>	<b>Recurring Payments</b>	<b>Rehabilitation</b>	<b>Loan Restructuring</b>	<b>Wage Garnishment</b>
<ul style="list-style-type: none"> <li>• Repayment in full of the loan</li> </ul>	<ul style="list-style-type: none"> <li>• Regular structured payments, typically according to a renegotiated payment plan</li> </ul>	<ul style="list-style-type: none"> <li>• After a defaulted borrower has made nine consecutive recurring payments, the loan is eligible for rehabilitation</li> </ul>	<ul style="list-style-type: none"> <li>• Restructure and consolidate a number of outstanding loans into a single loan, typically with one monthly payment and an extended maturity</li> </ul>	<ul style="list-style-type: none"> <li>• If we are unable to obtain voluntary repayment, payments may be obtained through wage garnishment after certain administrative requirements are met</li> </ul>
<ul style="list-style-type: none"> <li>• We are paid a percentage of the full payment that is made</li> </ul>	<ul style="list-style-type: none"> <li>• We are paid a percentage of each payment</li> </ul>	<ul style="list-style-type: none"> <li>• We are paid based on a percentage of the overall value of the rehabilitated loan</li> </ul>	<ul style="list-style-type: none"> <li>• We are paid based on a percentage of overall value of the restructured loan</li> </ul>	<ul style="list-style-type: none"> <li>• We are paid a percentage of each payment</li> </ul>

**Customer Care / Outsourced Services**

We also derive revenues from default aversion and/or first party call center services for certain clients and the licensing of hosted technology solutions to certain clients. For our hosted technology services, we license our system and integrate our technology into our clients’ operations, for which we are paid a licensing fee. Our revenues for these services include contingency fees, fees based on dedicated headcount to our clients and hosted technology licensing fees.

## **Costs and Expenses**

We generally report two categories of operating expenses: salaries and benefits and other operating expense. Salaries and benefits expenses consist primarily of salaries and performance incentives paid and benefits provided to our employees. Other operating expense includes expenses related to our use of subcontractors, other production related expenses, including costs associated with data processing, retrieval of medical records, printing and mailing services, amortization and other outside services, as well as general corporate and administrative expenses.

## **Factors Affecting Our Operating Results**

Our results of operations are influenced by a number of factors, including costs associated with commencing contract operations, allocation of placement volume, claim recovery volume, contingency fees, regulatory matters, client contract cancellation and macroeconomic factors.

### ***Costs Associated with Commencing New Contracts***

When we obtain an engagement with a new client or a new contract with an existing client, it typically takes a long period of time to plan our services in detail, which includes integrating our technology, processes and resources with the client's operations and hiring new employees, before we receive any revenues from the new client or new contract. Our clients may also experience delays in obtaining approvals or managing protests from unsuccessful bidders, such as the lengthy protests on the most recent contract procurement from the Department of Education, or delays associated with system implementations, such as the delays experienced with the implementation of our first RAC contract with CMS. If we are not able to pay the upfront expenses out of cash from operations or availability of borrowings under our lending arrangements, we may scale back our operations or alter our business plans, either of which could prevent of us from earning future revenues under any such new client or new contract engagements.

### ***Allocation of Placement Volume***

Our clients have the right to unilaterally set and increase or reduce the volume of defaulted student loans or other receivables that we service at any given time. In addition, many of our recovery contracts for student loans and other receivables are not exclusive, with our clients retaining multiple service providers to service portions of their portfolios. Accordingly, the number of delinquent student loans or other receivables that are placed with us may vary from time to time, which may have a significant effect on the amount and timing of our revenues. We believe the major factors that influence the number of placements we receive from our clients in the student loan market include our performance under our existing contracts and our ability to perform well against competitors for a particular client. To the extent that we perform well under our existing contracts and differentiate our services from those of our competitors, we may receive a relatively greater number of placements under these existing contracts and may improve our ability to obtain future contracts from these clients and other potential clients. Further, delays in placement volume, as well as acceleration of placement volume, from any of our large clients may cause our revenues and operating results to vary from quarter to quarter.

Typically, we attempt to anticipate with reasonable accuracy the timing and volume of placements of defaulted student loans and other receivables based on historical patterns and regular communication with our clients. Occasionally, however, placements are delayed due to factors outside of our control.

### ***Contingency Fees***

Our revenues consist primarily of contract-based contingency fees. The contingency fee percentages that we earn are set by our clients or agreed upon during the bid process and may change from time to time either under the terms of existing contracts or pursuant to the terms of contract renewals.

### ***Regulatory Matters***

Each of the markets which we serve is highly regulated. Accordingly, changes in regulations that affect the types of loans, receivables and claims that we are able to service or the manner in which any such delinquent loans, receivables and claims can be recovered will affect our revenues and results of operations. For example, the passage of the Student Aid and Fiscal Responsibility Act, or SAFRA, in 2010 had the effect of transferring the origination of all government-supported student loans to the Department of Education, thereby ending all student loan originations guaranteed by the GAs. Loans guaranteed by the GAs represented approximately 70% of government-supported student loans originated in 2009. While the GAs will continue to service existing outstanding student loans for years to come, this legislation means that there will be no further growth in student loans held by GAs. Further, we are seeing a larger amount of defaulted student loans in our GA clients' portfolios that have been previously rehabilitated and by regulation are not subject to rehabilitation for a second time. In addition, our entry into the healthcare market was facilitated by passage of the Tax Relief and Health Care Act of 2006, which mandated CMS to contract with private firms to audit Medicare claims in an effort to increase the recovery of improper Medicare payments. Any changes to the regulations that affect the student loan industry or the recovery of defaulted student loans or the Medicare program generally or the audit and recovery of Medicare claims could have a significant impact on our revenues and results of operations.

### ***Client Contract Cancellation***

Substantially all of our contracts entitle our clients to unilaterally terminate their contractual relationship with us at any time without penalty. If we lose one or more of our significant clients, including if one of our significant clients is acquired by an entity that does not use our services, if the terms of compensation for our services change or if there is a reduction in the level of placements provided by any of these clients, our revenues could decline.

### ***Macroeconomic Factors***

Certain macroeconomic factors influence our business and results of operations. These include the increasing volume of student loan originations in the U.S. as a result of increased tuition costs and student enrollment, the default rate of student loan borrowers, the growth in Medicare expenditures or claims made to private healthcare providers resulting from changes in healthcare costs or the healthcare industry taken as a whole, as well as the fiscal budget tightening of federal, state and local governments as a result of general economic weakness and lower tax revenues.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

## ***Revenue Recognition***

We derive our revenues primarily from providing recovery services and healthcare audit services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration expect to be entitled to in exchange for those services.

We determine revenue recognition through the following steps:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the performance obligations are satisfied

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Our contracts generally contain a single performance obligation, delivered over time as a series of services that are substantially the same and have the same pattern of transfer to a client, as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct service in the contract. We determine the standalone selling prices by taking into consideration the value of the services being provided, the client type and how similar services are priced in other contracts on a standalone basis.

Our contracts are composed primarily of variable consideration. Fees earned under our recovery service contracts consist primarily of contingency fees based on a specified percentage of the amount we enable our clients to recover. The contingency fee percentage for a particular recovery depends on the type of recovery or claim facilitated. In certain contracts we can earn additional performance-based consideration determined based on its performance relative to a client's other contractors providing similar services.

Revenue from contingency fees earned upon recovery of funds is generally recognized as amounts are invoiced based on either the 'as-invoiced' practical expedient when such amounts reflect the value of the services completed to-date, or an output measure based on milestones which is used to measure progress of the satisfaction of its performance obligation. We estimate any performance-based variable consideration and recognizes such revenue over the performance period only if it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Under certain contracts, consideration can include periodic performance-based bonuses which can be awarded based on our performance under the specific contract. These performance-based awards are considered variable and may be constrained by us until there is not a risk of a material reversal.

