

**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, 2023

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



**CareCloud, 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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	CCLD	Nasdaq Global Market
11% Series A Cumulative Redeemable Perpetual Preferred Stock, par value \$0.001 per share	CCLDP	Nasdaq Global Market
8.75% Series B Cumulative Redeemable Perpetual Preferred Stock, par value \$0.001 per share	CCLDO	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 October 27, 2023, the registrant had 15,873,120 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,” “shall,” “should,” “could,” “intends,” “expects,” “plans,” “goals,” “projects,” “anticipates,” “believes,” “seeks,” “estimates,” “forecasts,” “predicts,” “possible,” “potential,” “target,” 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 that 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 March 2, 2023. 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 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 our offshore offices 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 apply artificial intelligence effectively in driving value for our clients through technology-based solutions;
- 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 A. Hadi Chaudhry as Chief Executive Officer and President, 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, a division of First-Citizens Bank & Trust Company, and other future debt facilities;
- our ability to pay our monthly preferred dividends to the holders of our Series A and Series B 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 ongoing COVID-19 pandemic and the impact it may have on our operations, the demand for our services, our projected results of operations, financial performance or other financial metrics or any of the foregoing risks and economic activity in general;

- our ability to keep and increase market acceptance of our products and services;
- changes in domestic and foreign business, market, financial, political and legal conditions; and
- other factors disclosed in this Quarterly Report on Form 10-Q or our other filings with the Securities and Exchange Commission (the “SEC”).

*The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on our current expectations, beliefs and views as of the date of this Quarterly Report on Form 10-Q concerning future developments and their potential effects on our business. 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, performance, or achievements. We anticipate that subsequent events and developments may cause our assessments to change. Except as required by law, 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 currently expect. The forward-looking statements contained herein should not be relied upon as representing our assessments as of any date subsequent to the date of this Quarterly Report on Form 10-Q.*

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

**CARECLOUD, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(\$ in thousands, except share and per share amounts)

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 6,406	\$ 12,299
Accounts receivable - net	12,310	14,773
Contract asset	4,948	4,399
Inventory	478	381
Current assets - related party	50	16
Prepaid expenses and other current assets	3,299	2,785
Total current assets	<u>27,491</u>	<u>34,653</u>
Property and equipment - net	5,319	5,056
Operating lease right-of-use assets	4,491	4,921
Intangible assets - net	26,689	29,520
Goodwill	61,186	61,186
Other assets	745	838
<b>TOTAL ASSETS</b>	<u>\$ 125,921</u>	<u>\$ 136,174</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,243	\$ 5,681
Accrued compensation	3,118	4,248
Accrued expenses	4,629	4,432
Operating lease liability (current portion)	1,810	2,273
Deferred revenue (current portion)	1,527	1,386
Notes payable (current portion)	490	319
Dividend payable	4,125	4,059
Total current liabilities	<u>21,942</u>	<u>22,398</u>
Notes payable	10	13
Borrowings under line of credit	12,000	8,000
Operating lease liability	2,789	3,207
Deferred revenue	422	342
Deferred tax liability	606	525
Total liabilities	<u>37,769</u>	<u>34,485</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 7)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value - authorized 7,000,000 shares. Series A, issued and outstanding 4,526,231 shares at September 30, 2023 and December 31, 2022. Series B, issued and outstanding 1,463,392 and 1,344,128 shares at September 30, 2023 and December 31, 2022, respectively	6	6
Common stock, \$0.001 par value - authorized 35,000,000 shares. Issued 16,598,449 and 15,970,204 shares at September 30, 2023 and December 31, 2022, respectively. Outstanding 15,857,650 and 15,229,405 shares at September 30, 2023 and December 31, 2022, respectively	17	16
Additional paid-in capital	123,872	130,987
Accumulated deficit	(30,789)	(25,621)
Accumulated other comprehensive loss	(4,292)	(3,037)
Less: 740,799 common shares held in treasury, at cost at September 30, 2023 and December 31, 2022	(662)	(662)
Total shareholders' equity	<u>88,152</u>	<u>101,689</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 125,921</u>	<u>\$ 136,174</u>

See notes to consolidated financial statements.

