

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

**Form 10-Q**

(Mark one)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from            to

Commission File Number 001-36529



**MTBC, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**7 Clyde Road**  
**Somerset, New Jersey**  
*(Address of principal executive offices)*

**22-3832302**  
*(I.R.S. Employer  
Identification Number)*

**08873**  
*(Zip Code)*

**(732) 873-5133**

*(Registrant's telephone number, including area code)*

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	MTBC	Nasdaq Global Market
11% Series A Cumulative Redeemable Perpetual Preferred Stock, par value \$0.001 per share	MTBCP	Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

At November 2, 2020, the registrant had 13,187,221 shares of common stock, par value \$0.001 per share, outstanding.

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## Forward-Looking Statements

Certain statements that we make from time to time, including statements contained in this Quarterly Report on Form 10-Q, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are forward-looking statements. These statements relate to anticipated future events, future results of operations or future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “should,” “intends,” “expects,” “plans,” “goals,” “projects,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Our operations involve risks and uncertainties, many of which are outside of our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements reflecting management’s expectations for future financial performance and operating expenditures (including our ability to continue as a going concern, to raise additional capital and to succeed in our future operations), expected growth, profitability and business outlook, increased sales and marketing expenses, and the expected results from the integration of our acquisitions.

Forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties, and other factors which may cause our (or our industry’s) actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. These factors include, among other things, the unknown risks and uncertainties that we believe could cause actual results to differ from these forward-looking statements as set forth under the heading “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on February 28, 2020. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all of the risks and uncertainties that could have an impact on the forward-looking statements, including without limitation, risks and uncertainties relating to:

- our ability to manage our growth, including acquiring, partnering with, and effectively integrating the recent acquisitions of Meridian Medical Management, CareCloud Corporation and other acquired businesses into our infrastructure and avoiding legal exposure and liabilities associated with acquired companies and assets;
- our ability to retain our clients and revenue levels, including effectively migrating new clients and maintaining or growing the revenue levels of our new and existing clients;
- our ability to maintain operations in Pakistan and Sri Lanka in a manner that continues to enable us to offer competitively priced products and services;
- our ability to keep pace with a rapidly changing healthcare industry;
- our ability to consistently achieve and maintain compliance with a myriad of federal, state, foreign, local, payor and industry requirements, regulations, rules, laws and contracts;
- our ability to maintain and protect the privacy of confidential and protected Company, client and patient information;
- our ability to develop new technologies, upgrade and adapt legacy and acquired technologies to work with evolving industry standards and third-party software platforms and technologies, and protect and enforce all of these and other intellectual property rights;
- our ability to attract and retain key officers and employees, and the continued involvement of Mahmud Haq as Executive Chairman and Stephen Snyder as Chief Executive Officer, all of which are critical to our ongoing operations, growing our business and integrating of our newly acquired businesses;
- our ability to comply with covenants contained in our credit agreement with our senior secured lender, Silicon Valley Bank and other future debt facilities;
- our ability to pay our monthly preferred dividends to the holders of our Series A Preferred Stock;
- our ability to compete with other companies developing products and selling services competitive with ours, and who may have greater resources and name recognition than we have;
- our ability to respond to the uncertainty resulting from the recent spread of the COVID-19 pandemic and the impact it may have on our operations, the demand for our services, and economic activity in general; and
- our ability to keep and increase market acceptance of our products and services.

Although we believe that the expectations reflected in the forward-looking statements contained in this Quarterly Report on Form 10-Q are reasonable, we cannot guarantee future results, levels of activity, or performance. Except as required by applicable law, including the securities laws of the U.S., we are under no duty to update or revise any of such forward-looking statements, whether as a result of new information, future events, or otherwise, after the date of this Quarterly Report on Form 10-Q.

You should read this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

**PART I. FINANCIAL INFORMATION**  
Item 1. Condensed Consolidated Financial Statements

**MTBC, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 22,839,886	\$ 19,994,134
Accounts receivable - net of allowance for doubtful accounts of \$514,000 and \$256,000 at September 30, 2020 and December 31, 2019, respectively	13,765,301	6,995,343
Contract asset	4,078,316	2,385,334
Inventory	305,238	491,088
Current assets - related party	13,200	13,200
Prepaid expenses and other current assets	3,589,350	1,123,036
<b>Total current assets</b>	<b>44,591,291</b>	<b>31,002,135</b>
Property and equipment - net	3,946,768	2,907,516
Operating lease right-of-use assets	7,529,032	3,526,315
Intangible assets - net	31,119,576	5,977,225
Goodwill	48,950,323	12,633,696
Other assets	1,217,458	356,578
<b>TOTAL ASSETS</b>	<b>\$ 137,354,448</b>	<b>\$ 56,403,465</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 7,302,785	\$ 3,490,834
Accrued compensation	2,517,901	1,836,309
Accrued expenses	5,801,199	2,111,515
Operating lease liability (current portion)	4,636,019	1,688,772
Deferred revenue (current portion)	1,215,161	20,277
Accrued liability to related party	663	663
Notes payable (current portion)	632,809	283,675
Contingent consideration	500,000	-
Dividend payable	4,097,133	1,745,791
<b>Total current liabilities</b>	<b>26,703,670</b>	<b>11,177,836</b>
Notes payable	47,949	83,275
Deferred payroll taxes	1,313,250	-
Operating lease liability	6,642,878	2,040,772
Deferred revenue	160,007	18,745
Deferred tax liability	151,477	244,512
<b>Total liabilities</b>	<b>35,019,231</b>	<b>13,565,140</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 8)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value - authorized 7,000,000 shares at September 30, 2020 and December 31, 2019; issued and outstanding 5,470,473 and 2,539,325 shares at September 30, 2020 and December 31, 2019, respectively	5,470	2,539
Common stock, \$0.001 par value - authorized 29,000,000 shares at September 30, 2020 and December 31, 2019; issued 13,876,887 and 12,978,485 shares at September 30, 2020 and December 31, 2019, respectively; 13,136,088 and 12,237,686 shares outstanding at September 30, 2020 and December 31, 2019, respectively	13,877	12,979
Additional paid-in capital	138,156,729	69,403,366
Accumulated deficit	(34,043,410)	(25,075,545)
Accumulated other comprehensive loss	(1,135,449)	(843,014)
Less: 740,799 common shares held in treasury, at cost at September 30, 2020 and December 31, 2019	(662,000)	(662,000)
<b>Total shareholders' equity</b>	<b>102,335,217</b>	<b>42,838,325</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 137,354,448</b>	<b>\$ 56,403,465</b>

See notes to condensed consolidated financial statements.

**MTBC, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
NET REVENUE	\$ 31,638,616	\$ 16,851,328	\$ 73,084,575	\$ 48,681,038
OPERATING EXPENSES:				
Direct operating costs	19,718,381	10,535,629	45,841,788	31,779,564
Selling and marketing	1,571,423	347,568	4,777,818	1,091,524
General and administrative	6,191,008	4,451,975	17,176,593	13,757,805
Research and development	2,366,560	175,758	6,846,014	648,822
Change in contingent consideration	(500,000)	(279,565)	(500,000)	(343,768)
Depreciation and amortization	3,206,005	814,210	6,943,705	2,407,111
Restructuring, impairment and unoccupied lease charges	320,575	136,332	681,400	136,332
Total operating expenses	<u>32,873,952</u>	<u>16,181,907</u>	<u>81,767,318</u>	<u>49,477,390</u>
OPERATING (LOSS) INCOME	(1,235,336)	669,421	(8,682,743)	(796,352)
OTHER:				
Interest income	2,431	57,272	44,112	202,969
Interest expense	(132,373)	(88,925)	(396,154)	(284,883)
Other (expense) income - net	<u>(246,347)</u>	<u>(688,342)</u>	<u>84,464</u>	<u>(224,151)</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,611,625)	(50,574)	(8,950,321)	(1,102,417)
Income tax provision	61,965	86,970	17,549	101,790
NET LOSS	<u>\$ (1,673,590)</u>	<u>\$ (137,544)</u>	<u>\$ (8,967,870)</u>	<u>\$ (1,204,207)</u>
Preferred stock dividend	4,229,808	1,602,833	10,149,641	4,582,239
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (5,903,398)</u>	<u>\$ (1,740,377)</u>	<u>\$ (19,117,511)</u>	<u>\$ (5,786,446)</u>
Net loss per common share: basic and diluted	\$ (0.46)	\$ (0.14)	\$ (1.53)	\$ (0.48)
Weighted-average common shares used to compute basic and diluted loss per share	12,771,307	12,146,110	12,493,458	12,038,819

See notes to condensed consolidated financial statements.

**MTBC, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	NET LOSS	\$ (1,673,590)	\$ (137,544)	\$ (8,967,870)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Foreign currency translation adjustment (a)	281,824	701,992	(292,435)	148,774
COMPREHENSIVE (LOSS) INCOME	\$ (1,391,766)	\$ 564,448	\$ (9,260,305)	\$ (1,055,433)

(a) No tax effect has been recorded as the Company recorded a valuation allowance against the tax benefit from its foreign currency translation adjustments.

See notes to condensed consolidated financial statements.

**MTBC, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury (Common) Stock	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
Balance - January 1, 2020	2,539,325	\$ 2,539	12,978,485	\$ 12,979	\$ 69,403,366	\$ (25,075,545)	\$ (843,014)	\$ (662,000)	\$ 42,838,325
Net loss	-	-	-	-	-	(2,501,770)	-	-	(2,501,770)
Foreign currency translation adjustment	-	-	-	-	-	-	(590,286)	-	(590,286)
Issuance of stock under the Amended and Restated Equity Incentive Plan	28,870	29	129,607	129	(158)	-	-	-	-
Issuance of preferred stock in connection with the CareCloud acquisition	760,000	760	-	-	18,999,240	-	-	-	19,000,000
Stock-based compensation, net of cash settlements	-	-	-	-	793,606	-	-	-	793,606
Issuance of warrants in connection with the CareCloud acquisition	-	-	-	-	300,000	-	-	-	300,000
Preferred stock dividends	-	-	-	-	(2,642,916)	-	-	-	(2,642,916)
<b>Balance - March 31, 2020</b>	<b>3,328,195</b>	<b>\$ 3,328</b>	<b>13,108,092</b>	<b>\$ 13,108</b>	<b>\$ 86,853,138</b>	<b>\$ (27,577,315)</b>	<b>\$ (1,433,300)</b>	<b>\$ (662,000)</b>	<b>\$ 57,196,959</b>
Balance - April 1, 2020	3,328,195	\$ 3,328	13,108,092	\$ 13,108	\$ 86,853,138	\$ (27,577,315)	\$ (1,433,300)	\$ (662,000)	\$ 57,196,959
Net loss	-	-	-	-	-	(4,792,505)	-	-	(4,792,505)
Foreign currency translation adjustment	-	-	-	-	-	-	16,027	-	16,027
Issuance of stock under the Amended and Restated Equity Incentive Plan	4,803	5	87,398	88	(93)	-	-	-	-
Issuance of preferred stock in connection with the Meridian acquisition	200,000	200	-	-	4,999,800	-	-	-	5,000,000
Issuance of preferred stock, net of fees and expenses	828,000	828	-	-	19,013,319	-	-	-	19,014,147
Stock-based compensation, net of cash settlements	-	-	-	-	1,438,908	-	-	-	1,438,908
Issuance of warrants in connection with the Meridian acquisition	-	-	-	-	4,770,000	-	-	-	4,770,000
Preferred stock dividends	-	-	-	-	(3,276,917)	-	-	-	(3,276,917)
<b>Balance - June 30, 2020</b>	<b>4,360,998</b>	<b>\$ 4,361</b>	<b>13,195,490</b>	<b>\$ 13,196</b>	<b>\$ 113,798,155</b>	<b>\$ (32,369,820)</b>	<b>\$ (1,417,273)</b>	<b>\$ (662,000)</b>	<b>\$ 79,366,619</b>
Balance - July 1, 2020	4,360,998	4,361	13,195,490	13,196	113,798,155	(32,369,820)	(1,417,273)	(662,000)	79,366,619
Net loss	-	-	-	-	-	(1,673,590)	-	-	(1,673,590)
Foreign currency translation adjustment	-	-	-	-	-	-	281,824	-	281,824
Exercise of common stock warrants	-	-	399,349	399	2,994,718	-	-	-	2,995,117
Issuance of stock under the Amended and Restated Equity Incentive Plan	5,475	5	282,048	282	(287)	-	-	-	-
Issuance of preferred stock, net of fees and expenses	1,104,000	1,104	-	-	25,529,126	-	-	-	25,530,230
Stock-based compensation, net of cash settlements	-	-	-	-	1,457,012	-	-	-	1,457,012
Release of preferred stock from escrow	-	-	-	-	(1,392,187)	-	-	-	(1,392,187)
Preferred stock dividends	-	-	-	-	(4,229,808)	-	-	-	(4,229,808)
<b>Balance - September 30, 2020</b>	<b>5,470,473</b>	<b>\$ 5,470</b>	<b>13,876,887</b>	<b>\$ 13,877</b>	<b>\$ 138,156,729</b>	<b>\$ (34,043,410)</b>	<b>\$ (1,135,449)</b>	<b>\$ (662,000)</b>	<b>\$ 102,335,217</b>
Balance - January 1, 2019	2,136,289	\$ 2,136	12,570,557	\$ 12,571	\$ 65,142,460	\$ (24,203,745)	\$ (1,421,068)	\$ (662,000)	\$ 38,870,354
Net loss	-	-	-	-	-	(295,691)	-	-	(295,691)
Foreign currency translation adjustment	-	-	-	-	-	-	209,345	-	209,345
Issuance of stock under the Amended and Restated Equity Incentive Plan	26,160	26	179,984	180	(206)	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	523,556	-	-	-	523,556
Tax withholding obligations on stock issued to employees	-	-	-	-	(800,271)	-	-	-	(800,271)
Preferred stock dividends	-	-	-	-	(1,492,700)	-	-	-	(1,492,700)
<b>Balance - March 31, 2019</b>	<b>2,162,449</b>	<b>\$ 2,162</b>	<b>12,750,541</b>	<b>\$ 12,751</b>	<b>\$ 63,372,839</b>	<b>\$ (24,499,436)</b>	<b>\$ (1,211,723)</b>	<b>\$ (662,000)</b>	<b>\$ 37,014,593</b>
Balance - April 1, 2019	2,162,449	\$ 2,162	12,750,541	\$ 12,751	\$ 63,372,839	\$ (24,499,436)	\$ (1,211,723)	\$ (662,000)	\$ 37,014,593
Net loss	-	-	-	-	-	(770,972)	-	-	(770,972)
Foreign currency translation adjustment	-	-	-	-	-	-	(762,563)	-	(762,563)
Issuance of stock under the Amended and Restated Equity Incentive Plan	-	-	18,500	18	(18)	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	473,387	-	-	-	473,387
Tax withholding obligations on stock issued to employees	-	-	-	-	(58,536)	-	-	-	(58,536)
Preferred stock dividends	-	-	-	-	(1,486,706)	-	-	-	(1,486,706)
<b>Balance - June 30, 2019</b>	<b>2,162,449</b>	<b>\$ 2,162</b>	<b>12,769,041</b>	<b>\$ 12,769</b>	<b>\$ 62,300,966</b>	<b>\$ (25,270,408)</b>	<b>\$ (1,974,286)</b>	<b>\$ (662,000)</b>	<b>\$ 34,409,203</b>
Balance - July 1, 2019	2,162,449	2,162	12,769,041	12,769	62,300,966	(25,270,408)	(1,974,286)	(662,000)	34,409,203
Net loss	-	-	-	-	-	(137,544)	-	-	(137,544)
Foreign currency translation adjustment	-	-	-	-	-	-	701,992	-	701,992
Issuance of stock under the equity incentive plan	-	-	184,081	184	(184)	-	-	-	-
Issuance of preferred stock, net of fees and expenses	145,184	146	-	-	3,718,960	-	-	-	3,719,106
Stock-based compensation, net of cash settlements	-	-	-	-	326,803	-	-	-	326,803
Preferred stock dividends	-	-	-	-	(1,602,831)	-	-	-	(1,602,831)
<b>Balance - September 30, 2019</b>	<b>2,307,633</b>	<b>\$ 2,308</b>	<b>12,953,122</b>	<b>\$ 12,953</b>	<b>\$ 64,743,714</b>	<b>\$ (25,407,952)</b>	<b>\$ (1,272,294)</b>	<b>\$ (662,000)</b>	<b>\$ 37,416,729</b>

For all periods presented, the preferred stock dividends were paid monthly at the rate of \$2.75 per share per annum.