For contracts that contain a refund right, these amounts are considered variable consideration, and we estimate our refund liability for each claim and recognizes revenue net of such estimate.

We generally either apply the as-invoiced practical expedient where our right to consideration corresponds directly to our right to invoice our clients, or the variable consideration allocation exception where the variable consideration is attributable to one or more, but not all, of the services promised in a series of distinct services that form part of a single performance obligation. As such, we have elected the optional exemptions related to the as-invoiced practical expedient and the variable consideration allocation exception whereby the disclosure of the amount of transaction price allocated to the remaining performance obligations is not required. We exercise judgment to estimate the amount of constraint on variable consideration based on the facts and circumstances of the relevant contract operations and availability of data. Although we believe the estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the amount of variable consideration.

We have applied the as-invoiced practical expedient and the variable consideration allocation exception to contracts with performance obligations that have an average remaining duration of less than a year.



### Goodwill

Goodwill represents the excess of purchase price and related costs over the fair value assigned to the net assets of businesses acquired. Goodwill is reviewed for impairment annually in December, or more frequently if certain indicators are present. We may first assess qualitative factors for indicators of impairment to determine whether it is necessary to perform the quantitative goodwill impairment test.

Per the quantitative goodwill test, goodwill is considered impaired if the carrying value of the Company, as one reporting unit, exceeds its fair value. The amount of impairment loss is measured as the difference between the carrying value and the fair value of the reporting unit. Impairment testing is based upon the best information available including estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. Significant assumptions and estimates are required, including, but not limited to, our market capitalization, projecting future cash flows and other assumptions, to estimate the fair value of the reporting unit including goodwill. Although we believe the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the amount of impairment.

We recorded an impairment to goodwill of \$19.0 million as of March 31, 2020. This is mainly due to the decrease in our stock price and associated market capitalization. There has been significant negative impact to the global economy and the public securities markets as a result of the COVID-19 pandemic. As a result, our goodwill is at elevated risk of additional impairment should there be further decline in our stock price and associated market capitalization, which may result in potentially material non-cash charge to our earnings.

### Recent Accounting Pronouncements

See "New Accounting Pronouncements" in Note 1(g) of the Consolidated Financial Statements included in Part I - Item 1 of this report.

## Results of Operations

### Three Months Ended March 31, 2020 compared to the Three Months Ended March 31, 2019

The following table represents our historical operating results for the periods presented:

	Three Months Ended March 31,			
	2020	2019	\$ Change	% Change
(in thousands)				
<b>Consolidated Statement of Operations Data:</b>				
Revenues	\$ 45,888	\$ 34,876	\$ 11,012	32 %
Operating expenses:				
Salaries and benefits	28,805	29,116	311	1 %
Other operating expenses	12,220	12,953	733	6 %
Impairment of goodwill	19,000	—	(19,000)	—
Total operating expenses	60,025	42,069	(17,956)	(43)%
Loss from operations	(14,137)	(7,193)	(6,944)	(97)%
Interest expense	(2,227)	(1,136)	(1,091)	(96)%
Interest income	6	11	(5)	(45)%
Loss before provision for (benefit from) income taxes	(16,358)	(8,318)	(8,040)	(97)%
Provision for (benefit from) income taxes	(3,874)	171	4,045	2,365 %
Net loss	\$ (12,484)	\$ (8,489)	\$ (3,995)	(47)%

### ***Revenues***

Total revenues were \$45.9 million for the three months ended March 31, 2020, an increase of approximately 32%, compared to revenues of \$34.9 million for the three months ended March 31, 2019.

Healthcare revenues were \$17.5 million for the three months ended March 31, 2020, representing an increase of \$8.5 million, or 94%, compared to the three months ended March 31, 2019. This increase in healthcare revenues is primarily attributable to a \$5.2 million increase in revenues earned under our CMS RAC and MSP CRC contracts, and a \$3.3 million increase in revenues attributable to our commercial healthcare clients during the quarter.

Recovery revenues were \$24.3 million for the three months ended March 31, 2020, representing an increase of \$2.9 million, or 14%, compared to the three months ended March 31, 2019. The increase was primarily the result of higher revenues earned under our IRS contract.

Customer Care / Outsourced Services revenues were \$4.1 million for the three months ended March 31, 2020, representing a slight decrease of \$0.4 million, or 9%, compared to the three months ended March 31, 2019.

### ***Salaries and Benefits***

Salaries and benefits expense was \$28.8 million for the three months ended March 31, 2020, a decrease of \$0.3 million, or 1%, compared to salaries and benefits expense of \$29.1 million for the three months ended March 31, 2019. The decrease in salaries and benefits expense was primarily driven by lower headcount.

### ***Other Operating Expenses***

Other operating expenses were \$12.2 million for the three months ended March 31, 2020, compared to other operating expenses of \$13.0 million for the three months ended March 31, 2019. The decrease in other operating expenses was primarily due to lower third-party subcontracting expenses.

### ***Impairment of Goodwill***

Impairment of goodwill was \$19.0 million for the three months ended March 31, 2020, compared to none for the three months ended March 31, 2019. The impairment was due to a non-cash charge of \$19.0 million recognized related to goodwill, due to the decrease in our stock price and associated market capitalization.

### ***Loss from Operations***

As a result of the factors described above, loss from operations was \$14.1 million for the three months ended March 31, 2020, compared to loss from operations of \$7.2 million for the three months ended March 31, 2019, representing an increased loss of \$6.9 million.

### ***Interest Expense***

Interest expense was \$2.2 million for the three months ended March 31, 2020, compared to \$1.1 million for the three months ended March 31, 2019. Interest expense increased by approximately \$1.1 million or 96% for the three months ended March 31, 2020, due to a higher outstanding loan balance as a result of additional term loan borrowings, and a higher interest rate in 2020 compared to 2019.

### ***Income Taxes***

We recognized an income tax benefit of \$3.9 million for the three months ended March 31, 2020, compared to an income tax expense of \$0.2 million for the three months ended March 31, 2019. Our effective income tax rate changed to 24% for the three months ended March 31, 2020, from (2)% for the three months ended March 31, 2019. The change in the effective tax rate is primarily driven by the net operating loss ("NOL") carryback benefit recorded as a result of the newly enacted provisions of the CARES Act for the three months ended March 31, 2020,

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. This modification significantly impacts the Company by allowing for the carryback of 2018 and 2019 NOL to tax years 2013 and 2014, respectively. These NOL carryforwards had been represented in the December 31, 2019 financial statements by deferred tax assets (“DTA”) for which a valuation allowance had been recorded as the Company did not expect that these DTA would be more likely than not realizable in future periods. As a result of carrying back the NOL, the Company is recognizing an income tax benefit of \$3.9 million associated with these previously unrecognized DTA in the three months ended March 31, 2020.

***Net Loss***

As a result of the factors described above, net loss was \$12.5 million for the three months ended March 31, 2020, which represented an increase of \$4.0 million, or 47% compared to net loss of \$8.5 million for the three months ended March 31, 2019.

## Adjusted EBITDA and Adjusted Net Income

To provide investors with additional information regarding our financial results, we have disclosed in the table below adjusted EBITDA and adjusted net income, both of which are non-U.S. GAAP financial measures. We have provided a reconciliation below of adjusted EBITDA to net income and adjusted net income to net income, the most directly comparable U.S. GAAP financial measure to these non-U.S. GAAP financial measures.

