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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

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

PERFORMANT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**20-0484934**
(State or other jurisdiction of incorporation or organization)	**(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)

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	☐	Emerging growth company	☐
Non-accelerated filer	☐	Smaller reporting company	☒		

☐ If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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

The number of shares of Common Stock outstanding as of August 11, 2021 was 56,404,654.

PERFORMANT FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2021
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PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 9,949	$ 16,043
Restricted cash	2,203	2,253
Trade accounts receivable, net of allowance for doubtful accounts of $49 and $49, respectively	19,056	23,216
Contract assets	5,770	4,466
Prepaid expenses and other current assets	3,407	3,784
Income tax receivable	5,692	4,758
Total current assets	46,077	54,520
Property, equipment, and leasehold improvements, net	16,005	17,497
Identifiable intangible assets, net	72	689
Goodwill	47,372	47,372
Right-of-use assets	4,028	5,043
Other assets	985	1,106
Total assets	$ 114,539	$ 126,227
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of notes payable to related party, net of unamortized debt issuance costs of $1,001 and $906, respectively	$ 8,149	$ 59,957
Accrued salaries and benefits	7,727	8,799
Accounts payable	846	407
Other current liabilities	3,511	3,841
Deferred revenue	—	867
Estimated liability for appeals, disputes, and refunds	4,500	1,014
Lease liabilities	2,207	2,327
Total current liabilities	26,940	77,212
Notes payable to related party, net of current portion and unamortized debt issuance costs of $4,819 and $0, respectively	39,243	—
Lease liabilities	2,395	3,442
Other liabilities	3,090	3,593
Total liabilities	71,668	84,247
Commitments and contingencies (note 3 and note 4)		
Stockholders' equity:		
Common stock, $0.0001 par value. Authorized, 500,000 shares at June 30, 2021 and December 31, 2020 respectively; issued and outstanding 56,401 and 54,764 shares at June 30, 2021 and December 31, 2020, respectively	6	5
Additional paid-in capital	89,784	82,933
Accumulated deficit	(46,919)	(40,958)
Total stockholders' equity	42,871	41,980
Total liabilities and stockholders' equity	$ 114,539	$ 126,227

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues	$ 32,842	$ 33,785	$ 64,232	$ 79,673
Operating expenses:				
Salaries and benefits	23,295	22,166	47,385	50,971
Other operating expenses	10,759	9,042	21,115	21,262
Impairment of goodwill	—	8,000	—	27,000
Total operating expenses	34,054	39,208	68,500	99,233
Loss from operations	(1,212)	(5,423)	(4,268)	(19,560)
Gain on sale of certain recovery contracts	1,849	—	1,849	—
Interest expense	(2,126)	(2,031)	(3,472)	(4,258)
Interest income	—	6	—	12
Loss before provision for (benefit from) income taxes	(1,489)	(7,448)	(5,891)	(23,806)
Provision for (benefit from) income taxes	33	(249)	70	(4,123)
Net loss	$ (1,522)	$ (7,199)	$ (5,961)	$ (19,683)
Net loss per share				
Basic	$ (0.03)	$ (0.13)	$ (0.11)	$ (0.36)
Diluted	$ (0.03)	$ (0.13)	$ (0.11)	$ (0.36)
Weighted average shares				
Basic	55,516	54,267	55,167	54,105
Diluted	55,516	54,267	55,167	54,105

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 June 30, 2021					Three Months Ended June 30, 2020				
	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	54,825	$ 5	$ 83,559	$ (45,397)	$ 38,167	54,022	$ 5	$ 81,196	$ (39,453)	$ 41,748
Common stock issued under stock plans, net of shares withheld for employee taxes	1,276	1	(587)	—	(586)	440	—	(165)	—	(165)
Stock-based compensation expense	—	—	774	—	774	—	—	649	—	649
Recognition of warrants associated with notes payable	—	—	5,237	—	5,237	—	—	—	—	—
Recognition of earnout shares issued	300	—	801	—	801	—	—	—	—	—
Net loss	—	—	—	(1,522)	(1,522)	—	—	—	(7,199)	(7,199)
Balances at end of period	56,401	$ 6	$ 89,784	$ (46,919)	$ 42,871	54,462	$ 5	$ 81,680	$ (46,652)	$ 35,033

	Six Months Ended June 30, 2021					Six Months Ended June 30, 2020				
	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	54,764	$ 5	$ 82,933	$ (40,958)	$ 41,980	53,900	$ 5	$ 80,589	$ (26,969)	$ 53,625
Common stock issued under stock plans, net of shares withheld for employee taxes	1,337	1	(610)	—	(609)	562	—	(249)	—	(249)
Stock-based compensation expense	—	—	1,423	—	1,423	—	—	1,340	—	1,340
Recognition of warrants associated with notes payable			5,237		5,237	—	—	—	—	—
Recognition of earnout shares issued	300	—	801	—	801					
Net loss	—	—	—	(5,961)	(5,961)	—	—	—	(19,683)	(19,683)
Balances at end of period	56,401	$ 6	$ 89,784	$ (46,919)	$ 42,871	54,462	$ 5	$ 81,680	$ (46,652)	$ 35,033

See accompanying notes to consolidated financial statements.

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (5,961)	$ (19,683)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment of long-lived assets	674	25
Impairment of goodwill	—	27,000
Depreciation and amortization	3,040	2,795
Right-of-use assets amortization	1,015	1,275
Stock-based compensation	1,423	1,340
Interest expense from debt issuance costs	1,133	763
Earnout mark-to-market	—	(162)
Gain on sale of certain recovery contracts	(1,849)	—
Changes in operating assets and liabilities:		
Trade accounts receivable	3,417	6,577
Contract assets	(1,304)	362
Prepaid expenses and other current assets and other assets	564	109
Income tax receivable	(934)	(1,860)
Other assets	121	(180)
Accrued salaries and benefits	(1,072)	(1,710)
Accounts payable	439	(1,135)
Deferred revenue and other current liabilities	(1,147)	(112)
Estimated liability for appeals, disputes, and refunds	3,486	197
Lease liabilities	(1,167)	(1,126)
Other liabilities	(414)	1,279
Net cash provided by operating activities	1,464	15,754
Cash flows from investing activities:		
Purchase of property, equipment, and leasehold improvements	(1,604)	(1,943)
Proceeds from sale of certain recovery contracts	2,406	—
Net cash provided by (used) in investing activities	802	(1,943)
Cash flows from financing activities:		
Repayment of notes payable	(7,650)	(1,725)
Debt issuance costs paid	(150)	—
Taxes paid related to net share settlement of stock awards	(633)	(248)
Proceeds from exercise of stock options	23	—
Net cash used in financing activities	(8,410)	(1,973)
Net increase (decrease) in cash, cash equivalents and restricted cash	(6,144)	11,838
Cash, cash equivalents and restricted cash at beginning of period	18,296	4,995
Cash, cash equivalents and restricted cash at end of period	$ 12,152	$ 16,833
Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:		
Cash and cash equivalents	$ 9,949	$ 15,211
Restricted cash	2,203	1,622
Total cash, cash equivalents and restricted cash at end of period	$ 12,152	$ 16,833

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
Non-cash financing activities:		
Recognition of earnout shares issued	$ 801	$ —
Recognition of warrants associated with notes payable	$ 5,237	$ —
Supplemental disclosures of cash flow information:		
Cash paid (received) for income taxes	$ 1,482	$ (2,309)
Cash paid for interest	$ 2,340	$ 3,495

See accompanying notes to consolidated financial statements.