**CARECLOUD, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(\$ in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
NET REVENUE	\$ 29,280	\$ 33,723	\$ 88,643	\$ 106,292
OPERATING EXPENSES:				
Direct operating costs	18,260	20,406	53,843	64,866
Selling and marketing	2,337	2,504	7,529	7,314
General and administrative	5,482	6,500	16,518	18,479
Research and development	1,260	1,168	3,523	3,251
Change in contingent consideration	-	(1,660)	-	(2,890)
Depreciation and amortization	3,903	2,810	10,282	8,686
Net loss on lease terminations and unoccupied lease charges	8	307	430	928
Total operating expenses	31,250	32,035	92,125	100,634
OPERATING (LOSS) INCOME	(1,970)	1,688	(3,482)	5,658
OTHER:				
Interest income	52	14	124	22
Interest expense	(352)	(96)	(829)	(303)
Other expense - net	(422)	(495)	(591)	(300)
(LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES	(2,692)	1,111	(4,778)	5,077
Income tax provision	57	55	204	144
NET (LOSS) INCOME	\$ (2,749)	\$ 1,056	\$ (4,982)	\$ 4,933
Preferred stock dividend	3,916	3,849	11,757	11,662
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,665)	\$ (2,793)	\$ (16,739)	\$ (6,729)
Net loss per common share: basic and diluted	\$ (0.42)	\$ (0.18)	\$ (1.07)	\$ (0.45)
Weighted-average common shares used to compute basic and diluted loss per share	15,760,499	15,148,721	15,600,361	15,070,913

See notes to consolidated financial statements.

**CARECLOUD, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**  
(\$ in thousands)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
NET (LOSS) INCOME	\$ (2,749)	\$ 1,056	\$ (4,982)	\$ 4,933
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Foreign currency translation adjustment (a)	362	(537)	(1,255)	(1,782)
COMPREHENSIVE (LOSS) INCOME	<u>\$ (2,387)</u>	<u>\$ 519</u>	<u>\$ (6,237)</u>	<u>\$ 3,151</u>

(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 consolidated financial statements.