We have included adjusted EBITDA and adjusted net income in this report because they are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends and to prepare and approve our annual budget. Accordingly, we believe that adjusted EBITDA and adjusted net income provide useful information to investors and analysts in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of adjusted EBITDA and adjusted net income has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect interest expense on our indebtedness;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect tax payments;
- adjusted EBITDA and adjusted net income do not reflect the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA and adjusted net income do not reflect the impact of certain non-operating expenses resulting from matters we do not consider to be indicative of our core operating performance; and
- other companies may calculate adjusted EBITDA and adjusted net income differently than we do, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA and adjusted net income alongside other financial performance measures, including net income and our other U.S. GAAP results. The following tables present a reconciliation of adjusted EBITDA and adjusted net income for each of the periods indicated:

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
<b>Adjusted EBITDA:</b>		
Net loss	\$ (12,484)	\$ (8,489)
Provision for (benefit from) income taxes	(3,874)	171
Interest expense <sup>(1)</sup>	2,227	1,136
Interest income	(6)	(11)
Depreciation and amortization	1,540	2,312
Impairment of goodwill <sup>(5)</sup>	19,000	—
Stock-based compensation	691	499
Adjusted EBITDA	<u>\$ 7,094</u>	<u>\$ (4,382)</u>

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
<b>Adjusted Net Income (Loss):</b>		
Net loss	\$ (12,484)	\$ (8,489)
Stock-based compensation	691	499
Amortization of intangibles <sup>(2)</sup>	59	59
Impairment of goodwill <sup>(5)</sup>	19,000	—
Deferred financing amortization costs <sup>(3)</sup>	382	232
Tax adjustments <sup>(4)</sup>	(5,536)	(217)
Adjusted Net Income (Loss)	<u>\$ 2,112</u>	<u>\$ (7,916)</u>

	Three Months Ended March 31,	
	2020	2019
<b>Adjusted Net Income (Loss) Per Diluted Share:</b>		
Net loss	\$ (12,484)	\$ (8,489)
Plus: Adjustment items per reconciliation of adjusted net (loss) income	14,596	573
Adjusted net income (loss)	<u>2,112</u>	<u>(7,916)</u>
<b>Adjusted Loss Per Diluted Share</b>	<u>\$ 0.04</u>	<u>\$ (0.15)</u>
Diluted avg shares outstanding <sup>(6)</sup>	54,166	53,059

(1) Represents interest expense and amortization of issuance costs related to the refinancing of our indebtedness.

(2) Represents amortization of intangibles related to the acquisition of Performant by an affiliate of Parthenon Capital Partners in 2004.

(3) Represents amortization of capitalized financing costs related to our Credit Agreement.

(4) Represents tax adjustments assuming a marginal tax rate of 27.5% at full profitability.

(5) Represents a noncash goodwill impairment charge in 2020 mainly due to the decrease of our market capitalization.

- (6) While Net income (loss) for the three months ended March 31, 2020 reflects a net loss of (\$12,484), the computation of adjusted net income results in adjusted net income of \$2,112. Therefore, the calculation of the adjusted earnings per diluted share for the three months ended March 31, 2020 includes dilutive common share equivalents of 223 added to the basic weighted average shares of 53,943.

## **Liquidity and Capital Resources**

Our primary sources of liquidity are cash flows from operations, and cash and cash equivalents on hand. Cash and cash equivalents, which includes restricted cash and consists primarily of cash on deposit with banks, totaled \$10.2 million as of March 31, 2020, compared to \$6.0 million as of March 31, 2019. The \$5.2 million increase in the balance of our cash and cash equivalents from December 31, 2019 to March 31, 2020, was primarily due to \$7.2 million provided by operating activities, offset by \$1.1 million used in investing activities and \$0.9 million repayment of notes payable.

Our ability to fund our business plans, capital expenditures and to fund our other liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control and the availability of borrowings under our existing lending facility. Following our \$5 million Additional Term Loan draw on September 25, 2019, we no longer have any remaining borrowing capacity under our existing Credit Agreement. Our current financial projections show that we expect to be able to maintain a level of cash flows from operating activities sufficient to permit us to fund our ongoing and planned business operations and to fund our other liquidity needs. If, however, we are required to obtain additional borrowings to fund our ongoing or future business operations, there can be no assurance that we will be successful in obtaining such additional borrowings or upon terms that are acceptable to us. The recent COVID-19 pandemic has led certain of our customers to delay the recovery and audit services that we provide as a result of the economic hardships that may be faced by a large portion of the population, which may have a material negative impact on our cash flow from operations. For example, pursuant to the terms of the CARES Act enacted in March 2020, the U.S. Federal government suspended payments, ceased accruing interest, and stopped involuntary collections of payments (e.g., wage garnishments) for student loans owned by the Department of Education through September 30, 2020. Further, a prolonged period of generating lower cash flows from operations as a result of the COVID-19 pandemic could adversely affect our financial condition and the achievement of our strategic objectives. Conditions in the financial and credit markets may also limit the availability of funding or increase the cost of funding, which could adversely affect our business, financial position and results of operations.

While we believe our financial projections are attainable, considering the impact of COVID-19, there can be no assurances that our financial results will be recognized in a time frame necessary to meet our ongoing cash requirements. If our cash flows and capital resources are insufficient to fund our planned business operations or to fund our other liquidity needs, we may need to reduce or delay capital expenditures, alter our business plans, curtail the services we provide to our current or future clients, execute additional reductions in workforce (both through furloughs and layoffs), sell assets or operations, seek additional capital, restructure or refinance our indebtedness, any of which could have an adverse effect on our financial condition and results of operations.

Our Credit Agreement contains, and any agreements to refinance our debt likely will contain, certain financial covenants, including the maintenance of minimum fixed charge coverage ratio and total debt to EBITDA ratio, as well as restrictive covenants that require us to limit our ability to incur additional debt, including to finance future operations or other capital needs, and to engage in other activities that we may believe are in our long-term best interests, including to dispose of or acquire assets. Our failure to comply with these financial covenants or the restrictive covenants may result in an event of default, which, if not cured or waived, could accelerate the maturity of our indebtedness or result in modifications to our credit terms. If our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned.

### ***Cash flows from operating activities***

Cash provided by operating activities was \$7.2 million for the three months ended March 31, 2020, compared to cash used in operating activities of \$0.4 million for the same period in 2019. The cash provided by operating activities as of March 31, 2020, is primarily a result of our income from operations of \$4.9 million, excluding the noncash impairment to goodwill of \$19.0 million.

### ***Cash flows from investing activities***

Cash used in investing activities of \$1.1 million for the three months ended March 31, 2020 was mainly for capital expenditures related to information technology, data storage, hardware, telecommunication systems and security enhancements to our information technology systems. Cash used in investing activities for similar purposes in the three months ended March 31, 2019 was \$1.5 million.

### ***Cash flows from financing activities***

Cash used in financing activities of \$0.9 million for the three months ended March 31, 2020 was primarily attributable to \$0.9 million in repayments of long-term debt during the same period. Cash used in financing activities in the three months ended March 31, 2019 was \$0.1 million primarily attributable to taxes paid related to net share settlement of stock awards.

### ***Restricted Cash***

As of March 31, 2020, restricted cash included in current assets on our consolidated balance sheet was \$1.6 million.

### ***Long-term Debt***

On August 7, 2017, we, through our wholly-owned subsidiary Performant Business Services, Inc. (the "Borrower"), entered into a credit agreement (as amended, the "Credit Agreement") with ECMC Group, Inc. ("ECMC"). Before the amendment described below, the Credit Agreement provided for a term loan facility in the initial amount of \$44 million (the "Initial Term Loan") and for up to \$15 million of additional term loans ("Additional Term Loans"; and together with the Initial Term Loan, the "Loans") which original Additional Term Loans were initially able to be drawn until the second anniversary of the funding of the Initial Term Loans, subject to the satisfaction of customary conditions. On August 31, 2018, we entered into Amendment No. 2 to the Credit Agreement to among other things (i) extend the maturity date of the Initial Term Loan and any Additional Term Loans by one year to August 2021, (ii) expand the Additional Term Loans commitment from \$15 million to \$25 million, (iii) extend the period during which the Additional Term Loans can be borrowed by one year to August 2020, and (iv) relieve the Borrower from its obligation to comply with the financial covenants in the Credit Agreement during the six fiscal quarters following the Premiere acquisition.

