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

FORM 8-K/A

(Amendment No.1)

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **July 2, 2018**

MEDICAL TRANSCRIPTION BILLING, CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

001-36529

(Commission
File Number)

22-3832302

(IRS Employer
Identification No.)

7 Clyde Road, Somerset, New Jersey, 08873
(Address of principal executive offices, zip code)

(732) 873-5133
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Explanatory Note

This Amendment No. 1 (this "Amendment") to the Form 8-K of Medical Transcription Billing, Corp. (the "Company" or "MTBC"), originally filed with the Securities and Exchange Commission ("SEC") on July 2, 2018 (the "Original Form 8-K"), is being filed by the Company for the purpose of amending and supplementing Item 9.01 of the Original Form 8-K. This Amendment is being filed to provide the information required by Items 9.01(a) and (b) of Form 8-K and Rules 8-04 and 8-05 of Regulation S-X that was not previously filed with the Original Form 8-K, as permitted by the rules of the SEC. Except as provided herein, the disclosures made in the Original Form 8-K remain unchanged.

Section 9 — Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired

The combined carve-out financial statements of the “Orion Target Businesses”, a carve-out of Orion HealthCorp, Inc., substantially all of whose assets were acquired with an effective date of July 1, 2018, are filed as Exhibit 99.1 and 99.2 to this Form 8-K and incorporated herein by this reference.

(b) Pro forma financial information

Pro forma financial information with respect to the acquisitions of Orion Target Businesses and Washington Medical Billing, LLC is filed as Exhibit 99.3 to this Form 8-K and incorporated herein by this reference.

(c) Exhibits

*Exhibit
No.*

Description

23.1 [Consent of Montgomery Coscia Greulich LLP.](#)

99.1 [Annual combined financial statements of Orion Target Businesses, filed herewith.](#)

99.2 [Interim combined financial statements of Orion Target Businesses, filed herewith.](#)

99.3 [Pro forma financial information with respect to the acquisitions of Orion Target Businesses and Washington Medical Billing, LLC, filed herewith.](#)

99.4 [Supplemental information.](#)

SIGNATURE(S)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Medical Transcription Billing, Corp.
(Registrant)

By: /s/ Stephen A. Snyder
Stephen A. Snyder
Chief Executive Officer

Date: September 10, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated September 7, 2018, with respect to the combined carve-out financial statements of the Orion Target Businesses for the years ended December 31, 2017 and 2016, included in this Form 8-K of Medical Transcription Billing, Corp. We consent to the incorporation by reference of said report in the Registration Statement of Medical Transcription Billing, Corp. on Form S-3 (File No. 333-210391) and Forms S-8 (File Nos. 333-226685, 333-217317 and 333-203228).

/s/ Montgomery Coscia Greulich LLP

Plano, Texas
September 10, 2018

ORION TARGET BUSINESSES
COMBINED CARVE-OUT FINANCIAL STATEMENTS
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

DECEMBER 31, 2017 AND 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management of
Orion Target Businesses, a carve-out of Orion Healthcorp, Inc.:

Opinion on the Combined Carve-out Financial Statements

We have audited the accompanying combined balance sheets of the Orion Target Businesses, a carve-out of Orion Healthcorp, Inc., (collectively, the “Company”) as of December 31, 2017 and 2016, and the related combined statements of operations and changes in members’ equity, and cash flows for the years then ended, and the related notes to the combined carve-out financial statements.

In our opinion, the combined carve-out financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These combined carve-out financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s combined carve-out financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined carve-out financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the combined carve-out financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the combined carve-out financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined carve-out financial statements. We believe that our audits provide a reasonable basis for our opinion.

Uncertainty Regarding Going Concern

The accompanying combined carve-out financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the combined carve-out financial statements, there were doubts about the Company’s ability to continue as a going concern as a result of the bankruptcy of Orion Healthcare, Inc.; however, with the July 2, 2018 acquisition of the carved-out entities that make up the Company (See Note 16), the doubts about the Company’s ability to continue as a going concern were alleviated. Our opinion is not modified with respect to this matter.

/s/ **Montgomery Coscia Greilich LLP**

We have served as the Company’s auditor since 2018.
Plano, Texas
September 7, 2018

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 11,231,558	\$ 1,100,207
Accounts receivable - net of allowance for doubtful accounts of \$737,000 and \$905,000 at December 31, 2017 and December 31, 2016, respectively	5,796,440	6,577,372
Inventory	340,132	300,809
Prepaid expenses and other current assets	439,455	469,248
Total current assets	<u>17,807,585</u>	<u>8,447,636</u>
Property and equipment - net	163,499	393,269
Intangible assets - net	7,232,515	11,578,293
Goodwill	-	14,106,491
Other assets	247,513	267,239
TOTAL ASSETS	<u>\$ 25,451,112</u>	<u>\$ 34,792,928</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,339,427	\$ 3,826,702
Accrued compensation	872,878	938,289
Accrued expenses	1,399,693	1,261,182
Payable to Internal Revenue Service	10,435,097	-
Accrued liability to related parties	192,675	871,251
Note payable	24,457	208,598
Contingent consideration (current portion)	-	468,000
Total current liabilities	<u>17,264,227</u>	<u>7,574,022</u>
Deferred rent	382,834	372,403
Contingent consideration	-	468,000
Total liabilities	<u>17,647,061</u>	<u>8,414,425</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
MEMBERS' EQUITY	7,804,051	26,378,503
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 25,451,112</u>	<u>\$ 34,792,928</u>

The accompanying notes are an integral part to these Combined Carve-out Financial Statements.

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NET REVENUE	\$ 42,461,606	\$ 44,489,431
OPERATING EXPENSES:		
Direct operating costs	32,096,323	28,861,701
Selling and marketing	648,356	656,086
General and administrative	17,625,796	20,567,115
Revaluation of contingent consideration	(936,000)	-
Depreciation and amortization	4,619,729	4,514,545
Goodwill impairment	14,106,491	3,225,050
Total operating expenses	<u>68,160,695</u>	<u>57,824,497</u>
OPERATING LOSS	(25,699,089)	(13,335,066)
OTHER:		
Adjustment of net intercompany balances (Note 10)	7,205,506	8,038,969
Interest expense	(46,849)	(31,774)
LOSS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(18,540,432)	(5,327,871)
Income tax provision (benefit)	34,020	(794,663)
NET LOSS	<u>\$ (18,574,452)</u>	<u>\$ (4,533,208)</u>
Members' equity - beginning of year	26,378,503	30,911,711
Members' equity - end of year	<u>\$ 7,804,051</u>	<u>\$ 26,378,503</u>

The accompanying notes are an integral part to these Combined Carve-out Financial Statements.

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES:		
Net loss	\$ (18,574,452)	\$ (4,533,208)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,619,729	4,514,545
Goodwill impairment	14,106,491	3,225,050
Contingent consideration earn-out	-	(100,000)
Deferred rent	10,431	14,390
Provision for doubtful accounts	713,816	1,683,858
(Benefit) provision for deferred income taxes	-	(816,068)
Revaluation of contingent consideration	(936,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	67,116	(1,078,063)
Other assets	10,199	(130,697)
Payable to Internal Revenue Service	10,435,097	-
Accounts payable and other liabilities	(92,753)	1,430,703
Net cash provided by operating activities	<u>10,359,674</u>	<u>4,210,510</u>
INVESTING ACTIVITIES:		
Capital expenditures	(44,182)	(43,163)
Cash paid for acquisition	-	(3,744,000)
Net cash used in investing activities	<u>(44,182)</u>	<u>(3,787,163)</u>
FINANCING ACTIVITIES:		
Repayments of debt obligations	(184,141)	(201,452)
Net cash used in financing activities	<u>(184,141)</u>	<u>(201,452)</u>
NET INCREASE IN CASH	10,131,351	221,895
CASH - Beginning of the period	1,100,207	878,312
CASH - End of the period	<u>\$ 11,231,558</u>	<u>\$ 1,100,207</u>
SUPPLEMENTAL NONCASH INVESTING ACTIVITIES		
Contingent consideration earn-out paid in Constellation common stock	\$ -	\$ 100,000
SUPPLEMENTAL INFORMATION - Cash paid during the year for:		
Income taxes	\$ -	\$ 7,532

The accompanying notes are an integral part to these Combined Carve-out Financial Statements.

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
NOTES TO COMBINED CARVE-OUT FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. ORGANIZATION AND BUSINESS

Orion Healthcorp, Inc. and its subsidiaries (“Orion”) filed for bankruptcy on March 16, 2018 in the United States Bankruptcy Court for the Eastern District of New York (the “Court”). The filing was made under Chapter 11 of the Bankruptcy Code. Orion was a wholly owned subsidiary of Constellation Healthcare Technologies, Inc. (“Constellation”).

In May 2018, Medical Transcription Billing, Corp. (“MTBC”), a Delaware corporation, entered into an Asset Purchase Agreement (“APA”) as the stalking horse bid with Orion and certain of its affiliates to acquire the revenue cycle, practice management and group purchasing assets of Orion (the “Orion Target Businesses”). The Court approved the sale in an order dated June 29, 2018. This transaction closed on July 2, 2018 and pursuant to the APA and subject to the conditions set forth therein, MTBC paid \$12.6 million in cash and assumed certain liabilities.

The Combined Carve-out Financial Statements (a carve-out of Orion Healthcorp, Inc.) consist of Orion Healthcorp, Inc. and many of the former Orion subsidiaries: Medical Billing Services, Inc. (“MBS”), Rand Medical Billing, Inc. (“RAND”), RMI Physician Services Corporation (“RMI”), Western Skies Practice Management, Inc. (“WSP”), Physicians Practice Plus LLC (“PPP”), Northeast Medical Solutions, LLC (“NEMS”), NEMS West Virginia, LLC (“NEMS WV”), Integrated Physician Solutions, Inc. (“IPS”), Allegiance Consulting Associates, LLC (“ACA”), and Allegiance Billing & Consulting, LLC (“ABC”) (collectively referred to as the “Company”). The Combined Carve-out Financial Statements present the historical financial position, results of operations, changes in members’ equity and cash flows on a carve-out basis that corresponds with the assets being acquired as part of the APA. The Combined Carve-out Financial Statements have been derived from the accounting records of Orion on a carve-out basis.

The Company is a healthcare services organization providing outsourced business services to physicians. The carve-out entities have three types of services – revenue cycle management, practice management and group purchasing.

Revenue Cycle Management (“RCM”) Services

RCM services offer medical billing and related services to hospital-based and office-based physicians in specialties such as pathology, anesthesiology, radiology, cardiology, family practice, internal medicine, orthopedics, neurology and emergency medicine. The RCM revenue was approximately \$28.4 million and \$30.8 million respectively for the years ended December 31, 2017 and 2016.

Practice Management (“PM”) Services

IPS, the PM services business, is a provider of business and practice management services to support the needs of primary care and subspecialty pediatric practices. Through this service, IPS provides medical billing, bookkeeping, human resource management, vaccine supply, accounts receivable management, quality assurance services, physician credentialing, fee schedule review, training and continuing education, and billing and reimbursement analysis. The physicians, who are all employed by separate corporations, provide all clinical and patient care related services.

There is a forty-year management service agreement (“MSA”) between IPS and each of three medical groups who are clients, whereby a management fee is paid to IPS, which employs all the non-physician staff, including nurses and other practice personnel. IPS manages the day-to-day business operations of each medical group for a fixed fee or percentage of the net operating income of the medical group. IPS recognizes revenue net of fees paid to the medical groups as a fixed fee or a percentage payment of the net operating income each month, which is recorded as a reduction in revenue in the Combined Statement of Operations and Changes in Members’ Equity.

The total billings of the practices are recorded net of Physicians compensation paid to the medical groups, based on the estimated reimbursement by the insurance providers. Amounts payable to the physicians at December 31, 2017 and 2016 was \$551,000 and \$587,000, respectively and is included in accounts payable in the Combined Balance Sheets. Revenue from the PM services was approximately \$12.9 million and \$12.5 million, respectively for the years ended December 31, 2017 and 2016.