See notes to condensed consolidated financial statements.



**MTBC, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (8,967,870)	\$ (1,204,207)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,816,235	2,457,183
Lease amortization	2,134,143	1,440,066
Deferred revenue	159,819	(11,557)
Provision for doubtful accounts	295,645	105,315
(Benefit) provision for deferred income taxes	(93,035)	34,585
Foreign exchange (gain) loss	(62,741)	408,057
Interest accretion	510,771	381,827
Gain on sale of assets	(1,647)	(26,213)
Stock-based compensation expense	4,951,001	2,324,799
Change in contingent consideration	(500,000)	(343,768)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(1,208,961)	(126,542)
Contract asset	(274,149)	51,607
Inventory	185,850	69,137
Other assets	106,470	(108,080)
Accounts payable and other liabilities	(8,384,301)	(698,408)
Net cash (used in) provided by operating activities	<u>(4,332,770)</u>	<u>4,753,801</u>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(1,288,500)	(1,326,650)
Capitalized software	(3,767,219)	-
Cash paid for acquisitions (net)	(23,716,250)	(1,600,000)
Net cash used in investing activities	<u>(28,771,969)</u>	<u>(2,926,650)</u>
<b>FINANCING ACTIVITIES:</b>		
Preferred stock dividends paid	(7,798,299)	(4,464,435)
Settlement of tax withholding obligations on stock issued to employees	(1,847,318)	(1,320,650)
Repayments of notes payable, net	(430,080)	(290,164)
Contingent consideration payments	-	(182,664)
Proceeds from exercise of warrants	2,995,117	-
Proceeds from line of credit	19,500,000	-
Repayments of line of credit	(19,500,000)	-
Settlement of contingent obligation	(1,325,000)	-
Net proceeds from issuance of preferred stock	44,544,378	3,719,106
Net cash provided by (used in) financing activities	<u>36,138,798</u>	<u>(2,538,807)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(188,307)</u>	<u>226,370</u>
NET INCREASE (DECREASE) IN CASH	2,845,752	(485,286)
CASH - beginning of the period	19,994,134	14,472,483
CASH - end of the period	<u>\$ 22,839,886</u>	<u>\$ 13,987,197</u>
<b>SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Preferred stock issued in connection with CareCloud and Meridian acquisitions	\$ 24,000,000	\$ -
Vehicle financing obtained	\$ 28,473	\$ 24,909
Dividends declared, not paid	\$ 4,097,133	\$ 1,586,528
Purchase of prepaid insurance through assumption of note	\$ 667,507	\$ 301,359
Warrants issued	\$ 5,070,000	\$ -
<b>SUPPLEMENTAL INFORMATION - Cash paid during the period for:</b>		
Income taxes	\$ 64,326	\$ 95,822
Interest	<u>\$ 150,425</u>	<u>\$ 46,089</u>

See notes to condensed consolidated financial statements.

**MTBC, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**  
**AND 2019 (UNAUDITED)**

**1. ORGANIZATION AND BUSINESS**

MTBC, Inc., (and together with its consolidated subsidiaries “MTBC” or the “Company”) is a healthcare information technology company that offers an integrated suite of proprietary cloud-based electronic health records and practice management solutions, together with related business services, to healthcare providers. The Company’s integrated services are designed to help customers increase revenues, streamline workflows and make better business and clinical decisions, while reducing administrative burdens and operating costs. The Company’s services include full-scale revenue cycle management, comprehensive practice management services, electronic health records, and other technology-driven practice management services for private and hospital-employed healthcare providers. MTBC has its corporate offices in Somerset, New Jersey and maintains client support teams throughout the U.S., in Pakistan and in Sri Lanka.

MTBC was founded in 1999 and incorporated under the laws of the State of Delaware in 2001. In 2004, MTBC formed MTBC Private Limited (or “MTBC Pvt. Ltd.”), a 99.9% majority-owned subsidiary of MTBC based in Pakistan. The remaining 0.01% of the shares of MTBC Pvt. Ltd. is owned by the founder and Executive Chairman of MTBC. In 2016, MTBC formed MTBC Acquisition Corp. (“MAC”), a Delaware corporation, in connection with its acquisition of substantially all of the assets of MediGain, LLC and its subsidiary, Millennium Practice Management Associates, LLC (together “MediGain”). MAC has a wholly owned subsidiary in Sri Lanka, RCM MediGain Colombo, Pvt. Ltd. In May 2018, MTBC formed MTBC Health, Inc. (“MHI”) and MTBC Practice Management, Corp. (“MPM”), each a Delaware corporation in connection with MTBC’s acquisition of substantially all of the revenue cycle management, practice management and group purchasing organization assets of Orion Healthcorp, Inc. and 13 of its affiliates (together, “Orion”). MHI is a direct, wholly owned subsidiary of MTBC, and was formed to own and operate the revenue cycle management and group purchasing organization businesses acquired from Orion. MPM is a wholly owned subsidiary of MHI and was formed to own and operate the practice management business acquired from Orion. In March 2019, MTBC formed MTBC-Med, Inc. (“MED”), a Delaware corporation, in connection with its acquisition of substantially all of the assets of Etransmedia Technology, Inc. and its subsidiaries (“Etransmedia”). In January 2020, MTBC purchased CareCloud Corporation. In June 2020, MTBC purchased Meridian Billing Management Co. and its affiliate Origin Holdings, Inc. (collectively “Meridian” and sometimes referred to as “Meridian Medical Management”). See Note 3.

During the first quarter of 2020, a New Jersey corporation, talkMD Clinicians, PA (“talkMD”), was formed by the wife of the Executive Chairman, who is a licensed physician, to provide telehealth services. talkMD was determined to be a variable interest entity (“VIE”) for financial reporting purposes because the entity will be controlled by the Company. As of September 30, 2020, talkMD had not yet commenced operations or had any transactions or agreements with the Company or otherwise.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and as required by Regulation S-X, Rule 8-03. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of items of a normal and recurring nature) necessary to present fairly the Company’s financial position as of September 30, 2020, the results of operations for the three months and nine months ended September 30, 2020 and 2019 and cash flows for the nine months ended September 30, 2020 and 2019. When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

The condensed consolidated balance sheet as of December 31, 2019 was derived from our audited consolidated financial statements. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on February 28, 2020.

**Recent Accounting Pronouncements** — On February 14, 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These amendments provide financial statement preparers with an option to reclassify standard tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. There was no impact on the condensed consolidated financial statements as a result of this standard.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. This ASU simplifies the accounting for nonemployee share-based payments by aligning it with the accounting for share-based payments to employees, with exceptions. Under this guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, which may lower their cost and reduce volatility in the income statement. Awards to nonemployees are measured by estimating the fair value of the equity instruments to be issued, rather than the fair value of the goods or services received or the fair value of the equity instruments issued, whichever can be measured more reliably. Entities need to consider the probability that a performance condition will be satisfied when an award contains such condition. The guidance is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. There was no impact on the condensed consolidated financial statements as a result of this standard.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. This ASU simplifies accounting for income taxes to reduce complexity in the accounting standards. The amendments consist of the removal of certain exceptions to the general principles of ASC 740 and some additional simplifications. The amendments are not required to be implemented until 2021 for public entities. The Company is in the process of investigating if this update will have a significant impact on the condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. This ASU simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The amendments are not required to be implemented until 2022 for public entities. The Company is in the process of investigating if this update will have a significant impact on the condensed consolidated financial statements.

### 3. ACQUISITIONS

#### 2020 Acquisitions

On June 16, 2020, MTBC entered into a Stock Purchase Agreement with Meridian Billing Management Co., a Vermont corporation, Origin Holdings, Inc., a Delaware corporation and GMM II Holdings, LLC, a Delaware limited liability company ("Seller"), pursuant to which MTBC purchased all of the issued and outstanding capital stock of Meridian from the Seller. Meridian is in the business of providing medical billing, revenue cycle management, electronic medical records, medical coding and related services. These revenues have been included in the Company's Healthcare IT segment. The acquisition has been accounted for as a business combination.

The total consideration paid at closing was \$11.9 million, net of cash received, 200,000 shares of the Company's Preferred Stock plus warrants to purchase 2,250,000 shares of the Company's common stock, with an exercise price per share of \$7.50 and a term of two years. The Company also assumed Meridian's negative net working capital and certain long-term lease liabilities where the leased space is either not being utilized or will be vacated shortly, with an aggregate value of approximately \$4.8 million.

A summary of the total consideration is as follows:

**Meridian Purchase Price**

Cash	\$	11,863,724
Preferred stock		5,000,000
Warrants		4,770,000
<b>Total purchase price</b>	<b>\$</b>	<b>21,633,724</b>

Of the Preferred Stock consideration, 100,000 shares were held in escrow for up to one month pending completion of technical migration and customer acceptance. Shares net of such losses will be released upon the joint instruction of the Company and the seller in accordance with the applicable escrow terms. Such shares are entitled to the monthly dividend, which will be paid when, and if, the shares are released. The Company accrues the dividend monthly on the Preferred Stock held in escrow. The shares held in escrow were released on August 3, 2020.

The Company's Preferred Stock and warrants issued as part of the acquisition consideration were issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). The Company registered for resale under the Securities Act the Preferred Stock and the securities underlying the warrants. During the current quarter, 399,349 warrants were exercised at \$7.50 each.

The Meridian acquisition added additional clients to the Company's customer base and, similar to previous acquisitions, broadened the Company's presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff.

The Company engaged a third-party valuation specialist to assist the Company in valuing the assets acquired and liabilities assumed from Meridian. The following table summarizes the preliminary purchase price allocation. The Company expects to finalize the purchase price allocation by the end of the fourth quarter and is finalizing the projections and the valuation of the acquired assets and assumed liabilities. The preliminary purchase price allocation for Meridian is summarized as follows:

Accounts receivable	\$	3,557,926
Prepaid expenses		703,732
Contract asset		881,111
Property and equipment		425,993
Operating lease right-of-use assets		2,775,949
Customer relationships		12,900,000
Technology		900,000
Goodwill		13,448,548
Accounts payable		(3,373,212)
Accrued expenses & compensation		(3,591,380)
Deferred revenue		(907,077)
Operating lease liabilities		(6,024,616)
Other current liabilities		(63,250)
<b>Total preliminary purchase price allocation</b>	<b>\$</b>	<b>21,633,724</b>

The acquired accounts receivable are recorded at fair value which represents amounts that have subsequently been paid or are expected to be paid by clients. The fair value of customer relationships was based on the estimated discounted cash flows generated by these intangibles. The goodwill from this acquisition is not deductible for income tax purposes and represents the Company's ability to have an expanded local presence in additional markets and operational synergies that we expect to achieve that would not be available to other market participants.

The weighted-average amortization period of the acquired intangible assets is approximately four years.

Revenue earned from the clients obtained from the Meridian acquisition was approximately \$10.0 million and \$11.4 million during the three and nine months ended September 30, 2020, respectively.

On January 8, 2020, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with CareCloud Corporation, a Delaware corporation (“CareCloud”), MTBC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of the Company (“Merger Sub”) and Runway Growth Credit Fund Inc. (“Runway”), solely in its capacity as a seller representative, pursuant to which Merger Sub merged with and into CareCloud (the “Merger”), with CareCloud surviving as a wholly-owned subsidiary of the Company. The Merger became effective simultaneously with the execution of the Merger Agreement. The acquisition has been accounted for as a business combination.

The total consideration for the Merger included approximately \$11.9 million paid in cash at closing, the assumption of a working capital deficiency of approximately \$5.1 million and 760,000 shares of the Company’s Preferred Stock. The Merger Agreement provides that if CareCloud’s 2020 revenues exceed \$36 million, there will be an earn-out payment to the seller equal to such excess, up to \$3 million. Additional consideration included warrants to purchase 2,000,000 shares of the Company’s common stock, 1,000,000 of which have an exercise price per share of \$7.50 and a term of two years, and the other 1,000,000 warrants have an exercise price per share of \$10.00 and a term of three years.

A summary of the total consideration is as follows:

**CareCloud Purchase Price**

Cash	\$	11,852,526
Preferred stock		19,000,000
Warrants		300,000
Contingent consideration		1,000,000
<b>Total purchase price</b>	<b>\$</b>	<b>32,152,526</b>

Of the Preferred Stock consideration, 160,000 shares were placed in escrow for up to 24 months, and an additional 100,000 shares were placed in escrow for up to 18 months, in both cases, to satisfy indemnification obligations of the seller for losses arising from certain specified contingent liabilities. Shares net of such losses will be released upon the joint instruction of the Company and Runway in accordance with the applicable escrow terms. Such shares are entitled to the monthly dividend, which will be paid when, and if, the shares are released. The Company accrues the dividend monthly on the Preferred Stock held in escrow.