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES
Notes To Consolidated Financial Statements
(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 June 30, 2021, and the results of our operations for the three and six months ended June 30, 2021 and 2020 and cash flows for the six months ended June 30, 2021 and 2020. 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, 2020.

Performant Financial Corporation (the "Company" or "we") is a leading provider of technology-enabled audit, recovery, and analytics services in the United States with a focus in the healthcare payment integrity services industry. The Company works with healthcare payers through claims auditing and eligibility-based (also known as coordination-of-benefits) services to identify improper payments. The Company engages clients in both government and commercial markets. The Company also has a call center which serves clients with complex consumer engagement needs. Clients of the Company typically operate in complex and highly regulated environments and contract for their payment integrity needs in order to reduce losses on improper healthcare payments.

The Company historically worked in recovery markets such as defaulted student loans, federal and state treasury receivables, and commercial recovery. However, with the ongoing impact of the COVID-19 pandemic, and the continued pause on student loan recovery work through 2021, the Company announced on March 29, 2021, that it has signed an agreement to sell certain of its non-healthcare recovery contracts and that it does not plan to renew or restart existing contracts, nor pursue new non-healthcare recovery opportunities.

The Company's consolidated financial statements include the operations of Performant Financial Corporation (Performant), its wholly-owned subsidiary Performant Business Services, Inc. (PBS), and PBS's wholly-owned subsidiaries Performant Recovery, Inc. (Recovery), Performant Technologies, LLC (PTL), and Premiere Credit of North America, LLC (Premiere). Performant is a Delaware corporation headquartered in California and was formed in 2003. 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. Premiere is an Indiana limited liability company acquired by Performant on August 31, 2018. 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, deferred revenue, estimated liability for appeals, disputes, and refunds, lease liabilities, 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.

The Company believes that its forecasted results 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.

(c) Revenues, Accounts Receivable, Contract Assets, Contract Liabilities, Estimated Liability for Appeals, Disputes and Refunds

The Company derives its revenues primarily from providing audit, recovery, and analytics services. Revenues are recognized upon completion of these services for 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; and
- 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.

The Company's contracts are composed primarily of variable consideration. Fees earned under the Company's audit and 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 bonuses determined based on its performance relative to the client's other contractors providing similar services.

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 estimates variable consideration only if it can reasonably measure the progress toward complete satisfaction of the performance obligation using an output method based on reliable information, 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. Any change made to the measure of progress toward complete satisfaction of the Company's performance obligation is recorded as a change in estimate. The Company exercises judgment to estimate the amount of constraint on variable consideration based on the facts and circumstances of the relevant contract operations and the availability and reliability of data. Although the Company believes the estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the amount of variable consideration.

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

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 bonuses are considered variable and may be constrained by the Company until there is not a risk of a significant reversal.

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.

For healthcare claims-based audit contracts, 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 based on an output metric that reasonably measures the Company's satisfaction of its performance obligation.

For eligibility-based or coordination-of-benefits contracts, the Company recognizes revenue when insurance companies or other responsible parties have remitted payments to its clients.

For certain recovery contracts, revenue is recognized when the clients collect on amounts owed to them as a result of the Company's services. For student loan recovery services, loan rehabilitation revenue is recognized when the rehabilitated loans are funded by clients. Bonuses are recognized upon receipt of official notification of bonus awards from customers.

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 and six months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Eligibility-based	11,577	11,292	19,488	22,241
Claims-based	7,025	3,301	12,400	9,876
Healthcare Total	18,602	14,593	31,888	32,117
Recovery [1]	11,091	16,167	25,582	40,432
Customer Care / Outsourced Services	3,149	3,025	6,762	7,124
Total Revenues	$ 32,842	$ 33,785	$ 64,232	$ 79,673

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

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 consider remote. The allowance for doubtful accounts was $49 thousand at June 30, 2021 and December 31, 2020.

Healthcare providers have the right to appeal claims audit findings and may pursue additional appeals if the initial appeal is found in favor of healthcare clients. For coordination-of-benefits contracts, insurance companies or other responsible parties may dispute the Company's findings regarding our clients not being the primary payer of healthcare claims. Total estimated liability for appeals, disputes, and refunds was $4.5 million as of June 30, 2021 and $1.0 million as of December 31, 2020. This represents the Company's best estimate of the amount probable of being refunded to the Company's healthcare clients. This liability included a $3.3 million refund accrual to a healthcare client related to eligibility-based services.

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

Contract assets totaled $5.8 million and $4.5 million as of June 30, 2021 and December 31, 2020, respectively. Contract assets relate to the Company's rights to consideration for services completed, but not invoiced at the reporting date, and receipt of payment is conditional upon factors other than the passage of time. Contract assets primarily consist of commissions the Company estimates it has earned from completed claims audit findings submitted to healthcare clients. Generally, the Company's right to payment occurs when contract assets are recorded to accounts receivable when the rights become unconditional, which is generally healthcare providers have paid our healthcare clients. There was no impairment loss related to contract assets for the six months ended June 30, 2021.

Contract liabilities was nil and $0.9 million as of June 30, 2021 and December 31, 2020, respectively, and are included in deferred revenue on the consolidated balance sheets. The Company's contract liabilities mainly relate to an advance recovery commission payment received from a client, for which the Company anticipates revenue to be recognized as services are delivered.

(d) Prepaid Expenses and Other Current Assets

At June 30, 2021, prepaid expenses and other current assets were $3.4 million and included approximately $2.1 million related to prepaid software licenses and maintenance agreements, $0.5 million for prepaid insurance, and $0.8 million for various other prepaid expenses. At December 31, 2020, prepaid expenses and other current assets were $3.8 million and included approximately $1.8 million related to prepaid software licenses and maintenance agreements, $1.4 million for prepaid insurance, and $0.6 million for various other prepaid expenses.

(e) Impairment of Goodwill and Long-Lived Assets

The balance of goodwill was $47.4 million as of June 30, 2021 and December 31, 2020, which was net of accumulated impairment loss of $34.2 million. Goodwill is reviewed for impairment at least annually in December or as certain events or conditions arise. The Company may first assess qualitative factors for indicators of impairment to determine whether it is necessary to perform the quantitative goodwill impairment test. 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 analysis, there was no impairment to goodwill as of June 30, 2021.

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 impairment to intangible assets and the estimated useful lives of customer relationship intangible assets were shortened in line with the expected termination of the related contracts, which had an immaterial impact on the consolidated statement of operations. There was a $0.6 million non-cash impairment charge to long-lived assets for the six months ended June 30, 2021, included in other operating expenses. The estimated useful lives of long-lived assets associated with certain recovery contracts were also shortened in line with the expected cessation of the related contracts.

(f) Other Current Liabilities

At June 30, 2021, other current liabilities primarily included $3.2 million for services received for which we have not received an invoice, and $0.3 million for estimated workers' compensation claims incurred but not reported. At December 31, 2020, other current liabilities primarily included $3.4 million for services received for which we have not received an invoice, $0.2 million for estimated workers' compensation claims incurred but not reported, and $0.2 million for 3rd party fees and equipment financing payables.

(g) New Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". This ASU clarifies and simplifies accounting for income taxes by eliminating certain exceptions for intra-period tax allocation principles and the methodology for calculating income tax rates in an interim period, among other updates. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company's adoption of ASU 2019-12 as of January 1, 2021 had no material impact on our financial position, results of operations, or cash flows.

In February 2020, the FASB issued ASU 2020-02, "Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)." This ASU provides updated guidance on how an entity should measure credit losses on financial instruments, including trade receivables, held at the reporting date. The amendments make each Topic easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. It also addresses transition and open effective date information for Topic 842. ASU 2016-13, ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-11 and ASU 2020-02 (collectively, "ASC 326") are effective for public entities for fiscal years beginning after December 15, 2019, 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 15, 2022.