Group Purchasing Organization (“GPO”)

The GPO, which is part of IPS, enables eligible physicians to participate in discounts for vaccines including flu shots and childhood vaccinations offered by certain pharmaceutical companies. In exchange for this service, IPS receives an administrative fee from the pharmaceutical companies. Such revenue was approximately \$1.2 million for both the years ended December 31, 2017 and 2016.

2. LIQUIDITY AND GOING CONCERN

FASB Accounting Standard Codification (“ASC”) Topic 205-40, Presentation of Financial Statements – Going Concern, requires that management evaluate whether there are relevant conditions and events that, in the aggregate, raise substantial doubt about the entity’s ability to continue as a going concern and to meet its obligations as they become due within one year after the date that the Combined Carve-out Financial Statements are issued.

Orion and its subsidiaries filed for bankruptcy on March 16, 2018. As of that date, the Orion Healthcorp Inc. was no longer able to continue as a going concern. The Combined Carve-out Financial Statements do not include any adjustments to account for Orion’s inability to continue as a going concern. As a result of Orion’s bankruptcy filing, the Company’s goodwill as of December 31, 2017 was determined to be totally impaired as of that date and was completely written off and because of the APA effective July 1, 2018, the doubts about the Company’s ability to continue as a going concern were alleviated.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination — The accompanying Combined Carve-out Financial Statements (a carve-out of Orion Healthcorp, Inc.), have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Orion Target Businesses. All intercompany accounts and transactions of the Orion Target Businesses have been eliminated in consolidation.

These Combined Carve-out Financial Statements have been prepared solely to demonstrate the historical results of operations, financial position and cash flows related to the Orion Target Businesses, which includes Orion and those of its wholly owned subsidiaries that are included in the APA, for the indicated periods.

The Company has historically operated as part of their parent company, Constellation, and not as a standalone company. None of the assets or liabilities of the parent have been assigned to the Company in the Combined Carve-out Financial Statements. Due to the bankruptcy in March of 2018, the net transfers to Constellation have been written-off and are included in the adjustment of intercompany balances on the Combined Statement of Operations and Changes in Members’ Equity.

The Combined Carve-out Financial Statements include the assets, liabilities, revenue and expenses that are specifically identifiable to the Orion Target Businesses. The Combined Carve-out Financial Statements reflect allocations of direct and indirect expenses related to certain overhead functions that are provided on a centralized basis at the corporate level. These expenses have been allocated to the Company on the basis of direct usage when identifiable, with others allocated based on revenue.

Management believes the assumptions underlying the Combined Carve-out Financial Statements, including the assumptions regarding the allocation of expenses, are reasonable. Nevertheless, the Combined Carve-out Financial Statements may not include all of the actual expenses that would have been incurred by the Orion Target Businesses and may not reflect the Orion Target Businesses’ financial position, results of operations and cash flows that would have been reported if the Orion Target Businesses had been a stand-alone entity during the years presented.

Segment Reporting — The Company views its operations as comprising one operating segment. The Chief Operating Decision Maker, which was the Company's Chief Executive Officer, monitored and reviewed financial information at a combined level for assessing operating results and the allocation of resources.

Use of Estimates — The preparation of the Combined Carve-out Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Combined Carve-out Financial Statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management include, but are not limited to: (1) impairment of long-lived assets; (2) depreciable lives of property and equipment; (3) allowance for doubtful accounts; (4) amortization lives of intangible assets; and (5) fair value of identifiable purchased tangible and intangible assets. Actual results could significantly differ from those estimates.

Revenue Recognition — The Company recognizes revenue when there is evidence of an arrangement, the service has been provided to the customer, the collection of the fees is reasonably assured and the amount of fees to be paid by the customer is fixed or determinable.

The RCM service's principal source of revenues is fees charged to clients based on a percentage of net collections of the client's accounts receivable. The Company recognizes revenue and bills clients when clients receive payment on those accounts receivable. The RCM business units typically receive payment from the client within 30-60 days of billing. The fees vary depending on specialty, size of practice, payer mix, and complexity of the billing. In addition to collecting fee revenue, the RCM service also earns fees from the various ancillary consulting services that they provide, including medical practice management services, managed care contracting, coding and reimbursement services and transcription services.

The Company bills its RCM customers on a monthly basis, in arrears. Fees charged to customers for the services provided are typically based on a percentage of net collections on the clients' accounts receivable. The Company does not recognize revenue for service fees until the Company has received notification that a claim has been accepted and the amount which the physician will collect is determined, as the fees are not fixed and determinable until such time.

IPS recognizes revenue at the time the services are provided to patients. Net revenue recorded in the Combined Statement of Operations and Changes in Members' Equity represents gross billing after deducting credits, refunds and payments to the medical groups. IPS assumes all financial risk for the performance of the medical practices it manages. The physicians are employees of three captive professional corporations, bound by non-compete agreements provided in the management service agreements. Net patient service revenue is impacted by billing rates, changes in current procedural terminology code reimbursement, and collection trends. IPS reviews billing rates at each of its medical groups, on at least an annual basis, and adjusts those rates based on each insurer's current reimbursement practices.

IPS estimates the amount of these contractual allowances and records a valuation reserve against accounts receivable based on historical collection percentages for each of the medical groups, which include various payer categories. When payments are received, the contractual adjustment is written off against the established valuation reserve for contractual allowances. The historical collection percentages are adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. IPS is not aware of any material claims, disputes or unsettled matters with third party payers and there have been no material settlements with third party payers for the years ended December 31, 2017 and December 31, 2016, respectively.

The Company also receives administration fees tiered by volume of vaccines consumed by all participating physicians from pharmaceutical companies where participating doctors order and administer vaccines. Revenue is recorded on an accrual basis based upon the estimated volume of sales.

The Company's revenue arrangements generally do not include a general right of return for services provided.

Direct Operating Costs – Direct operating costs consist primarily of salaries and benefits related to personnel who provide services to clients, claims processing costs, and other direct costs related to the Company's services. Costs associated with the implementation of new clients are expensed as incurred. The reported amounts of direct operating costs include allocated amounts for rent and overhead costs. Depreciation and amortization have not been allocated and are presented separately in the Combined Statement of Operations and Changes in Members' Equity.

Selling and Marketing Expenses – Selling and marketing expenses consist primarily of compensation and benefits, travel and advertising expenses and are expensed as incurred.

Advertising Costs – The Company expenses advertising costs as incurred. The Company incurred approximately \$623,000 and \$219,000 of advertising costs for the years ended December 31, 2017 and 2016, respectively, which are included in selling and marketing expenses in the Combined Statement of Operations and Changes in Members' Equity.

Cash and Cash Equivalents – The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable — Accounts receivable are stated at their net realizable value. Accounts receivable are presented on the Combined Balance Sheets net of an allowance for doubtful accounts, which is established based on reviews of receivable balances, an assessment of the customers' current creditworthiness and the probability of collection. Accounts are written off when it is determined that collection of the outstanding balance is no longer possible.

IPS' medical groups grant credit without collateral to their patients, most of which are insured under third-party payer arrangements. IPS records a valuation allowance against its accounts receivables to report the estimated amount to be received from third party payers. This valuation allowance is netted against the accounts receivable balance for financial reporting purposes. Establishing a valuation allowance is subjective in nature. IPS uses historical collection percentages to determine the estimated valuation allowance, and adjusts the percentage on a quarterly basis.

The changes in the allowance for doubtful accounts for the RCM business for the years ended December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Beginning balance	\$ 905,337	\$ 1,474,170
Provision	713,816	1,683,858
Write-offs	(881,746)	(2,252,691)
Ending balance	<u>\$ 737,407</u>	<u>\$ 905,337</u>

The Company typically does not charge late fees or interest on past due accounts.

Intercompany transactions — The carve out entities had significant transactions amongst themselves and with other Constellation entities. Due to the bankruptcy, neither the intercompany receivable nor payable amounts will be settled with the other entities. Accordingly, such balances were charged/credited to operations in the period the transaction occurred.

Inventory — Inventory consists of vaccines, which are stated at the lower of cost or net realizable value. Cost is determined under the first-in, first-out method.

Property and Equipment — Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated lives of the assets.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which extend the useful lives of the existing property and equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in the Combined Statement of Operations and Changes in Members' Equity.

The estimated useful lives for each major classification of depreciable property and equipment are as follows:

Furniture and fixtures	5-7 years
Computer equipment	2-5 years
Office equipment	5-7 years
Leasehold improvements	Remaining life of lease

The Company amortizes leasehold improvements over the lesser of the lease term or the economic life of those assets. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably assured and for which failure to exercise the renewal option would result in an economic penalty to the Company.

Intangible Assets — Intangible assets include customer contracts and relationships, covenants not-to-compete acquired in connection with acquisitions, management contracts, trademarks, and software purchase and development costs. The Intangible assets are considered to have a definite life and are amortized on a straight-line basis over the estimated economic lives, which are reviewed annually. Management determined that the intangible assets were not impaired as a result of the sale of carve-out entities and accordingly, no impairment adjustment was recorded.

Evaluation of Long-Lived Assets — The Company reviews its property and equipment and intangible assets for impairment whenever changes in circumstances indicate that the carrying value amount of an asset may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset, the Company will recognize an impairment loss based on the fair value of the asset.

There was no impairment of property and equipment and intangible assets during the years ended December 31, 2017 and 2016.

Goodwill — Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. The Company tests goodwill for impairment annually as of December 31st, referred to as the annual test date. The Company will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at the reporting-unit level. The Company has determined that its business consists of a single reporting unit.

The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit with its carrying amount, including goodwill. The estimate of the fair value of the reporting unit is based upon information available regarding prices of similar groups of assets, or other valuation techniques including present value techniques based upon estimates of future cash flows. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired and the second step is unnecessary. If the carrying value of the reporting unit exceeds its fair value, a second step is performed to measure the amount of impairment by comparing the carrying amount of the goodwill to the implied fair value of the goodwill. If the carrying amount of the goodwill is greater than the implied value, an impairment loss is recognized for the difference. The fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets. Any excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities represents the implied fair value of goodwill.

Due to the operating losses incurred, the loss of customers during 2016 and 2017 and the bankruptcy filing in March 2018, the Company determined that its goodwill was impaired and recorded impairment adjustments for the years ended December 31, 2017 and 2016. Impairment adjustments amounting to approximately \$14.1 million and \$3.2 million were recorded for the years ended December 31, 2017 and 2016 respectively, and are included in goodwill impairment in the Combined Statement of Operations and Changes in Members' Equity.

Business Combinations — The Company accounts for business combinations under the provisions of ASC 805, *Business Combinations*, which requires that the acquisition method of accounting be used for all business combinations. Assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. ASC 805 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date with subsequent changes in the fair value recorded through earnings.

Deferred Rent — Deferred rent consists of rent escalation payment terms related to the Company’s operating leases for its facilities. Deferred rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including any construction period. The excess of the difference between actual operating lease payments due and straight-line rent expense is recorded as a deferred credit in the early periods of the lease when cash payments are generally lower than straight-line rent expense, and is reduced in the later periods of the lease when payments begin to exceed the straight-line expense.

Income Taxes — Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the tax basis of assets and liabilities and their reported amounts in the Combined Carve-out Financial Statements. Deferred tax assets and liabilities are included in the Combined Carve-out Financial Statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the current period’s provision for income taxes. A valuation allowance is provided for deferred tax assets if it is more likely than not that the asset will not be realizable. Due to recurring losses, a full valuation allowance was recorded at December 31, 2017 and 2016.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken (or expected to be taken) in a tax return before the uncertain tax positions are finally resolved with the taxing authority. If the Company considers that a tax position is “more-likely-than-not” to be sustained upon an audit by the taxing authority, based solely on the technical merits of the tax position, it recognizes the tax benefit. The Company measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. The Company recognizes estimated future interest and penalties related to unrecognized tax positions, if any, as income tax expense in the Combined Statement of Operations and Changes in Members’ Equity.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. At December 31, 2017 and 2016, the Company did not have any uncertain tax positions that required recognition. Interest and penalties related to uncertain tax positions are recognized in income tax expense. For the years ended December 31, 2017 and 2016, the Company did not recognize any penalties or interest related to unrecognized tax benefits in its Combined Carve-out Financial Statements.