During July 2020, it was determined that 55,726 shares of the Preferred Stock would be released from escrow and cancelled since one of the contingent liabilities was settled for the amount of the cancelled shares. This included a cash payment of approximately \$1.3 million. Dividends previously accrued on these shares of \$102,166 were reversed as of June 30, 2020, since the amounts will not need to be paid. The remaining shares continue to be held in escrow.

The Company’s Preferred Stock and warrants issued as part of the Merger consideration were issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). The Company registered for resale under the Securities Act the Preferred Stock and the securities underlying the warrants.

The CareCloud acquisition added additional clients to the Company’s customer base. The Company acquired CareCloud’s software technology and related business, of which certain elements are currently subject to a civil regulatory investigation. Similar to previous acquisitions, this transaction broadened the Company’s presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff.

The Company engaged a third-party valuation specialist to assist the Company in valuing the assets acquired and liabilities assumed from CareCloud. The following table summarizes the purchase price allocation:

Accounts receivable	\$ 2,298,716
Prepaid expenses	1,277,990
Contract asset	537,722
Property and equipment	402,970
Operating lease right-of-use assets	2,858,626
Customer relationships	8,000,000
Trademark	800,000
Software	4,800,000
Goodwill	22,868,078
Other long term assets	539,560
Accounts payable	(6,942,710)
Accrued expenses	(2,080,977)
Current loan payable	(79,655)
Operating lease liabilities	(2,858,544)
Deferred revenue	(269,250)
<b>Total purchase price allocation</b>	<b>\$ 32,152,526</b>

The acquired accounts receivable are recorded at fair value which represents amounts that have subsequently been paid or are expected to be paid by clients. The fair value of customer relationships was based on the estimated discounted cash flows generated by these intangibles. The goodwill from this acquisition is not deductible for income tax purposes and represents the Company's ability to have an expanded local presence in additional markets and operational synergies that we expect to achieve that would not be available to other market participants.

The weighted-average amortization period of the acquired intangible assets is approximately three years.

Revenue earned from the clients obtained from the CareCloud acquisition was approximately \$8.2 million during the three months ended September 30, 2020 and approximately \$23.2 million during the nine months ended September 30, 2020.

#### **2019 Acquisition**

On April 3, 2019, the Company executed an asset purchase agreement ("APA") to acquire substantially all of the assets of Etransmedia. The purchase price was \$1.6 million and the assumption of certain liabilities, excluding acquisition-related costs of approximately \$125,000. Per the APA, the acquisition had an effective date of April 1, 2019. The acquisition has been accounted for as a business combination.

The Etransmedia acquisition added additional clients to the Company's customer base and, similar to previous acquisitions, broadened the Company's presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff.

The purchase price allocation for Etransmedia was performed by the Company and is summarized as follows:

Customer relationships	\$ 856,000
Accounts receivable	547,377
Contract asset	139,169
Operating lease right-of-use assets	1,224,480
Property and equipment	91,277
Goodwill	39,901
Operating lease liabilities	(1,224,480)
Accrued expenses	(73,724)
<b>Total</b>	<b>\$ 1,600,000</b>

The acquired accounts receivable are recorded at fair value which represents amounts that have subsequently been paid or are expected to be paid by clients. The fair value of customer relationships was based on the estimated discounted cash flows generated by these intangibles. The goodwill from this acquisition is deductible ratably for income tax purposes over fifteen years and represents the Company's ability to have an expanded local presence in additional markets and operational synergies that we expect to achieve that would not be available to other market participants.

The weighted-average amortization period of the acquired intangible assets is approximately three years.

Revenue earned from the clients obtained from the Etransmedia acquisition was approximately \$852,000 during the three months ended September 30, 2020 and approximately \$3.0 million during the nine months ended September 30, 2020.

**Pro forma financial information (Unaudited)**

The unaudited pro forma information below represents the condensed consolidated results of operations as if the Etransmedia, CareCloud and Meridian acquisitions occurred on January 1, 2019. The pro forma information has been included for comparative purposes and is not indicative of results of operations that the Company would have had if the acquisitions occurred on the above date, nor is it necessarily indicative of future results. The unaudited pro forma information reflects material, non-recurring pro forma adjustments directly attributable to the business combinations. The difference between the actual revenue and the pro forma revenue for the nine months ended September 30, 2020 is approximately \$18.2 million of additional revenue recorded by Meridian.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(\$ in thousands except per share amounts)			
Total revenue	\$ 31,639	\$ 37,841	\$ 91,293	\$ 113,688
Net loss	\$ (386)	\$ (6,709)	\$ (10,182)	\$ (24,684)
Net loss attributable to common shareholders	\$ (4,616)	\$ (8,312)	\$ (20,331)	\$ (29,266)
Net loss per common share	\$ (0.36)	\$ (0.68)	\$ (1.63)	\$ (2.43)

#### 4. 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 nine months ended September 30, 2020 and the year ended December 31, 2019:

	<b>Nine Months Ended September 30, 2020</b>	<b>Year Ended December 31, 2019</b>
Beginning gross balance	\$ 12,633,696	\$ 12,593,795
Acquisitions	36,316,627	39,901
Ending gross balance	<u>\$ 48,950,323</u>	<u>\$ 12,633,696</u>

Intangible assets include customer contracts and relationships and covenants not-to-compete acquired in connection with acquisitions, as well as trademarks acquired and software costs. Intangible assets - net as of September 30, 2020 and December 31, 2019 consist of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Contracts and relationships acquired	\$ 44,497,300	\$ 23,597,300
Capitalized software	8,676,756	538,012
Non-compete agreements	1,236,377	1,236,377
Other intangible assets	3,565,709	1,489,458
Total intangible assets	<u>57,976,142</u>	<u>26,861,147</u>
Less: Accumulated amortization	26,856,566	20,883,922
Intangible assets - net	<u>\$ 31,119,576</u>	<u>\$ 5,977,225</u>

Amortization expense was approximately \$6.0 million and \$1.7 million for the nine months ended September 30, 2020 and 2019, respectively, and approximately \$2.8 million and \$577,000 for the three months ended September 30, 2020 and 2019, respectively. The weighted-average amortization period is currently approximately 4 years.

As of September 30, 2020, future amortization scheduled to be expensed is as follows:

<b>Years ending December 31,</b>	
2020 (three months)	\$ 3,156,706
2021	10,499,111
2022	8,318,376
2023	6,227,670
2024	1,267,713
Thereafter	1,650,000
Total	<u>\$ 31,119,576</u>

## 5. NET LOSS PER COMMON SHARE

The following table reconciles the weighted-average shares outstanding for basic and diluted net loss per share for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic and Diluted:				
Net loss attributable to common shareholders	\$ (5,903,398)	\$ (1,740,377)	\$ (19,117,511)	\$ (5,786,446)
Weighted-average common shares used to compute basic and diluted loss per share	12,771,307	12,146,110	12,493,458	12,038,819
Net loss attributable to common shareholders per share - Basic and Diluted	\$ (0.46)	\$ (0.14)	\$ (1.53)	\$ (0.48)

All unvested restricted stock units (“RSUs”), the 200,000 warrants granted to Opus Bank (“Opus”), the 153,489 warrants granted to Silicon Valley Bank (“SVB”), the 2,000,000 warrants granted in connection with the CareCloud acquisition and the 1,850,651 outstanding warrants granted in connection with the Meridian acquisition have been excluded from the above calculations as they were anti-dilutive. Vested RSUs and vested restricted shares have been included in the above calculations.

## 6. DEBT

*SVB* — During October 2017, the Company opened a revolving line of credit with SVB under a three-year agreement. The SVB credit facility is a secured revolving line of credit where borrowings are based on a formula of 200% of repeatable revenue adjusted by an annualized attrition rate as defined in the credit agreement. During the third quarter of 2018, the credit line was increased from \$5 million to \$10 million and the term was extended for an additional year. Nothing was drawn on this line of credit as of September 30, 2020 and December 31, 2019. Interest on the SVB revolving line of credit is charged at the prime rate plus 1.50%, with a minimum interest rate of 6.5%. There is also a fee of one-half of 1% annually for the unused portion of the credit line. The debt is secured by all of the Company’s domestic assets and 65% of the shares in its offshore facilities. Future acquisitions are subject to approval by SVB. During the current quarter, the agreement with SVB was modified to include Meridian as a borrower. The annual covenants were set for the following year.

*Vehicle Financing Notes* — The Company financed certain vehicle purchases both in the United States and in Pakistan. The vehicle financing notes have three to six years terms and were issued at current market rates.

*Insurance Financing* — The Company finances certain insurance purchases over the term of the policy life. The interest rate charged is 4.0% based on the annual renewal.

## 7. LEASES

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liability and non-current operating lease liability in our condensed consolidated balance sheet as of September 30, 2020 and December 31, 2019. Each time the Company acquires a business, the ROU assets and the lease liabilities are recorded at fair value as of the date of acquisition. The Company does not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

We use our estimated incremental borrowing rates, which are derived from information available at the lease commencement date, in determining the present value of lease payments. For leases in existence at the adoption of ASC 842, we used the incremental borrowing rate as of January 1, 2019. We give consideration to our bank financing arrangements, geographical location and collateralization of assets when calculating our incremental borrowing rates.

Our lease terms include options to extend the lease when it is reasonably certain that we will exercise that option. Leases with a term of less than 12 months are not recorded in the condensed consolidated balance sheet. Our lease agreements do not contain any residual value guarantees. For real estate leases, we account for the lease and non-lease components as a single lease component. Some leases include escalation clauses and termination options that are factored in the determination of the lease payments when appropriate.

If a lease is modified after the effective date, the operating lease ROU asset and liability is re-measured using the current incremental borrowing rate. During the nine months ended September 30, 2020, a lease impairment of approximately \$683,000 was recorded since the Company is no longer using one of its leased facilities.

We lease all of our facilities and some equipment. Lease expense is included in direct operating costs and general and administrative expenses in the condensed consolidated statements of operations based on the nature of the expense. As of September 30, 2020, we had 38 leased properties, five in Practice Management and 33 in Healthcare IT, with remaining terms ranging from less than one year to five years. Our lease terms are determined taking into account lease renewal options, the Company's anticipated operating plans and leases that are on a month-to-month basis. We also have some related party leases – see Note 9.

The components of lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 1,226,874	\$ 572,516	\$ 2,861,360	\$ 1,677,137
Short-term lease cost	25,068	51,353	35,378	189,329
Variable lease cost	6,816	6,873	22,350	25,906
Total- net lease cost	<u>\$ 1,258,758</u>	<u>\$ 630,742</u>	<u>\$ 2,919,088</u>	<u>\$ 1,892,372</u>

Short-term lease cost represents leases that were not capitalized as the lease term as of the later of January 1, 2020 or the beginning of the lease was less than 12 months. Variable lease costs include utilities, real estate taxes and common area maintenance costs.

Supplemental balance sheet information related to leases was as follows:

	September 30, 2020	December 31, 2019
Operating leases:		
Operating lease ROU assets, net	\$ 7,529,032	\$ 3,526,315
Current operating lease liabilities	\$ 4,636,019	\$ 1,688,772
Non-current operating lease liabilities	6,642,878	2,040,772
Total operating lease liabilities	<u>\$ 11,278,897</u>	<u>\$ 3,729,544</u>
Operating leases:		
ROU assets	\$ 9,688,357	\$ 5,467,749
Asset lease expense	(2,134,143)	(1,888,443)
Foreign exchange loss	(25,182)	(52,991)
ROU assets, net	<u>\$ 7,529,032</u>	<u>\$ 3,526,315</u>
Weighted average remaining lease term (in years):		
Operating leases	2.64	2.46
Weighted average discount rate:		
Operating leases	6.80%	7.05%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 1,416,615	\$ 611,249	\$ 2,859,681	\$ 1,736,133
ROU assets obtained in exchange for lease liabilities:				
Operating leases, net of impairment and terminations	\$ 202,603	\$ (119,052)	\$ 6,466,501	\$ 1,514,989

Maturities of lease liabilities are as follows:

**Operating leases - Year ending December 31,**

2020 (three months)	\$ 1,413,597
2021	4,965,055
2022	3,863,226
2023	1,674,095
2024	328,222
2025	58,601
Total lease payments	12,302,796
Less: imputed interest	(1,023,899)
Total lease obligations	11,278,897
Less: current obligations	(4,636,019)
Long-term lease obligations	\$ 6,642,878

As of September 30, 2020, we do not have any operating lease commitments that have not yet commenced.

**8. COMMITMENTS AND CONTINGENCIES**

**Legal Proceedings** — On April 4, 2017, Randolph Pain Relief and Wellness Center (“RPRWC”) filed an arbitration demand with the American Arbitration Association (the “Arbitration”) seeking to arbitrate claims against MTBC, Inc. (“MTBC”) and MTBC Acquisition Corp. (“MAC”). The claims relate solely to services provided by Millennium Practice Management Associates, Inc. (“MPMA”), a subsidiary of MediGain, LLC, pursuant to a billing services agreement that contains an arbitration provision. MTBC and MAC jointly moved in the Superior Court of New Jersey, Chancery Division, Somerset County (the “Chancery Court”) to enjoin the Arbitration on the grounds that neither were a party to the billing services agreement. On May 30, 2018, the Chancery Court denied that motion and MTBC and MAC appealed. The Chancery Court ordered the Arbitration stayed pending the appeal.

On April 23, 2019, the Appellate Division reversed the Chancery Court’s ruling that MTBC is required to participate in the Arbitration and remanded the case for further proceedings before the Chancery Court on that issue. The Appellate Division upheld the Chancery Court’s ruling that MAC was required to participate in the Arbitration. The parties completed discovery in the remanded matter, and both MTBC and RPRWC filed cross-motions for summary judgment in their favor. On February 6, 2020, the Chancery Court denied RPRWC’s motion for summary judgment and granted MTBC’s motion for summary judgment, holding that MTBC cannot be compelled to participate in the Arbitration. RPRWC has informed MTBC that it does not intend to appeal the Chancery Court’s ruling and that it intends to move forward solely against MAC in the Arbitration. On March 25, 2020, the Chancery Court lifted the stay of arbitration relative to RPRWC and MAC.

Due to conflicting information provided by RPRWC, it is unclear what the extent of the claimed damages are in this matter which at this time appear to be entirely speculative. According to its arbitration demand, RPRWC seeks compensatory damages of six million, six hundred thousand dollars, plus costs, for MPMA's alleged breach of the billing services agreement. On June 12, 2020, in response to a directive from the arbitrator, RPRWC disclosed a statement of damages to MAC in which it increased its alleged damages from six million, six hundred thousand dollars and costs to twenty million dollars and costs. On July 24, 2020, RPRWC disclosed a declaration to MAC, in which RPRWC estimates its damages to be approximately eleven million dollars plus costs. MAC intends to vigorously defend against RPRWC's claims. If RPRWC is successful in the Arbitration, MTBC and MAC anticipate the award would be substantially less than the amount claimed.