In March 2020, the FASB issued ASU No 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"). ASU 2020-04 provides temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. ASU 2020-04 is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company does not expect ASU 2020-04 to have a material effect on the Company's current financial position, results of operations or financial statement disclosures.

(h) Recovery Contracts

On March 29, 2021, the Company announced that it signed an agreement to sell certain of its non-healthcare recovery contracts, and that while the Company will continue to fulfill its current recovery contracts, it does not plan to renew or restart existing contracts, nor pursue new non-healthcare recovery opportunities, so that the Company may focus on its healthcare market.

The sale of the majority of these contracts was completed on May 24, 2021, which resulted in a $1.8 million gain as presented on the consolidated statements of operations and consolidated statements of cash flows, and $2.4 million of proceeds as presented on the consolidated statements of cash flows.

The ongoing impact of the COVID-19 pandemic and the continued pause on student loan recovery work, which was most recently extended to January 31, 2022, in conjunction with the Company's announcement to not renew or restart existing contracts has resulted in significantly reduced levels of recovery activity and related staffing requirements. The Company incurred $1.2 million and $1.5 million in severance expense for three months and six months ended June 30, 2021, respectively, which was recorded in salaries and benefits on the consolidated statement of operations. The amount of severance accrued as of June 30, 2021 was not material.

2. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2021 and December 31, 2020 (in thousands):

	June 30, 2021	December 31, 2020
Land	$ 1,943	$ 1,943
Building and leasehold improvements	7,418	7,591
Furniture and equipment	5,764	5,922
Computer hardware and software	79,810	80,358
	94,935	95,814
Less accumulated depreciation and amortization	(78,930)	(78,317)
Property, equipment and leasehold improvements, net	$ 16,005	$ 17,497

Depreciation expense of property, equipment and leasehold improvements was $1.5 million and $1.2 million for the three months ended June 30, 2021 and 2020, respectively, and $2.5 million and $2.7 million for the six months ended June 30, 2021 and 2020, respectively.

3. Notes Payable

On August 7, 2017, we, through our wholly-owned subsidiary Performant Business Services, Inc., entered into a credit agreement (as amended, the “Credit Agreement”) with ECMC Group, Inc, as the lender. 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 Loans by one year to August 2021, (ii) increase the commitment for Additional Term Loans from $15 million to $25 million, (iii) extend the period during which Additional Term Loans were able to have been borrowed by one year to August 2020 and, (iv) not require compliance with the financial covenants in the Credit Agreement during the six fiscal quarters following our acquisition of Premiere.

On March 21, 2019, we entered into Amendment No. 3 to the Credit Agreement to, among other things, extend the period during which we would not be required to comply with the financial covenants in the Credit Agreement until the quarter ending June 30, 2020. On September 19, 2019, we entered into Amendment No. 4 to the Credit Agreement to, among other things, designate one of our subsidiary guarantors under the Credit Agreement as a borrower and make corresponding changes and related to such change. As of September 30, 2019, the Company had borrowed all of the $25 million available as Additional Term Loans.

On May 24, 2021, Amendment No. 5 to the Credit Agreement (the “Fifth Amendment”) became effective upon the consummation of the sale of certain non-healthcare recovery contracts and satisfaction of certain conditions specified therein, including a prepayment of $6.0 million of the Loans. As a result, the maturity date of the Credit Agreement was extended until August 11, 2022 and the financial covenants were modified as described below. This amendment was accounted for as a modification in accordance with ASC 470-50, *Debt Modifications and Extinguishments.*

As of June 30, 2021, $53.2 million was outstanding under the Credit Agreement.

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 was 9.5% at June 30, 2021 and 6.5% as of December 31, 2020. Annually, the Company is required to pay 5% of the original principal balance of the Loans, adjusted by the prepayment made in connection with the Fifth Amendment, in quarterly installments. The Company is also required 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. A prepayment of $6.0 million was made in connection with the Fifth Amendment, which also eliminated the requirement to make a mandatory prepayment in May 2021 on account of excess cash flows for the prior fiscal year. The Company will be required to make a mandatory prepayment, in May 2022, of at least $6.0 million on account of excess cash flow for the fiscal year ending 2021, subject to reduction in accordance with the Credit Agreement for any other prepayments made prior to the end of such fiscal year.

The Credit Agreement, as amended, contains certain financial covenants, which require, that we: (1) achieve a minimum fixed charge coverage ratio of 0.75 to 1.0 through December 31, 2021, 1.0 to 1.0 through June 30, 2022, and 1.25 to 1.0 thereafter; and (2) maintain a maximum total debt to EBITDA ratio of 8.0 to 1.0 through June 30, 2021, 7.0 to 1.0 through September 30, 2021, and 6.0 to 1.0 thereafter. 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. As of June 30, 2021, the Company was in compliance with all financial covenants.

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 borrowers.

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 three month period ended June 30, 2017) for each $1.0 million of such Additional Term Loans.

Similarly, upon the effectiveness of the Fifth Amendment and the extension of the maturity of the loans for a one-year period, the Company was required to issue additional warrants at the exercise price of $0.96 per share to purchase up to an aggregate of 515,110 additional shares of common stock of the Company, the "Exercise Price" for a portion of the existing warrants issued to ECMC to purchase 1,931,663 shares of common stock of the Company was reduced from $1.92 to $0.96 per share, and the contractual term of the existing warrants issued to ECMC to purchase 3,863,326 shares of common stock of the Company was extended to August 11, 2023. In addition, upon the effectiveness of the Fifth Amendment, the Company issued to ECMC 300,000 shares of common stock of the Company in connection with an amendment to the Agreement for Purchase of LLC Membership Interests between ECMC Holdings Corporation and the Company, dated as of August 9, 2018 (as amended), and the full satisfaction of certain earnouts pursuant to such agreement.

If the Company extends maturity of the Loans for an additional one-year period to August 11, 2023, the Company will be required to issue additional warrants at the exercise price of $0.96 per share to purchase up to an aggregate of 772,665 additional shares of common stock of the Company (which represents approximately 1.5% of our diluted common stock, calculated using the "treasury stock" method as defined under U.S. GAAP for the three month period ended June 30, 2017, if exercised). The warrants issued for the first extension period noted above represented approximately 1.0% of our diluted common stock, calculated using the same method.

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 were treated as a discount to the associated Loans. These amounts were being amortized to interest expense under the effective interest method over the life of the Loans, respectively, which is a period of 48 months ending August 11, 2021.

Upon the effectiveness of the Fifth Amendment, the Company estimated the fair values of the modified 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	May 2021 Issuance
Exercise price	$1.92	$0.96	$0.96	$0.96	$0.96	$0.96	$0.96
Share price on date of modification/issuance	$2.67	$2.67	$2.67	$2.67	$2.67	$2.67	$2.67
Volatility	80.0%	77.5%	72.5%	72.5%	70.0%	70.0%	65.0%
Risk-free interest rate	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.8%
Expected dividend yield	—%	—%	—%	—%	—%	—%	—%
Contractual term (in years)	2.2	2.4	2.9	3.0	3.2	3.3	5.0
Number of shares	3,863,326	309,066	386,333	463,599	386,333	386,333	515,110
Fair value of warrants	$5.6 million	$0.6 million	$0.7 million	$0.9 million	$0.7 million	$0.7 million	$1.0 million

The fair values of the warrants issued in May 2021, the incremental fair values of the warrants modified by the Fifth Amendment, and the incremental fair value of the 300,000 shares of common stock issued to ECMC to settle the earnout payable were treated as a discount to the associated Loans, along with a $0.2 million loan amendment fee. These amounts totaled approximately $6.1 million on the effective date of the debt modification and are being amortized to interest expense under the effective interest method over the life of the Loans, which is a period of approximately fourteen months ending August 11, 2022.