4. ACQUISITION

In September 2016, the Company acquired the membership interests in ACA and ABC (together “Allegiance”). Allegiance was acquired for a total consideration of approximately \$4.7 million, which includes approximately \$936,000 of additional contingent consideration which was held back, to be paid over two years based on attainment of specific criteria, including revenue and EBITDA. There was also the opportunity for additional consideration after three years, based upon additional criteria.

In connection with the acquisition, the Company incurred certain transaction costs of approximately \$3.3 million that were included in general and administrative expenses in the Combined Statement of Operations and Changes in Members’ Equity as of December 31, 2016. These transaction costs did not impact the purchase price allocation in September 2016.

Purchase Price Allocation:

The excess of the total purchase price over the fair value of assets acquired of \$1,333,210 was recorded as goodwill. The goodwill arising from this acquisition consists largely of the commercial potential of Allegiance and the value of the assembled workforce.

The tables below present the allocation of the purchase price to the assets acquired in the acquisition.

Purchase Price Allocation

Intangible assets	\$	3,346,790
Goodwill		1,333,210
Total purchase consideration	\$	<u>4,680,000</u>

Identifiable Intangible Assets

Trade name	\$	205,772
Customer relationships		3,103,634
Non-compete agreements		37,384
Total identifiable intangible assets	\$	<u>3,346,790</u>

Contingent consideration of approximately \$936,000 was recorded at December 31, 2016. Based on the review of the actual financial results of Allegiance, management determined that no contingent consideration was due to the sellers at December 31, 2017. Accordingly, the contingent consideration recorded at December 31, 2016 was fully reversed at December 31, 2017. Additional contingent consideration based on minimum revenue and EBITDA generated for the three years following the acquisition is specified in the purchase agreements; however, in the opinion of management, it is unlikely that all the criteria will be met. Accordingly, no additional contingent consideration is expected to be due.

The amount allocated to goodwill was determined by the excess of the purchase consideration over the intangible assets acquired. Based on management's estimates and an independent third party valuation, the trade name, non-compete agreement and customer relationships were valued as definite life identifiable intangible assets purchased at acquisition and are being amortized over 5 years.

Allegiance was acquired to expand into the hospital revenue cycle management business.

5. GOODWILL AND INTANGIBLE ASSETS – NET

Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. The following is the summary of the changes to the carrying amount of goodwill for the years ended December 31, 2017 and 2016:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Beginning balance	\$ 14,106,491	\$ 15,998,331
Acquisition	-	1,333,210
Impairment	(14,106,491)	(3,225,050)
Ending balance	<u>\$ -</u>	<u>\$ 14,106,491</u>

Intangible assets as of December 31, 2017 and 2016 consisted of the following:

	December 31, 2017	December 31, 2016
Client relationships	\$ 13,071,092	\$ 13,071,092
Trademark	1,601,325	1,601,325
Management contracts - non-compete agreements	3,423,700	3,423,700
Group purchasing agreements	600,000	600,000
Software	5,032,812	5,032,812
Total intangible assets	<u>23,728,929</u>	<u>23,728,929</u>
Less : Accumulated amortization	<u>(16,496,414)</u>	<u>(12,150,636)</u>
Intangible assets - net	<u>\$ 7,232,515</u>	<u>\$ 11,578,293</u>

Amortization expense was approximately \$4.3 million and \$4.2 million for the years ended December 31, 2017 and 2016, respectively. The amortization period for intangible assets ranges from 3 to 5 years. As of December 31, 2017 the remaining weighted average amortization period is 2.4 years.

As of December 31, 2017, future amortization expense scheduled to be expensed is as follows:

Years Ending December 31	
2018	\$ 3,417,064
2019	2,536,656
2020	826,455
2021	452,340
	<u>\$ 7,232,515</u>

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 and 2016 consisted of the following:

	December 31, 2017	December 31, 2016
Machinery and other equipment	\$ 318,388	\$ 316,432
Computers and accessories	592,943	571,303
Furniture and fixtures	497,806	490,700
Leasehold improvements	106,971	93,491
Total property and equipment	<u>1,516,108</u>	<u>1,471,926</u>
Less: Accumulated depreciation	<u>(1,352,609)</u>	<u>(1,078,657)</u>
Property and equipment – net	<u>\$ 163,499</u>	<u>\$ 393,269</u>

Depreciation expense was approximately \$274,000 and \$310,000 for the years ended December 31, 2017 and 2016, respectively.

7. CONCENTRATIONS

Cash - Cash consists of demand deposits and lockbox accounts. The Company maintained cash balances with various financial institutions, which, at times, may exceed federally insured limits. The Federal Deposit Insurance Corporation provides coverage for various types of accounts up to \$250,000 per depositor, per bank. Management periodically assesses the financial condition of these institutions for the purpose of assessing credit risk. The Company never experienced any such losses and believes it is not exposed to any significant credit risk on its cash balances.

Financial Risks — Concentrations of credit risk with respect to trade accounts receivable are managed by periodic credit evaluations of customers. The Company does not require collateral for outstanding trade accounts receivable. No one customer accounts for a significant portion of the Company's trade accounts receivable portfolio. Write-offs were approximately \$882,000 and \$2.3 million for the years ended December 31, 2017 and 2016, respectively. During both the years ended December 31, 2017 and 2016, there was one customer with sales of approximately 5% of the total revenue.

GPO Revenue – As discussed in Note 1 regarding the Company's GPO revenues, the Company receives administrative fee income as a percentage tiered by volumes of vaccine group purchasing activity on behalf of physicians/members of its IPS practices. The vaccines are purchased pursuant to supply agreements primarily with two Tier One pharmaceutical suppliers. The terms of the contracts are for 24 months with an option to renew an additional 24-month period. In the event these contracts are not renewed by these suppliers, the Company may not be able to secure similar arrangements on similar terms with other vaccine providers which may negatively impact the fee income generated by the group purchasing activity.

Geographical Risks — The Company uses the services of a related-party company based in India to conduct significant back-office operations for certain of the revenue cycle management entities. The owner of this company is the father of an executive of Orion. The Company has no revenue earned outside of the United States. The Company's use of a significant vendor in India is subject to special considerations and significant risks not typically associated with companies in the United States. The Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in India and by the general state of India's economy. The Company's results may be adversely affected by, among other things, changes in governmental policies with respect to laws and regulations, changes in India's telecommunications industry, regulatory rules and policies, anti-inflationary measures, currency conversion and remittance abroad and rates and methods of taxation.

8. ACCRUED EXPENSES

Accrued expenses consist of the following as of December 31, 2017 and 2016:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Due to State Comptroller	\$ 172,432	\$ 150,332
Rebate owed to customer	234,644	-
Accrued settlements	341,000	227,000
Accrued legal costs	105,517	-
Accrued consulting fees	286,235	292,616
Accrued taxes	-	171,909
Accrued contract labor	-	227,057
Income taxes payable	46,625	24,750
Other payables	213,240	167,518
Total	<u>\$ 1,399,693</u>	<u>\$ 1,261,182</u>

9. INCOME TAXES

The income tax provision (benefit) for the years ended December 31, 2017 and 2016 was approximately \$34,000 and (\$795,000), respectively. The provision for 2017 represented state minimum taxes. The 2016 income tax benefit included approximately \$21,000 of state minimum tax liabilities. The deferred tax benefit for the year ended December 31, 2016 was approximately \$816,000.

The Company had recorded goodwill as a result of its acquisitions. Goodwill was not amortized for financial reporting purposes. However, goodwill is tax deductible and therefore amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of this indefinitely lived asset. The resulting deferred tax liability, which was expected to continue to increase over the amortization period, had an indefinite life. This deferred tax liability remains on the Company's Combined Balance Sheet indefinitely unless there is an impairment of goodwill (for financial reporting purposes) or a portion of the business is sold. Since the goodwill was impaired, no deferred tax liability needed to be recorded at December 31, 2016 and 2017.

The Company has incurred cumulative losses which make realization of a deferred tax asset difficult to support in accordance with ASC 740. Accordingly, a valuation allowance has been recorded against all Federal and state deferred tax assets as of December 31, 2017 and 2016. Although the Company generated net operating losses for tax purposes, these losses are not allowable to offset future taxable income due to the acquisition of the Company in July, 2018.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted. Effective January 1, 2018, among other changes, the Act reduces the U.S. federal corporate tax rate to 21 percent. As a result of the Tax Act, and pursuant to ASC 740 guidelines, impacts of legislative changes to deferred taxes are recorded in the period of enactment (fourth quarter of 2017). Consequently, the Company revalued all the ending deferred tax balances to the new statutory 21% federal U.S. tax rate which is effective January 1, 2018. The impact of the revaluation to the total gross deferred tax asset balance, before valuation allowance, was a reduction of approximately \$1.1 million.

The Company has a full valuation allowance on its deferred tax assets which results in there being no deferred tax assets recorded on the Combined Balance Sheets as of December 31, 2017 and 2016.

10. MEMBERS' EQUITY AND INTER-COMPANY TRANSACTIONS

Members' equity represents the net worth of the entities included in the Combined Carve-out Financial Statements.

There were outstanding intercompany balances representing balances due to/from other Constellation entities that were not included in the APA and the Combined Carve-out Financial Statements. As a result of the bankruptcy filing, these amounts will not be recoverable, nor will they need to be paid. Accordingly, the net intercompany balances representing transactions with entities not included in the APA and the Combined Carve-out Financial Statements of approximately \$7.2 million and \$8 million, were charged/credited to operations for the years ended December 31, 2017 and 2016, respectively.

11. PAYABLE TO INTERNAL REVENUE SERVICE

Included in the cash balance and the payable to Internal Revenue Service ("IRS") in the Combined Balance Sheets at December 31, 2017 is approximately \$10.4 million that was received in December 2017 as tax withholding on behalf of the former public shareholders and paid to the IRS in January 2018. The Orion bankruptcy estate is seeking return of those funds from the IRS.

12. NOTE PAYABLE

The note payable at December 31, 2017 represents amounts due to a Company purchased by PPP at the time of its acquisition. This note was assumed by Orion as part of the purchase price consideration when it acquired PPP in February of 2015. The original face value of the note assumed was \$600,000. The term of the note is 36 months with an annual interest rate of 4%. The contractual term of the note expired in December 2017; however, the remaining outstanding balance of \$24,457 at December 31, 2017 will be contested in bankruptcy court.

13. COMMITMENTS AND CONTINGENCIES

Legal Proceedings — The Company is a party to routine claims brought against it in the ordinary course of business, as well as claims related to its bankruptcy and limited liquidity. The Company estimates whether such liabilities are probable to occur and whether reasonable estimates can be made, and records a liability when both conditions are met. Although the ultimate outcome of these matters cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no currently pending or overtly threatened claim is expected to have a material adverse effect on the business, financial condition, or results of operations, other than those that have been accrued in the Combined Carve-out Financial Statements. As a result of the bankruptcy and the purchase of substantially all of the assets of the Company, all legacy liabilities remain with Orion Healthcorp, Inc.

Guarantees — Constellation borrowed significant amounts of funds from Bank of America which were guaranteed by all of the subsidiaries, including the carve-out entities. The guarantees will be addressed by the Company's plan of reorganization or other liquidation proceedings in the Court.

Leases — The Company leases certain office space, equipment, and other facilities under operating leases expiring through 2022. Certain of these leases contain renewal options. As a result of the bankruptcy, the commitments under the Company's leases can be released.