From time to time, we may become involved in other legal proceedings arising in the ordinary course of our business. Including the proceedings described above, we are not presently a party to any legal proceedings that, in the opinion of our management, would individually or taken together have a material adverse effect on our business, consolidated results of operations, financial position or cash flows of the Company.

## **9. RELATED PARTIES**

The Company had sales to a related party, a physician who is the wife of the Executive Chairman. Revenues from this customer were approximately \$11,000 and \$14,000 for the nine months ended September 30, 2020 and 2019 and \$4,000 and \$5,000 for the three months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and December 31, 2019, the receivable balance due from this customer was approximately \$1,000 and \$2,000, respectively.

The Company is a party to a nonexclusive aircraft dry lease agreement with Kashmir Air, Inc. ("KAI"), which is owned by the Executive Chairman. The Company recorded an expense of approximately \$105,000 and \$86,000 for the nine month periods ended September 30, 2020 and 2019 and \$32,000 for both the three months ended September 30, 2020 and 2019. As of both September 30, 2020 and December 31, 2019, the Company had a liability outstanding to KAI of approximately \$1,000, which is included in accrued liability to related party in the condensed consolidated balance sheets. The original aircraft lease expired on March 31, 2019 and was not included in the ROU asset at January 1, 2019. A lease for a different aircraft at the same lease rate was entered into as of April 1, 2019 and has been included in the ROU asset and operating lease liability at December 31, 2019 and September 30, 2020.

The Company leases its corporate offices in New Jersey, its temporary housing for its foreign visitors, a printing and mailing facility and its backup operations center in Bagh, Pakistan, from the Executive Chairman. The related party rent expense for the nine months ended September 30, 2020 and 2019, was approximately \$139,000 and \$144,000, respectively and for both the three months ended September 30, 2020 and 2019, was \$47,000 and is included in direct operating costs and general and administrative expense in the condensed consolidated statements of operations. During the nine months ended September 30, 2020, the Company spent a total of approximately \$75,000 to upgrade two of the leased facilities. Current assets-related party in the condensed consolidated balance sheets includes security deposits and prepaid rent related to the leases of the Company's corporate offices in the amount of approximately \$13,000 as of both September 30, 2020 and December 31, 2019.

Included in the ROU asset at September 30, 2020 and December 31, 2019 is approximately \$350,000 and \$566,000, respectively, applicable to the related party leases. Included in the current and non-current operating lease liability at September 30, 2020 is approximately \$239,000 and \$121,000, respectively, applicable to the related party leases. At December 31, 2019, the current and non-current operating lease liability applicable to related party leases was approximately \$275,000 and \$298,000, respectively.

During the first quarter, talkMD Clinicians, PA, a New Jersey corporation was formed to provide telehealth services. This entity is owned by the wife of the Executive Chairman since an entity providing medical services must be owned by a physician. The Company did not have any transactions with this entity during the nine months ended September 30, 2020.

## 10. REVENUE

### Introduction

The Company accounts for revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. All revenue is recognized as our 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 ASC 606, the Company recognizes revenue when the revenue cycle management services begin on the medical billing claims, which is generally upon receipt of the claim from the provider. For revenue cycle management services, the Company estimates the value of the consideration it will earn over the remaining contractual period as our services are provided and recognizes the fees over the term; this estimation involves predicting the amounts our clients will ultimately collect associated with the services they provided. The selling price of the Company's services equals the contractual price. Certain significant estimates, such as payment-to-charge ratios, effective billing rates and the estimated contractual payment periods are required to measure revenue cycle management revenue under ASC 606.

Most of our current contracts with customers contain a single performance obligation. For contracts where we provide multiple services, such as where we perform multiple ancillary services, each service represents its own performance obligation. Selling prices are based on the contractual price for the service, which approximates the stand alone selling price.

We apply the portfolio approach as permitted by ASC 606 as a practical expedient to contracts with similar characteristics and we use estimates and assumptions when accounting for those portfolios. Our contracts generally include standard commercial payment terms. We have no significant obligations for refunds, warranties or similar obligations and our revenue does not include taxes collected from our customers.

### Disaggregation of Revenue from Contracts with Customers

We derive revenue from eight primary sources: revenue cycle management services, SaaS solutions, professional services, ancillary services, group purchasing services, printing and mailing services, and clearinghouse and EDI (electronic data interchange) services and practice management services.

The following table represents a disaggregation of revenue for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Healthcare IT:</b>				
Revenue cycle management services	\$ 20,372,558	\$ 10,715,358	\$ 44,927,372	\$ 32,598,825
SaaS solutions	3,945,309	93,080	11,315,904	199,738
Professional services	489,093	376,189	1,278,067	1,094,960
Ancillary services	2,414,832	873,841	3,967,438	2,303,118
Group purchasing services	283,075	295,850	649,083	700,963
Printing and mailing services	340,783	436,735	1,093,487	1,186,834
Clearinghouse and EDI services	345,407	146,989	926,782	433,923
<b>Practice Management:</b>				
Practice management services	3,447,559	3,913,286	8,926,442	10,162,677
<b>Total</b>	<b>\$ 31,638,616</b>	<b>\$ 16,851,328</b>	<b>\$ 73,084,575</b>	<b>\$ 48,681,038</b>

### Revenue cycle management services:

Revenue cycle management services are 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. MTBC typically invoices customers on a monthly basis based on the actual collections received by its customers and the agreed-upon rate in the sales contract. The services include medical billing services and are often included with the use of practice management software and related tools on a software-as-a-service ("SaaS") basis, electronic health records on a SaaS basis, and use of mobile health solutions. We consider the services to be one performance obligation since the promises are not distinct in the context of the contract. The performance obligation consists of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to our customers.

In many cases, our clients may terminate their agreements with 90 days' notice without cause, thereby limiting the term in which we have enforceable rights and obligations, although this time period can vary between clients. Our payment terms are normally net 30 days. Although our contracts typically have stated terms of one or more years, under ASC 606 our contracts are considered month-to-month and accordingly, there is no financing component.

For the majority of our revenue cycle management contracts, the total transaction price is variable because our obligation is to process an unknown quantity of claims, as and when requested by our customers over the contract period. When a contract includes variable consideration, we evaluate the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, we include 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 variable consideration is subsequently resolved. Estimates to determine variable consideration such as payment to charge ratios, effective billing rates, and the estimated contractual payment periods are updated at each reporting date. Revenue is recognized over the performance period using the input method.

*SaaS Solutions:*

Some of the Company's SaaS solutions were initially developed by CareCloud and Meridian, both of which were acquired during 2020.

The Company's SaaS solutions which were initially developed and sold by CareCloud include Central, Complete and Breeze. Central is a SaaS subscription service for healthcare practice management. Complete is a SaaS subscription service that combines healthcare practice management with electronic health records. Breeze is a SaaS subscription service providing patient registration and intake solutions.

The Company's SaaS solutions which were initially developed and sold by Meridian include VertexDr, Precision BI and Microbots. VertexDr is one of the only fully-integrated electronic medical record and practice management systems encompassing appointment scheduling, practice management, electronic prescribing of controlled substances (EPCS), customizable electronic health records, mobile functionality, and automation. Precision BI provides powerful insight into both clinical and financial performance so healthcare providers can optimize revenue, increase productivity and improve patient care. RPA is an industry term for software tools that help automate routine tasks to make them more reliable and efficient. Meridian's RPA solution, Microbots, are digital assistants that replace mundane, repetitive processes, allowing organizations scalability and increased production in a HIPAA compliant environment.

Under the Company's SaaS solutions, the Company derives revenue primarily from recurring business subscription fees. The Company typically invoices customers on a monthly basis based on an agreed-upon rate in the sales contract. The Company considers all these services to be one performance obligation since the promises are not distinct in the context of the contract. The performance obligation consists of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to customers. Recurring business subscription fees may also include amounts charged to the customer for patient statements and for other services for which reimbursement is based on a fixed fee per patient visit and recognized as revenue as the related services are performed.

Payment terms for the above SaaS solutions are normally between seven and thirty days. Although the contracts typically have stated terms of one or more years, under ASC 606, contracts are considered month-to-month and accordingly, there is no financing component.

*Professional services:*

These services include training, implementation, data conversion, data migration and ongoing support.

For all of the above revenue streams, revenue is recognized over time, which is typically one month or less, which closely matches the point in time that the customer simultaneously receives and consumes the benefits provided by the Company. Each service is substantially the same and has the same periodic pattern of transfer to the customer. Each of the services provided above is considered a separate performance obligation.

MTBC also provides implementation and professional services to certain customers and records revenue monthly on a time and materials or a fixed rate basis. The performance obligation is satisfied over time as the implementation or professional services are rendered.

*Other revenue streams:*

Ancillary services represent services such as coding, credentialing and transcription that are rendered in connection with the delivery of revenue cycle management and related medical services. The Company invoices customers monthly, based on the actual amount of services performed at the agreed upon rate in the contract. These services are only offered to revenue cycle management customers. These services do not represent a material right because the services are optional to the customer and customers electing these services are charged the same price for those services as if they were on a standalone basis. Each individual coding, credentialing or transcription transaction processed represents a performance obligation, which is satisfied over time as that individual service is rendered.

The Company provides group purchasing services which enable medical providers to purchase various vaccines directly from selected pharmaceutical companies at a discounted price. Currently, there are approximately 4,000 medical providers who are members of the program. Revenue is recognized as the vaccine shipments are made to the medical providers. Referral fees from the pharmaceutical companies are paid to MTBC either quarterly or annually and the Company adjusts its revenue accrual at the time of payment. The Company makes significant judgments regarding the variable consideration which we expect to be entitled to for the group purchasing services which includes the anticipated shipments to the members enrolled in the program, anticipated volumes of purchases made by the members and the changes in the number of members. The amounts recorded are constrained by estimates of decreases in shipments and loss of members to avoid a significant revenue reversal in the subsequent period. The only performance obligation is to provide the pharmaceutical companies with the medical providers who want to become members in order to purchase vaccines. The performance obligation is satisfied once the medical provider agrees to purchase a specific quantity of vaccines and the medical provider's information is forwarded to the vaccine suppliers. The Company records a contract asset for revenue earned and not paid as the ultimate payment is conditioned on achieving certain volume thresholds.

The Company provides printing and mailing services for both revenue cycle management customers and a large non-revenue cycle management customer, and invoices on a monthly basis based on the number of prints, the agreed-upon rate per print and the postage incurred. The performance obligation is satisfied once the printing and mailing is completed.

The medical billing clearinghouse service takes claim information from customers, checks the claims for errors and sends this information electronically to insurance companies. MTBC invoices customers on a monthly basis based on the number of claims submitted and the agreed-upon rate in the agreement. This service is provided to medical practices and providers to medical practices who are not revenue cycle management customers. The performance obligation is satisfied once the relevant submissions are completed.

For all of the above revenue streams other than group purchasing services, revenue is recognized over time, which is typically one month or less, which closely matches the point in time that the customer simultaneously receives and consumes the benefits provided by the Company. For the group purchasing services, revenue is recognized at a point in time. Other than the group purchasing services, each of the Company's services are substantially the same and have the same periodic pattern of transfer to the customer. Each service provided by the Company is considered a separate performance obligation.

*Practice management services:*

The Company also provides practice management services under long-term management service agreements to threemedical practices. We provide the medical practices with the nurses, administrative support, facilities, supplies, equipment, marketing, RCM, accounting, and other non-clinical services needed to efficiently operate their practices. Revenue is recognized as the services are provided to the medical practices. Revenue recorded in the consolidated statements of operations represents the reimbursement of costs paid by the Company for the practices and the management fee earned each month for managing the practice. The management fee is based on either a fixed fee or a percentage of the net operating income.

The Company assumes all financial risk for the performance of the managed medical practices. Revenue is impacted by amount of the costs incurred by the practices and their operating income. The gross billing of the practices is impacted by billing rates, changes in current procedural terminology code reimbursement and collection trends which in turn impacts the management fee that the Company is entitled to. Billing rates are reviewed at least annually and adjusted based on current insurer reimbursement practices. The performance obligation is satisfied as the management services are provided.

Our contracts for practice management services have approximately an additional 20 years remaining and are only cancellable under very limited circumstances. The Company receives a management fee each month for managing the day-to-day business operations of each medical group as a fixed fee or a percentage payment of the net operating income which is included in revenue in the consolidated statements of operations.

Our practice management services obligations consist of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to our customers. Revenue is recognized over time; however, for reporting and convenience purposes, the management fee is computed at each month end.

*Information about contract balances:*

The contract assets in the condensed consolidated balance sheets represent the revenue associated with the amounts we estimate our revenue cycle management clients will ultimately collect associated with the services they have provided and the relative fee we charge associated with those collections, together with amounts related to the group purchasing services. As of September 30, 2020, the estimated revenue expected to be recognized in the future related to the remaining revenue cycle management performance obligations outstanding was approximately \$3.5 million. We expect to recognize substantially all of the revenue for the remaining performance obligations over the next three months. Approximately \$600,000 of the contract asset represents revenue earned, not paid, from the group purchasing services.

Accounts receivable are shown separately at their net realizable value in our condensed consolidated balance sheets. Amounts that we are 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 our revenue cycle management services and is due to the timing of revenue recognition, submission of claims from our customers and payments from the insurance providers. The contract asset includes our 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. For example, contracts for revenue cycle management services where we recognize revenue over time but do not have a contractual right to payment until the customer receives payment of their claim from the insurance provider. The contract asset also includes the revenue accrued, not received, for the group purchasing services.