On March 21, 2019, we entered into Amendment No. 3 to the Credit Agreement to among other things relieve the Borrower from its obligation to comply with the financial covenants in the Credit Agreement until the quarter ending June 30, 2020. As of September 30, 2019, the Company has borrowed all of the \$25 million available as Additional Term Loans.

As of March 31, 2020, \$63.5 million was outstanding under the Credit Agreement.

We have the option to extend the maturity of the Loans for two additional one-year periods, subject to the satisfaction of customary conditions. The Loans bear interest at the one-month LIBOR rate (subject to a 1% per annum floor) plus a margin which may vary from 5.5% per annum to 10.0% per annum based on our total debt to EBITDA ratio. Our annual interest rate at March 31, 2020 was 11.0%, and 11.8% at December 31, 2019. We are required to pay 5% of the original principal balance of the Loans annually in quarterly installments and to make mandatory prepayments of the Loans with a percentage of our excess cash flow which may vary between 75% and 0% depending on our total debt to EBITDA ratio and from the net cash proceeds of certain asset dispositions and debt not otherwise permitted under the Credit Agreement, in each case, subject to the lender's right to decline to receive such payments.

The Credit Agreement contains certain restrictive financial covenants which are not effective until the quarter ending June 30, 2020, at which point, we will be required to (1) achieve a minimum fixed charge coverage ratio of 1.0 to 1.0 through December 31, 2020, 1.25 to 1.0 through June 30, 2021, and 1.25 to 1.0 through June 30, 2022 if the maturity date of the Loans is extended until the fifth anniversary of the Closing Date and (2) maintain a maximum total debt to EBITDA ratio of 6.00 to 1.00. The Credit Agreement also contains covenants that restrict the Company and its subsidiaries' ability to incur certain types or amounts of indebtedness, incur liens on certain assets, make material changes in corporate structure or the nature of its business, dispose of material assets, engage in a change in control transaction, make certain foreign investments, enter into certain restrictive agreements, or engage in certain transactions with affiliates. The Credit Agreement also contains various customary events of default, including with respect to change of control of the Company or its ownership of the Borrower.

The obligations under the Credit Agreement are secured by substantially all of our United States domestic subsidiaries' assets and are guaranteed by the Company and its United States domestic subsidiaries, other than the Borrower.

In consideration for, and concurrently with, the extension of the Initial Term Loan in accordance with the terms of the Credit Agreement, we issued a warrant to the lender to purchase up to an aggregate of 3,863,326 shares of our common stock (representing approximately up to 7.5% of our diluted common stock as calculated using the “treasury stock” method as defined under U.S. GAAP for the most recent fiscal quarter, with an exercise price of \$1.92 per share (the “Exercise Price”).

Upon borrowing of the Additional Term Loans, we were required to issue additional warrants at the same Exercise Price to purchase up to an aggregate of 77,267 additional shares of common stock (which represents approximately 0.15% of our diluted common stock calculated using the “treasury stock” method as defined under U.S. GAAP for the fiscal quarter ended June 30, 2017) for each \$1.0 million of such Additional Term Loans. Similarly, upon our election to extend the maturity of the Loans for additional one year periods, we will be required to issue additional warrants at the same Exercise Price to purchase up to an aggregate of 515,110 additional shares of common stock for the first year’s extension, and to purchase up to an aggregate of 772,665 additional shares of common stock for the second year’s extension (which represent approximately 1.0% and 1.5% of our diluted common stock for the first and second years, respectively, calculated using the “treasury stock” method as defined under U.S. GAAP for the fiscal quarter ended June 30, 2017).

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not hold or issue financial instruments for trading purposes. We conduct all of our business in U.S. currency and therefore do not have any material direct foreign currency risk. We do have exposure to changes in interest rates with respect to the borrowings under our senior secured credit facility, which bear interest at a variable rate based on LIBOR. For example, if the interest rate on our borrowings increased 100 basis points (1%) from the credit facility floor of 1.0%, our annual interest expense would increase by approximately \$0.6 million.

While we currently hold our excess cash in an operating account, in the future we may invest all or a portion of our excess cash in short-term investments, including money market accounts, where returns may reflect current interest rates. As a result, market interest rate changes impact our interest expense and interest income. This impact will depend on variables such as the magnitude of interest rate changes and the level of our borrowings under our credit facility or excess cash balances.

### **ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and the Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Management, with the participation of our Chief Executive Officer and our Chief Accounting Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act, as of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were functioning effectively at the reasonable assurance level as of March 31, 2020.

#### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended March 31, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings that arise from our normal business operations. These actions generally derive from our student loan recovery services, and generally assert claims for violations of the Fair Debt Collection Practices Act or similar federal and state consumer credit laws. While litigation is inherently unpredictable, we believe that none of these legal proceedings, individually or collectively, will have a material adverse effect on our financial condition or our results of operations.

### ITEM 1A. RISK FACTORS

Our business, financial condition, results of operations and liquidity are subject to various risks and uncertainties, including those described below, and as a result, the trading price of our common stock could decline.

#### Risks Related to Our Business

***The novel coronavirus (COVID-19) pandemic has had, and will likely continue to have, a material adverse impact on our business, results of operations and financial condition, as well as on the operations and financial performance of many of our customers. We are unable to predict the extent to which the COVID-19 pandemic and related impacts will continue to adversely impact our business, results of operations and financial condition.***

Our business and the businesses of our customers have been materially and adversely affected by the impact of the COVID-19 pandemic that has caused, and is expected to continue to cause, the global slowdown in economic activity. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the impact on our operations and financial performance, as well as its impact on our ability to successfully execute our business strategies and initiatives, remains uncertain and difficult to predict. Further, the ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control, including, but not limited, to: governmental and business actions that have been and continue to be taken in response to the pandemic; the impact of the COVID-19 pandemic and actions taken in response on global and regional economies and economic activity; the availability of federal, state or local funding programs; general economic uncertainty and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery when the COVID-19 pandemic subsides.

Given the economic hardships that may be faced by a large portion of the population as a result of the COVID-19 pandemic, certain of our customers have chosen to delay the recovery and audit services that we provide, and additional customers may choose to similarly delay the audit and recovery services that we provide, either of which could have a material negative impact on our revenues and results of operations. For example, pursuant to the terms of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) enacted in March 2020, the U.S. federal government suspended payments, ceased accruing interest, and stopped involuntary collections of payments (e.g., wage garnishments) for student loans owned by the Department of Education through September 30, 2020. To date, we have furloughed over 500 employees in our recovery business in response to the suspension of certain of our customer contracts.

Further, a prolonged period of generating lower cash flows from operations as a result of the COVID-19 pandemic could adversely affect our financial condition and the achievement of our strategic objectives. Conditions in the financial and credit markets may also limit the availability of funding or increase the cost of funding, which could adversely affect our business, financial position and results of operations. While we believe our financial projections are attainable, there can be no assurances that our financial results will be recognized in a timeframe necessary to meet our ongoing cash requirements.

In addition, a large portion of our employees continue to be subject to voluntary or mandated shelter-in-place or other quarantine orders, and the employees of our customers may also be subject to similar stay-at-home orders, either of which may result in the complete or partial closure of one or more of our recovery call centers or other disruptions in our ongoing business operations, which would harm our business and results of operations. If the impact of the COVID-19 pandemic continues for an extended period, it will continue to materially adversely impact our revenues and financial condition.