Assuming the lease terms are not modified through the bankruptcy, future minimum lease payments under operating leases for office space and equipment which were non-cancellable as of December 31, 2017 are as follows:

Years Ending December 31	Total
2018	\$ 1,533,334
2019	1,340,655
2020	1,253,309
2021	796,952
2022	438,650
Total	<u>\$ 5,362,900</u>

Total rental expense, included in the Combined Statement of Operations and Changes in Members' Equity was approximately \$2.4 million for the years ended December 31, 2017 and 2016.

14. RELATED PARTIES

The former CEO of Constellation is under investigation by the Securities and Exchange Commission for allegedly violating the antifraud provisions of federal securities laws. There were numerous transactions between Constellation, Orion and the former CEO which have not been included in the accompanying Combined Carve-out Financial Statements. One of the transactions was with First United Health, LLC ("FUH"). FUH, owned by the former CEO, entered into a consulting agreement with Constellation on June 10, 2013, whereby FUH agreed to provide consulting services to the Company and further agreed for no extra charge to make available the services of the CEO. The term of the agreement was for five years. After the third anniversary of the Agreement, the CEO could terminate the Agreement by providing 60 days' written notice to Constellation. Transactions relating to this consulting agreement and other transactions with the former CEO have not been included in the Combined Carve-out Financial Statements since such transactions were determined to have no merit to the carve-out entities.

The Company has a management service agreement with a company in India owned by the father of an executive of Orion. Under the terms of the agreement, the Indian company performs the coding and billing services for certain revenue cycle management customers. The Company reimburses the cost of the services provided as well as an agreed-upon profit margin. Fees are advanced at the beginning of each month, based on an estimate of work to be performed, and a true-up to the actual expenses incurred is performed at month-end.

The amount of fees paid to this Indian company for the years ended December 31, 2017 and 2016 were approximately \$5 million and are included in direct operating costs in the Combined Statement of Operations and Changes in Members' Equity.

The accrued liability to related parties represents amounts due to the company in India that performed the medical billing for certain of the revenue cycle management entities and amount due to the former owners of Allegiance for the year ended 2016 which represents a working capital adjustment. The amounts due to the company in India were approximately \$193,000 and \$89,000 at December 31, 2017 and 2016, respectively. The amount due to the former owners of Allegiance was approximately \$782,000 at December 31, 2016.

15. EMPLOYEE BENEFIT PLANS

The Company participates in an employee retirement savings plan under Section 401(k) of the Internal Revenue Code for all eligible employees. Participants are permitted to defer compensation up to the dollar limitation as defined by the IRS for the taxable year. On a discretionary basis, the Company has the ability to match up to 50% of the first 6% of the non-highly compensated employees' deferrals. The Company's contributions vest beginning in the second year in equal installments over three years, and are 100% vested after four years. For the years ended December 31, 2017 and 2016, the Company did not contribute any matching contribution.

16. SUBSEQUENT EVENTS

In accordance with ASC 855 "Subsequent Events", the Company has evaluated events and transactions occurring subsequent to December 31, 2017, the balance sheet date, through September 7, 2018, the date the Combined Carve-out Financial Statements were available to be issued.

Prior to the acquisition of the Carve-out entities effective July 1, 2018, certain customers cancelled their contracts with the Company. The amount of revenue with these customers amounted to approximately \$6.4 million for the year ended December 31, 2017.

On July 2, 2018, MTBC completed its purchase of substantially all of the assets of the carve-out entities. Such assets were purchased by MTBC Health, Inc., a wholly-owned subsidiary of MTBC, and MTBC Practice Management, Corp., a wholly-owned subsidiary of MTBC Health, Inc. The acquisition was approved through a sale order dated June 25, 2018 by the United States Bankruptcy Court for the Eastern District of New York as a Section 363 purchase under Chapter 11 of the U.S. Bankruptcy Code.

ORION TARGET BUSINESSES
COMBINED CARVE-OUT FINANCIAL STATEMENTS
(A CARVE-OUT OF ORION HEALTHCORP, INC.)

JUNE 30, 2018

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ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
COMBINED BALANCE SHEET AS OF JUNE 30, 2018 (UNAUDITED)

ASSETS	
CURRENT ASSETS:	
Cash	\$ 1,629,659
Accounts receivable - net of allowance for doubtful accounts of \$831,000	5,596,562
Contract asset	400,538
Inventory	307,278
Prepaid expenses and other current assets	620,793
Total current assets	8,554,830
Property and equipment - net	98,877
Intangible assets - net	5,148,487
Other assets	263,819
TOTAL ASSETS	\$ 14,066,013
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$ 3,288,642
Accrued compensation	682,721
Accrued expenses	1,098,503
Payable to shareholders	2,900,000
Accrued liability to related parties	189,602
Note payable	24,457
Total current liabilities	8,183,925
Deferred rent	374,882
Total liabilities	8,558,807
COMMITMENTS AND CONTINGENCIES (Note 13)	
MEMBERS' EQUITY	5,507,206
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 14,066,013

The accompanying notes are an integral part to these Combined Carve-out Financial Statements.

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
COMBINED STATEMENT OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

NET REVENUE	\$ 19,079,434
OPERATING EXPENSES:	
Direct operating costs	14,089,826
Selling and marketing	21,830
General and administrative	8,613,280
Depreciation and amortization	2,166,362
Total operating expenses	<u>24,891,298</u>
OPERATING LOSS	(5,811,864)
OTHER:	
Adjustment of net intercompany balances (Note 9)	<u>3,110,493</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,701,371)
Income tax provision	10,938
NET LOSS	<u>\$ (2,712,309)</u>
Members' equity - December 31, 2017	7,804,051
Cumulative effect of adopting ASC 606	415,464
Balance- January 1, 2018 after adoption	<u>8,219,515</u>
Net loss	<u>(2,712,309)</u>
Members' equity- June 30, 2018	<u>\$ 5,507,206</u>

The accompanying notes are an integral part to these Combined Carve-out Financial Statements.

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
COMBINED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

OPERATING ACTIVITIES:		
Net loss	\$	(2,712,309)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		2,166,362
Deferred rent		(7,952)
Provision for doubtful accounts		362,359
Changes in operating assets and liabilities:		
Accounts receivable		(162,481)
Other assets		(149,865)
Payable to Internal Revenue Service / shareholders		(7,535,097)
Accounts payable and other liabilities		(1,545,205)
Net cash used in operating activities		<u>(9,584,188)</u>
INVESTING ACTIVITIES:		
Capital expenditures		(17,711)
Net cash used in investing activities		<u>(17,711)</u>
NET DECREASE IN CASH		(9,601,899)
CASH - Beginning of the period		11,231,558
CASH - End of the period	\$	<u>1,629,659</u>
SUPPLEMENTAL INFORMATION - Cash paid during the period for:		
Income taxes	\$	<u>10,938</u>

The accompanying notes are an integral part to these Combined Carve-out Financial Statements.

ORION TARGET BUSINESSES
(A CARVE-OUT OF ORION HEALTHCORP, INC.)
NOTES TO COMBINED CARVE-OUT FINANCIAL STATEMENTS
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

1. ORGANIZATION AND BUSINESS

Orion HealthCorp, Inc. and its subsidiaries (“Orion”) filed for bankruptcy on March 16, 2018 in the United States Bankruptcy Court for the Eastern District of New York (the “Court”). The filing was made under Chapter 11 of the Bankruptcy Code. Orion was a wholly owned subsidiary of Constellation Healthcare Technologies, Inc. (“Constellation”).

In May 2018, Medical Transcription Billing, Corp. (“MTBC”), a Delaware corporation, entered into an Asset Purchase Agreement (“APA”) as the stalking horse bid with Orion and certain of its affiliates to acquire the revenue cycle, practice management and group purchasing assets of Orion (the “Orion Target Businesses”). The Court approved the sale in an order dated June 25, 2018. This transaction closed on July 2, 2018 and pursuant to the APA and subject to the conditions set forth therein, MTBC paid \$12.6 million in cash and assumed certain liabilities.

The Combined Carve-out Financial Statements (a carve-out of Orion HealthCorp, Inc.) consist of Orion HealthCorp, Inc. and many of the former Orion subsidiaries: Medical Billing Services, Inc. (“MBS”), Rand Medical Billing, Inc. (“RAND”), RMI Physician Services Corporation (“RMI”), Western Skies Practice Management, Inc. (“WSP”), Physicians Practice Plus LLC (“PPP”), Northeast Medical Solutions, LLC (“NEMS”), NEMS West Virginia, LLC (“NEMS WV”), Integrated Physician Solutions, Inc. (“IPS”), Allegiance Consulting Associates, LLC (“ACA”), and Allegiance Billing & Consulting, LLC (“ABC”) (collectively referred to as the “Company”). The Combined Carve-out Financial Statements present the historical financial position, results of operations and cash flows on a carve-out basis that corresponds with the assets being acquired as part of the APA. The Combined Carve-out Financial Statements have been derived from the accounting records of Orion on a carve-out basis.

Orion was a healthcare services organization providing outsourced business services to physicians. The carve-out entities had three types of services – revenue cycle management, practice management and group purchasing.

Revenue Cycle Management (“RCM”) Services

RCM services offer medical billing and related services to hospital-based and office-based physicians in specialties such as pathology, anesthesiology, radiology, cardiology, family practice, internal medicine, orthopedics, neurology and emergency medicine. The RCM revenue was approximately \$12.6 million for the six months ended June 30, 2018.

Practice Management (“PM”) Services

IPS, the PM services business, is a provider of business and practice management services to support the needs of primary care and subspecialty pediatric practices. Through this service, IPS provides medical billing, bookkeeping, human resource management, vaccine supply, accounts receivable management, quality assurance services, physician credentialing, fee schedule review, training and continuing education, and billing and reimbursement analysis. The physicians, who are all employed by separate corporations, provide all clinical and patient care related services.

There is a forty-year management service agreement (“MSA”) between IPS and each of three medical groups who are clients, whereby a management fee is paid to IPS, which employs all the non-physician staff, including nurses and other practice personnel. IPS manages the day-to-day business operations of each medical group for a fixed fee or percentage of the net operating income of the medical group. IPS recognizes revenue net of fees paid to the medical groups as a fixed fee or a percentage payment of the net operating income each month, which is recorded as a reduction in revenue in the Combined Statement of Operations and Changes in Members’ Equity.

The total billings of the practices are recorded net of physicians' compensation paid to the medical groups, based on the estimated reimbursement by the insurance providers. Amounts payable to the physicians at June 30, 2018 was approximately \$233,000 and is included in accounts payable in the Combined Balance Sheet. Revenue from the PM services was approximately \$6 million for the six months ended June 30, 2018.

Group Purchasing Organization ("GPO")

The GPO, which is part of IPS, enables eligible physicians to participate in discounts for vaccines including flu shots and childhood vaccinations offered by certain pharmaceutical companies. In exchange for referring physicians to the drug manufacturers, IPS receives an administrative fee from the pharmaceutical companies. Such revenue was approximately \$461,000 for the six months ended June 30, 2018.

2. LIQUIDITY AND GOING CONCERN

FASB Accounting Standard Codification ("ASC") Topic 205-40, Presentation of Financial Statements – Going Concern, requires that management evaluate whether there are relevant conditions and events that, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern and to meet its obligations as they become due within one year after the date that the Combined Carve-out Financial Statements are issued.

Orion and its subsidiaries filed for bankruptcy on March 16, 2018. As of that date, the Orion HealthCorp Inc. was no longer able to continue as a going concern. The Combined Carve-out Financial Statements do not include any adjustments that might be necessary to account for Orion's inability to continue as a going concern. As a result of the APA effective on July 1, 2018, the doubts about the Company's ability to continue as a going concern were alleviated.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination — The accompanying Combined Carve-out Financial Statements (a carve-out of Orion HealthCorp, Inc.), have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of the Orion Target Businesses. All intercompany accounts and transactions of the Orion Target Businesses have been eliminated in the combination.