**CARECLOUD, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND SEPTEMBER 30, 2022**  
(\$ in thousands, except for number of shares)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury (Common) Stock	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance - January 1, 2023 before adoption of ASC 326	4,526,231	\$ 5	1,344,128	\$ 1	15,970,204	\$ 16	\$ 130,987	\$ (25,621)	\$ (3,037)	\$ (662)	\$ 101,689
Cumulative effect of adopting ASC 326	-	-	-	-	-	-	-	(186)	-	-	(186)
Balance - January 1, 2023 after adoption	4,526,231	5	1,344,128	1	15,970,204	16	130,987	(25,807)	(3,037)	(662)	101,503
Net loss	-	-	-	-	-	-	-	(401)	-	-	(401)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(1,711)	-	(1,711)
Issuance of stock under the equity incentive plan	-	-	41,491	-	343,203	-	-	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	-	-	1,185	-	-	-	1,185
Shares issued for services	-	-	-	-	20,000	-	-	-	-	-	-
Issuance of Series B Preferred Stock	-	-	59,773	-	-	-	1,437	-	-	-	1,437
Preferred stock dividends	-	-	-	-	-	-	(3,931)	-	-	-	(3,931)
Balance - March 31, 2023	4,526,231	5	1,445,392	1	16,333,407	16	129,678	(26,208)	(4,748)	(662)	98,082
Balance - April 1, 2023	4,526,231	5	1,445,392	1	16,333,407	16	129,678	(26,208)	(4,748)	(662)	98,082
Net loss	-	-	-	-	-	-	-	(1,832)	-	-	(1,832)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	94	-	94
Issuance of stock under the equity incentive plan	-	-	9,000	-	15,489	-	-	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	-	-	1,089	-	-	-	1,089
Shares issued for services	-	-	-	-	20,000	-	-	-	-	-	-
Preferred stock dividends	-	-	-	-	-	-	(3,910)	-	-	-	(3,910)
Balance - June 30, 2023	4,526,231	5	1,454,392	1	16,368,896	16	126,857	(28,040)	(4,654)	(662)	93,523
Balance - July 1, 2023	4,526,231	5	1,454,392	1	16,368,896	16	126,857	(28,040)	(4,654)	(662)	93,523
Net loss	-	-	-	-	-	-	-	(2,749)	-	-	(2,749)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	362	-	362
Issuance of stock under the equity incentive plan	-	-	9,000	-	229,553	1	-	-	-	-	1
Stock-based compensation, net of cash settlements	-	-	-	-	-	-	931	-	-	-	931
Preferred stock dividends	-	-	-	-	-	-	(3,916)	-	-	-	(3,916)
Balance - September 30, 2023	4,526,231	5	1,463,392	1	16,598,449	17	123,872	(30,789)	(4,292)	(662)	88,152
Balance - January 1, 2022	5,299,227	5	-	\$ -	15,657,641	\$ 16	\$ 131,379	\$ (31,053)	\$ (1,754)	\$ (662)	\$ 97,931
Net income	-	-	-	-	-	-	-	1,140	-	-	1,140
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(255)	-	(255)
Issuance of stock under the equity incentive plan	22,319	-	-	-	145,809	-	-	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	-	-	887	-	-	-	887
Redemption of Series A Preferred Stock	(800,000)	-	-	-	-	-	(20,000)	-	-	-	(20,000)
Issuance of Series B Preferred Stock	-	-	1,150,372	1	-	-	26,637	-	-	-	26,638
Stock issuance costs	-	-	-	-	-	-	(11)	-	-	-	(11)
Preferred stock dividends	-	-	-	-	-	-	(4,037)	-	-	-	(4,037)
Balance - March 31, 2022	4,521,546	5	1,150,372	1	15,803,450	16	134,855	(29,913)	(2,009)	(662)	102,293
Balance - April 1, 2022	4,521,546	5	1,150,372	1	15,803,450	16	134,855	(29,913)	(2,009)	(662)	102,293
Net income	-	-	-	-	-	-	-	2,737	-	-	2,737
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(990)	-	(990)
Issuance of stock under the equity incentive plan	4,685	-	10,000	-	15,809	-	-	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	-	-	1,257	-	-	-	1,257
Redemption of Series A Preferred Stock	-	-	-	-	-	-	(5)	-	-	-	(5)
Issuance of Series B Preferred Stock	-	-	49,876	-	-	-	1,223	-	-	-	1,223
Stock issuance costs	-	-	-	-	-	-	(10)	-	-	-	(10)
Preferred stock dividends	-	-	-	-	-	-	(3,776)	-	-	-	(3,776)
Balance - June 30, 2022	4,526,231	5	1,210,248	1	15,819,259	16	133,544	(27,176)	(2,999)	(662)	102,729
Balance - July 1, 2022	4,526,231	5	1,210,248	1	15,819,259	16	133,544	(27,176)	(2,999)	(662)	102,729
Net income	-	-	-	-	-	-	-	1,056	-	-	1,056
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(537)	-	(537)
Issuance of stock under the equity incentive plan	-	-	-	-	132,676	-	-	-	-	-	-
Stock-based compensation, net of cash settlements	-	-	-	-	-	-	1,017	-	-	-	1,017
Issuance of Series B Preferred Stock	-	-	98,968	-	-	-	2,419	-	-	-	2,419
Stock issuance costs	-	-	-	-	-	-	(11)	-	-	-	(11)
Preferred stock dividends	-	-	-	-	-	-	(3,849)	-	-	-	(3,849)
Balance - September 30, 2022	4,526,231	5	1,309,216	1	15,951,935	16	133,120	(26,120)	(3,536)	(662)	102,824

For all periods presented, the preferred stock dividends were paid monthly at the rate of \$2.75 and \$2.19 for Series A and Series B, respectively, per share per annum.

See notes to consolidated financial statements.