***We may not have sufficient cash flows from operations or availability of funds under our lending arrangements to fund our ongoing operations and our other liquidity needs, which could adversely affect our business and financial condition.***

Our ability to fund our business plans, capital expenditures and to fund our other liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control and the availability of borrowings under our existing lending facility. Following our \$5 million Additional Term Loan draw on September 25, 2019, we no longer have any remaining borrowing capacity under our existing Credit Agreement. As a result of no further borrowing capacity under our Credit Agreement, we cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to fund our ongoing and planned business operations and to fund our other liquidity needs. The recent COVID-19 pandemic has led certain of our customers to delay the recovery and audit services that we provide as a result of the economic hardships that may be faced by a large portion of the population, which may have a material negative impact on our cash flow from operations. If we are required to obtain additional borrowings to fund our ongoing or future business operations, there can be no assurance that we will be successful in obtaining such additional borrowings or upon terms that are acceptable to us. While we believe our financial projections are attainable, there can be no assurances that our financial results will be recognized in a timeframe necessary to meet our ongoing cash requirements. If our cash flows and capital resources are insufficient to fund our planned business operations or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, alter our business plans, curtail the services we provide to our current or future clients, sell assets or operations, seek additional capital or restructure or refinance our indebtedness, any of which could have an adverse effect on our financial condition and results of operations.

***Our indebtedness could adversely affect our business and financial condition and reduce the funds available to us for other purposes, and our failure to comply with the covenants contained in our Credit Agreement could result in an event of default that could adversely affect our results of operations.***

Our ability to make scheduled payments under our Credit Agreement and to fund our other liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control, such as the recent global economic downturn as the result of the COVID-19 pandemic. We cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness and to fund our other liquidity needs. If our cash flows and capital resources are insufficient to fund our debt service obligations and allow us to maintain compliance with the covenants under our Credit Agreement or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, alter our business plans, curtail the services we provide to our current or future clients, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot ensure that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including our Credit Agreement with ECMC. If we cannot make scheduled payments on our debt or remain in compliance with our covenants, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, and foreclose against the assets securing our borrowings and we could be forced into bankruptcy or liquidation.

Our Credit Agreement contains, and any agreements to refinance our debt likely will contain, certain financial covenants, including the maintenance of minimum fixed charge coverage ratio and total debt to EBITDA ratio, and restrictive covenants that limit our ability to incur additional debt, including to finance future operations or other capital needs, and to engage in other activities that we may believe are in our long-term best interests, including to dispose of or acquire assets. Our failure to comply with these covenants may result in an event of default, which, if not cured or waived, could accelerate the maturity of our indebtedness or result in modifications to our credit terms. If our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned.

***Downturns in domestic or global economic conditions and other macroeconomic factors could harm our business and results of operations.***

Various macroeconomic factors influence our business and results of operations. These include the volume of student loan originations in the United States, together with tuition costs and student enrollment rates, the default rate of student loan borrowers, which is impacted by domestic and global economic conditions, rates of unemployment and similar factors, and the growth in Medicare expenditures or claims made to private healthcare providers resulting from changes in healthcare costs or the healthcare industry taken as a whole. Changes in the overall economy could lead to a reduction in overall recovery rates by our clients, which in turn could adversely affect our business, financial condition and results of operations. For example, our business and the businesses of our customers have been materially and adversely affected by the impact of the COVID-19 pandemic that has caused, and is expected to continue to cause, the global slowdown in economic activity, which has resulted in a significant negative impact on our financial condition and results of operations.

***We typically face a long period to start up a new contract which may cause us to incur expenses before we receive revenues from new client relationships.***

If we are successful in obtaining an engagement with a new client or a new contract with an existing client, we typically have a subsequent long implementation period in which the services are planned in detail and we integrate our technology, processes and resources with the client's operations. If we enter into a contract with a new client, we typically will not receive revenues until implementation is completed and work under the contract actually begins, which can be a substantial period of time. Our clients may also experience delays in obtaining approvals or managing protests from unsuccessful bidders, such as the lengthy protests regarding the most recent contract procurement from the Department of Education, or delays associated with technology or system implementations, such as the delays experienced with the implementation of our first RAC contract with CMS. Because we generally begin to hire new employees to provide services to a new client once a contract is signed and otherwise incur significant upfront implantation expenses, we incur significant expenses associated with new contracts before we receive corresponding revenues under any such new contract. If we are not able to pay the upfront expenses for commencing new contracts out of cash from operations or availability of borrowings under our lending arrangements, we may be required to scale back our operations or alter our business plans to account for cash shortages, either of which could prevent us from earning future revenues under any such new client or contract engagements. Further, if we are not successful in maintaining contractual commitments after the expenses we incur during our typically long implementation cycle, our cash flows and results of operations could be adversely affected.

***Revenues generated from our three largest clients represented 45% of our revenues for the year ended December 31, 2019, and 61% of our revenues for the year ended 2018. Any termination of or deterioration in our relationship with any of these or our other significant clients would result in a further decline in our revenues.***

We have derived a substantial portion of our revenues from a limited number of clients. Revenues from our three largest clients represented 45% of our revenues for the year ended December 31, 2019, and 61% of our revenues for the year ended December 31, 2018. All of our contracts with our significant clients are subject to periodic renewal and re-bidding processes and if we lose one of these clients or if the terms of our relationships with any of these clients become less favorable to us, our revenues would decline, which would harm our business, financial condition and results of operations.

***Many of our contracts with our clients for the recovery of student loans and other receivables are not exclusive and do not commit our clients to provide specified volumes of business. In addition, the terms of these contracts may be changed unilaterally and on short notice by our clients. As a consequence, there is no assurance that we will be able to maintain our revenues and operating results.***

Substantially all of our existing contracts for the recovery of delinquent receivables (including student loans, state taxes, federal taxes and Treasury-related receivables), which represented approximately 71% of our revenues for the year ended December 31, 2019, and 64% of our revenues for the year ended December 31, 2018, enable our clients to terminate their contractual relationship with us at any time without penalty, potentially leading to loss of business or renegotiation of terms. Further, most of our contracts in these markets allow our clients to unilaterally change the volume of loans and other receivables that are placed with us or the payment terms at any given time. In addition, most of our contracts are not exclusive, with our clients retaining multiple service providers with whom we must compete for placements of loans or other obligations. Therefore, despite our contractual relationships with our clients, our contracts do not provide assurance that we will generate a minimum amount of revenues or that we will receive a specific volume of placements. Our revenues and operating results would be negatively affected if our student loan and receivables clients reduce the volume of student loan placements provided to us, modify the terms of service, including the success fees we are able to earn upon recovery of defaulted student loans, or any of these clients establish more favorable relationships with our competitors.

***We may not be able to manage our potential growth effectively and our results of operations could be negatively affected.***

Our RAC contracts, MSP CRC contract, and other commercial healthcare contracts provide the opportunity to restore growth in our business. However, our focus on growth and the expansion of our business may place additional demands on our management, operations and financial resources and will require us to incur additional expenses. We cannot be sure that we will be able to manage our performance under any significant new contracts effectively. In order to successfully perform under any significant new contracts, our expenses will increase to recruit, train and manage additional qualified employees and subcontractors and to expand and enhance our administrative infrastructure and continue to improve our management, financial and information systems and controls. If we cannot manage our growth effectively, our expenses may increase, and our results of operations could be negatively affected.