These Combined Carve-out Financial Statements have been prepared solely to demonstrate the historical results of operations, financial position and cash flows related to the Orion Target Businesses, which includes Orion and those of its wholly owned subsidiaries that are included in the APA, for the indicated periods.

The Company has historically operated as part of their parent company, Constellation, and not as a standalone company. None of the assets or liabilities of the parent have been assigned to the Company in the Combined Carve-out Financial Statements. Due to the bankruptcy in March of 2018, the net transfers to Constellation have been written-off and are included in the adjustment of net intercompany balances on the Combined Statement of Operations and Changes in Members' Equity.

The Combined Carve-out Financial Statements include the assets, liabilities, revenue and expenses that are specifically identifiable to the Orion Target Businesses. The Combined Carve-out Financial Statements reflect allocations of direct and indirect expenses related to certain overhead functions that are provided on a centralized basis by Constellation. These expenses have been allocated to the Company on the basis of direct usage when identifiable, with others were allocated based on revenue.

Management believes the assumptions underlying the Combined Carve-out Financial Statements, including the assumptions regarding the allocation of expenses, are reasonable. Nevertheless, the Combined Carve-out Financial Statements may not include all of the actual expenses that would have been incurred by the Orion Target Businesses and may not reflect the Orion Target Businesses' financial position, results of operations and cash flows that would have been reported if the Orion Target Businesses had been a stand-alone entity during the period presented.

Segment Reporting — The Company views its operations as comprising one operating segment. The Chief Operating Decision Maker, which was the Company's Chief Executive Officer, monitored and reviewed financial information at a combined level for assessing operating results and the allocation of resources.

Use of Estimates — The preparation of the Combined Carve-out Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Combined Carve-out Financial Statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management include, but are not limited to: (1) impairment of long-lived assets; (2) depreciable lives of property and equipment; (3) allowance for doubtful accounts; (4) amortization lives of intangible assets; and (5) fair value of identifiable purchased tangible and intangible assets. Actual results could significantly differ from those estimates.

Revenue Recognition — The Company adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (ASC 606) on January 1, 2018 using a modified retrospective adoption methodology, whereby the cumulative impact of all prior periods is recorded in Members’ Equity or other impacted balance sheet items upon adoption. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the previous accounting standard, the criterion impacting the timing of our revenue recognition was the requirement of fees to be either fixed or determinable; therefore, we did not recognize revenue for medical billing claims until we were notified of these collections, as the fees were not fixed or determinable until such time. The new guidance does not limit the recognition of revenue to only fees that are fixed or determinable. Instead, the standard focuses on recognizing revenue as value is transferred to customers. The impact as of January 1, 2018 on our medical billing services is a revenue recognition and reporting model that reflects revenue recognized over time rather than delaying the recognition of revenue until the point in time in which the fees to be charged become determinable. The impact to the accumulated deficit as of January 1, 2018 for the contract asset related to medical billing revenue was approximately \$415,000. There was no material impact to the Company’s other revenue streams.

The RCM service’s principal source of revenues is fees charged to clients based on a percentage of net collections of the client’s accounts receivable. The Company recognizes revenue and bills clients when clients receive payment on those accounts receivable. The RCM business units typically receive payment from the client within 30-60 days of billing. The fees vary depending on specialty, size of practice, payer mix, and complexity of the billing. In addition to collecting fee revenue, the RCM service also earns fees from the various ancillary consulting services that they provide, including medical practice management services, managed care contracting, coding and reimbursement services and transcription services.

The Company bills its RCM customers on a monthly basis, in arrears. Fees charged to customers for the services provided are typically based on a percentage of net collections on the clients’ accounts receivable. The Company does not recognize revenue for service fees until the Company has received notification that a claim has been accepted and the amount which the physician will collect is determined, as the fees are not fixed and determinable until such time.

IPS recognizes revenue at the time the services are provided to patients so there was no effort on IPS’ revenue recognition as a result of the adoption of ASC-606. Net revenue recorded in the Combined Statement of Operations and Changes in Members’ Equity represents gross billing after deducting credits, refunds and payments to the medical groups. IPS assumes all financial risk for the performance of the medical practices it manages. The physicians are employees of three captive professional corporations, bound by non-compete agreements provided in the management service agreements. Net patient service revenue is impacted by billing rates, changes in current procedural terminology code reimbursement, and collection trends. IPS reviews billing rates at each of its medical groups, on at least an annual basis, and adjusts those rates based on each insurer’s current reimbursement practices.

IPS estimates the amount of these contractual allowances and records a valuation reserve against accounts receivable based on historical collection percentages for each of the medical groups, which include various payer categories. When payments are received, the contractual adjustment is written off against the established valuation reserve for contractual allowances. The historical collection percentages are adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. IPS is not aware of any material claims, disputes or unsettled matters with third party payers and there have been no material settlements with third party payers for the six months ended June 30, 2018.

The Company also receives administration fees tiered by volume of vaccines consumed by all participating physicians from pharmaceutical companies where participating doctors order and administer vaccines. Revenue is recorded on an accrual basis based upon the estimated volume of sales. There was no effect on the recognition of this revenue as a result of the adoption of ASC-606.

The Company's revenue arrangements generally do not include a general right of return for services provided.

These Combined Carve-out Financial Statements include enhanced disclosures, particularly around the contract asset and the disaggregation of revenue. See Note 12, "Revenue," for these enhanced disclosures.

Direct Operating Costs – Direct operating costs consist primarily of salaries and benefits related to personnel who provide services to clients, claims processing costs, and other direct costs related to the Company's services. Costs associated with the implementation of new clients are expensed as incurred. The reported amounts of direct operating costs include allocated amounts for rent and overhead costs. Depreciation and amortization have not been allocated and are presented separately in the Combined Statement of Operations and Changes in Members' Equity.

Selling and Marketing Expenses – Selling and marketing expenses consist primarily of compensation and benefits, travel and advertising expenses and are expensed as incurred.

Advertising Costs – The Company expenses advertising costs as incurred. The Company incurred approximately \$22,000 of advertising costs for the six months ended June 30, 2018, which are included in selling and marketing expenses in the Combined Statement of Operations and Changes in Members' Equity.

Cash and Cash Equivalents – The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable — Accounts receivable are stated at their net realizable value. Accounts receivable are presented on the Combined Balance Sheet net of an allowance for doubtful accounts, which is established based on reviews of receivable balances, an assessment of the customers' current creditworthiness and the probability of collection. Accounts are written off when it is determined that collection of the outstanding balance is no longer possible.

IPS' medical groups grant credit without collateral to their patients, most of which are insured under third-party payer arrangements. IPS records a valuation allowance against its accounts receivables to report the estimated amount to be received from third party payers. This valuation allowance is netted against the accounts receivable balance for financial reporting purposes. Establishing a valuation allowance is subjective in nature. IPS uses historical collection percentages to determine the estimated valuation allowance, and adjusts the percentage on a quarterly basis.

The changes in the allowance for doubtful accounts for the RCM business for the six months ended June 30, 2018 were as follows:

Beginning balance - January 1, 2018	\$	737,407
Provision		362,359
Write-offs		(268,863)
Ending balance - June 30, 2018	\$	<u>830,903</u>

The Company typically does not charge late fees or interest on past due accounts.

Intercompany transactions — The carve out entities had significant transactions amongst themselves and with other Constellation entities. Due to the bankruptcy, neither the intercompany receivable nor payable amounts will be settled with the other entities. Accordingly, such balances were charged/credited to operations in the period the transaction occurred.

Inventory — Inventory consists of vaccines, which are stated at the lower of cost or net realizable values. Cost is determined under the first-in, first-out method.

Property and Equipment — Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated lives of the assets.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which extend the useful lives of the existing property and equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in the Combined Statement of Operations and Changes in Members' Equity.

The estimated useful lives for each major classification of depreciable property and equipment are as follows:

Furniture and fixtures	5-7 years
Computer equipment	2-5 years
Office equipment	5-7 years
Leasehold improvements	Remaining life of lease

The Company amortizes leasehold improvements over the lesser of the lease term or the economic life of those assets. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably assured and for which failure to exercise the renewal option would result in an economic penalty to the Company.

Intangible Assets — Intangible assets include customer contracts and relationships, covenants not-to-compete acquired in connection with acquisitions, management contracts, trademarks, and software purchase and development costs. The Intangible assets are considered to have a definite life and are amortized on a straight-line basis over the estimated economic lives, which are reviewed annually. Management determined that the intangible assets were not impaired as a result of the sale of the carve-out entities and accordingly, no impairment adjustment was recorded as of and for the six months ended June 30, 2018.

Evaluation of Long-Lived Assets — The Company reviews its property and equipment and intangible assets for impairment whenever changes in circumstances indicate that the carrying value amount of an asset may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset, the Company will recognize an impairment loss based on the fair value of the asset.

There was no impairment of property and equipment and intangible assets for the six months ended June 30, 2018.

Business Combinations — The Company accounts for business combinations under the provisions of ASC 805, *Business Combinations*, which requires that the acquisition method of accounting be used for all business combinations. Assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. ASC 805 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date with subsequent changes in the fair value recorded through earnings.

Deferred Rent — Deferred rent consists of rent escalation payment terms related to the Company's operating leases for its facilities. Deferred rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including any construction period. The excess of the difference between actual operating lease payments due and straight-line rent expense is recorded as a deferred credit in the early periods of the lease when cash payments are generally lower than straight-line rent expense, and is reduced in the later periods of the lease when payments begin to exceed the straight-line expense.

Income Taxes — Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the tax basis of assets and liabilities and their reported amounts in the Combined Carve-out Financial Statements. Deferred tax assets and liabilities are included in the Combined Carve-out Financial Statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the current period's provision for income taxes. A valuation allowance is provided for deferred tax assets if it is more likely than not that the asset will not be realizable. Due to recurring losses, a full valuation allowance for the Company's deferred tax assets was recorded at June 30, 2018. There were no deferred tax liabilities at June 30, 2018.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken (or expected to be taken) in a tax return before the uncertain tax positions are finally resolved with the taxing authority. If the Company considers that a tax position is "more-likely-than-not" to be sustained upon an audit by the taxing authority, based solely on the technical merits of the tax position, it recognizes the tax benefit. The Company measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. The Company recognizes estimated future interest and penalties related to unrecognized tax positions, if any, as income tax expense in the Combined Statement of Operations and Changes in Members' Equity.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. At June 30, 2018 the Company did not have any uncertain tax positions that required recognition. Interest and penalties related to uncertain tax positions are recognized in income tax expense. For the period ended June 30, 2018, the Company did not recognize any penalties or interest related to unrecognized tax benefits in its Combined Carve-out Financial Statements.

4. INTANGIBLE ASSETS – NET

Intangible assets as of June 30, 2018 consisted of the following:

Client relationships	\$ 13,071,092
Trademark	1,601,325
Management contracts - non-compete agreements	3,423,700
Group purchasing agreements	600,000
Software	<u>5,032,812</u>
Total intangible assets	23,728,929
Less : Accumulated amortization	<u>(18,580,442)</u>
Intangible assets - net	<u>\$ 5,148,487</u>

Amortization expense was approximately \$2.1 million for the six months ended June 30, 2018. The amortization period for intangible assets ranges from 3 to 5 years. As of June 30, 2018, the remaining weighed average amortization period is approximately 2.2 years.

As of June 30, 2018, future amortization expense scheduled to be expensed is as follows:

Years Ending
December 31

2018 (Six months)	\$	1,333,036
2019		2,536,656
2020		826,455
2021		452,340
	\$	<u>5,148,487</u>

5. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 consisted of the following:

Machinery and other equipment	\$	318,388
Computers and accessories		592,943
Furniture and fixtures		497,806
Leasehold improvements		124,682
Total property and equipment		<u>1,533,819</u>
Less accumulated depreciation		<u>(1,434,942)</u>
Property and equipment – net	\$	<u>98,877</u>

Depreciation expense was approximately \$82,000 for the six months ended June 30, 2018.