**CARECLOUD, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022**  
(\$ in thousands)

	<b>2023</b>	<b>2022</b>
<b>OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (4,982)	\$ 4,933
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	10,672	9,120
Lease amortization	1,618	2,474
Deferred revenue	221	381
Provision for doubtful accounts	389	715
Provision for deferred income taxes	81	62
Foreign exchange loss	596	238
Interest accretion	493	460
Stock-based compensation expense	3,783	3,399
Change in contingent consideration	-	(2,890)
Changes in operating assets and liabilities:		
Accounts receivable	1,889	10
Contract asset	(549)	318
Inventory	(97)	85
Other assets	(117)	62
Accounts payable and other liabilities	(2,276)	(4,264)
Net cash provided by operating activities	<u>11,721</u>	<u>15,103</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,687)	(2,156)
Capitalized software	(6,635)	(6,967)
Net cash used in investing activities	<u>(9,322)</u>	<u>(9,123)</u>
<b>FINANCING ACTIVITIES:</b>		
Preferred stock dividends paid	(11,691)	(11,478)
Settlement of tax withholding obligations on stock issued to employees	(1,425)	(1,140)
Repayments of notes payable	(717)	(769)
Stock issuance costs	-	(32)
Proceeds from issuance of Series B Preferred Stock, net of expenses	1,427	30,280
Redemption of Series A Preferred Stock	-	(20,005)
Proceeds from line of credit	14,700	17,500
Repayment of line of credit	(10,700)	(25,500)
Net cash used in financing activities	<u>(8,406)</u>	<u>(11,144)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	114	(309)
NET DECREASE IN CASH AND RESTRICTED CASH	<u>(5,893)</u>	<u>(5,473)</u>
CASH AND RESTRICTED CASH - Beginning of the period	12,299	10,340
CASH AND RESTRICTED CASH - End of the period	<u>\$ 6,406</u>	<u>\$ 4,867</u>
<b>SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Dividends declared, not paid	\$ 4,125	\$ 4,040
Purchase of prepaid insurance with assumption of note	\$ 620	\$ 695
<b>SUPPLEMENTAL INFORMATION - Cash paid during the period for:</b>		
Income taxes	\$ 131	\$ 128
Interest	\$ 630	\$ 125

See notes to consolidated financial statements.

**CARECLOUD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023**  
**AND 2022 (UNAUDITED)**

**1. ORGANIZATION AND BUSINESS**

CareCloud, Inc., (together with its consolidated subsidiaries, “CareCloud,” the “Company,” “we,” “us” and/or “our”) is a leading provider of technology-enabled services and solutions that redefine the healthcare revenue cycle. We provide technology-enabled revenue cycle management and a full suite of proprietary cloud-based solutions to healthcare providers, from small practices to enterprise medical groups, hospitals, and health systems throughout the United States. Healthcare organizations today operate in highly complex and regulated environments. Our suite of technology-enabled solutions helps our clients increase financial and operational performance, streamline clinical workflows, and improve the patient experience.

Our portfolio of proprietary software and business services includes: technology-enabled business solutions that maximize revenue cycle management and create efficiencies through platform agnostic AI-driven applications; cloud-based software that helps providers manage their practice and patient engagement while leveraging analytics to improve provider performance; digital health services to address value-based care and enable the delivery of remote patient care; healthcare IT professional services & staffing to address physician burnout, staffing shortages and leverage consulting expertise to transition into the next generation of healthcare; and, medical practice management services to assist medical providers with operating models and the tools needed to run their practice.

Our high-value business services, such as revenue cycle management, are often paired with our cloud-based software, premiere healthcare consulting and implementation services, and on-demand workforce staffing capabilities for high-performance medical groups and health systems nationwide.

CareCloud has its corporate office in Somerset, New Jersey and maintains client support teams throughout the U.S., and offshore offices in Pakistan and Azad Jammu and Kashmir, a region administered by Pakistan (the “Pakistan Offices”), and in Sri Lanka. During the second quarter of 2023, the Company formed a wholly owned subsidiary, CareCloud ME Health Consultancy LLC, in the United Arab Emirates, which has not yet begun operations.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited 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 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, 2023, the results of operations for the three and nine months ended September 30, 2023 and 2022 and cash flows for the nine months ended September 30, 2023 and 2022. 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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022, which are included in the Company’s Annual Report on Form 10-K, filed with the SEC on March 2, 2023.

**Significant Accounting Policies** — During the nine months ended September 30, 2023, there were no changes to the Company’s significant accounting policies, other than the adoption of ASU 2016-13 discussed below, from its disclosures in the Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 2, 2023.