The contract asset was approximately \$4.1 million and \$2.7 million as of September 30, 2020 and 2019, respectively. Changes in the contract asset are recorded as adjustments to net revenue. The changes primarily result from providing services to revenue cycle management customers that result in additional consideration and are offset by our right to payment for services becoming unconditional and changes in the revenue accrued for the group purchasing services. The contract asset for our group purchasing services is reduced when we receive payments from vaccine manufacturers and is increased for revenue earned, not received. Deferred revenue represents sign-up fees received from customers that are amortized over three years. The opening and closing balances of the Company's accounts receivable, contract asset and deferred revenue are as follows for the nine months ended September 30, 2020 and 2019:

	Accounts Receivable, Net	Contract Asset	Deferred Revenue (current)	Deferred Revenue (long term)
Balance as of January 1, 2020	\$ 6,995,343	\$ 2,385,334	\$ 20,277	\$ 18,745
CareCloud acquisition	2,298,716	537,722	-	269,250
Meridian acquisition	3,557,926	881,111	907,077	-
Increase (decrease), net	913,316	274,149	287,807	(127,988)
Balance as of September 30, 2020	<u>\$ 13,765,301</u>	<u>\$ 4,078,316</u>	<u>\$ 1,215,161</u>	<u>\$ 160,007</u>
Balance as of January 1, 2019	\$ 7,331,474	\$ 2,608,631	\$ 25,355	\$ 18,949
Etransmedia acquisition	-	139,169	-	-
Increase (decrease), net	568,604	(51,607)	(8,916)	(2,641)
Balance as of September 30, 2019	<u>\$ 7,900,078</u>	<u>\$ 2,696,193</u>	<u>\$ 16,439</u>	<u>\$ 16,308</u>

*Deferred commissions:*

Our sales incentive plans include commissions payable to employees and third parties at the time of initial contract execution that are capitalized as incremental costs to obtain a contract. The capitalized commissions are amortized over the period the related services are transferred. As we do not offer commissions on contract renewals, we have determined the amortization period to be the estimated client life which is three years for contracts entered into by MTBC and four years for contracts entered into by CareCloud. Deferred commissions were approximately \$870,000 and \$44,000 at September 30, 2020 and 2019, respectively, and are included in the other assets amounts in the condensed consolidated balance sheets.

## 11. STOCK-BASED COMPENSATION

In April 2014, the Company adopted the Medical Transcription Billing, Corp. 2014 Equity Incentive Plan (the "2014 Plan"), reserving 1,351,000 shares of common stock for grants to employees, officers, directors and consultants. During 2017, the 2014 Plan was amended and restated whereby an additional 1,500,000 shares of common stock and 100,000 shares of Preferred Stock were added to the plan for future issuance. The 2014 Plan was amended and restated on April 14, 2017 (the "Amended and Restated Equity Incentive Plan"). During 2018, an additional 200,000 of preferred shares were added to the plan for future issuance. In May 2020, an additional 2,000,000 shares of common stock and 300,000 shares of Preferred Stock were added to the plan for future issuance. As of September 30, 2020, 1,706,283 shares of common stock and 374,881 shares of Preferred Stock are available for grant. Permissible awards include incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, RSUs, performance stock and cash-settled awards and other stock-based awards in the discretion of the Compensation Committee of the Board of Directors including unrestricted stock grants.

The equity-based RSUs contain a provision in which the units shall immediately vest and become converted into common shares at the rate of one share per RSU, immediately after a change in control, as defined in the award agreement. The preferred stock RSUs contain a similar provision, which vest and convert to Preferred Stock upon a change in control.

### Common and preferred stock RSUs

In January 2020, the Compensation Committee approved executive bonuses to be paid in shares of Preferred Stock, with the number of shares and the amount based on specified criteria being achieved during the year 2020. The actual amount will be settled in early 2021 based on the achievement of the specified criteria. For the nine months ended September 30, 2020, an expense of approximately \$900,000, was recorded for these bonuses based on the value of the shares at the grant date and recognized over the service period. The portion of the stock compensation expense to be used for the payment of withholding and payroll taxes is included in accrued compensation in the condensed consolidated balance sheets. The balance of the stock compensation expense has been recorded as additional paid-in capital.

The following table summarizes the RSU transactions related to the common and preferred stock under the Equity Incentive Plan for the nine months ended September 30, 2020 and 2019:

	<u>Common Stock</u>	<u>Preferred Stock</u>
Outstanding and unvested shares at January 1, 2020	451,085	44,000
Granted	777,884	59,673
Vested	(667,436)	(59,673)
Forfeited	(82,428)	-
Outstanding and unvested shares at September 30, 2020	<u>479,105</u>	<u>44,000</u>
Outstanding and unvested shares at January 1, 2019	929,347	44,800
Granted	176,000	44,000
Vested	(581,065)	(44,800)
Forfeited	(26,614)	-
Outstanding and unvested shares at September 30, 2019	<u>497,668</u>	<u>44,000</u>

Of the total outstanding and unvested common stock RSUs at September 30, 2020, 465,605 RSUs are classified as equity and 13,500 RSUs are classified as a liability. All of the preferred stock RSUs are classified as equity.

#### ***Stock-based compensation expense***

The Company recognizes compensation expense on a straight-line basis over the total requisite service period for the entire award. For stock awards classified as equity, the market price of our common stock or preferred stock on the date of grant is used in recording the fair value of the award and includes the related taxes. For stock awards classified as a liability, the earned amount is marked to market based on the end of period common stock price. The liability for the cash-settled awards was approximately \$766,000 and \$741,000 at September 30, 2020 and December 31, 2019, respectively, and is included in accrued compensation in the condensed consolidated balance sheets.

The following table summarizes the components of share-based compensation expense for the three and nine months ended September 30, 2020 and 2019:

<b>Stock-based compensation included in the consolidated statements of operations:</b>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Direct operating costs	\$ 379,314	\$ 49,590	\$ 808,469	\$ 146,448
General and administrative	818,666	693,138	2,887,434	2,100,609
Research and development	262,281	9,044	516,398	18,878
Selling and marketing	302,731	22,839	738,700	58,864
Total stock-based compensation expense	<u>\$ 1,762,992</u>	<u>\$ 774,611</u>	<u>\$ 4,951,001</u>	<u>\$ 2,324,799</u>

## **12. INCOME TAXES**

The income tax provision for the three months ended September 30, 2020 was approximately \$62,000, comprised of a current tax expense of \$55,000 and a deferred tax expense of \$7,000. The income tax expense for the nine months ended September 30, 2020 was approximately \$18,000, comprised of a current tax expense of \$111,000 and a deferred tax benefit of \$93,000.

The current income tax provision for the three and nine months ended September 30, 2020 and 2019 primarily relates to state minimum taxes and foreign income taxes. The deferred tax provision (benefit) for the three and nine months ended September 30, 2020 and 2019 relates to the book and tax difference of amortization on indefinite-lived intangibles, primarily goodwill. To the extent allowable, the federal tax provision has been offset by the indefinite life net operating loss.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Several new corporate tax provisions were included in the CARES Act, including, but not limited to, the following: increasing the limitation threshold for determining deductible interest expense, class life changes to qualified improvements (in general - from 39 years to 15 years), and the ability to carry back net operating losses incurred from tax years 2018 through 2020 up to the five preceding tax years. The Company has evaluated the income tax provisions of the CARES Act and determined the impact to be either immaterial or not applicable. Under the CARES Act, the Company took advantage of the payroll tax deferral provision. As of September 30, 2020, the Company has deferred approximately \$1.3 million of payroll taxes.

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 the Federal and state deferred tax assets as of September 30, 2020 and December 31, 2019.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of September 30, 2020, and December 31, 2019, the carrying amounts of accounts receivable, accounts payable and accrued expenses approximated their estimated fair values because of the short-term nature of these financial instruments.

#### *Fair value measurements-Level 2*

Our notes payable are carried at cost and approximate fair value since the interest rates being charged approximate market rates. As a result, the Company categorizes these borrowings as Level 2 in the fair value hierarchy.

#### *Contingent Consideration*

The Company's contingent consideration of \$500,000 as of September 30, 2020 is a Level 3 liability. During the third quarter, the Company determined that \$500,000 of contingent consideration previously recorded would not be earned by the seller and was reversed. The Company based this amount on a review of current revenue levels, including potential revenue from existing customers, the amount of customer backlog and an estimate of new customer activity. The remaining fair value of the contingent consideration at September 30, 2020 was primarily driven by changes in revenue estimates related to the Company's acquisitions, the passage of time and the associated discount rate.

The following table provides a reconciliation of the beginning and ending balances for the contingent consideration measured at fair value using significant unobservable inputs (Level 3):

	<b>Fair Value Measurement at Reporting Date Using Significant Unobservable Inputs, Level 3</b>	
	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Balance - January 1,	\$ -	\$ 526,432
Acquisition	1,000,000	-
Change in fair value	(500,000)	(343,768)
Payments	-	(182,664)
Balance - September 30,	<u>\$ 500,000</u>	<u>\$ -</u>

## 14. SEGMENT REPORTING

Both our Chief Executive Officer and Executive Chairman serve as the Chief Operating Decision Maker (“CODM”), organize the Company, manage resource allocations and measure performance among two operating and reportable segments: (i) Healthcare IT and (ii) Practice Management.

The Healthcare IT segment includes revenue cycle management, SaaS solutions and other services. The Practice Management segment includes the management of three medical practices. Each segment is considered a reporting unit. The CODM evaluates financial performance of the business units on the basis of revenue and direct operating costs excluding unallocated amounts, which are mainly corporate overhead costs. Our CODM does not evaluate operating segments using asset or liability information. The accounting policies of the segments are the same as those disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020. The following tables present revenues, operating expenses and operating (loss) income by reportable segment:

	<b>Nine Months Ended September 30, 2020</b>			
	<b>Healthcare IT</b>	<b>Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 64,158,133	\$ 8,926,442	\$ -	\$ 73,084,575
Operating expenses:				
Direct operating costs	39,073,783	6,768,005	-	45,841,788
Selling and marketing	4,752,713	25,105	-	4,777,818
General and administrative	11,067,480	1,492,865	4,616,248	17,176,593
Research and development	6,846,014	-	-	6,846,014
Change in contingent consideration	(500,000)	-	-	(500,000)
Depreciation and amortization	6,705,215	238,490	-	6,943,705
Impairment and unoccupied lease charges	681,400	-	-	681,400
Total operating expenses	<u>68,626,605</u>	<u>8,524,465</u>	<u>4,616,248</u>	<u>81,767,318</u>
Operating (loss) income	<u>\$ (4,468,472)</u>	<u>\$ 401,977</u>	<u>\$ (4,616,248)</u>	<u>\$ (8,682,743)</u>

	<b>Three Months Ended September 30, 2020</b>			
	<b>Healthcare IT</b>	<b>Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 28,191,057	\$ 3,447,559	\$ -	\$ 31,638,616
Operating expenses:				
Direct operating costs	17,147,137	2,571,244	-	19,718,381
Selling and marketing	1,563,255	8,168	-	1,571,423
General and administrative	4,173,350	468,172	1,549,486	6,191,008
Research and development	2,366,560	-	-	2,366,560
Change in contingent consideration	(500,000)	-	-	(500,000)
Depreciation and amortization	3,126,508	79,497	-	3,206,005
Impairment and unoccupied lease charges	320,575	-	-	320,575
Total operating expenses	<u>28,197,385</u>	<u>3,127,081</u>	<u>1,549,486</u>	<u>32,873,952</u>
Operating (loss) income	<u>\$ (6,328)</u>	<u>\$ 320,478</u>	<u>\$ (1,549,486)</u>	<u>\$ (1,235,336)</u>

**Nine Months Ended September 30, 2019**

	<b>Healthcare IT</b>	<b>Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 38,518,361	\$ 10,162,677	\$ -	\$ 48,681,038
Operating expenses:				
Direct operating costs	23,912,120	7,867,444	-	31,779,564
Selling and marketing	1,065,750	25,774	-	1,091,524
General and administrative	8,549,122	1,504,506	3,704,177	13,757,805
Research and development	648,822	-	-	648,822
Change in contingent consideration	(343,768)	-	-	(343,768)
Depreciation and amortization	2,170,204	236,907	-	2,407,111
Restructuring and impairment charges	136,332	-	-	136,332
Total operating expenses	<u>36,138,582</u>	<u>9,634,631</u>	<u>3,704,177</u>	<u>49,477,390</u>
Operating income (loss)	<u>\$ 2,379,779</u>	<u>\$ 528,046</u>	<u>\$ (3,704,177)</u>	<u>\$ (796,352)</u>

**Three Months Ended September 30, 2019**

	<b>Healthcare IT</b>	<b>Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 12,938,042	\$ 3,913,286	\$ -	\$ 16,851,328
Operating expenses:				
Direct operating costs	7,508,208	3,027,421	-	10,535,629
Selling and marketing	339,603	7,965	-	347,568
General and administrative	2,791,573	548,746	1,111,656	4,451,975
Research and development	175,758	-	-	175,758
Change in contingent consideration	(279,565)	-	-	(279,565)
Depreciation and amortization	735,133	79,077	-	814,210
Restructuring and impairment charges	136,332	-	-	136,332
Total operating expenses	<u>11,407,042</u>	<u>3,663,209</u>	<u>1,111,656</u>	<u>16,181,907</u>
Operating income (loss)	<u>\$ 1,531,000</u>	<u>\$ 250,077</u>	<u>\$ (1,111,656)</u>	<u>\$ 669,421</u>

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following is a discussion of our condensed consolidated financial condition and results of operations for the three and nine months ended September 30, 2020 and 2019, and other factors that are expected to affect our prospective financial condition. The following discussion and analysis should be read together with our Condensed Consolidated Financial Statements and related notes beginning on page 3 of this Quarterly Report on Form 10-Q.

Some of the statements set forth in this section are forward-looking statements relating to our future results of operations. Our actual results may vary from the results anticipated by these statements. Please see "*Forward-Looking Statements*" on page 2 of this Quarterly Report on Form 10-Q.

### **COVID-19 Pandemic**

In December 2019, a novel strain of coronavirus, SARS-CoV-2, was reported to have surfaced in Wuhan, China. Since then, SARS-CoV-2, and the resulting disease COVID-19, has spread to most countries, and all 50 states within the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Further, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response, and under the Defense Production Act, the legislation that facilitates the production of goods and services necessary for national security and for other purposes. Numerous governmental jurisdictions, including the State of New Jersey where we maintain our principal executive offices, and those in which many of our U.S. and international offices are based, have imposed, and others in the future may impose, "shelter-in-place" orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. Most states and the federal government, including the State of New Jersey, together with foreign jurisdictions in which we have operations centers, have declared a state of emergency related to the spread of COVID-19.

While the COVID-19 pandemic did not materially adversely affect the Company's consolidated financial results and operations in the Company's three quarters ended September 30, 2020, economic and health conditions in the United States and across most of the globe have changed rapidly since the end of the quarter. The Company has expanded its telehealth operations, which is an alternative to office visits. However, not all physicians are using telehealth and not to the same extent as previous office visits.

The COVID-19 pandemic is affecting the Company's operations in the third quarter, and may continue to do so indefinitely thereafter. The pandemic may have an impact on the Company's business, operations, and financial results and conditions, directly and indirectly, including, without limitation, impacts on the health of the Company's management and employees, its operations, marketing and sales activities, and on the overall economy. The spread of the virus did not adversely affect the health and availability of our employees and staff. The scope and nature of these impacts, most of which are beyond the Company's control, continue to evolve and the outcomes are uncertain.