***We face significant competition in connection with obtaining, retaining and performing under our client contracts, and an inability to compete effectively in the future could harm our relationships with our clients, which would impact our ability to maintain our revenues and operating results.***

We operate in very competitive markets and in providing our services to the student loan and healthcare markets, we face competition from many other companies. Initially, we compete with these companies to be one of typically several firms engaged to provide recovery and audit services to a particular client and, if we are successful in being engaged, we then face continuing competition from the client's other retained firms based on the client's benchmarking of the recovery rates of its several vendors. In addition, those recovery and audit vendors who produce the highest recovery or audit rates from a client often will be allocated additional placements and, in some cases, additional success fees. Accordingly, maintaining high levels of recovery and audit performance, and doing so in a cost-effective manner, are important factors in our ability to maintain and grow our revenues and net income and the failure to achieve these objectives could harm our business, financial condition and results of operations. Some of our current and potential competitors in the markets in which we operate may have greater financial, marketing, technological or other resources than we do. The ability of any of our competitors and potential competitors to adopt new and effective technology to better serve our markets may allow them to gain market strength. Increasing levels of competition in the future may result in lower recovery or audit fees, lower volumes of contracted recovery or audit services or higher costs for resources. Any inability to compete effectively in the markets that we serve could adversely affect our business, financial condition and results of operations.

***Our ability to derive revenues under our new RAC contracts will depend in part on the number and types of potentially improper claims that we are allowed to pursue by CMS, and our results of operations may be harmed if the scope of claims that we are allowed to pursue and be compensated for is limited.***

Under CMS's Medicare recovery audit program, RAC contractors have not been permitted to seek the recovery of an improper claim unless that particular type of claim has been pre-approved by CMS to ensure compliance with applicable Medicare payment policies, as well as national and local coverage determinations. As work under the first RAC contract progressed, CMS placed increasing restrictions on the scope of audits permitted by RAC contractors and these restrictions have not been relaxed under the newly awarded RAC contracts. Accordingly, the long-term growth of the revenues we derive under our two newly awarded RAC contracts will depend in significant part on the scope of potentially improper claims that we are allowed to pursue. Revenues from our RAC contracts with CMS during the year ended December 31, 2018 were \$1.7 million (excluding the effects of the release of the \$28.4 million appeal reserve in connection with the termination of our first CMS RAC contract).

In particular, in September 2013, CMS implemented rules that prevent RAC contractors from being able to review and audit (i) whether inpatient care delivered to patients with hospital stays lasting less than two midnights was medically necessary and therefore deserving of the higher reimbursement levels under Medicare Part A or (ii) whether inpatient treatment was medically necessary for admissions spanning more than two midnights. In connection with these restrictions, hospitals cannot bill CMS for outpatient services on hospital stays lasting less than two midnights during such period. Fees associated with recoveries initiated by us based upon improper claims for inpatient reimbursement of these short stays had represented a substantial portion of the revenues we had earned under our prior RAC contract. The continued suspension of this type of review activity has had and may continue to have a material adverse effect on our future healthcare revenues and operating results, depending on a variety of factors including, among other things, CMS's evaluation of provider compliance with the new rules, the rules ultimately adopted by CMS with respect to medical necessity reviews of Medicare reimbursement claims associated with short stay inpatient admissions and, more generally, the scope of improper claims that CMS allows us to pursue and our ability to successfully identify improper claims within the permitted scope.

***The U.S. federal government accounts for a significant portion of our revenues, and any loss of business from, or change in our relationship with, the U.S. federal government would result in a significant decrease in our revenues and operating results.***

We have historically derived and are likely to continue to derive a significant portion of our revenues from the U.S. federal government. For 2019 and 2018, revenues under contracts with the U.S. federal government accounted for approximately 36% and 35%, respectively, of our total revenues. The continuation and exercise of renewal options on government contracts and any new government contracts are, among other things, contingent upon the availability of adequate funding for the applicable federal government agency. Changes in federal government spending, or other regulatory changes such as the recent decisions by several governmental agencies to suspend collection efforts in the near term as a result of the COVID-19 pandemic, could directly affect our financial performance.

For example, although the Department of Education announced in January 2018 that we were selected as one of two recovery contractors under its award for new student loan recovery contracts, we were notified on May 3, 2018 that the Department of Education has decided to cancel the current procurement in its entirety, and as a result terminated our contract award. Protests have been filed by certain of the unsuccessful bidders of the procurement of the new contracts from the Department of Education, and at this time, we cannot speculate on the outcome of any such protest or when work will begin under our new contract award. The loss of business from the U.S. federal government, or significant policy changes or financial pressures within the agencies of the U.S. federal government that we serve would result in a significant decrease in our revenues, which would adversely affect our business, financial condition and results of operations.

***Future legislative or regulatory changes affecting the markets in which we operate could impair our business and operations.***

Two of the principal markets in which we provide our recovery and audit services, government-supported student loans and the Medicare program, are a subject of significant legislative and regulatory focus and we cannot anticipate how future changes in government policy may affect our business and operations. For example, Student Aid and Fiscal Responsibility Act, (SAFRA) significantly changed the structure of the government-supported student loan market by assigning responsibility for all new government-supported student loan originations to the Department of Education, rather than originations by private institutions and backed by one of the remaining 24 government-supported GAs. Further, the Department of Education's decision to cancel the current procurement in its entirety in 2018, terminated our contract award, which has significantly reduced our revenues in the student loan market. Lastly, the continued suspension of the type of review activity we are allowed to conduct under our contracts with CMS has resulted in limitation on our healthcare revenues and operating results. Any future changes in the legislation and regulations that govern these markets, may require us to adapt our business to the new circumstances and we may be unable to do so in a manner that does not adversely affect our business and operations.

***The reduction in the number of government-supported student loans originated by our GA clients has resulted in a lower amount of student loans that we are able to rehabilitate, and may result in the consolidation among the GAs, either of which would decrease our revenues.***

As a result of SAFRA, which terminated the ability of the GAs to originate government-supported student loans, the overall number of defaulted student loans that we are able to service on behalf of our GA clients has begun to decline. Further, we are seeing a larger amount of defaulted student loans within our GA client portfolios that have previously been rehabilitated, which, according to current regulations, prevents us from rehabilitating any such student loan for a second time. This overall reduction in the number of defaulted student loans in our GA client portfolios, and the larger percentage of defaulted student loans that have been previously rehabilitated, together with the cessation of placements of defaulted student loans from the Department of Education, has resulted in a decrease in revenues from our GA clients, which has negatively impacted our business, financial condition and results of operations.

Further, some have speculated that there may be consolidation among the remaining GAs. This speculation has heightened as a result of the reduction of fees that the GAs will receive for rehabilitating student loans as a result of the Bipartisan Budget Act of 2013. If GAs that are our clients are combined with GAs with whom we do not have a relationship, we could suffer a loss of business. Two of our GA clients were responsible for 22% and 33%, respectively, of revenues for the years ended December 31, 2019 and 2018. The consolidation of our GA clients with others and the failure to provide recovery services to the consolidated entity could decrease our revenues, which could negatively impact our business, financial condition and results of operations.

***Our results of operations may fluctuate on a quarterly or annual basis and cause volatility in the price of our stock.***

Our revenues and operating results could vary significantly from period-to-period and may fail to match our past performance because of a variety of factors, some of which are outside of our control. Any of these factors could cause the price of our common stock to fluctuate. Factors that could contribute to the variability of our operating results include:

- the amount of defaulted student loans and other receivables that our clients place with us for recovery;
- the timing of placements of student loans and other receivables which are entirely in the discretion of our clients;
- the schedules of government agencies for awarding contracts;
- our ability to maintain contractual commitments after the expenses we incur during our typically long implementation cycle for new customer contracts;
- our ability to successfully identify improper Medicare claims and the number and type of potentially improper claims that CMS authorizes us to pursue under our RAC contact;
- our ability to continue to generate revenues under our private healthcare contracts;
- the loss or gain of significant clients or changes in the contingency fee rates or other significant terms of our business arrangements with our significant clients;
- technological and operational issues that may affect our clients and regulatory changes in the markets we service;  
and
- general industry and macroeconomic conditions.