**Recent Accounting Pronouncements** — From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) and are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently adopted and recently issued accounting pronouncements will not have a material impact on our consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. The guidance in Accounting Standards Update (“ASU”) 2016-13 replaces the incurred loss impairment methodology under current GAAP. The new impairment model requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. It will apply to all entities. For trade receivables, loans and held-to-maturity debt securities, entities will be required to estimate lifetime expected credit losses. This may result in the earlier recognition of credit losses. In November 2019, the FASB issued ASU No. 2019-10, which delays this standard’s effective date for SEC smaller reporting companies to the fiscal years beginning on or after December 15, 2022. The Company adopted this guidance on January 1, 2023 using a modified retrospective adoption methodology, whereby the cumulative impact of all prior periods is recorded in accumulated deficit or other impacted balance sheet items upon adoption. The impact to the accumulated deficit as of January 1, 2023 for the allowance related to accounts receivable was a charge of approximately \$186,000 and a corresponding increase to the allowance for doubtful accounts.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements – Issue 2*. The amendments in this update require that leasehold improvements associated with common control leases be: (1) amortized by the lessee over the useful life of the leasehold improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease and (2) accounted for as a transfer between entities under common control through an adjustment to equity if, and when, the lessee no longer controls the use of the underlying asset. The amendments in this update are effective for fiscal years beginning after December 15, 2023. The Company does not expect this update to have a material impact on the consolidated financial statements.

### 3. GOODWILL AND INTANGIBLE ASSETS-NET

The Company tests goodwill for impairment at the reporting unit level annually or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists. During the three months ended September 30, 2023, the Company experienced a decline in its market capitalization as a result of a sustained decrease in the Company’s stock price. The Company considered the sustained decrease to represent a triggering event requiring management to perform a goodwill impairment test as of August 31, 2023.

Based on the results of the goodwill impairment test as of August 31, 2023 and updated to September 30, 2023 for purposes of the fiscal quarter, it was concluded that goodwill was not impaired. The conclusion was based upon the value determined using the discounted cash flow method as supported by the guideline company transactions method and the guideline public company method.

The following is the summary of the carrying amount of goodwill for the nine months ended September 30, 2023 and the year ended December 31, 2022:

	<b>Nine Months Ended September 30, 2023</b>	<b>Year Ended December 31, 2022</b>
	(\$ in thousands)	
Beginning gross balance	\$ 61,186	\$ 61,186
Acquisitions	-	-
Ending gross balance	<u>\$ 61,186</u>	<u>\$ 61,186</u>

Intangible assets – net as of September 30, 2023 and December 31, 2022 consist of the following:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(\$ in thousands)	
Contracts and relationships acquired	\$ 47,597	\$ 47,597
Capitalized software	27,343	21,547
Non-compete agreements	1,236	1,236
Other intangible assets	8,417	8,415
<b>Total intangible assets</b>	<b>84,593</b>	<b>78,795</b>
Less: Accumulated amortization	57,904	49,275
<b>Intangible assets - net</b>	<b>\$ 26,689</b>	<b>\$ 29,520</b>

Capitalized software represents payroll and development costs incurred for internally developed software. Other intangible assets primarily represent purchased intangibles. Amortization expense was approximately \$8.8 million and \$7.3 million for the nine months ended September 30, 2023 and 2022. The weighted-average amortization period is three years.

As of September 30, 2023, future amortization is scheduled to be expensed as follows:

<u>Years ending December 31,</u>	<u>(\$ in thousands)</u>
2023 (three months)	\$ 3,740
2024	10,960
2025	7,719
2026	3,220
2027	300
Thereafter	750
<b>Total</b>	<b>\$ 26,689</b>

#### 4. 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, 2023 and 2022:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	(\$ in thousands, except share and per share amounts)			
<b>Basic and Diluted:</b>				
Net loss attributable to common shareholders	\$ (6,665)	\$ (2,793)	\$ (16,739)	\$ (6,729)
Weighted-average common shares used to compute basic and diluted loss per share	15,760,499	15,148,721	15,600,361	15,070,913
Net loss attributable to common shareholders per share - basic and diluted	\$ (0.42)	\$ (0.18)	\$ (1.07)	\$ (0.45)

At September 30, 2023, the 758,160 unvested equity restricted stock units (“RSUs”) as discussed in Note 11 have been excluded from the above calculations as they were anti-dilutive. At September 30, 2022, the 480,526 unvested equity RSUs and 1,253,489 unexercised warrants have been excluded from the above calculations as they were anti-dilutive. Vested RSUs, vested restricted shares and exercised warrants have been included in the above calculations.