Due to the above circumstances and as described generally in this Quarterly Report on Form 10-Q, the Company's consolidated results of operations for the three and nine months period ended September 30, 2020 are not necessarily indicative of the results to be expected for the full fiscal year. The Company is not aware of any certain event or circumstance that would require an update to its estimates or judgements or a revision of the carrying value of its assets or liabilities as of the date of issuance of this Quarterly Report on Form 10-Q. These estimates could change in the future as new information about future developments is obtained. Management cannot predict the full impact of the COVID-19 pandemic on the Company's consolidated operations nor on economic conditions generally, including the effects on patient visits. The ultimate extent of the effects of the COVID-19 pandemic on the Company is highly uncertain and will depend on highly unpredictable factors such as the ultimate geographic spread of the disease, the severity of the disease, the duration of outbreak, and the effectiveness of any further developments globally and nationally. The Company will actively monitor the situation and take further action that is in the best interest of our employees, customers, partners, and stockholders. See Item 1A. "Risk Factors" below for additional details.

## Overview

MTBC, Inc., (and together with its consolidated subsidiaries, “MTBC” or the “Company”), is a healthcare information technology company that provides a suite of proprietary cloud-based electronic health records and practice management solutions, together with related business services, to healthcare providers. Our Software-as-a-Service (“SaaS”) platforms and business services are designed to help our customers increase revenues, streamline workflows and make better business and clinical decisions, while reducing administrative burdens and operating costs. The Company’s services include full-scale revenue cycle management, comprehensive practice management services, electronic health records, and other technology-driven services for private and hospital-employed healthcare providers. These solutions and services include:

### Healthcare IT:

- Revenue cycle management (“RCM”) services, which include end-to-end medical billing, eligibility, analytics, and related services, all of which can often be provided either with our technology platform or through a third-party system;
- Proprietary, healthcare IT solutions, which are often bundled with our RCM services, including:
  - o Electronic health records (“EHR”), which are easy to use, integrated with our business services, and allow our healthcare provider clients to reduce paperwork;
  - o Practice management (“PM”) software and related tools, which support our clients’ day-to-day business operations and workflows;
  - o Mobile Health (“mHealth”) solutions, including smartphone applications that assist patients and healthcare providers in the provision of healthcare services;
  - o Telehealth solutions, which allow healthcare providers to conduct remote patient visits;
  - o Healthcare claims clearinghouse, which enables our clients to electronically scrub and submit claims to, and process payments from, insurance companies; and
  - o Business intelligence, customized applications, interfaces and a variety of other technology solutions that support our healthcare clients.
- Group purchasing services which include our negotiation of discounts with pharmaceutical manufacturers and the extension of those discounts to our physician members.

### Practice Management Services:

- Comprehensive practice management services, which are offered under long-term management service agreements pursuant to which we provide certain practices with the administrative support, facilities, supplies, equipment, marketing, RCM, accounting, healthcare IT and other non-clinical services required to efficiently operate their practices.

We are able to deliver our industry-leading solutions at very competitive prices because we leverage a combination of our proprietary software, which automates our workflows and increases efficiency, together with our team of approximately 600 experienced health industry experts throughout the United States. These experts are supported by our highly educated and specialized offshore workforce of approximately 2,900 team members at labor costs that we believe are approximately one-tenth the cost of comparable U.S. employees. Our unique business model also allowed us to become a leading consolidator in our industry sector, gaining us a reputation for acquiring and positively transforming distressed competitors into profitable operations of MTBC.

Adoption of our RCM solutions typically requires little or no upfront expenditure by a client. Additionally, for most of our solutions and customers, our financial performance is linked directly to the financial performance of our clients, as the vast majority of our revenues are based on a percentage of our clients’ collections. The fees we charge for our complete, integrated, end-to-end solution are very competitive and among the lowest in the industry. We estimate that we currently provide services to more than 40,000 providers, (which we define as physicians, nurses, nurse practitioners, physician assistants and other clinical staff that render bills for their services) practicing in approximately 2,700 independent medical practices and hospitals representing 86 specialties and subspecialties in 50 states. In addition, we serve approximately 200 clients which are not medical practices, but are primarily service organizations who serve the healthcare community. The foregoing numbers include clients leveraging any of our products or services, and are based, in part, upon estimates where the precise number of practices or providers is unknown.

We service clients ranging from small practices, consisting of one to ten providers, to community hospitals. The customer which generates the largest revenue for us has over 2,000 providers of physical, occupational and speech therapy services to patients in multiple states.

In April 2019, the Company acquired substantially all of the RCM business of Etransmedia Technology, Inc. and its subsidiaries (together “Etransmedia”) through MTBC’s wholly owned subsidiary MTBC-Med, Inc. The Etransmedia acquisition added additional clients to the Company’s customer base and, similar to previous acquisitions, broadened the Company’s presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff. The Company paid \$1.6 million in cash for the acquisition.

On January 8, 2020, through a merger with a subsidiary, the Company acquired CareCloud Corporation (“CareCloud”), which has developed a highly acclaimed cloud-based platform including EHR, PM and patient experience capabilities. The Company paid \$11.9 million in cash, assumed a working capital deficiency of approximately \$5.1 million and issued 760,000 shares of the Company’s Series A Preferred Stock and two million warrants for the purchase of the Company’s common stock at prices of \$7.50 for two years and \$10.00 per share for three years.

On June 16, 2020, the Company purchased all of the issued and outstanding capital stock of Meridian Billing Management Co. and its affiliate Origin Holdings, Inc. (collectively “Meridian” and sometimes referred to as “Meridian Medical Management”), a former GE Healthcare IT company that delivers advanced healthcare information technology solutions and services. The Company paid \$15 million in cash, issued 200,000 shares of the Company’s Series A Preferred Stock and warrants to purchase 2,250,000 of the Company’s common stock with an exercise price per share of \$7.50 for two years and assumed Meridian’s negative working capital and certain long-term lease liabilities where the space is either not being utilized or will be vacated shortly, with an aggregate value of approximately \$4.8 million.

Our offshore operations in Pakistan and Sri Lanka accounted for approximately 10% and 14% of total expenses for the nine months ended September 30, 2020 and 2019, respectively. A significant portion of those foreign expenses were personnel-related costs (approximately 80% and 78% for the nine months ended September 30, 2020 and 2019, respectively). Because personnel-related costs are significantly lower in Pakistan and Sri Lanka than in the U.S. and many other offshore locations, we believe our offshore operations give us a competitive advantage over many industry participants. We are able to achieve significant cost reductions as leverage technology to reduce manual work and strategically transition a portion of the remaining manual tasks to our highly-specialized, cost-efficient team in the U.S., Pakistan and Sri Lanka.

### **Key Performance Measures**

We consider numerous factors in assessing our performance. Key performance measures used by management, including adjusted EBITDA, adjusted operating income, adjusted operating margin, adjusted net income and adjusted net income per share, are non-GAAP financial measures, which we believe better enable management and investors to analyze and compare the underlying business results from period to period.

These non-GAAP financial measures should not be considered in isolation, or as a substitute for or superior to, financial measures calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of our business as determined in accordance with GAAP. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis, and we provide reconciliations from the most directly comparable GAAP financial measures to the non-GAAP financial measures. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Adjusted EBITDA, adjusted operating income, adjusted operating margin, adjusted net income and adjusted net income per share provide an alternative view of performance used by management and we believe that an investor's understanding of our performance is enhanced by disclosing these adjusted performance measures.

Adjusted EBITDA excludes the following elements which are included in GAAP net income (loss):

- Income tax expense (benefit) or the cash requirements to pay our taxes;
- Interest expense, or the cash requirements necessary to service interest on principal payments, on our debt;
- Foreign currency gains and losses and other non-operating expenditures;
- Stock-based compensation expense includes cash-settled awards and the related taxes, based on changes in the stock price;
- Depreciation and amortization charges;
- Integration costs, such as severance amounts paid to employees from acquired businesses, transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees and exit costs related to contractual agreements;
- Restructuring, impairment and unoccupied lease charges; and
- Changes in contingent consideration.

Set forth below is a presentation of our adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(\$ in thousands)			
Net revenue	\$ 31,639	\$ 16,851	\$ 73,085	\$ 48,681
GAAP net loss	(1,674)	(138)	(8,968)	(1,204)
Provision for income taxes	61	87	18	102
Net interest expense	130	32	352	82
Foreign exchange loss (gain) / other expense	296	704	(17)	408
Stock-based compensation expense	1,763	775	4,951	2,325
Depreciation and amortization	3,206	814	6,944	2,407
Transaction and integration costs	609	464	1,709	1,403
Restructuring, impairment and unoccupied lease charges	321	136	681	136
Change in contingent consideration	(500)	(280)	(500)	(344)
Adjusted EBITDA	<u>\$ 4,212</u>	<u>\$ 2,594</u>	<u>\$ 5,170</u>	<u>\$ 5,315</u>

Adjusted operating income and adjusted operating margin exclude the following elements which are included in GAAP operating income (loss):

- Stock-based compensation expense includes cash-settled awards and the related taxes, based on changes in the stock price;
- Amortization of purchased intangible assets;
- Integration costs, such as severance amounts paid to employees from acquired businesses, transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees and exit costs related to contractual agreements;
- Restructuring, impairment and unoccupied lease charges; and
- Changes in contingent consideration.

Set forth below is a presentation of our adjusted operating income and adjusted operating margin, which represents adjusted operating income as a percentage of net revenue, for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(\$ in thousands)			
Net revenue	\$ 31,639	\$ 16,851	\$ 73,085	\$ 48,681
GAAP net loss	(1,674)	(138)	(8,968)	(1,204)
Provision for income taxes	61	87	18	102
Net interest expense	130	32	352	82
Other expense (income) - net	246	688	(84)	224
GAAP operating (loss) / income	(1,237)	669	(8,682)	(796)
GAAP operating margin	(3.9)%	4.0%	(11.9)%	(1.6)%
Stock-based compensation expense	1,763	775	4,951	2,325
Amortization of purchased intangible assets	2,690	512	5,751	1,549
Transaction and integration costs	609	464	1,709	1,403
Restructuring, impairment and unoccupied lease charges	321	136	682	136
Change in contingent consideration	(500)	(280)	(500)	(344)
Non-GAAP adjusted operating income	\$ 3,646	\$ 2,276	\$ 3,911	\$ 4,273
Non-GAAP adjusted operating margin	11.5%	13.5%	5.4%	8.8%

Adjusted net income and adjusted net income per share exclude the following elements which are included in GAAP net income (loss):

- Foreign currency gains and losses and other non-operating expenditures;
- Stock-based compensation expense includes cash-settled awards and the related taxes, based on changes in the stock price;
- Amortization of purchased intangible assets;
- Integration costs, such as severance amounts paid to employees from acquired businesses, transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees and exit costs related to contractual agreements;
- Restructuring, impairment and unoccupied lease charges;
- Changes in contingent consideration; and
- Income tax expense (benefit) resulting from the amortization of goodwill related to our acquisitions.

No tax effect has been provided in computing non-GAAP adjusted net income and non-GAAP adjusted net income per share as the Company has sufficient carry forward net operating losses to offset the applicable income taxes. The following table shows our reconciliation of GAAP net loss to non-GAAP adjusted net income for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(\$ in thousands except for per share amounts)			
GAAP net loss	\$ (1,674)	\$ (138)	\$ (8,968)	\$ (1,204)
Foreign exchange loss (gain) / other expense	296	704	(17)	408
Stock-based compensation expense	1,763	775	4,951	2,325
Amortization of purchased intangible assets	2,690	512	5,751	1,549
Transaction and integration costs	609	464	1,709	1,403
Restructuring, impairment and unoccupied lease charges	321	136	682	136
Change in contingent consideration	(500)	(280)	(500)	(344)
Income tax expense (benefit) related to goodwill	7	45	(93)	30
Non-GAAP adjusted net income	<u>\$ 3,512</u>	<u>\$ 2,218</u>	<u>\$ 3,515</u>	<u>\$ 4,303</u>

Set forth below is a reconciliation of our GAAP net loss attributable to common shareholders, per share to our non-GAAP adjusted net income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
GAAP net loss attributable to common shareholders, per share	\$ (0.46)	\$ (0.14)	\$ (1.53)	\$ (0.48)
Impact of preferred stock dividend	0.33	0.13	0.85	0.38
Net loss per end-of-period share	<u>(0.13)</u>	<u>(0.01)</u>	<u>(0.68)</u>	<u>(0.10)</u>
Foreign exchange loss (gain) / other expense	0.02	0.06	(0.00)	0.03
Stock-based compensation expense	0.14	0.06	0.38	0.19
Amortization of purchased intangible assets	0.20	0.04	0.44	0.13
Transaction and integration costs	0.06	0.04	0.13	0.12
Restructuring, impairment and unoccupied lease charges	0.02	0.01	0.05	0.01
Change in contingent consideration	(0.04)	(0.02)	(0.04)	(0.03)
Income tax (benefit) expense related to goodwill	0.00	0.00	(0.01)	0.00
Non-GAAP adjusted earnings per share	<u>\$ 0.27</u>	<u>\$ 0.18</u>	<u>\$ 0.27</u>	<u>\$ 0.35</u>
End-of-period common shares	13,136,088	12,212,323	13,136,088	12,212,323
In-the-money warrants and outstanding unvested RSUs	4,910,423	464,335	4,910,423	464,335
Total fully diluted shares	<u>18,046,511</u>	<u>12,676,658</u>	<u>18,046,511</u>	<u>12,676,658</u>
Non-GAAP adjusted diluted earnings per share	<u>\$ 0.19</u>	<u>\$ 0.17</u>	<u>\$ 0.19</u>	<u>\$ 0.34</u>

For purposes of determining non-GAAP adjusted earnings per share, the Company used the number of common shares outstanding at the end of September 30, 2020 and 2019. Non-GAAP adjusted diluted earnings per share was computed using an as-converted method and includes warrants that are in-the-money as of that date as well as outstanding unvested RSUs. Non-GAAP adjusted diluted earnings per share does not take into account dividends paid on our preferred stock. No tax effect has been provided in computing non-GAAP adjusted earnings per share and non-GAAP adjusted diluted earnings per share as the Company has sufficient carry forward net operating losses to offset the applicable income taxes.

#### Key Metrics

In addition to the line items in our condensed consolidated financial statements, we regularly review the following metrics. We believe information on these metrics is useful for investors to understand the underlying trends in our business.