***A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt the operation of our business.***

A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt our operations. Our operating systems and technology infrastructure are susceptible to damage or interruption from various causes, including acts of God and other natural disasters, power losses, computer systems failures, Internet and telecommunications or data network failures, global health crises, operator error, computer viruses, losses of and corruption of data and similar events. The occurrence of any of these events could result in interruptions, delays or cessations in service to our clients, reduce the attractiveness of our recovery services to current or potential clients and adversely impact our financial condition and results of operations. While we have backup systems in many of our operating facilities, an extended outage of utility or network services may harm our ability to operate our business. Further, the situations we plan for and the amount of insurance coverage we maintain for losses as result of failures of our operating systems and infrastructure may not be adequate in any particular case.

***If our security measures are breached or fail and unauthorized access is obtained to our clients' confidential data, our services may be perceived as insecure, the attractiveness of our recovery services to current or potential clients may be reduced, and we may incur significant liabilities.***

Our recovery services involve the storage and transmission of confidential information relating to our clients and their customers, including health, financial, credit, payment and other personal or confidential information. Although our data security procedures are designed to protect against unauthorized access to confidential information, our computer systems, software and networks may be vulnerable to unauthorized access and disclosure of our clients' confidential information. Further, we may not effectively adapt our security measures to evolving security risks, address the security and privacy concerns of existing or potential clients as they change over time, or be compliant with federal, state, and local laws and regulations with respect to securing confidential information. Unauthorized access to confidential information relating to our clients and their customers could lead to reputational damage which could deter our clients and potential clients from selecting our recovery services, or result in termination of contracts with those clients affected by any such breach, regulatory action, and claims against us.

In the event of any unauthorized access to personal or other confidential information, we may be required to expend significant resources to investigate and remediate vulnerabilities in our security procedures, and we may be subject to fines, penalties, litigation costs, and financial losses that are either not insured against or not fully covered through any insurance maintained by us. If one or more of such failures in our security and privacy measures were to occur, our business, financial condition and results of operations could suffer.

***Our business may be harmed if we lose members of our management team or other key employees.***

We are highly dependent on members of our management team and other key employees and our future success depends in part on our ability to retain these people. Our inability to continue to attract and retain members of our management team and other key employees could adversely affect our business, financial condition and results of operations.

***The growth of our healthcare business will require us to hire and retain employees with specialized skills and failure to do so could harm our ability to grow our business.***

The growth of our healthcare business will depend in part on our ability to recruit, train and manage additional qualified employees. Our healthcare-related operations require us to hire registered nurses and experts in Medicare coding. Finding, attracting and retaining employees with these skills is a critical component of providing our healthcare-related recovery and audit services, and our inability to staff these operations appropriately represents a risk to our healthcare service offering and associated revenues. An inability to hire qualified personnel, particularly to serve our healthcare clients, may restrain the growth of our business.

***We rely on subcontractors to provide services to our clients and the failure of subcontractors to perform as expected could harm our business operations and our relationships with our clients.***

We engage subcontractors to provide certain services to our clients. These subcontractors participate to varying degrees in our recovery activities with regards to all of the services we provide. While we believe that we perform appropriate due diligence before we hire subcontractors, our subcontractors may not provide adequate service or otherwise comply with the terms set forth in their agreements. In the event a subcontractor provides deficient performance to one or more of our clients, any such client may reduce the volume of services we are providing under an existing contract or may terminate the relevant contract entirely and we may face claims for breach of contract. Any such disruption in our relations with our clients as a result of services provided by any of our subcontractors could adversely affect our revenues and operating results.

***If our software vendors or utility and network providers fail to deliver or perform as expected our business operations could be adversely affected.***

Our recovery services depend in part on third-party providers, including software vendors and utility and network providers. Our ability to service our clients depends on these third-party providers meeting our expectations and contractual obligations in a timely and effective manner. Our business could be materially and adversely affected, and we might incur significant additional liabilities, if the services provided by these third-party providers do not meet our expectations or if they terminate or refuse to renew their relationships with us on similar contractual terms.



***We are subject to extensive regulations regarding the use and disclosure of confidential personal information and failure to comply with these regulations could cause us to incur liabilities and expenses.***

We are subject to a wide array of federal and state laws and regulations regarding the use and disclosure of confidential personal information and security. For example, the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended, and related state laws subject us to substantial restrictions and requirements with respect to the use and disclosure of the personal health information that we obtain in connection with our contracts with CMS and we must establish administrative, physical and technical safeguards to protect the confidentiality of this information. Similar protections extend to the type of personal financial and other information we acquire from our student loan, state tax and federal receivables clients. We are required to notify affected individuals and government agencies of data security breaches involving protected health and certain personally identifiable information. These laws and regulations also require that we develop, implement and maintain written, comprehensive information security programs containing safeguards that are appropriate to protect personally identifiable information or health information against unauthorized access, misuse, destruction or modification. Federal law generally does not preempt state law in the area of protection of personal information, and as a result we must also comply with state laws and regulations. Regulation of privacy, data use and security require that we incur significant expenses, which could increase in the future as a result of additional regulations, all of which adversely affects our results of operations. Failure to comply with these laws and regulations can result in penalties and in some cases expose us to civil lawsuits.

***Our student loan recovery business is subject to extensive regulation and consumer protection laws and our failure to comply with these regulations and laws may subject us to liability and result in significant costs.***

Our student loan recovery business is subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection. The Fair Debt Collection Practices Act (FDCPA), and related state laws provide specific guidelines that we must follow in communicating with holders of student loans and regulates the manner in which we can recover defaulted student loans. Some state attorney generals have been active in this area of consumer protection regulation. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators, as well as frequent litigation from private plaintiffs regarding compliance under the FDCPA and related state regulations. We are also subject to the Fair Credit Reporting Act (FCRA), which regulates consumer credit reporting and may impose liability on us to the extent adverse credit information reported to a credit bureau is false or inaccurate. Our compliance with the FDCPA, FCRA and other federal and state regulations that affect our student loan recovery business may result in significant costs, including litigation costs. We may also become subject to regulations promulgated by the United States Consumer Financial Protection Bureau (CFPB), which was established in July 2011 as part of the Dodd-Frank Act to, among other things, establish regulations regarding consumer financial protection laws. In addition, the CFPB has investigatory and enforcement authority with respect to whether persons are engaged in unlawful acts or practices in connection with the collection of consumer debts.

***Litigation may result in substantial costs of defense, damages or settlement, any of which could subject us to significant costs and expenses.***

We are party to lawsuits in the normal course of business, particularly in connection with our student loan recovery services. For example, we are regularly subject to claims that we have violated the guidelines and procedures that must be followed under federal and state laws in communicating with consumer debtors. We may not ultimately prevail or otherwise be able to satisfactorily resolve any pending or future litigation, which may result in substantial costs of defense, damages or settlement. In the future, we may be required to alter our business practices or pay substantial damages or settlement costs as a result of litigation proceedings, which could adversely affect our business operations and results of operations.

***If we are unable to adequately protect our proprietary technology, our competitive position could be harmed, or we could be required to incur significant costs to enforce our rights.***

The success of our business depends in part upon our proprietary technology platform. We rely on a combination of copyright, patent, trademark, and trade secret laws, as well as on confidentiality procedures and non-compete agreements, to establish and protect our proprietary technology rights. The steps we have taken to deter misappropriation of our proprietary technology may be insufficient to protect our proprietary information. In particular, we may not be able to protect our trade secrets, know-how and other proprietary information adequately. Although we use reasonable efforts to protect this proprietary information and technology, our employees, consultants and other parties may unintentionally or willfully disclose our information or technology to competitors. Enforcing a claim that a third party illegally obtained and is using any of our proprietary information or technology is expensive and time consuming, and the outcome is unpredictable. We rely, in part, on nondisclosure, confidentiality and invention assignment agreements with our employees, consultants and other parties to protect our trade secrets, know-how and other intellectual property and proprietary information. These agreements may not be self-executing, or they may be breached, and we may not have adequate remedies for such breach. Moreover, third parties may independently develop similar or equivalent proprietary information or otherwise gain access to our trade secrets, know-how and other proprietary information. Any infringement, misappropriation or other violation of our patents, trademarks, copyrights, trade secrets, or other intellectual property rights could adversely affect any competitive advantage we currently derive or may derive from our proprietary technology platform and we may incur significant costs associated with litigation that may be necessary to enforce our intellectual property rights.

***Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.***

Our competitors protect their proprietary rights by means of patents, trade secrets, copyrights, trademarks and other intellectual property. Any party asserting that we infringe, misappropriate or violate their intellectual property rights may force us to defend ourselves, and potentially our clients, against the alleged claim. These claims and any resulting lawsuit, if successful, could be time-consuming and expensive to defend, subject us to significant liability for damages or invalidation of our proprietary rights, prevent us from operating all or a portion of our business or force us to redesign our services or technology platform or cause an interruption or cessation of our business operations, any of which could adversely affect our business and operating results. In addition, any litigation relating to the infringement of intellectual property rights could harm our relationships with current and prospective clients. The risk of such claims and lawsuits could increase if we increase the size and scope of our services in our existing markets or expand into new markets.

***We may make acquisitions that prove unsuccessful, strain or divert our resources and harm our results of operations and stock price.***

We may consider acquisitions of other companies in our industry or in new markets. We may not be able to successfully complete any such acquisition and, if completed, any such acquisition may fail to achieve the intended financial results. We may not be able to successfully integrate any acquired businesses with our own and we may be unable to maintain our standards, controls and policies. Further, acquisitions may place additional constraints on our resources by diverting the attention of our management from other business concerns. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities, the incurrence of additional debt, the amortization expenses related to intangible assets, and the potential impairment charges related to intangible assets or goodwill, all of which could adversely affect our results of operations and stock price.

***The price of our common stock could be volatile, and you may not be able to sell your shares at or above the public offering price.***

Since our initial public offering in August 2012, the price of our common stock, as reported by NASDAQ Global Select Market, has ranged from a low sales price of \$0.79 on December 9, 2019 to a high sales price of \$14.09 on March 4, 2013. The trading price of our common stock may be significantly affected by various factors, including: quarterly fluctuations in our operating results; the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections; changes in investors' and analysts' perception of the business risks and conditions of our business; our ability to meet the earnings estimates and other performance expectations of financial analysts or investors; unfavorable commentary or downgrades of our stock by equity research analysts; changes in our capital structure, such as future issuances of debt or equity securities; our success or failure to obtain new contract awards; lawsuits threatened or filed against us; strategic actions by us or our competitors, such as acquisitions or restructurings; new legislation or regulatory actions; changes in our relationship with any of our significant clients; fluctuations in the stock prices of our peer companies or in stock markets in general; and general economic conditions.

***Our significant stockholders have the ability to influence significant corporate activities and our significant stockholders' interests may not coincide with yours.***

Parthenon Capital Partners, Prescott Group Management, LLC, Invesco Ltd., and Mill Road Capital Management LLC beneficially owned approximately 25.0%, 23.2%, 19.0%, and 6.4% of our common stock, respectively, as of March 31, 2020. As a result of their ownership, Parthenon Capital Partners, Prescott Group Management, LLC, Invesco Ltd., and Mill Road Capital Management LLC have the ability to influence the outcome of matters submitted to a vote of stockholders and, through our board of directors, the ability to influence decision making with respect to our business direction and policies. Parthenon Capital Partners, Prescott Group Management, LLC, Invesco Ltd., and Mill Road Capital Management LLC may have interests different from our other stockholders' interests and may vote in a manner adverse to those interests. Matters over which Parthenon Capital Partners, Prescott Group Management, LLC, Invesco Ltd., and Mill Road Capital Management LLC can, directly or indirectly, exercise influence include:

- mergers and other business combination transactions, including proposed transactions that would result in our stockholders receiving a premium price for their shares;
- other acquisitions or dispositions of businesses or assets;
- incurrence of indebtedness and the issuance of equity securities;
- repurchase of stock and payment of dividends; and
- the issuance of shares to management under our equity incentive plans.

In addition, Parthenon Capital Partners has a contractual right to designate a number of directors proportionate to its stock ownership. Further, under our amended and restated certificate of incorporation, Parthenon Capital Partners does not have any obligation to present to us, and Parthenon Capital Partners may separately pursue, corporate opportunities of which it becomes aware, even if those opportunities are ones that we would have pursued if granted the opportunity.

***Anti-takeover provisions contained in our certificate of incorporation and bylaws could impair a takeover attempt that our stockholders may find beneficial.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include the following provisions: establishing a classified board of directors so that not all members of our board are elected at one time; providing that directors may be removed by stockholders only for cause; authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock; limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting; limiting our ability to engage in certain business combinations with any "interested stockholder," other than Parthenon Capital Partners, for a three-year period following the time that the stockholder became an interested stockholder; requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; requiring a super majority vote for certain amendments to our amended and restated certificate of incorporation and amended and restated bylaws; and limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board, to our board of directors then in office. These provisions, alone or together, could have the effect of delaying or deterring a change in control, could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**None.**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

**None.**

**ITEM 4. MINE SAFETY DISCLOSURES**

**None.**

**ITEM 5. OTHER INFORMATION**

**None.**

**ITEM 6. EXHIBITS**

(A) Exhibits:

Exhibit No.	Description
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)</a>
31.2	<a href="#">Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)</a>
32.1 <sup>(1)</sup>	<a href="#">Certification of the Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2 <sup>(1)</sup>	<a href="#">Certification of the Principal Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS <sup>(2)</sup>	XBRL Instance Document
101.SCH <sup>(2)</sup>	XBRL Taxonomy Extension Scheme
101.CAL <sup>(2)</sup>	XBRL Taxonomy Extension Calculation Linkbase
101.DEF <sup>(2)</sup>	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB <sup>(2)</sup>	XBRL Taxonomy Extension Label Linkbase
101.PRE <sup>(2)</sup>	XBRL Taxonomy Extension Presentation Linkbase

- (1) The material contained in Exhibit 32.1 and Exhibit 32.2 is not deemed “filed” with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.
- (2) In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.

**SIGNATURES**

Pursuant to the requirement 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.

Date: May 28, 2020

PERFORMANT FINANCIAL CORPORATION

By: /s/ Lisa Im

Lisa Im

*Chief Executive Officer (Principal Executive Officer)*

By: /s/ Ian Johnston

Ian Johnston

*Vice President and Chief Accounting Officer*

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)**

I, Lisa Im, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Performant Financial Corporation;
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 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 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: May 28, 2020

/s/ Lisa Im

**Lisa Im**

**Chief Executive Officer**

## CERTIFICATION

I, Ian Johnston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Performant Financial Corporation;
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 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 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: May 28, 2020

**/s/ Ian Johnston**

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**Ian Johnston**

**Vice President and Chief Accounting Officer (Principal Financial Officer)**



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa Im, Chief Executive Officer of Performant Financial Corporation, do hereby certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Performant Financial Corporation on Form 10-Q for the quarter ended March 31, 2020 to which this certification is attached fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Performant Financial Corporation

Date: May 28, 2020

By: **/s/ Lisa Im**

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**Lisa Im**  
**Chief Executive Officer**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ian Johnston, Vice President and Chief Accounting Officer (Principal Financial Officer) of Performant Financial Corporation, do hereby certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Performant Financial Corporation on Form 10-Q for the quarter ended March 31, 2020 to which this certification is attached fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Performant Financial Corporation

Date: May 28, 2020

By: /s/ Ian Johnston

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**Ian Johnston**  
**Vice President and Chief Accounting Officer (Principal  
Financial Officer)**