## 5. DEBT

*Bank Debt* —The Company has a revolving line of credit with Silicon Valley Bank (“SVB”). The Company’s 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 February 2023, the line of credit was increased to \$25 million and the term was extended for two additional years maturing on October 31, 2025. The financial covenants were also slightly modified for 2023 and subsequent years. Effective August 31, 2023, the credit facility agreement was amended whereby the interest rate was increased from the prime rate plus 1.50% to the prime rate plus 2.00%. The requirement for the minimum liquidity ratio was slightly reduced. The amendments expire March 31, 2024 and the credit facility reverts to its previous terms.

As of September 30, 2023 and December 31, 2022, there was \$12 million and \$8 million, respectively, of borrowings under the credit facility. Interest on the revolving line of credit is currently charged at the prime rate plus 2.00%. 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 subsidiaries. Future acquisitions are subject to approval by SVB. At September 30, 2023, the remaining borrowing base was approximately \$3.3 million. During October 2023, \$2 million of the outstanding credit line was repaid, which similarly increased the borrowing base to approximately \$5.3 million.

In connection with the original SVB debt agreement, the Company paid SVB approximately \$50,000 of fees upfront and issued warrants for SVB to purchase 125,000 shares of its common stock, and committed to pay an annual anniversary fee of \$50,000 a year. Based on the terms in the original SVB credit agreement, these warrants had a strike price equal to \$3.92. They had a five-year exercise window and net exercise rights, and were valued at \$3.12 per warrant. These warrants were exercised during 2022. As a result of the revision in the credit line in the third quarter of 2018, the Company paid approximately \$50,000 of fees upfront and issued an additional 28,489 warrants, with a strike price equal to \$5.26, a five-year exercise window and net exercise rights. The additional warrants were valued at \$3.58 per warrant and expired in September 2023. The credit agreement contains various covenants and conditions governing the revolving line of credit including a current annual fee of \$100,000. These covenants include a minimum level of adjusted EBITDA and a minimum liquidity ratio. At September 30, 2023 and December 31, 2022, the Company was in compliance with all covenants.

During March 2023, SVB became a division of First-Citizens Bank & Trust Company. The agreements that governed the former SVB relationship remain in place. As a result, there was no change to the terms of the credit agreement.

The Company maintains cash balances at SVB in excess of the FDIC insurance coverage limits. The Company performs periodic evaluations of the relative credit standing of this financial institution to ensure its credit worthiness. As of September 30, 2023 and December 31, 2022, the Company held cash of approximately \$71,000 and \$1.8 million, respectively, in the name of its subsidiaries at banks in Pakistan and Sri Lanka. The banking systems in these countries do not provide deposit insurance coverage. The Company has not experienced any losses on its cash accounts.

*Vehicle Financing Notes* — The Company financed certain vehicle purchases in the United States. The vehicle financing notes have six year 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 currently 8.56%.

## 6. LEASES

We determine if an arrangement is a lease at inception. We have operating leases for office and temporary living space as well as for some office equipment. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liability and non-current operating lease liability in our consolidated balance sheets as of September 30, 2023 and December 31, 2022. The Company does not have any finance leases.

As most of our leases do not provide an implicit rate, 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 our bank financing arrangements, geographical location and collateralization of assets when calculating our incremental borrowing rates. We review our incremental borrowing rate on a quarterly basis.

Our lease terms include options to extend the lease when we believe that we may want the right to exercise that option. Leases with a term of less than 12 months are not recorded in the consolidated balance sheets. 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 are re-measured using the current incremental borrowing rate. During the three and nine months ended September 30, 2023, there were approximately \$5,000 and \$168,000, respectively, of unoccupied lease charges for two of the Company's facilities. During the three and nine months ended September 30, 2022, there were approximately \$257,000 and \$786,000, respectively, of unoccupied lease charges. During the nine months ended September 30, 2022, there was a gain on lease termination of approximately \$105,000.

During the nine months ended September 30, 2023, the Miami office lease that we assumed in connection with an acquisition ended, and we entered into a new lease arrangement with the landlord for significantly less office space. Charges of approximately \$2,000 and \$73,000 for the three and nine months ended September 30, 2023, respectively, were incurred as a result of vacating the former premises. During the three and nine months ended September 30, 2022, a facility lease was terminated in conjunction with the Company ceasing its document storage services resulting in additional costs of approximately \$51,000 and \$248,000, respectively. This termination of lease resulted in additional costs for the three and nine months ended September 30, 2023, of approximately \$1,000 and \$162,000, respectively. In addition, during the nine months ended September 30, 2023, the Company paid approximately \$27,000 to settle a claim regarding a lease termination in India. These amounts are included in net loss on lease terminations and unoccupied lease charges in the consolidated statements of operations.