**Providers and Practices Served:** As of September 30, 2020, we provided services to an estimated universe of more than 40,000 providers (which we define as physicians, nurses, nurse practitioners, physician assistants and other clinical staff that render bills for their services), representing approximately 2,700 independent medical practices and hospitals. In addition, we served approximately 200 clients who were not medical practices, but are service organizations who serve the healthcare community. The foregoing numbers include clients leveraging any of our products or services and are based in part upon estimates in cases where the precise number of practices or providers is unknown.

## Sources of Revenue

**Revenue:** We primarily derive our revenues from revenue cycle management services and bundled services, reported in our Healthcare IT segment, which is typically billed as a percentage of payments collected by our customers. This fee includes RCM, as well as the ability to use our EHR and practice management software as part of the bundled fee. These bundled fees are included in revenue cycle management revenue. These services accounted for approximately 64% of our revenues during both the three months ended September 30, 2020 and 2019, and 61% and 67% for the nine months ended September 30, 2020 and 2019, respectively. Software-as-a-service fees, for clients not utilizing revenue cycle management services, accounted for approximately 12% and 15% of revenue during the three and nine months ended September 30, 2020, respectively. Other Healthcare IT services, including printing and mailing operations and professional services, represented approximately 12% and 13% of revenues for the three months ended September 30, 2020 and 2019, respectively, and 11% and 12% for the nine months ended September 30, 2020 and 2019, respectively.

We earned approximately 11% and 23% of our revenue from practice management services during the three months ended September 30, 2020 and 2019, and 12% and 21% for the nine months ended September 30, 2020 and 2019, respectively. This revenue represents fees based on our actual costs plus a percentage of the operating profit and is reported in our Practice Management segment.

## Operating Expenses

**Direct Operating Costs.** Direct operating cost consists primarily of salaries and benefits related to personnel who provide services to our customers, claims processing costs, costs to operate the three managed practices, including facility lease costs, supplies, insurance and other direct costs related to our services. Costs associated with the implementation of new customers are expensed as incurred. The reported amounts of direct operating costs do not include depreciation and amortization, which are broken out separately in the condensed consolidated statements of operations.

**Selling and Marketing Expense.** Selling and marketing expense consists primarily of compensation and benefits, commissions, travel and advertising expenses.

**General and Administrative Expense.** General and administrative expense consists primarily of personnel-related expense for administrative employees, including compensation, benefits, travel, facility lease costs and insurance, software license fees and outside professional fees.

**Research and Development Expense.** Research and development expense consists primarily of personnel-related costs and third-party contractor costs.

**Contingent Consideration.** Contingent consideration represents the portion of consideration payable to the sellers of some of our acquisitions, the amount of which is based on the achievement of defined performance measures contained in the purchase agreements. Contingent consideration is adjusted to fair value at the end of each reporting period.

**Depreciation and Amortization Expense.** Depreciation expense is charged using the straight-line method over the estimated lives of the assets ranging from three to ten years. Amortization expense is charged on either an accelerated or on a straight-line basis over a period of three or four years for most intangible assets acquired in connection with acquisitions including those intangibles related to the group purchasing services. Amortization expense related to the value of our practice management clients is amortized on a straight-line basis over a period of twelve years.

*Restructuring, Impairment and Unoccupied Lease Charges.* Restructuring charges represent the remaining lease costs for a facility no longer used by the Company as the employees were transferred to another Company facility. Impairment charges represent charges recorded for a leased facility no longer being used by the Company. Unoccupied lease charges represent the portion of lease and related costs for vacant space not being utilized by the Company. The Company is marketing both unused facility and the unused space for sub-lease.

*Interest and Other Income (Expense).* Interest expense consists primarily of interest costs related to our line of credit, term loans and amounts due in connection with acquisitions, offset by interest income. Other income (expense) results primarily from foreign currency transaction gains (losses) and income earned from temporary cash investments.

*Income Tax.* In preparing our condensed consolidated financial statements, we estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred income tax assets and liabilities. Although the Company is forecasting a return to profitability, it incurred losses historically and there is uncertainty regarding future U.S. taxable income, which makes realization of a deferred tax asset difficult to support in accordance with ASC 740. Accordingly, a valuation allowance has been recorded against all deferred tax assets as of September 30, 2020 and December 31, 2019.

#### **Critical Accounting Policies and Estimates**

The critical accounting policies and estimates used in the preparation of our condensed consolidated financial statements that we believe affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements presented in this Report are described in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019.

##### *Leases:*

We adopted ASU 2016-02: *Leases* (Topic 842) as of January 1, 2019. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liability (current portion) and operating lease liability (noncurrent portion) in our condensed consolidated balance sheet at September 30, 2020. The Company does not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

We use our estimated incremental borrowing rates, which are derived from information available at the lease commencement date, in determining the present value of lease payments. We give consideration to bank financing arrangements, geographical location and collateralization of assets when calculating our incremental borrowing rates.

Our lease term includes options to extend the lease when it is reasonably certain that we will exercise that option. Leases with a term of less than 12 months are not recorded in the condensed consolidated balance sheet. Our lease agreements do not contain any residual value guarantees. For real estate leases, we account for the leased and non-leased components as a single lease component. Some leases include escalation clauses and termination options that are factored into the determination of the future lease payments when appropriate.

##### *Capitalized software costs:*

All of our software is considered internal use for accounting purposes, as we do not market or sell our software. As a result, we capitalize certain costs associated with the creation of internally-developed software for internal use. The total of these costs is recorded in Intangible assets - net in our condensed consolidated balance sheets.

We capitalized costs incurred during the application development stage related to our internal use software. Costs incurred during the application development phase are capitalized only when we believe it is probable that the development will result in new or additional functionality. The types of costs capitalized during the application development phase consist of employee compensation, employee benefits and employee stock-based compensation. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred. Capitalized internal-use software is amortized on a straight-line basis over its estimated useful life when the asset has been placed in service for general availability.

Significant judgments related to internally-developed software include determining whether it is probable that projects will result in new or additional functionality; concluding on when the application development phase starts and ends; and deciding which costs, especially employee compensation costs, should be capitalized. Additionally, there is judgment applied to the useful lives of capitalized software; we have concluded that the useful lives for capitalized internally-developed software is three years.

Company management employs its best estimates and assumptions in determining the appropriateness of the judgments noted above on a project-by-project basis during initial capitalization as well as subsequent measurement. While we believe that our approach to estimates and judgments is reasonable, actual results could differ, and such differences could lead to an increase or decrease in expense.

As of September 30, 2020, and December 31, 2019 the carrying amounts of internally-developed capitalized software was \$8.6 million and \$538,000, respectively. The increase in the capitalized software costs was primarily due to the CareCloud and Meridian acquisitions.

There have been no material changes in our critical accounting policies and estimates from those described in the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 28, 2020.

## Results of Operations

The following table sets forth our consolidated results of operations as a percentage of total revenue for the periods shown:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Direct operating costs	62.3%	62.5%	62.7%	65.3%
Selling and marketing	5.0%	2.1%	6.5%	2.2%
General and administrative	19.6%	26.4%	23.5%	28.3%
Research and development	7.5%	1.0%	9.4%	1.3%
Change in contingent consideration	(1.6)%	(1.7)%	(0.7)%	(0.7)%
Depreciation and amortization	10.1%	4.8%	9.5%	4.9%
Restructuring, impairment and unoccupied lease charges	1.0%	0.8%	0.9%	0.3%
Total operating expenses	103.9%	95.9%	111.8%	101.6%
Operating (loss) income	(3.9)%	4.1%	(11.8)%	(1.6)%
Interest expense - net	0.4%	0.2%	0.5%	0.2%
Other (expense) income - net	(0.8)%	(4.1)%	0.1%	(0.5)%
Loss before income taxes	(5.1)%	(0.2)%	(12.2)%	(2.3)%
Income tax provision	0.2%	0.5%	0.0%	0.2%
Net loss	(5.3)%	(0.7)%	(12.2)%	(2.5)%

Comparison of the three and nine months ended September 30, 2020 and 2019

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,		Amount	Percent	September 30,		Amount	Percent
	2020	2019			2020	2019		
Net revenue	\$ 31,638,616	\$ 16,851,328	\$ 14,787,288	88%	\$ 73,084,575	\$ 48,681,038	\$ 24,403,537	50%

*Net Revenue.* Net revenue of \$31.6 million and \$73.1 million for the three and nine months ended September 30, 2020, respectively, increased by \$14.8 million or 88% and \$24.4 million or 50% from net revenue of \$16.9 million and \$48.7 million for the three months and nine months ended September 30, 2019, respectively. Revenue for the three and nine months ended September 30, 2020 includes approximately \$19.1 million and \$37.6 million, respectively, from customers acquired in the Etransmedia, CareCloud and Meridian acquisitions. Revenue for the three and nine months ended September 30, 2020 includes \$20.4 million and \$44.9 million relating to RCM and bundled services, \$3.9 million and \$11.3 million related to SaaS services and \$3.4 million and \$8.9 million for practice management services, respectively.

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,		Amount	Percent	September 30,		Amount	Percent
	2020	2019			2020	2019		
Direct operating costs	\$ 19,718,381	\$ 10,535,629	\$ 9,182,752	87%	\$ 45,841,788	\$ 31,779,564	\$ 14,062,224	44%
Selling and marketing	1,571,423	347,568	1,223,855	352%	4,777,818	1,091,524	3,686,294	338%
General and administrative	6,191,008	4,451,975	1,739,033	39%	17,176,593	13,757,805	3,418,788	25%
Research and development	2,366,560	175,758	2,190,802	1246%	6,846,014	648,822	6,197,192	955%
Change in contingent consideration	(500,000)	(279,565)	(220,435)	79%	(500,000)	(343,768)	(156,232)	45%
Depreciation	382,343	237,574	144,769	61%	944,427	668,916	275,511	41%
Amortization	2,823,662	576,636	2,247,026	390%	5,999,278	1,738,195	4,261,083	245%
Restructuring, impairment and unoccupied lease charges	320,575	136,332	184,243	135%	681,400	136,332	545,068	400%
Total operating expenses	\$ 32,873,953	\$ 16,181,907	\$ 16,692,045	103%	\$ 81,767,318	\$ 49,477,390	\$ 32,289,928	65%

*Direct Operating Costs.* Direct operating costs of \$19.7 million and \$45.8 million for the three and nine months ended September 30, 2020, respectively, increased by \$9.2 million or 87% and \$14.1 million or 44% compared to direct operating costs of \$10.5 million and \$31.8 million for the three and nine months ended September 30, 2019, respectively. During the three months ended September 30, 2020, salary costs increased by \$5.1 million, and outsourcing and processing costs increased by \$3.6 million. During the nine months ended September 30, 2020, salary costs increased by \$6.8 million, and outsourcing and processing costs increased by \$6.3 million. The increase in the costs for the three and nine months ended September 30, 2020 were primarily related to the CareCloud and Meridian acquisitions.

*Selling and Marketing Expense.* Selling and marketing expense of \$1.6 million and \$4.8 million for the three and nine months ended September 30, 2020, respectively, increased by \$1.2 million or 352% and \$3.7 million or 338% from selling and marketing expense of \$348,000 and \$1.1 million for the three and nine months ended September 30, 2019, respectively. The increase was primarily related to additional emphasis on sales and marketing activities which began as a result of the CareCloud acquisition.

*General and Administrative Expense.* General and administrative expense of \$6.2 million and \$17.2 million for the three and nine months ended September 30, 2020, respectively, increased by \$1.7 million or 39% and \$3.4 million or 25% compared to the same periods in 2019. The increase in general and administrative expense was primarily related to additional salaries, facility costs and professional fees as a result of the CareCloud and Meridian acquisitions.

*Research and Development Expense.* Research and development expense of \$2.4 million and \$6.8 million for the three and nine months ended September 30, 2020, respectively, increased by \$2.2 million and \$6.2 million from research and development expense of \$176,000 and \$649,000 for the three and nine months ended September 30, 2019, respectively. The increase primarily represented additional salaries and outsourced development expenses. During the three and nine months ended September 30, 2020, the Company capitalized approximately \$1.1 million and \$3.8 million, respectively, of development costs in connection with its internal-use software.

*Contingent Consideration.* The change in contingent consideration for the three and nine months ended September 30, 2020, was (\$500,000) compared to (\$279,565) and (\$343,768) for the three and nine months ended September 30, 2019, respectively. The change in 2020 was the result of the Company determining that the CareCloud seller would not be entitled to all of the \$1.0 million of contingent consideration initially recorded. The 2019 amounts resulted from favorable settlements of the amount due to the owners of companies previously acquired.

*Depreciation.* Depreciation of \$382,000 and \$944,000 for the three and nine months ended September 30, 2020, respectively, increased by \$145,000 or 61% and \$276,000 or 41% from depreciation of \$238,000 and \$669,000 for the three and nine months ended September 30, 2019, respectively, primarily due to the property and equipment acquired as part of the CareCloud acquisitions and Meridian acquisitions.

*Amortization Expense.* Amortization expense of \$2.8 million and \$6.0 million for the three and nine months ended September 30, 2020 increased by \$2.2 million or 390% and \$4.3 million or 245% from amortization expense of \$577,000 and \$1.7 million for the three and nine months ended September 30, 2019, respectively. The increase was primarily related to the intangible assets acquired from the CareCloud and Meridian acquisitions.

*Restructuring, Impairment and Unoccupied lease Charges.* Restructuring charges represent the remaining lease costs for a facility no longer used by the Company as the employees were transferred to another Company facility. Impairment charges represent charges recorded for a leased facility no longer being used by the Company. Unoccupied lease charges represent the portion of lease and related costs for space not being utilized by the Company. The Company is marketing both the unused facility and the unused space for sub-lease.

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,		Amount	Percent	September 30,		Amount	Percent
	2020	2019			2020	2019		
Interest income	\$ 2,431	\$ 57,272	\$ (54,841)	(96)%	\$ 44,112	\$ 202,969	\$ (158,857)	(78)%
Interest expense	(132,373)	(88,925)	(43,448)	49%	(396,154)	(284,883)	(111,271)	39%
Other (expense) income - net	(246,347)	(688,342)	441,995	(64)%	84,464	(224,151)	308,615	(138)%
Income tax provision	61,965	86,970	(25,005)	(29)%	17,549	101,790	(84,241)	(83)%

*Interest Income.* Interest income of \$2,000 and \$44,000 for the three and nine months ended September 30, 2020, respectively decreased by \$55,000 or 96% and \$159,000 or 78% from interest income of \$57,000 and \$203,000 for the three and nine months ended September 30, 2019, respectively. The interest income represents interest earned on temporary cash investments.