Outstanding debt obligations as of June 30, 2021 were as follows (in thousands):

		June 30, 2021
Principal amount	$	53,213
Less unamortized discount and issuance costs		(5,821)
Notes payable, net of unamortized discount and issuance costs		47,392
Less current maturities, net of unamortized discount and issuance costs		(8,149)
Long-term notes payable, net of current maturities and unamortized discount and issuance costs	$	39,243

4. Leases

The Company has entered into various non-cancelable operating lease agreements for office facilities and equipment with original lease periods expiring between 2021 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 $0.6 million and $0.8 million for the three months ended June 30, 2021 and 2020, respectively, and $1.2 million and $1.6 million for the six months ended June 30, 2021 and 2020, respectively.

Supplemental cash flow and other information related to operating leases was as follows:

	June 30, 2021	June 30, 2020
Weighted Average Remaining Lease Term (in years)	2.7	3.1
Weighted Average Discount Rate	6.5%	6.7%
Cash paid for amounts included in the measurement of operating lease liabilities	$0.7 million	$0.5 million

The following is a schedule, by years, of maturities of lease liabilities as of June 30, 2021 (in thousands):

Year Ending December 31,	Amount
Remainder of 2021	$ 1,306
2022	1,939
2023	819
2024	585
2025	398
Thereafter	—
Total undiscounted cash flows	$ 5,047
Less imputed interest	(445)
Present value of lease liabilities	$ 4,602

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 $0.8 million and $0.7 million for the three months ended June 30, 2021 and 2020 respectively, and $1.4 million and $1.3 million for the six months ended June 30, 2021 and 2020, respectively.

The following table sets forth a summary of the Company's stock option activity for the six months ended June 30, 2021:

	Outstanding Options	Weighted average exercise price per share	Weighted average remaining contractual life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2020	1,815,561	$ 10.31	1.92	$ —
Granted	—	—		—
Forfeited	(97,725)	9.66		—
Exercised	(6,500)	3.57		—
Outstanding at June 30, 2021	1,711,336	$ 10.37	1.40	$ —
Vested, exercisable, expected to vest[(1)] at June 30, 2021	1,711,336	$ 10.37	1.40	$ —
Exercisable at June 30, 2021	1,711,336	$ 10.37	1.40	$ —

[(1)] Options expected to vest reflect an estimated forfeiture rate.

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 six months ended June 30, 2021:

	Number of Awards	Weighted average grant date fair value per share
Outstanding at December 31, 2020	4,592,644	$ 1.27
Granted	30,000	2.03
Forfeited	(443,363)	1.47
Vested and converted to shares, net of units withheld for taxes	(1,330,828)	1.40
Units withheld for taxes	(297,856)	1.40
Outstanding at June 30, 2021	2,550,597	$ 1.16
Expected to vest at June 30, 2021	2,244,363	$ 1.16

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 year to four years.

6. Income Taxes

The Company's effective income tax rate changed to (1)% for the six months ended June 30, 2021 from 17% for the six months ended June 30, 2020. The change in the effective tax rate is primarily driven by overall losses from operations for the six months ended June 30, 2021 for which no benefit is recognized due to valuation allowance compared to the net operating loss (“NOL”) carryback benefit recorded as a result of the provisions of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") for the six months ended June 30, 2020.

The Company files income tax returns with the U.S. federal government and various state jurisdictions. The Company operates in a number of state and local jurisdictions, most of which have never audited our records. Accordingly, the Company is subject to state and local income tax examinations based upon the various statutes of limitations in each jurisdiction. For tax years before 2017, the Company is no longer subject to Federal and certain other state tax examinations. The Company was previously examined by the Franchise Tax Board (“FTB”) of California for tax years 2011 through 2014 and received the final signed settlement agreement from the FTB in July 2021, which formally closed out the audit. The Company is currently being examined by the Internal Revenue Service for tax year 2017.

7. Net Income (Loss) per Share

For the three and six months ended June 30, 2021 and 2020, basic net income (loss) per share is calculated by dividing net income (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 six months ended June 30, 2021 and 2020, 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Weighted average shares outstanding – basic	55,516	54,267	55,167	54,105
Dilutive effect of stock options	—	—	—	—
Weighted average shares outstanding – diluted	55,516	54,267	55,167	54,105

8. Subsequent Events

We have evaluated subsequent events through the date these consolidated financial statements are 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 the markets in which we operate; 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, and analytics services in the United States with a focus in the healthcare payment integrity industry. We work with healthcare payers through claims auditing and eligibility-based (also known as coordination-of-benefits) services to identify improper payments. We engage clients in both government and commercial markets. We also have a call center which serves clients with complex consumer engagement needs. Our clients typically operate in complex and highly regulated environments and contract for their payment integrity needs in order to reduce losses on improper healthcare payments.

We historically worked in recovery markets such as defaulted student loans, federal and state treasury receivables, and commercial recovery. However, with the ongoing impact of the COVID-19 pandemic in 2020, and the continued pause on student loan recovery work through 2021, we announced on March 29, 2021, that we signed an agreement to sell certain of our non-healthcare recovery contracts and that we do not plan to renew or restart our other existing non-healthcare recovery contracts, nor pursue new non-healthcare recovery opportunities. The sale of the majority of these contracts subject to our announcement in March 2021 was finalized on May 24, 2021.

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.

COVID-19 Pandemic Update

We continue to face uncertainty around the breadth, severity, and duration of business disruptions related to the COVID-19 pandemic, as well as its impact on the U.S. economy, the ongoing business operations of our clients, and the results of our operations and financial condition. While our management team continues to actively monitor the impacts of the COVID-19 pandemic, particularly the impact of recent coronavirus variants, such as the Delta variant, and may take further actions to 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 continuing impact of the COVID-19 pandemic on our results of operations, financial condition, or liquidity for fiscal year 2021 and beyond cannot be estimated at this point.

The following discussions are subject to the effects of the COVID-19 pandemic 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 recovery, 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Eligibility-based	$ 11,577	$ 11,292	$ 19,488	$ 22,241
Claims-based	7,025	3,301	12,400	9,876
Healthcare Total	18,602	14,593	31,888	32,117
Recovery [(1)]	11,091	16,167	25,582	40,432
Customer Care / Outsourced Services	3,149	3,025	6,762	7,124
Total Revenues	$ 32,842	$ 33,785	$ 64,232	$ 79,673

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

Healthcare

We derive revenues from both commercial and government clients by providing healthcare payment integrity services, which include claims-based and eligibility-based services. Revenues earned under claims-based 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. Eligibility-based services, which may also be referred to as coordination-of-benefits, involve identifying and recovering payments in situations where our client should not be the primary payer of healthcare claims because a member has other forms of insurance coverage. 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 or disputed following payment by the provider.

For our healthcare business, our business strategy is focused on utilizing our technology-enabled services platform to provide claims-based, eligibility-based, and analytical services for healthcare payers. Revenues from our healthcare services were $31.9 million for the six months ended June 30, 2021 compared to revenues of $32.1 million that we earned from our healthcare clients during the six months ended June 30, 2020.

In 2017, we were awarded the Medicare Secondary Payer Commercial Payment Center (MSP) contract by the Centers for Medicare and Medicaid Services (“CMS"). Under this agreement, we are responsible for coordination-of-benefits, which includes 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.