6. CONCENTRATIONS

Cash - Cash consists of demand deposits and lockbox accounts. The Company maintained cash balances with various financial institutions, which, at times, may exceed federally insured limits. The Federal Deposit Insurance Corporation provides coverage for various types of accounts up to \$250,000 per depositor, per bank. Management periodically assesses the financial condition of these institutions for the purpose of assessing credit risk. The Company never experienced any such losses and believes it is not exposed to any significant credit risk on its cash balances.

Financial Risks — Concentrations of credit risk with respect to trade accounts receivable are managed by periodic credit evaluations of customers. The Company does not require collateral for outstanding trade accounts receivable. No one customer accounts for a significant portion of the Company's trade accounts receivable portfolio. Write-offs were approximately \$269,000 for the six months ended June 30, 2018.

GPO Revenue – As discussed in Note 1 regarding the Company's GPO revenues, the Company receives administrative fee income as a percentage tiered by volumes of vaccine group purchasing activity on behalf of physicians/members who participated in the group purchasing arrangement. The vaccines are purchased pursuant to supply agreements primarily with two Tier One pharmaceutical suppliers. The terms of the contracts are for 24 months with an option to renew for an additional 24-month period. In the event these contracts are not renewed by these suppliers, the Company may not be able to secure similar arrangements on similar terms with other vaccine providers which may negatively impact the fee income generated by the group purchasing activity.

Geographical Risks — The Company uses the services of a related-party Company based in India to conduct significant back-office operations for certain of the revenue cycle management entities. The owner of this Company is the father of an executive of Orion. The Company has no revenue earned outside of the United States. The Company's use of a significant vendor in India is subject to special considerations and significant risks not typically associated with companies in the United States. The Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in India and by the general state of India's economy. The Company's results may be adversely affected by, among other things, changes in governmental policies with respect to laws and regulations, changes in India's telecommunications industry, regulatory rules and policies, anti-inflationary measures, currency conversion and remittance abroad and rates and methods of taxation.

7. ACCRUED EXPENSES

Accrued expenses consisted of the following as of June 30, 2018:

Due to State Comptroller	\$	172,432
Accrued consulting		159,738
Accrued settlements		341,000
Credit due to customer		219,322
Accrued taxes		76,334
Accrued other		129,677
Total	\$	<u>1,098,503</u>

8. INCOME TAXES

The income tax provision for the six months ended June 30, 2018 was approximately \$11,000 which represents minimum state tax liabilities.

The Company had incurred cumulative losses which make realization of a deferred tax asset difficult to support in accordance with ASC 740. Accordingly, a valuation allowance has been recorded against all Federal and state deferred tax assets as of June 30, 2018. Although the Company generated net operating losses for tax purposes, these losses are not allowable to offset future taxable income due to the acquisition of the Company in July 2018.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted. Effective January 1, 2018, among other changes, the Act reduces the U.S. federal corporate tax rate to 21 percent. As a result of the Tax Act, and pursuant to ASC 740 guidelines, impacts of legislative changes to deferred taxes are recorded in the period of enactment (fourth quarter of 2017). Consequently, the Company revalued all the ending deferred tax balances to the new statutory 21% federal U.S. tax rate which is effective January 1, 2018.

The Company has a full valuation allowance on its deferred tax assets which results in there being no deferred tax assets recorded in the Combined Balance Sheet as of June 30, 2018.

9. MEMBERS' EQUITY AND INTER-COMPANY TRANSACTIONS

Members' equity represents the net worth of the entities included in the Combined Carve-out Financial Statements.

There were outstanding intercompany balances representing balances due to/from other Constellation entities that were not included in the APA and the Combined Carve-out Financial Statements. As a result of the bankruptcy filing, there amounts will not be recoverable, nor will they need to be paid. Accordingly, the net intercompany balances representing transactions with entities not included in the APA and in the Combined Carve-out Financial Statements of approximately \$3.1 million were charged/credited to operations during the six months ended June 30, 2018.

10. PAYABLE TO SHAREHOLDERS

The payable to shareholders in the Combined Balance Sheet at June 30, 2018 is \$2.9 million. The Company received approximately \$10.4 million as tax withholding on behalf of the former public shareholders in 2017 and paid this amount to the Internal Revenue Service ("IRS") in January 2018 and \$2.9 was paid back to the Company during the six months ended June 30, 2018. The Orion bankruptcy estate is seeking return of additional funds from the IRS.

11. NOTE PAYABLE

The note payable at June 30, 2018 represents amounts due to a company purchased by PPP at the time of its acquisition. This note was assumed by Orion as part of the purchase price consideration when it acquired PPP. The original face value of the note assumed was \$600,000. The term of the note is 36 months with an annual interest rate of 4%. The contractual term of the note expired in December 2017; however, the remaining outstanding balance of \$24,457 at June 30, 2018 will be contested in bankruptcy court. No payments were made during the six months ended June 30, 2018.

12. REVENUE

The Company accounts for revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, which was adopted January 1, 2018 using the modified retrospective method. All revenue is recognized as the performance obligations are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account under ASC 606. Under the new standard, the Company recognizes revenue when the services begin on the medical billing claims, which is generally upon receipt of the claim from the provider. For medical billing services, the Company estimates the value of the consideration it will earn over the remaining contractual period as the services are provided and recognizes the fees over the term; this estimation involves predicting the amounts the Company's clients will ultimately collect associated with the services provided. Certain significant estimates, such as payment-to-charge ratios, effective billing rates and the estimated contractual payment periods are required to measure medical billing revenue under the new standard. The timing of the revenue recognition of the other revenue streams were not materially impacted by the adoption of ASC 606.

All of the revenue is derived from contracts with customers and is reported as revenue in the Combined Statement of Operations and Changes in Members' Equity. In many cases, the Company's clients may terminate their agreements with 90 days' notice without cause, thereby limiting the term in which the Company has enforceable rights and obligations, although this time period can vary between clients. The Company's payment terms with clients are normally net 30 days. The Company provides value to their clients over the term of the contract and recognize revenue ratably over the term, which is consistent with the measure of progress. In the event that the Company is entitled to variable consideration for services provided during a specific time period, fees for these services are allocated to and recognized over the specific time period. Although the contracts have stated terms of one or more years, under ASC 606, the contracts are considered month to month and accordingly, there is no financing component.

The Company applies the portfolio approach as permitted by ASC 606 as a practical expedient to contracts with similar characteristics and use estimates and assumptions when accounting for those portfolios. The contracts generally include standard commercial payment terms. The Company has no significant obligations for refunds, warranties or similar obligations, and the Company's revenue does not include taxes collected from their customers.

Disaggregation of Revenue from Contracts with Customers

The Company derives revenue from three primary sources: medical billing services, practice management and group purchasing services. All of the current contracts with customers contain a single performance obligation. Selling prices are based on the contractual price for the service.

The following table represents a disaggregation of revenue for the six months ended June 30, 2018:

	June 30, 2018
Medical billing services	\$ 12,577,420
Practice management services	6,041,307
Group purchasing services	460,707
Total	<u>\$ 19,079,434</u>

Included in the revenue balances above are certain customers who cancelled their contracts with the Company during the six-month period ended June 30, 2018. The amount of revenue with these customers amounted to approximately \$2.3 million for the six months ended June 30, 2018.

Medical billing services:

Medical billing is the recurring process of submitting and following up on claims with health insurance companies in order for the healthcare providers to receive payment for the services they rendered. The RCM entities invoice customers on a monthly basis based on the actual collections received by its customers and the agreed-upon rate in the sales contract. The series of services under medical billing revenue includes practice management software and related tools, electronic health records, revenue cycle management services and mobile health solutions.

Substantially all of the Company's medical billing contracts contain variable consideration. The Company estimates the variable consideration in which they are expected to be entitled over the contractual period associated with the medical billing contracts. The medical billing contracts begin no earlier than go-live and the fees are recognized over the term. When a contract includes variable consideration, the Company evaluates the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, the Company includes the variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. For the majority of the medical billing contracts, the total contractual price is variable since the Company's obligation is to process an unknown quantity of transactions, as and when requested by their customers, over the contract period. The Company allocates the variable price to each claim processed using the time-series concept and recognizes revenue based on the most likely amount of consideration to which they will be entitled, which is generally the amount they have the right to invoice. Estimates to determine the variable consideration such as payment to charge ratios, effective billing rates, and the estimated contractual payment periods are updated at each reporting date.

The contract asset in the Combined Balance Sheet represents the revenue associated with the amounts the Company's clients will ultimately collect associated with the services they have provided, and the relative fee charged associated with those collections.

The Company's medical billing performance obligations consist of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to the Company's customers. The Company considers each periodic rendering of service to be a distinct performance obligation and, accordingly, recognizes revenue over time.

Practice management services:

IPS recognizes revenue at the time the services are provided to patients and accordingly, no contract asset for practice management services is necessary to be recorded at June 30, 2018. Net revenue recorded in the Combined Statement of Operations and Changes in Members' Equity represents gross billing after deducting credits, refunds and payments to the medical groups.

Group purchasing services:

The GPO, which is part of IPS, enables eligible physicians to participate in discounts for vaccines including flu shots and childhood vaccinations offered by certain pharmaceutical companies. In exchange for referring physicians to the drug manufacturers, IPS receives an administrative fee from the pharmaceutical companies. Fees are accrued monthly based on the expected volume. Accordingly, no contract asset for group purchasing service is necessary to be recorded at June 30, 2018.

Information about contract balances:

Accounts receivable are shown separately at their net realizable value in the Combined Balance Sheet. Amounts that the Company is entitled to collect under the applicable contract are recorded as accounts receivable. Invoicing is performed at the end of each month when the services have been provided. The contract asset results from the Company's medical billing services and is due to the timing of revenue recognition, submission of claims from the Company's customers and payments from the insurance providers. The contract asset includes the Company's right to payment for services already transferred to a customer when the right to payment is conditional on something other than the passage of time. The contract asset was approximately \$401,000 as of June 30, 2018. Changes in the contract asset are recorded as adjustments to net revenues and primarily result from providing services to customers that result in additional consideration and are offset by the Company's right to payment for services becoming unconditional.

13. COMMITMENTS AND CONTINGENCIES

Legal Proceedings — The Company is a party to routine claims brought against it in the ordinary course of business, as well as claims related to its bankruptcy and limited liquidity. The Company estimates whether such liabilities are probable to occur and whether reasonable estimates can be made, and records a liability when both conditions are met. Although the ultimate outcome of these matters cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no currently pending or overtly threatened claim is expected to have a material adverse effect on the business, financial condition, or results of operations, other than those that have been accrued in the Combined Carve-out Financial Statements. As a result of the bankruptcy and the purchase of substantially all of the assets of the Company, all legacy liabilities remain with Orion Healthcorp, Inc.

Guarantees — Constellation borrowed significant amounts of funds from Bank of America which were guaranteed by all of the subsidiaries, including the carve-out entities. The guarantees will be addressed by the Company's plan of reorganization or other liquidation proceedings in the Court.

Leases — The Company leases certain office space, equipment, and other facilities under operating leases expiring through 2022. Certain of these leases contain renewal options. As a result of the bankruptcy, the commitments under the Company's leases can be released.

Assuming the lease terms are not modified through the bankruptcy, future minimum lease payments under operating leases for office space and equipment as of June 30, 2018 are as follows:

Years Ending December 31	Total
2018 (Six months)	\$ 795,331
2019	1,485,621
2020	1,342,117
2021	822,856
2022	438,650
Total	\$ 4,884,575

Total rental expense, included in the Combined Statement of Operations and Changes in Members' Equity, amounted to approximately \$1.1 million for the six months ended June 30, 2018.