*Interest Expense.* Interest expense of \$132,000 and \$396,000 for the three and nine months ended September 30, 2020, respectively, increased by \$43,000 or 49% and \$111,000 or 39% from interest expense of \$89,000 and \$285,000 for the three and nine months ended September 30, 2019, respectively. The increase was primarily due to the utilization of the line of credit during 2020. Interest expense includes the amortization of deferred financing costs, which was \$144,000 during both the nine months ended September 30, 2020 and 2019.

*Other (Expense) Income - net.* Other (expense) income - net was (\$246,000) and \$84,000 for the three and nine months ended September 30, 2020, respectively, compared to other expense - net of \$688,000 and \$224,000 for the three and nine months ended September 30, 2019, respectively. Other (expense) income primarily represents foreign currency transaction gains and other expense primarily represents foreign currency transaction losses. These transaction gains and losses result from revaluing intercompany accounts whenever the exchange rate varies and are recorded in the condensed consolidated statements of operations.

*Income Tax Provision.* The provision for income taxes was \$62,000 and \$18,000 for the three and nine months ended September 30, 2020, compared to an income tax provision of \$87,000 and \$102,000 for the three and nine months ended September 30, 2019. As a result of the Company incurring a tax loss for 2020 and 2019, which has an indefinite life under the current tax rules, the federal deferred tax liability was offset against the federal net operating loss to the extent allowable in 2020 and 2019. The current income tax provision for the three and nine months ended September 30, 2020 was approximately \$55,000 and \$111,000 and primarily relates to state minimum taxes and foreign income taxes. The Company has incurred cumulative losses historically and there is uncertainty regarding future U.S. taxable income, which makes realization of a deferred tax losses difficult to support in accordance with ASC 740. Accordingly, a valuation allowance was recorded against all deferred tax assets at September 30, 2020 and December 31, 2019.

## Liquidity and Capital Resources

Borrowings under the SVB facility are based on 200% of repeatable revenue, reduced by an annualized attrition rate as defined in the agreement.

During the nine months ended September 30, 2020, there was negative cash flow from operations of approximately \$4.3 million, primarily because the Company assumed approximately \$5.1 million and \$4.8 million of net payables as part of its acquisitions of CareCloud and Meridian, respectively. Even though a portion of the purchase price was retained by the Company to pay these expenses which relate to prior periods, these payments are treated as cash used in operations. As of September 30, 2020, the Company had approximately \$22.8 million in cash and positive working capital of \$17.9 million.

During April 2020, the Company sold 828,000 shares of its Series A Preferred Stock and received net proceeds of approximately \$19.0 million, after issuance expenses. A portion of these proceeds was used to fully repay the line of credit outstanding at March 31, 2020.

During July 2020, the Company sold 1,104,000 shares of its series A Preferred Stock and received net proceeds of approximately \$25.6 million, after issuance expenses. A portion of these proceeds was used to repay the line of credit outstanding at June 30, 2020.

During the nine months ended September 30, 2020, the Company paid a total of \$23.7 million in cash as part of the CareCloud and Meridian purchase consideration.

The following table summarizes our cash flows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,		Change	
	2020	2019	2020	2019	Amount	Percent
Net cash (used in) provided by operating activities	\$ (449,356)	\$ 1,440,872	\$ (4,332,770)	\$ 4,753,801	\$ (9,086,571)	(191)%
Net cash used in investing activities	(14,738,773)	(422,430)	(28,771,969)	(2,926,650)	(25,845,319)	883%
Net cash provided by (used in) financing activities	29,329,212	1,719,201	36,138,798	(2,538,807)	38,677,605	(1,523)%
Effect of exchange rate changes on cash	303,482	666,528	(188,307)	226,370	(414,677)	(183)%
Net increase (decrease) in cash	\$ 14,444,565	\$ 3,404,171	\$ 2,845,752	\$ (485,286)	\$ 3,331,038	(686)%

The loss before income taxes was \$1.6 million and \$9.0 million for the three and nine months ended September 30, 2020, respectively, which included \$3.2 million and \$6.9 million of non-cash depreciation and amortization, respectively. The loss before taxes for the three and nine months ended September 30, 2019 was \$51,000 and \$1.1 million, respectively, which included \$814,000 and \$2.4 million of non-cash depreciation and amortization, respectively.

### ***Operating Activities***

Cash used in operating activities was \$4.3 million for the nine months ended September 30, 2020 and cash provided by operating activities was \$4.8 million during the nine months ended September 30, 2019. The increase in the net loss of \$7.8 million for the nine months ended September 30, 2020 as compared to the same period in 2019 included the following changes in non-cash items: an increase in depreciation and amortization expense of \$4.4 million, an increase in stock-based compensation expense of \$2.6 million, a change in the benefit for deferred income taxes of \$128,000 and an increase in interest accretion of \$129,000.

The net change in operating assets and liabilities was \$9.6 million. Accounts payable, accrued compensation and accrued expenses decreased by \$8.4 million for the nine months ended September 30, 2020 compared to a decrease of \$698,000 for the nine months ended September 30, 2019 as the Company paid past due amounts from the CareCloud and Meridian acquisitions. Accounts receivable increase by \$1.2 million for the nine months ended September 30, 2020 compared with an increase of \$127,000 for the nine months ended September 30, 2019. For the nine months ended September 30, 2020 and 2019, the change in the lease liabilities is included in this amount.

### ***Investing Activities***

Capital expenditures were \$1.3 million for both the nine months ended September 30, 2020 and 2019. Capital expenditures were \$472,000 and \$194,000 for the three months ended September 30, 2020 and 2019, respectively. The capital expenditures for the three and nine months ended September 30, 2020 and 2019 primarily represented computer equipment purchased for the Pakistan offices. Software development costs of \$1.1 million and \$3.8 million, respectively, for the three and nine months ended September 30, 2020 were capitalized in connection with the development of software for providing revenue cycle management services and software-as-a-service offerings.

### ***Financing Activities***

Cash provided by financing activities during the nine months ended September 30, 2020 was \$36.1 million and cash used in financing activities was \$2.5 million for the nine months ended September 30, 2019. The Company received \$44.5 million and \$3.7 million from the sale of Series A Preferred Stock during the nine months ended September 30, 2020 and 2019, respectively. Cash used in financing activities during the nine months ended September 30, 2020 included \$7.8 million of preferred stock dividends, \$430,000 of repayments for debt obligations, \$1.3 million of settlement of contingent obligation and \$1.8 million of tax withholding obligations paid in connection with stock awards issued to employees. Cash used in financing activities for nine months ended September 30, 2019 included \$4.5 million of preferred stock dividends, \$290,000 of repayment for debt obligations and \$1.3 million of tax withholding obligations paid in connection with stock awards issued to employees.

### **Contractual Obligations and Commitments**

We have contractual obligations under our line of credit. We also maintain operating leases for property and certain office equipment. We were in compliance with all SVB covenants as of September 30, 2020. For additional information, see Contractual Obligations and Commitments under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 28, 2020.

### **Off-Balance Sheet Arrangements**

As of September 30, 2020 and 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special-purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### ***Item 3. Quantitative and Qualitative Disclosures about Market Risk***

We are a smaller reporting company as defined by 17 C.F.R. 229.10(f)(1) and are not required to provide information under this item, pursuant to Item 305(e) of Regulation S-K.

#### ***Item 4. Controls and Procedures***

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, based on the 2013 framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020 as required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, as of September 30, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

See discussion of legal proceedings in “Note 8, Commitments And Contingencies” of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report, which is incorporated by reference herein.

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q and the risk factor noted below, you should carefully consider the factors discussed in Part I —Item 1A. “Risk Factors” in our Annual Report on Form 10-K, filed with the SEC on February 28, 2020, which could materially affect our business, financial condition and/or future results and may be further impacted by the coronavirus pandemic. The risks described in our Annual Report on Form 10-K and herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, cash flows and/or future results.

#### ***Our business, financial condition, results of operations and growth could be harmed by the effects of the COVID-19 pandemic.***

We are subject to risks related to the public health crises such as the global pandemic associated with the coronavirus (COVID-19). In December 2019, a novel strain of coronavirus, SARS-CoV-2, was reported to have surfaced in Wuhan, China. Since then, SARS-CoV-2, and the resulting disease COVID-19, has spread to most countries, and all 50 states within the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Further, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response, and under the Defense Production Act, the legislation that facilitates the production of goods and services necessary for national security and for other purposes. Numerous governmental jurisdictions, including the State of New Jersey where we maintain our principal executive offices, and those in which many of our U.S. and international offices are based, have imposed, and others in the future may impose, “shelter-in-place” orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. Most states and the federal government, including the State of New Jersey, together with foreign jurisdictions in which we have operations centers, have declared a state of emergency related to the spread of COVID-19. Such orders or restrictions, and the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellation of events, among other effects, thereby negatively impacting our customers, employees, and offices, among others. We may experience further limitations on employee resources in the future, including because of sickness of employees or their families. These challenges have been, and are anticipated to continue being, particularly difficult to manage in foreign jurisdictions in which we have offices due to, among other things, a reduced ability to enable efficient and secure work-from-home.

Health care organizations around the world, including our health care provider customers, have faced and will continue to face, substantial challenges in treating patients with COVID-19, such as the diversion of staff and resources from ordinary functions to the treatment of COVID-19, supply, resource and capital shortages and overburdening of staff and resource capacity. In the United States, governmental authorities have also recommended, and in certain cases required, that elective, specialty and other procedures and appointments, including certain primary care services, be suspended or canceled to avoid non-essential patient exposure to medical environments and potential infection with COVID-19 and to focus limited resources and personnel capacity toward the treatment of COVID-19. These measures and challenges will likely continue for the duration of the pandemic, which is uncertain, and will disproportionately harm the results of operations, liquidity and financial condition of these health care organizations and our health care provider customers. As a result, our health care provider customers may seek contractual accommodations from us in the future. To the extent such health care provider customers experience challenges and difficulties, it will adversely affect our business operation and results of operations. We note, for example, that approximately 64% of our revenue is directly tied to the cash collected by our health care provider customers, which means that our short-term revenue has and is expected to decline as less patients visit their doctors during periods of social distancing. Further, a recession or prolonged economic contraction as a result of COVID-19 pandemic could also harm the business and results of operations of our enterprise customers, resulting in potential business closures, layoffs of employees and a significant increase in unemployment in the United States and elsewhere which may continue even after the pandemic. The occurrence of any such events may lead to reduced income for customers and reduced size of workforces, which could reduce our revenue and harm our business, financial condition and results of operations.

The widespread COVID-19 pandemic has resulted in, and may continue to result in, significant volatility and uncertainty in U.S and international financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common stock and Preferred Stock.

Further, given the dislocation and government-imposed travel related limitations as a consequence of the COVID-19 pandemic, our ability to complete acquisitions in the near-term may be delayed. Future acquisitions may be subject to difficulties in evaluating potential acquisition targets as a result of the inability to accurately predict the duration or long-term economic and business consequences resulting from the COVID-19 pandemic.

In addition, any difficulties we may experience in connection with the integration of CareCloud or Meridian could delay or prevent us from realizing such expected benefits and enhancing our business, and our business, financial condition and results of operation could be materially and adversely impacted. While we are working diligently to accelerate integration activities, the employee disruptions and communication challenges created by the COVID-19 pandemic present particular challenges to our integration of CareCloud and Meridian and could make it difficult to effectively and timely complete our integration goals.

The global outbreak of COVID-19 continues to rapidly evolve. We have taken steps intended to mitigate the effects of the pandemic and to protect our global workforce including, but not limited to: moving a significant portion of our workforce to remote operations, enacting social distancing and hygiene guidelines set forth by the Centers for Disease Control and Prevention and World Health Organization at our offices, and discontinuing company travel and events, among others. Although we believe we have taken the appropriate actions, we cannot guarantee that these measures will mitigate all or any negative effects of the pandemic. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We cannot at this time precisely predict what effects the COVID-19 outbreak will have on our business, results of operations and financial condition, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the pandemic and the governmental responses to the pandemic. However, we will continue to monitor the COVID-19 situation closely.

In addition, given the inherent uncertainty surrounding COVID-19 due to rapidly changing governmental directives, public health challenges and economic disruption and the duration of the foregoing, the potential impact that COVID-19 could have on the Risk Factors described in Part I—Item 1A. “Risk Factors” in our Annual Report on Form 10-K, filed with the SEC on February 28, 2020, remain unclear.

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

Not applicable.

***Item 3. Defaults upon Senior Securities***

Not applicable.

***Item 4. Mine Safety Disclosures***

Not applicable.

***Item 5. Other Information***

Not applicable.

*Item 6. Exhibits*

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.1	<a href="#"><u>Underwriting Agreement dated July 16, 2020 by and between the Company and B. Riley FBR, Inc. as representative of several underwriters named therein (filed as Exhibit 1.1 to the Company's Form 8-K filed on July 17, 2020, and incorporated herein by reference).</u></a>
10.2	<a href="#"><u>Joinder and Fourth Loan Modification Agreement dated September 21, 2020, by and between the Company and SVB (filed as Exhibit 1.1 to the Company's Form 8-K filed on September 25, 2020, and incorporated herein by reference).</u></a>
31.1	<a href="#"><u>Certification of the Company's Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), of the Securities Exchange Act of 1934, as amended.</u></a>
31.2	<a href="#"><u>Certification of the Company's Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), of the Securities Exchange Act of 1934, as amended.</u></a>
32.1*	<a href="#"><u>Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2*	<a href="#"><u>Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

\*The certifications on Exhibit 32 hereto are not deemed "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liability of that Section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

**Signatures**

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

**MTBC, Inc.**

By: /s/ Stephen Snyder

Stephen Snyder  
Chief Executive Officer  
Date: November 9, 2020

By: /s/ Bill Korn

Bill Korn  
Chief Financial Officer  
Date: November 9, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Snyder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MTBC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosures controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**MTBC, Inc.**

By: /s/ Stephen Snyder

Stephen Snyder  
Chief Executive Officer (*Principal Executive Officer*)

Dated:  
November 9, 2020

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bill Korn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MTBC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosures controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**MTBC, Inc.**

By: /s/ Bill Korn

Bill Korn  
Chief Financial Officer (Principal Financial Officer )

Dated:  
November 9, 2020

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

Based on my knowledge, I, Stephen Snyder, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of MTBC, Inc. on Form 10-Q for the quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of MTBC, Inc.

**MTBC, Inc.**

By: /s/ Stephen Snyder

Stephen Snyder

Chief Executive Officer(*Principal Executive Officer*)

Dated:  
November 9, 2020

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

Based on my knowledge, I, Bill Korn, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of MTBC, Inc. on Form 10-Q for the quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of MTBC, Inc.

**MTBC, Inc.**

By: */s/ Bill Korn*

Bill Korn

Chief Financial Officer (Principal Financial Officer)

Dated:  
November 9, 2020

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