In 2016, CMS awarded two new Medicare Recovery Audit Contractor (“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 Durable Medical Equipment, Prosthetics, Orthotics and Supplies (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.

In March 2021, CMS re-awarded the Region 1 RAC contract after a competitive procurement process. The renewed contract has an 8.5-year term.

Many of our healthcare clients are expanding the scope of services that we provide, and during 2021, we continued to renew contracts by way of competitive procurement. We believe this growth trend will continue as our suite of payment integrity services further matures and scales. Going forward, we anticipate that our healthcare revenues will drive the majority of overall company revenue growth.

Recovery

Historically, the recovery market revenues contributed a majority of our revenues. However, the COVID-19 pandemic had a significant impact on our recovery revenues. On March 29, 2021, we announced that we signed an agreement to sell certain of our non-healthcare recovery contracts and that while we will continue to fulfill our current recovery contracts, we do not plan to renew or restart existing contracts, nor pursue new non-healthcare recovery opportunities.

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

Since 2017, we have served as one of four companies to perform recovery services for the IRS 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. Our contract with the IRS will expire in September 2021.

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), a bureau of the Department of the Treasury. As of June 30, 2021, all of our contractual relationships with the Department of the Treasury had ended.

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. Effective as of May 24, 2021, certain of these contracts were sold as noted above, and we do not plan to renew existing non-healthcare recovery contracts, nor pursue new non-healthcare recovery opportunities.

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 consisted of several of the largest guaranty agencies (GAs). In 2020, with the onset of the COVID-19 pandemic, student lending placement volumes reduced significantly, or stopped altogether, as a result of government mandates under the CARES Act to pause student lending recovery activities. We expect no additional placement volumes as a result of the most recent extension, announced in August 2021, of the pause on student lending recovery activities to January 31, 2022. While we were able to continue to recognize student loan related revenue throughout 2020 due to our existing in-process borrower rehabilitation agreements, we have not processed many new loan rehabilitations since the pause went into effect. As a result, for 2021, we anticipate that there will be a significant reduction to our annual recovery revenue.

Customer Care / Outsourced Services

We 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. Our largest customer care client recently announced its intention to end its services under its existing contract with the Federal government when the existing contract expires. While the impact of this development in scope and timing is uncertain, it may result in a significant reduction in our customer care revenues after our contract with our largest customer care client expires in mid-2022. 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 expenses include 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 new contracts, 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 Department of Education's contract procurement process in 2018, or delays associated with system implementations, such as the delays experienced with the implementation of our first RAC contracts 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.

Claims Volume

Our claims-based audit business reflects the scale of claims which are deemed permissible to audit by certain of our healthcare clients. Non-permissible claims may result from client product lines which are determined by our clients to be out of scope of our audit services, claims related to excluded providers or excluded provider groups, changes in policy, or other factors such as geographies disrupted by natural disasters or a global pandemic like the COVID-19 pandemic.

Claims volume provided by our healthcare clients also impact our eligibility-based services. To the extent claims volume is impacted by any of the factors above, it may result in an adverse effect on our revenues and results of operations.

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. Changes in contingency fee percentages set by our clients may have a material effect on our revenues and results of operations.

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 audit or the manner in which any such delinquent loans, receivables and claims can be recovered by our clients will affect our revenues and results of operations.

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, which was subsequently extended through September 30, 2021.

In addition, our entry into the healthcare market was facilitated by the 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 Medicare program 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. Our revenues could decline 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.

Macroeconomic Factors

Certain macroeconomic factors influence our business and results of operations. For example, 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 audit, recovery, and analytics services. Revenues are recognized when upon completion of these services for our customers, in an amount that reflects the consideration we 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; and
- 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.

Our contracts are composed primarily of variable consideration. Fees earned under our audit and 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.

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 estimate variable consideration only if we can reasonably measure our progress toward complete satisfaction of the performance obligation using an output method based on reliable information, and recognize 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. Any change made to the measure of progress toward complete satisfaction of our performance obligation is recorded as a change in estimate. 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 and reliability of data. Although we believe the estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the amount of variable consideration.

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

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.

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.

Healthcare providers have the right to appeal claims audit findings and may pursue additional appeals if the initial appeal is found in favor of healthcare clients. For coordination-of-benefits contracts, insurance companies or other responsible parties may dispute the Company’s findings regarding our clients not being the primary payer of healthcare claims. Total estimated liability for appeals, disputes, and refunds was $4.5 million as of June 30, 2021 and $1.0 million as of December 31, 2020. This represents the Company’s best estimate of the amount probable of being refunded to the Company’s healthcare clients. This liability includes a $3.3 million refund accrual to a healthcare client related to eligibility-based services.

Contract assets totaled $5.8 million and $4.5 million as of June 30, 2021 and December 31, 2020, respectively. Contract assets relate to the Company’s rights to consideration for services completed, but not invoiced at the reporting date, and receipt of payment is conditional upon factors other than the passage of time. Contract assets primarily consist of commissions the Company estimates it has earned from completed claims audit findings submitted to healthcare clients. Generally, the Company’s right to payment occurs when contract assets are recorded to accounts receivable when the rights become unconditional, which is generally healthcare providers have paid our healthcare clients. There was no impairment loss related to contract assets for the six months ended June 30, 2021.

Contract liabilities was nil and $0.9 million as of June 30, 2021 and December 31, 2020, respectively, and are included in deferred revenue on the consolidated balance sheets. The Company’s contract liabilities mainly relate to an advance recovery commission payment received from a client, for which the Company anticipates revenue to be recognized as services are delivered.

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 June 30, 2021 compared to the Three Months Ended June 30, 2020

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

	Three Months Ended June 30,			
	2021	2020	$ Change	% Change
	(in thousands)			
Consolidated Statement of Operations Data:				
Revenues	$ 32,842	$ 33,785	$ (943)	(3) %
Operating expenses:				
Salaries and benefits	23,295	22,166	1,129	5 %
Other operating expenses	10,759	9,042	1,717	19 %
Impairment of goodwill	—	8,000	(8,000)	(100) %
Total operating expenses	34,054	39,208	(5,154)	(13) %
Loss from operations	(1,212)	(5,423)	4,211	78 %
Gain on sale of certain recovery contracts	1,849	—	1,849	100 %
Interest expense	(2,126)	(2,031)	(95)	(5) %
Interest income	—	6	(6)	(100) %
Loss before provision for (benefit from) income taxes	(1,489)	(7,448)	5,959	80 %
Provision for (benefit from) income taxes	33	(249)	(282)	113 %
Net loss	$ (1,522)	$ (7,199)	$ 5,677	79 %

Revenues

Total revenues were $32.8 million for the three months ended June 30, 2021, a decrease of approximately 3%, compared to total revenues of $33.8 million for the three months ended June 30, 2020.

Healthcare revenues were $18.6 million for the three months ended June 30, 2021, representing an increase of $4.0 million, or 27%, compared to the three months ended June 30, 2020. This increase in healthcare revenues was primarily attributable to claims-based services as most clients paused our work during the pandemic in the prior year.

Recovery revenues were $11.1 million for the three months ended June 30, 2021, representing a decrease of $5.1 million, or 31%, compared to the three months ended June 30, 2020. The decrease was primarily due to the COVID-19 pandemic that caused many of our customers to pause work on our recovery contracts and our decision to not renew or extend existing recovery contracts.

Customer Care / Outsourced Services revenues were $3.1 million for the three months ended June 30, 2021, representing a decrease of $0.1 million, or 4%, compared to the three months ended June 30, 2020.