14. RELATED PARTIES

The former CEO of Constellation is under investigation by the Securities and Exchange Commission for allegedly violating the antifraud provisions of federal securities laws. There were numerous transactions between Constellation, Orion and the former CEO which have not been included in the accompanying Combined Carve-out Financial Statements. One of the transactions was with First United Health, LLC ("FUH"). FUH, owned by the former CEO, entered into a consulting agreement with Constellation on June 10, 2013, whereby FUH agreed to provide consulting services to the Company and further agreed for no extra charge to make available the services of the CEO. The term of the agreement was for five years. After the third anniversary of the Agreement, the CEO could terminate the Agreement by providing 60 days' written notice to Constellation. Transactions relating to this consulting agreement and other transactions with the former CEO have not been included in the Combined Carve-out Financial Statements since such transactions were determined to have no merit to the carve-out entities.

The Company has a management service agreement with a Company in India owned by the father of an executive of Orion. Under the terms of the agreement, the Indian Company performs the coding and billing services for certain revenue cycle management customers. Orion reimburses the cost of the services provided as well as an agreed-upon profit margin. Fees are advanced at the beginning of each month, based on an estimate of work to be performed, and a true-up to the actual expenses incurred is performed at month-end.

The amount of fees paid to this Indian Company for the six months ended June 30, 2018 was approximately \$1.8 million and are included in direct operating costs in the Combined Statement of Operations and Changes in Members' Equity.

The accrued liability to related parties represents amounts due to the Company in India that performed the medical billing for certain of the revenue cycle management entities. The amounts due to the Company in India was approximately \$190,000 at June 30, 2018.

15. EMPLOYEE BENEFIT PLANS

The Company participates in an employee retirement savings plan under Section 401(k) of the Internal Revenue Code for all eligible employees. Participants are permitted to defer compensation up to the dollar limitation as defined by the IRS for the taxable year. On a discretionary basis, the Company has the ability to match up to 50% of the first 6% of the non-highly compensated employees' deferrals. The Company's contributions vest beginning in the second year in equal installments over three years and are 100% vested after four years. For the six months ended June 30, 2018, the Company did not contribute any matching contribution.

16. SUBSEQUENT EVENT

In accordance with ASC 855, "Subsequent Events", the Company has evaluated events and transactions occurring subsequent to June 30, 2018, the balance sheet date, through September 7, 2018, the date the Combined Carve-out Financial Statements were available to be issued.

On July 2, 2018, MTBC completed its purchase of substantially all of the assets of the carve-out entities. Such assets were purchased by MTBC Health, Inc., a wholly-owned subsidiary of MTBC, and MTBC Practice Management, Corp., a wholly-owned subsidiary of MTBC Health, Inc. The acquisition was approved through a sale order dated June 25, 2018 by the United States Bankruptcy Court for the Eastern District of New York as a Section 363 purchase under Chapter 11 of the U.S. Bankruptcy Code.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

We prepared the following unaudited pro forma condensed combined financial statements based on the historical consolidated financial statements of Medical Transcription Billing, Corp. (“MTBC”) as adjusted to give effect to the following transactions (the “Transactions”):

- Our acquisition of the Orion Target Businesses, which consist of the assets and the assumption of certain liabilities of Orion HealthCorp, Inc. and 13 of its affiliates collectively (“Orion”) with an effective date of July 1, 2018, and
- Our acquisition of the assets of Washington Medical Billing, LLC (“WMB”) on July 1, 2017.

Orion and WMB are collectively referred to as the “Acquired Businesses.”

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 give effect to the Transactions as if each of them had occurred on January 1, 2017. The unaudited pro forma condensed combined balance sheet as of June 30, 2018 gives effect to the acquisition of Orion as if it had occurred on June 30, 2018.

The pro forma condensed combined statements of operations include adjustments for our acquisitions under Article 11 of Regulation S-X. The results of the transactions are shown for the periods prior to their acquisition by MTBC.

We determined that the Orion and WMB transactions each involved the acquisition of a business, and considering the guidance in Rule 11-01(d) of Regulation S-X, met the significance test of Rule 8-04 of Regulation S-X.

The Orion audited combined carve-out financial statements as of December 31, 2017 and 2016 and for the years then ended and the interim combined carve-out financial statements as of June 30, 2018 and for the six months then ended appear elsewhere in this Form 8-K.

We have based the pro forma adjustments upon available information and certain assumptions that we believe are reasonable under the circumstances. We describe in greater detail the assumptions underlying the pro forma adjustments in the accompanying notes, which you should read in conjunction with these unaudited pro forma condensed combined financial statements. In many cases, we based these assumptions on estimates. The actual adjustments to our audited consolidated financial statements will depend upon a number of factors. Accordingly, the actual adjustments that will appear in our consolidated financial statements will differ from these pro forma adjustments, and those differences may be material.

We account for our acquisitions using the acquisition method of accounting for business combinations under generally accepted accounting principles used in the United States (“GAAP”), with MTBC being considered the acquiring entity. Under the acquisition method of accounting, the total consideration paid is allocated to an acquired company’s tangible and intangible assets, net of liabilities, based on their estimated fair values as of the acquisition date.

We provide these unaudited pro forma condensed combined financial statements for informational purposes only. These unaudited pro forma condensed combined financial statements do not purport to represent what our results of operations or financial condition would have been had the Transactions actually occurred on the assumed dates, nor do they purport to project our results of operations or financial condition for any future period or future date.

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	MTBC	January 1, 2017 to Jun 30, 2017 WMB	MTBC + Previously Acquired Subtotal	Orion	Pro Forma Adjustments	Pro Forma Combined
	(in thousands, except per share data)					
Net revenue	\$ 31,811	\$ 518	\$ 32,329	\$ 42,462	\$ -	\$ 74,791
Operating expenses:						
Direct operating costs	17,679	332	18,011	32,096	-	50,107
Selling and marketing	1,107	-	1,107	649	-	1,756
General and administrative	11,738	144	11,882	17,626	(57)(1)	29,451
Research and development	1,082	-	1,082	-	-	1,082
Change in contingent consideration	151	-	151	(936)	-	(785)
Depreciation and amortization	4,300	-	4,300	4,620	(2,741)(2)	6,179
Restructuring charges	276	-	276	-	-	276
Impairment charges	-	-	-	14,106(3)	-	14,106
Total operating expenses	36,333	476	36,809	68,161	(2,798)	102,172
Operating (loss) income	(4,522)	42	(4,480)	(25,699)	2,798	(27,381)
Adjustment of net intercompany balances	-	-	-	7,206(8)	-	7,206
Interest (expense) income - net	(1,307)	-	(1,307)	-	-	(1,307)
Other income (expense) - net	332	-	332	(47)	-	285
(Loss) income before income taxes	(5,497)	42	(5,455)	(18,540)	2,798	(21,197)
Income tax provision	68	-	68	34	(4)	102
Net (loss) income	<u>\$ (5,565)</u>	<u>\$ 42</u>	<u>\$ (5,523)</u>	<u>\$ (18,574)</u>	<u>\$ 2,798</u>	<u>\$ (21,299)</u>
Preferred stock dividend	2,030	-	2,030	-	-	2,030
Net (loss) income attributable to common shareholders	<u>\$ (7,595)</u>	<u>\$ 42</u>	<u>\$ (7,553)</u>	<u>\$ (18,574)</u>	<u>\$ 2,798</u>	<u>\$ (23,329)</u>
Weighted average common shares outstanding:						
Basic and diluted	11,010					11,010
Loss per share						
Basic and diluted	<u>\$ (0.69)</u>					<u>\$ (2.12)</u>

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

	MTBC	Orion	Pro Forma Adjustments	Pro Forma Combined
	(in thousands, except per share data)			
Net revenue	\$ 16,990	\$ 19,079	\$ -	\$ 36,069
Operating expenses:				
Direct operating costs	8,818	14,090	-	22,908
Selling and marketing	708	22	-	730
General and administrative	5,655	8,613	(182)(1)	14,086
Research and development	505	-	-	505
Change in contingent consideration	43	-	-	43
Depreciation and amortization	1,150	2,166	(1,484)(2)	1,832
Total operating expenses	<u>16,879</u>	<u>24,891</u>	<u>(1,666)</u>	<u>40,104</u>
Operating income (loss)	111	(5,812)	1,666	(4,035)
Adjustment of net intercompany balances	-	3,111(8)	-	3,111
Interest (expense) income - net	(113)	-	-	(113)
Other income (expense) - net	370	-	-	370
Income (loss) before income taxes	368	(2,701)	1,666	(667)
Income tax provision	98	11	-(4)	109
Net income (loss)	<u>\$ 270</u>	<u>\$ (2,712)</u>	<u>\$ 1,666</u>	<u>\$ (776)</u>
Preferred stock dividend	2,024	-	-	2,024
Net (loss) income attributable to common shareholders	<u>\$ (1,754)</u>	<u>\$ (2,712)</u>	<u>\$ 1,666</u>	<u>\$ (2,800)</u>
Weighted average common shares outstanding:				
Basic and diluted	11,641			11,641
Loss per share:				
Basic and diluted	<u>\$ (0.15)</u>			<u>\$ (0.24)</u>

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 2018

	MTBC	Orion	Adjustments for Assets not Acquired	Orion Acquisition Subtotal	Acquisition Related Pro Forma Adjustments	Pro Forma Results
	(in thousands)					
Cash	\$ 11,723	\$ 1,630	\$ (1,630)(5)	-	\$ (11,600)(7)	\$ 123
Accounts receivable - net	3,438	5,597	-	5,597	-	9,035
Contract asset	1,669	401	-	401	-	2,070
Inventory	-	307	-	307	-	307
Current assets - related party	25	-	-	-	-	25
Other current assets	1,731	621	(621)(5)	-	(1,000)(7)	731
Current assets	18,586	8,556	(2,251)	6,305	(12,600)	12,291
Property and equipment - net	1,388	99	-	99	220(7)	1,707
Intangible assets - net	1,702	5,148	(2,619)(5)	2,529	3,571(6)	7,802
Goodwill	12,264	-	-	-	580(6)	12,844
Other assets	425	263	(263)(5)	-	-	425
Total assets	\$ 34,365	\$ 14,066	\$ (5,133)	\$ 8,933	\$ (8,229)	\$ 35,069
Accounts payable	\$ 590	\$ 3,289	\$ (2,794)(5)	\$ 495	-	\$ 1,085
Accrued compensation	1,034	682	(473)(5)	209	-	1,243
Accrued expenses	922	1,099	(1,099)(5)	-	-	922
Payable to shareholders	-	2,900	(2,900)(5)	-	-	-
Accrued liability to related parties	11	190	(190)(5)	-	-	11
Notes payable - other (current portion)	81	24	(24)(5)	-	-	81
Deferred revenue	28	-	-	-	-	28
Deferred rent	89	-	-	-	-	89
Contingent consideration	563	-	-	-	-	563
Dividend payable	1,056	-	-	-	-	1,056
Total current liabilities	4,374	8,184	(7,480)	704	-	5,078
Notes payable - other	141	-	-	-	-	141
Deferred rent	256	375	(375)(5)	-	-	256
Deferred revenue	28	-	-	-	-	28
Deferred tax	450	-	-	-	-	450
Total liabilities	5,249	8,559	(7,855)	704	-	5,953
Preferred stock	2	-	-	-	-	2
Common stock	12	-	-	-	-	12
Additional paid-in capital	52,710	-	-	-	-	52,710
Members' equity	-	5,507	(5,507)(5)	-	-	-
Accumulated deficit	(21,795)	-	-	-	-	(21,795)
Accumulated other comprehensive loss	(1,151)	-	-	-	-	(1,151)
Common shares held in treasury	(662)	-	-	-	-	(662)
Total shareholders' equity (deficiency)	29,116	5,507	(5,507)	-	-	29,116
Total liabilities and shareholders' equity	\$ 34,365	\$ 14,066	\$ (13,362)	\$ 704	\$ -	\$ 35,069

The amortization of intangible assets of our acquisitions, shown below, assumes that the assets were acquired on January 1, 2017. Amortization is computed using the double declining balance method to reflect the expected economic benefit over the period associated with each statement of operations.

Amortization expense for the year ended December 31, 2017

	WMB	Orion	Total Expense
	(in thousands)		
Pro forma amortization expense for the period prior to acquisition	\$ 13	\$ 1,592	\$ 1,605
As recorded in the historical financial statements	-	4,346	4,346
Pro forma adjustment	<u>\$ 13</u>	<u>\$ (2,754)</u>	<u>\$ (2,741)</u>

WMB did not have any amortization expense recorded prior to its acquisition by MTBC.

There was no adjustment for depreciation or amortization not related to purchased intangible assets.

Amortization expense for the six months ended June 30, 2018

	WMB	Orion	Total Expense
	(in thousands)		
Pro forma amortization expense for the period prior to acquisition	\$ (3)	\$ 603	\$ 600
As recorded in the historical financial statements	-	2,084	2,084
Pro forma adjustment	<u>\$ (3)</u>	<u>\$ (1,481)</u>	<u>\$ (1,484)</u>

(3) **Goodwill Impairment** — Orion recognized an impairment loss for the year ended December 31, 2017 of approximately \$14.1 million, as it was determined that, prior to the acquisition by MTBC, the historical goodwill had no value as of December 31, 2017. Such amount was not adjusted out in the pro forma schedule, as it is not directly attributable to the acquisition of Orion by MTBC.

(4) **Provision (Benefit) for Income Tax** — The income tax effects reflected in the pro forma adjustments are based on an estimated Federal statutory rate of 34% and 21% for the year ended December 31, 2017 and the six months ended June 30, 2018, respectively. We did not record a benefit for income taxes for the year ended December 31, 2017 in the unaudited pro forma condensed combined statement of operations since the Company has a valuation allowance recorded against its Federal and state deferred tax assets as of December 31, 2017. We did not record a provision for income taxes for the six months ended June 30, 2018 in the unaudited pro forma condensed combined statement of operations since the Company has sufficient Federal net operating loss (“NOL”) carryforward to offset the Federal tax provision. State income taxes were not considered material and have not been included in the amounts below. The following table details the pro forma adjustments to income taxes for the year ended December 31, 2017:

Provision (Benefit) for Income Taxes

	WMB	Orion	Pro Forma Adjustments	Pro Forma Loss before Provision (Benefit) for Income Taxes
	(in thousands)			
Income (loss) before provision for income taxes	\$ 42	\$ (18,540)	\$ 2,798	\$ (15,700)
			Estimated tax benefit at statutory income tax rate of 34%	(5,338)
			Less provision for income taxes:	
			WMB	-
			Orion	-
			Valuation allowance	5,338
			Pro forma adjustment	<u>\$ -</u>

The following table details the pro forma adjustments to income taxes for the six months ended June 30, 2018:

Provision (Benefit) for Income Taxes

	Orion	Pro Forma Adjustments	Pro Forma Loss before Provision (Benefit) for Income Taxes
	(in thousands)		
(Loss) income before provision for income taxes	\$ (2,701)	\$ 1,666	\$ (1,035)
		Estimated tax provision at statutory income tax rate of 21%	(217)
		Less provision for income taxes:	
		Orion	-
		Utilization of NOL carryforward	217
		Pro forma adjustment	\$ -

- (5) **Assets and Liabilities Not Acquired** — We adjusted the unaudited pro forma condensed combined balance sheet to eliminate approximately \$5.1 million of assets held by Orion that we did not acquire, and approximately \$7.9 million of liabilities that we did not assume. The asset purchase agreement includes the purchase primarily of Orion's customer relationships and agreements, accounts receivable, technology, fixed assets, inventory, contract asset and the assumption of certain specified accounts payable and accrued compensation liabilities for employees hired by MTBC.

Pro Forma Adjustments for Assets and Liabilities Not Acquired — The following schedule summarizes the adjustments to assets and liabilities in the unaudited pro forma condensed combined balance sheet, including all adjustments above as well as the adjustments to intangibles as specified below.

Pro Forma Adjustments for Assets not Acquired and Liabilities not Assumed

	Pro Forma Adjustments
	(in thousands)
Cash	\$ (1,630)
Other current assets	(621)
Intangible assets - net	(2,619)
Other assets	(263)
Total assets	\$ (5,133)
Accounts payable	\$ (2,794)
Accrued compensation	(473)
Accrued expenses	(1,099)
Payable to Internal Revenue Service	(2,900)
Accrued liability to related party	(190)
Notes payable - other (current portion)	(24)
Deferred rent	(375)
Total liabilities	(7,855)
Members' equity	(5,507)
Total liabilities and members' deficit	\$ (13,362)

- (6) **Intangible Assets** — We based our preliminary estimates of each intangible asset type/category that we expect to recognize as part of the Orion acquisition on the nature of the business and the contracts that we have entered into with the sellers. We based our estimates on experiences from our prior acquisitions and the types of intangible assets that we recognized as part of those acquisitions. In particular, our experience with our prior acquisitions indicates to us that customer contracts and customer relationships, trademarks and technology compose the significant majority of intangible assets for these types of business. We based the preliminary estimated useful lives of these intangible assets on the useful lives that we have experienced for similar intangible assets in prior acquisitions. However, all of these estimates are preliminary, and therefore we have not been able to finalize the accounting for this transaction.

The amounts set forth below reflect the preliminary fair value of the intangible assets of Orion that we acquired, and their estimated useful lives. All preliminary estimates for the fair value of the intangibles will be adjusted based on the work of a valuation specialist.

Intangible Assets of Orion

	(in thousands)	Estimated useful life
Healthcare IT customer relationships	\$ 2,200	4 years
Practice management customer relationships	3,900	10 years
Goodwill	580	
Total intangible assets	<u>\$ 6,680</u>	

- (7) **Purchase Price Allocation** — We recognize the assets and liabilities acquired at their fair value on the acquisition date, and if there is any excess in purchase price over these values, it is allocated to goodwill.

For Orion, management has made an initial fair value estimate of the assets acquired and liabilities assumed as of July 1, 2018. Our model includes assumptions such as revenue growth rates, profitability rates, attrition rates and weighted average costs of capital, where applicable. These preliminary estimates may differ from the final valuation being prepared by a third-party specialist; and this difference could be material.

The bankruptcy of Orion includes the transfer of all customer relationships and agreements, accounts receivable, technology, fixed assets and the assumption of certain specified liabilities. We determined the fair value of the fixed assets acquired by reference to current market prices for such assets, and the value of the assumed liabilities was contractually specified. An adjustment of \$220,000 was required to adjust the property and equipment to fair value, which is a preliminary estimate. The fair value of the accounts receivable was determined based on the age of the amounts owed and the customer's payment history.

Included in the purchase price allocation are preliminary amounts for customer relationships determined by an outside consulting firm.

The following table shows the preliminary purchase price allocation, estimated fair values of the acquired assets and liabilities assumed for Orion as of June 30, 2018, the date of our most recent consolidated balance sheet.

Preliminary Purchase Price Allocation

	Orion (in thousands)
Cash consideration	\$ 11,600
Previous deposit	1,000
Total purchase price	<u>\$ 12,600</u>
Accounts receivable	\$ 5,597
Contract asset	401
Inventory	307
Customer relationships	6,100
Goodwill	580
Property and equipment	319
Liabilities assumed	(704)
Total preliminary purchase price allocation	<u>\$ 12,600</u>

- (8) **Adjustment of net intercompany balances** — Due to the bankruptcy, neither the intercompany receivable nor the intercompany payable amounts will be settled with the remaining Orion or Constellation entities. Accordingly, the net intercompany balances of \$7.2 million and \$3.1 million for the year ended December 31, 2017 and the six months ended June 30, 2018 respectively were charged/credited to operations in the period the transaction occurred.

Supplemental Information

For WMB and Orion, we identified revenue from customers who cancelled their contracts prior to MTBC's acquisition of such customers' contracts. Such revenue is included in the pro forma condensed combined statement of operations, even though MTBC will not generate revenues from those customers.

Estimated revenue from customers who cancelled prior to our acquisition

	<u>WMB</u>	<u>Orion</u>	<u>Total</u>
Year ended December 31, 2017	\$ 154	\$ 6,406	\$ 6,560
Six months ended June 30, 2018	-	2,308	2,308

To provide investors with additional insight and allow for a more comprehensive understanding of the information used by management in its financial and operational decision-making surrounding pro forma operations, we supplement our consolidated financial statements presented on a basis consistent with GAAP, with Adjusted EBITDA, a non-GAAP financial measure of earnings. Adjusted EBITDA represents the sum of GAAP net income (loss) before provision for (benefit from) income taxes, net interest expense, other expense (income), stock-based compensation expense, depreciation and amortization, integration and transaction and restructuring costs, and changes in contingent consideration. Our management uses Adjusted EBITDA as a financial measure to evaluate the profitability and efficiency of our business model. We use this non-GAAP financial measure to assess the strength of the underlying operations of our business. These adjustments, and the non-GAAP financial measure that is derived from them, provide supplemental information to analyze our operations between periods and over time. We find this especially useful when reviewing pro forma results of operations which include large non-cash amortization of intangibles assets from acquisitions. Investors should consider this non-GAAP financial measure in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

The following tables contain a reconciliation of GAAP net (loss) income to Adjusted EBITDA for the year ended December 31, 2017 and the six months ended June 30, 2018:

**Reconciliation of GAAP net (loss) income for the year ended
December 31, 2017 to Adjusted EBITDA
(\$000)**

	<u>MTBC</u>	<u>WMB</u>	<u>MTBC + Previously Acquired Subtotal</u>	<u>Orion</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
	(in thousands)					
Net revenue	\$ 31,811	\$ 518	\$ 32,329	\$ 42,462	\$ -	\$ 74,791
GAAP net (loss) income	\$ (5,565)	\$ 42	\$ (5,523)	\$ (18,574)	\$ 2,798	\$ (21,299)
Provision (benefit) for income taxes	68	-	68	34	-	102
Net interest expense	1,307	-	1,307	-	-	1,307
Foreign exchange / other expense	(249)	-	(249)	47	-	(202)
Stock-based compensation expense	1,487	-	1,487	-	-	1,487
Depreciation and amortization	4,300	-	4,300	4,620	(2,741)	6,179
Integration, transaction and restructuring costs (1)	791	-	791	-	(57)	734
Impairment charges	-	-	-	14,106	-	14,106
Change in contingent consideration	151	-	151	(936)	-	(785)
Adjusted EBITDA	<u>\$ 2,290</u>	<u>\$ 42</u>	<u>\$ 2,332</u>	<u>\$ (703)</u>	<u>\$ -</u>	<u>\$ 1,629</u>

**Reconciliation of GAAP net income (loss) for the six months ended
June 30, 2018 to Adjusted EBITDA
(\$000)**

	MTBC	Orion	Adjustments	Pro Forma Combined
	(in thousands)			
Net revenue	\$ 16,990	\$ 19,079	\$ -	\$ 36,069
GAAP net income (loss)	\$ 270	\$ (2,712)	1,666	\$ (776)
Provision for income taxes	98	11	-	109
Net interest expense	113	-	-	113
Foreign exchange / other expense	(332)	-	-	(332)
Stock-based compensation expense	537	-	-	537
Depreciation and amortization	1,150	2,166	(1,484)	1,832
Integration, transaction and restructuring costs (1)	651	-	(182)	469
Change in contingent consideration	43	-	-	43
Adjusted EBITDA	<u>\$ 2,530</u>	<u>\$ (535)</u>	<u>\$ -</u>	<u>\$ 1,995</u>

- (1) The integration and transactions costs for MTBC include severance amounts paid to employees from acquired businesses, transactions costs, such as brokerage fees, pre-acquisition accounting costs and legal fees, exit costs related to terminating leases and other contractual agreements and other costs related to specific transactions and restructuring charges arising from discontinued facilities and operations. For Orion, such amounts represent fees for an outside party who were appointed to operate the business and serve as the bankruptcy trustee during the period before the transaction.