Salaries and Benefits

Salaries and benefits expense was $23.3 million for the three months ended June 30, 2021, an increase of $1.1 million, or 5%, compared to salaries and benefits expense of $22.2 million for the three months ended June 30, 2020. The increase in salaries and benefits expense was primarily driven by increased severance costs for reductions in force related to lower activities in non-healthcare recovery contracts.

Other Operating Expenses

Other operating expenses were $10.8 million for the three months ended June 30, 2021, compared to other operating expenses of $9.0 million for the three months ended June 30, 2020. The increase in other operating expenses was primarily due to consulting fees and an increase in depreciation and amortization expenses related to shortening the estimated useful lives of certain recovery assets.

Income (Loss) from Operations

As a result of the factors described above, loss from operations was $1.2 million for the three months ended June 30, 2021, compared to loss from operations of $5.4 million for the three months ended June 30, 2020, a decrease in loss from operations of $4.2 million, primarily related to a noncash goodwill impairment charge in the prior year offset by higher operating expenses in the current year.

Gain on sale of certain recovery contracts

Gain on sale of certain recovery contracts was $1.8 million for the three months ended June 30, 2021, compared to nil for the three months ended June 30, 2020. This gain on the sale of certain recovery contracts resulted from the completion of the sale of certain non-healthcare recovery contracts to a company that specializes in outsourced receivables solutions on May 24, 2021.

Interest Expense

Interest expense was $2.1 million for the three months ended June 30, 2021, compared to $2.0 million for the three months ended June 30, 2020. Interest expense increased by approximately $0.1 million or 5% for the three months ended June 30, 2021.

Income Taxes

We recognized an income tax expense of $0.03 million for the three months ended June 30, 2021, compared to an income tax benefit of $0.2 million for the three months ended June 30, 2020. Our effective income tax rate changed to (2)% for the three months ended June 30, 2021, from 3% for the three months ended June 30, 2020. The change in the effective tax rate is primarily driven by overall losses from operations for the three months ended June 30, 2021 for which no benefit is recognized due to valuation allowance compared to the net operating loss ("NOL") carryback benefit recorded as a result of the provisions of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") for the three months ended June 30, 2020.

Net Income (Loss)

As a result of the factors described above, net loss was $1.5 million for the three months ended June 30, 2021, which represented a decrease of approximately $5.7 million, or 79%, compared to net loss of $7.2 million for the three months ended June 30, 2020.

Six Months Ended June 30, 2021 compared to the Six Months Ended June 30, 2020

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

	Six Months Ended June 30,			
	2021	**2020**	**$ Change**	**% Change**
	(in thousands)			
Consolidated Statement of Operations Data:				
Revenues	$ 64,232	$ 79,673	$ (15,441)	(19) %
Operating expenses:				
Salaries and benefits	47,385	50,971	3,586	7 %
Other operating expenses	21,115	21,262	147	1 %
Impairment of goodwill	—	27,000	27,000	100 %
Total operating expenses	68,500	99,233	30,733	31 %
(Loss) income from operations	(4,268)	(19,560)	15,292	78 %
Gain on sale of certain recovery contracts	1,849	—	1,849	100 %
Interest expense	(3,472)	(4,258)	786	18 %
Interest income	—	12	(12)	(100) %
Loss before provision for income taxes	(5,891)	(23,806)	17,915	75 %
Provision for (benefit from) income taxes	70	(4,123)	4,193	(102) %
Net loss	$ (5,961)	$ (19,683)	$ 13,722	70 %

Revenues

Total revenues were $64.2 million for the six months ended June 30, 2021, a decrease of approximately 19%, compared to total revenues of $79.7 million for the six months ended June 30, 2020.

Healthcare revenues were $31.9 million for the six months ended June 30, 2021, representing a decrease of $0.2 million, or 0.7%, compared to the six months ended June 30, 2020. This decrease in healthcare revenues was primarily attributable to a $3.3 million charge to revenue to accrue a refund liability to a client, partially offset by increase in claims-based services revenues.

Recovery revenues were $25.6 million for the six months ended June 30, 2021, representing a decrease of $14.9 million, or 36.7%, compared to the six months ended June 30, 2020. The decrease was primarily due to the COVID-19 pandemic that caused many of our customers to pause work on our recovery contracts and our decision to not renew or extend existing recovery contracts.

Customer Care / Outsourced Services revenues were $6.8 million for the six months ended June 30, 2021, representing a decrease of $0.4 million, or 5.1%, compared to the six months ended June 30, 2020. The decrease was primarily due to reduced demand for our services as a result of the COVID-19 pandemic.

Salaries and Benefits

Salaries and benefits expense was $47.4 million for the six months ended June 30, 2021, a decrease of $3.6 million, or 7%, compared to salaries and benefits expense of $51.0 million for the six months ended June 30, 2020. The decrease in salaries and benefits expense was primarily driven by lower headcount, partially offset by increased severance costs related to reductions in force for our non-healthcare recovery contracts.

Other Operating Expenses

Other operating expenses were $21.1 million for the six months ended June 30, 2021, compared to other operating expenses of $21.3 million for the six months ended June 30, 2020. The decrease in other operating expenses was primarily due to lower activity levels resulting from the pause in recovery services provided, offset by increase in consulting fees and depreciation and amortization expenses related to shortening the estimated useful lives of certain recovery assets.

Income (Loss) from Operations

As a result of the factors described above, loss from operations was $4.3 million for the six months ended June 30, 2021, compared to loss from operations of $19.6 million for the six months ended June 30, 2020, a decrease in loss from operations of $15.3 million, primarily related to a noncash goodwill impairment charge in the prior year offset by lower recovery revenues and lower salaries and benefits expense in the current year.

Gain on sale of certain recovery contracts

Gain on sale of certain recovery contracts was $1.8 million for the six months ended June 30, 2021, compared to nil for the six months ended June 30, 2020. This gain on the sale of certain recovery contracts resulted from the completion of the sale of certain non-healthcare recovery contracts to a company that specializes in outsourced receivables solutions on May 24, 2021.

Interest Expense

Interest expense was $3.5 million for the six months ended June 30, 2021, compared to $4.3 million for the six months ended June 30, 2020. Interest expense decreased by approximately $0.8 million or 18% for the six months ended June 30, 2021 due to a lower average interest rate and lower principal balance in 2021 as compared to 2020.

Income Taxes

We recognized an income tax expense of $0.07 million for the six months ended June 30, 2021, compared to an income tax benefit of $4.1 million for the six months ended June 30, 2020. Our effective income tax rate changed to (1)% for the six months ended June 30, 2021, from 17% for the six months ended June 30, 2020. The change in the effective tax rate is primarily driven by overall losses from operations for the six months ended June 30, 2021 for which no benefit is recognized due to valuation allowance compared to the net operating loss ("NOL") carryback benefit recorded as a result of the provisions of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") for the six months ended June 30, 2020.

Net Income (Loss)

As a result of the factors described above, net loss was $6.0 million for the six months ended June 30, 2021, which represented a decrease of approximately $13.7 million, or 70%, compared to net loss of $19.7 million for the six months ended June 30, 2020.

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Adjusted EBITDA:				
Net income (loss)	$ (1,522)	$ (7,199)	$ (5,961)	$ (19,683)
Provision for (benefit from) income taxes	33	(249)	70	(4,123)
Interest expense [1]	2,126	2,031	3,472	4,258
Interest income	—	(6)	—	(12)
Stock-based compensation	774	649	1,423	1,340
Depreciation and amortization	2,024	1,255	3,040	2,795
Impairment of goodwill [4]	—	8,000	—	27,000
Impairment of long-lived assets	—	—	636	—
Earnout mark-to-market [5]	—	(162)	—	(162)
Severance expenses [6]	1,188	—	1,496	—
Non-core operating expenses [7]	1,397	—	1,908	—
Gain on sale of certain recovery contracts [8]	(1,849)	—	(1,849)	—
Adjusted EBITDA	$ 4,171	$ 4,319	$ 4,235	$ 11,413

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Adjusted Net Income (Loss):				
Net income (loss)	$ (1,522)	$ (7,199)	$ (5,961)	$ (19,683)
Stock-based compensation	774	649	1,423	1,340
Amortization of intangible assets [2]	558	59	617	118
Amortization of debt issuance costs [3]	764	381	1,133	763
Impairment of goodwill [4]	—	8,000	—	27,000
Impairment of long-lived assets	—	—	636	—
Earnout mark-to-market [5]	—	(162)	—	(162)
Severance expenses [6]	1,188	—	1,496	—
Non-core operating expenses [7]	1,397	—	1,908	—
Gain on sale of certain recovery contracts [8]	(1,849)	—	(1,849)	—
Tax adjustments [9]	(779)	(2,455)	(1,475)	(7,991)
Adjusted net income (loss)	$ 531	$ (727)	$ (2,072)	$ 1,385

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020		2021		2020	
	(in thousands)				(in thousands)			
Adjusted Net Income (Loss) Per Diluted Share:								
Net income (loss)	$	(1,522)	$	(7,199)	$	(5,961)	$	(19,683)
Plus: Adjustment items per reconciliation of adjusted net income (loss)		2,053		6,472		3,889		21,068
Adjusted net income (loss)	$	531	$	(727)	$	(2,072)	$	1,385
Adjusted net income (loss) per diluted share	$	0.01	$	(0.01)	$	(0.04)	$	0.03
Diluted average shares outstanding (10)		60,617		54,267		55,167		54,259

(1) Represents interest expense and amortization of debt issuance costs related to our Credit Agreement.

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

(3) Represents amortization of debt issuance costs related to our Credit Agreement.

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

(5) Represents the change from prior reporting periods in the fair value of the potential earnout consideration payable to ECMC group in connection with the Premiere acquisition..

(6) Represents severance expenses incurred in connection with a reduction in force for our non-healthcare recovery services.

(7) Represents professional fees related to strategic corporate development activities.

(8) Represents gain on the sale of certain non-healthcare recovery contracts in 2021.

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

(10) While net loss for the three months ended June 30, 2021 is ($1,522), the computation of adjusted net income results in adjusted net income of $531. Therefore, the calculation of the adjusted earnings per diluted share for the three months ended June 30, 2021 includes dilutive common share equivalents of 5,101 added to the basic weighted average shares of 55,516. While net loss for the six months ended June 30, 2020 is ($19,683), the computation of adjusted net income (loss) results in adjusted net income of $1,385. Therefore, the calculation of the adjusted net income per diluted share for the six months ended June 30, 2020 includes dilutive common share equivalents of 154 added to the basic weighted average shares of 54,105.

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 $12.2 million as of June 30, 2021, compared to $18.3 million as of December 31, 2020. The $6.1 million decrease in the balance of our cash and cash equivalents from December 31, 2020 to June 30, 2021, was primarily due to $1.5 million provided by operating activities, offset by $0.8 million used in investing activities and $8.4 million used in financing activities.

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. 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 COVID-19 pandemic led certain of our customers to delay the recovery and audit services that we provide as a result of the economic hardships that was faced by a large portion of the population. 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, which was most recently extended through January 31, 2022.

A pause by any of our clients as a result of the COVID-19 pause 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.

The impact of the COVID-19 pandemic on our business operations cannot be fully estimated at this point and the speed of economic recovery in the markets we serve is highly uncertain. While we currently believe our financial projections are attainable, considering the impact of the COVID-19 pandemic, 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. After considering a variety of potential effects the COVID-19 pandemic could have on our revenues and results of operations, as well as the actions we have already taken and other options available to us, we currently believe we will be in compliance with our covenants for the remainder of the term of the Credit Agreement. If conditions change in the future due to the ongoing COVID-19 pandemic or for other reasons and we expect to be out of compliance as a result, we will likely seek waivers from our lender prior to any covenant violation. Any covenant waiver may lead to increased costs, increased interest rates, additional restrictive covenants and other available lender protections that would be applicable. There can be no assurance that we would be able to obtain any such waivers in a timely manner, or on acceptable terms, or at all. 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 $1.5 million for the six months ended June 30, 2021, was primarily a result of changes in trade accounts receivable offset by contracts assets. Cash provided by operating activities was $15.8 million for the same period in the prior year, also primarily a result of changes in trade accounts receivable.

Cash flows from investing activities

Cash provided by investing activities of $0.8 million for the six months ended June 30, 2021 related to proceeds from the sale of certain recovery contracts, offset by cash used in 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 six months ended June 30, 2020 was $1.9 million.

Cash flows from financing activities

Cash used in financing activities of $8.4 million for the six months ended June 30, 2021 was primarily attributable to $7.7 million in repayments of notes payable. Cash used in financing activities in the six months ended June 30, 2020 was $2.0 million, primarily attributable to $1.7 million in repayments.

Restricted Cash

As of June 30, 2021, restricted cash included in current assets on our consolidated balance sheet was $2.2 million.

Notes Payable

On August 7, 2017, we, through our wholly-owned subsidiary Performant Business Services, Inc., entered into a credit agreement (as amended, the "Credit Agreement") with ECMC Group, Inc, as the lender. 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) increase the commitment for Additional Term Loans from $15 million to $25 million, (iii) extend the period during which Additional Term Loans were able to have been borrowed by one year to August 2020 and, (iv) not require compliance with the financial covenants in the Credit Agreement during the six fiscal quarters following our acquisition of Premiere.

On March 21, 2019, we entered into Amendment No. 3 to the Credit Agreement to, among other things, extend the period during which we would not be required to comply with the financial covenants in the Credit Agreement until the quarter ending June 30, 2020. On September 19, 2019, we entered into Amendment No. 4 to the Credit Agreement to, among other things, designate one of our subsidiary guarantors under the Credit Agreement as a borrower and make corresponding changes and related to such change. As of September 30, 2019, the Company had borrowed all of the $25 million available as Additional Term Loans.

On May 24, 2021, Amendment No. 5 to the Credit Agreement (the "Fifth Amendment") became effective upon the consummation of the sale of certain non-healthcare recovery contracts and satisfaction of certain conditions specified therein, including a prepayment of $6.0 million of the Loans. As a result, the maturity date of the Credit Agreement was extended until August 11, 2022 and the financial covenants were modified as described below.

As of June 30, 2021, $53.2 million was outstanding under the Credit Agreement.

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 was 9.5% at June 30, 2021 and 6.5% as of December 31, 2020. Annually, we are required to pay 5% of the original principal balance of the Loans, adjusted by the prepayment made in connection with the Fifth Amendment, in quarterly installments. We are also required 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. A prepayment of $6.0 million was made in connection with the Fifth Amendment, which also eliminated the requirement to make a mandatory prepayment in May 2021 on account of excess cash flows for the prior fiscal year. We will be required to make a mandatory prepayment, in May 2022 of at least $6.0 million on account of excess cash flow for the fiscal year ending December 31, 2021, subject to reduction in accordance with the Credit Agreement for any other prepayments made prior to the end of such fiscal year.

The Credit Agreement, as amended, contains certain financial covenants, which require, that we: (1) achieve a minimum fixed charge coverage ratio 0.75 to 1.0 through December 31, 2021, 1.0 to 1.0 through June 30, 2022, and 1.25 to 1.0 thereafter and (2) maintain a maximum total debt to EBITDA ratio 8.0 to 1.0 through June 30, 2021, of 7.0 to 1.0 through September 30, 2021 and 6.0 to 1.0 thereafter. 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. As of June 30, 2021, the Company was in compliance with all financial covenants.

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 borrowers.

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 $0.5 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 June 30, 2021.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended June 30, 2021, 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 may 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 prolonged duration of COVID-19 pandemic with the new coronavirus variants and associated impacts will continue to adversely impact our business, results of operations, and financial condition.

Our business and the businesses of our customers have been and may continue to be materially and adversely affected by the impact of the COVID-19 pandemic that has caused, and may 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 COVID-19 pandemic's 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 economic 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 had 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. The student loan relief was extended a few more times, with the latest announcement in August 2021 to further extend it to January 31, 2022. The continued delay to the services that we provided, as a result of the COVID-19 pandemic, resulted in our decision to either divest or not continue certain portions of our existing recovery business. Any additional disruptions to the services that we provide to our customers as a result of the COVID-19 pandemic or otherwise could result in a negative impact on our revenues and results of operations

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.

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, 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 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.

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. We incur significant expenses associated with new contracts before we receive corresponding revenues under any such new contract, because we operate under a model in which we generally hire employees to provide services to a new client once a contract is signed and otherwise incur significant upfront implementation expenses. 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.

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 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. We no longer have any remaining borrowing capacity under our existing Credit Agreement. As a result, 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.

Revenues generated from our three largest clients represented 53% of our revenues for the year ended December 31, 2020, and 45% of our revenues for the year ended December 31, 2019. 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 53% of our revenues for the year ended December 31, 2020, and 45% of our revenues for the year ended December 31, 2019. 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 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.

Many of our existing contracts 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 allow our clients to unilaterally change the amount of work available to us or the payment terms at any given time. In addition, many of our contracts are not exclusive, with our clients retaining multiple service providers with whom we must continue to compete for additional work. 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 work. For example, in March 2020, our GA clients significantly reduced placement volumes due to the COVID-19 pandemic, and as a result, we expect our 2021 revenues from these clients will be significantly reduced. If any of our clients modify terms of service, including the success fees we are able to earn, or any of these clients establish more favorable relationships with our competitors, our future revenues may be adversely affected.

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

Our RAC contracts, MSP contract, and other commercial healthcare contracts continue to provide the opportunity to restore growth in our business. However, our focus on growth and the expansion of our healthcare and other businesses 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 highly competitive markets and in providing our services to the healthcare and recovery markets, we face increasing competition from many other companies. Accordingly, maintaining high levels of audit and recovery 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 could result in lower fees, lower volumes of contracted 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 current 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 our current RAC contracts. Accordingly, the long-term growth of the revenues we derive under our two newly awarded RAC contracts will depend on the scope of improper claims that CMS allows us to pursue and our ability to successfully identify improper claims within the permitted scope. Revenues from our RAC contracts with CMS during the year ended December 31, 2020 were $8.6 million.

In particular, under our first RAC contracts, 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 could not 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 had a material adverse effect on our healthcare revenues and operating results at that time.

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 2020 and 2019, revenues under contracts with the U.S. federal government accounted for approximately 49% and 36%, 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 winning competitive bidding processes, changes in federal government spending, the availability of adequate funding for the applicable federal government agency, 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, we were not selected as a provider in connection with the recent IRS procurement process for the contract renewal becoming effective in September 2021. The award is currently under protest by another bidder. In its original procurement letter, the IRS stated that technical factors, when combined, were more important than the commission rate, but the IRS has discretion and does not have to automatically grant an award to the bidder that submits a bid receiving the highest technical rating. 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.

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, but are not limited to, the following:

- 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 services to current or potential clients may be reduced, and we may incur significant liabilities.

Our 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 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.

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.

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.

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.

Risks Related to Regulations and Legislation

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, federal and state receivables 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 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.

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 are also subject to regulations promulgated by the United States Consumer Financial Protection Bureau (CFPB), which, among other things, establishes 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. Due to the COVID-19 pandemic, the Department of Education paused all student loan payments and recovery efforts beginning in March of 2020. Moreover, this pause has been extended through September of 2021. There is significant risk to the student loan recovery revenue portion of our business if the administration continues the pause or forgives large amounts of the borrowers outstanding loans.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley would impair our ability to produce accurate and reliable financial statements, which would harm our stock price.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Act and other applicable securities rules and regulations. In particular, we are subject to reporting obligations under Section 404 of the Sarbanes-Oxley Act that require us to include a management report on our internal control over financial reporting in our annual report, which contains management’s assessment of the effectiveness of our internal control over financial reporting. In addition, commencing in fiscal year 2022, we will be required to adhere to the auditor attestation requirements with respect to the to the effectiveness of our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. Compliance with such auditor attestation requirements will result in significant increases in both the time devoted to and the expenses incurred in connection with our financial reporting obligations. Our management may conclude that our internal control over our financial reporting is not effective. If we fail to timely achieve and maintain the adequacy of our internal control over financial reporting, we may not be able to produce reliable financial reports or help prevent fraud. Our failure to achieve and maintain effective internal control over financial reporting could prevent us from filing our periodic reports on a timely basis, which could result in the loss of investor confidence in the reliability of our financial statements, harm our business and negatively impact the trading price of our common stock.

Risks Related to our Common Stock

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 $0.54 on June 1, 2020 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, L.L.C., ECMC Group, Inc., and Mill Road Capital Management LLC beneficially owned approximately 21.0%, 22.2% 12.4%, and 5.8% of our common stock, respectively, as of June 30, 2021. As a result of their ownership, these significant stockholders 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. Mill Road Capital Management LLC currently has a representative sitting on our Board of Directors. Parthenon Capital Partners, Prescott Group Management, L.L.C., ECMC Group, Inc., 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 these four significant stockholders 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, even though Parthenon Capital Partners does not currently have a representative sitting on our Board of Directors, Parthenon Capital Partners does have 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.

General Risks

We may undertake strategic transactions or other corporate restructuring that prove unsuccessful, strain or divert our resources and harm our results of operations and stock price.

We may consider strategic transactions or other corporate restructurings that could include the acquisition of other companies in our industry or in new markets, or the sale or divestiture of, or the wind down of existing portions of our business. We may not be able to successfully complete any such strategic transaction and, if completed, any such acquisition or divestiture 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. Further, despite any projected cost savings related to any proposed divestiture or wind down of any existing portion of our business, any such divestiture or wind down could result in an adverse effect on our revenues and results of operations.

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.

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	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1[(1)]	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
32.2[(1)]	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
101.INS[(2)]	XBRL Instance Document
101.SCH[(2)]	XBRL Taxonomy Extension Scheme
101.CAL[(2)]	XBRL Taxonomy Extension Calculation Linkbase
101.DEF[(2)]	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB[(2)]	XBRL Taxonomy Extension Label Linkbase
101.PRE[(2)]	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.

PERFORMANT FINANCIAL CORPORATION

Date: August 12, 2021

By: /s/ Lisa Im
Lisa Im
Chief Executive Officer (Principal Executive Officer)

By: /s/ Ian Johnston
Ian Johnston
Vice President and Chief Accounting Officer

Exhibit 31.1

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: August 12, 2021

/s/ Lisa Im

Lisa Im
Chief Executive Officer

Exhibit 31.2

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: August 12, 2021

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

Exhibit 32.1

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 June 30, 2021 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: August 12, 2021

By: **/s/ Lisa Im**
Lisa Im
Chief Executive Officer

Exhibit 32.2

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 June 30, 2021 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: August 12, 2021

By: **/s/ Ian Johnston**

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