Lease expense is included in direct operating costs, general and administrative expense, selling and marketing expense and research and development expense in the consolidated statements of operations based on the nature of the expense. 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. The Company also has some related party leases – see Note 8.

The components of lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(\$ in thousands)			
Operating lease cost	\$ 599	\$ 921	\$ 1,998	\$ 2,798
Short-term lease cost	-	4	-	79
Variable lease cost	7	5	26	24
Total - net lease cost	<u>\$ 606</u>	<u>\$ 930</u>	<u>\$ 2,024</u>	<u>\$ 2,901</u>

Short-term lease cost represents leases that were not capitalized as the lease term as of the later of January 1, 2023 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 is as follows:

	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	(\$ in thousands)			
<b>Operating leases:</b>				
Operating lease ROU assets, net	\$	4,491	\$	4,921
Current operating lease liabilities	\$	1,810	\$	2,273
Non-current operating lease liabilities		2,789		3,207
Total operating lease liabilities	\$	<u>4,599</u>	\$	<u>5,480</u>
<b>Operating leases:</b>				
ROU assets	\$	6,172	\$	8,293
Asset lease expense		(1,618)		(3,286)
Foreign exchange loss		(63)		(86)
ROU assets, net	\$	<u>4,491</u>	\$	<u>4,921</u>
<b>Weighted average remaining lease term (in years):</b>				
Operating leases		4.5		5.1
<b>Weighted average discount rate:</b>				
Operating leases		12.8%		7.9%

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	(\$ in thousands)			
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>				
Operating cash flows from operating leases	\$	802	\$	1,228
			\$	2,463
			\$	3,598
<b>ROU assets obtained in exchange for lease liabilities:</b>				
Operating leases, excluding impairments and terminations	\$	532	\$	71
			\$	1,252
			\$	513

Maturities of lease liabilities are as follows:

<b>Operating leases - Years ending December 31,</b>	(\$ in thousands)
2023 (three months)	\$ 708
2024	1,998
2025	1,263
2026	501
2027	374
Thereafter	1,718
Total lease payments	<u>6,562</u>
Less: imputed interest	<u>(1,963)</u>
Total lease obligations	<u>4,599</u>
Less: current obligations	<u>(1,810)</u>
Long-term lease obligations	<u>\$ 2,789</u>

## 7. COMMITMENTS AND CONTINGENCIES

**Legal Proceedings** — On December 9, 2022, an arbitrator rendered a decision in favor of MTBC Acquisition Corp. (“MAC”) and dismissed the claims brought against MAC by Randolph Pain Relief and Wellness Center (“RPRWC”), determining that RPRWC failed to prove any breach of the applicable billing services agreement and failed to prove that any alleged damages were due. The deadline for RPRWC to file a summary action in Superior Court of New Jersey seeking to overturn the arbitrator’s decision was April 5, 2023 and no summary action was filed by such deadline. As such, the arbitrator’s decision dismissing RPRWC’s claims is final.

From time to time, we may become involved in other legal proceedings arising in the ordinary course of our business. 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.

## 8. 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 \$36,000 and \$5,000 for the three months ended September 30, 2023 and 2022, respectively, and \$86,000 and \$16,000 for the nine months ended September 30, 2023 and 2022, respectively. As of both September 30, 2023, and December 31, 2022, the accounts receivable balance due from this customer was approximately \$13,000, and is included in accounts receivable - net in the consolidated balance sheets.

The Company leases its corporate office in New Jersey, a temporary housing apartment for foreign visitors, a storage facility, its operations center in Bagh, Pakistan and an apartment for temporary housing in Dubai, the UAE, from the Executive Chairman. The related party rent expense for the three months ended September 30, 2023 and 2022 was approximately \$69,000 and \$49,000, respectively, and was approximately \$186,000 and \$149,000 for the nine months ended September 30, 2023 and 2022, respectively, and is included in direct operating costs, general and administrative expense, selling and marketing expense and research and development expense in the consolidated statements of operations. During the nine months ended September 30, 2023 and 2022, the Company spent approximately \$1.8 million and \$633,000 to upgrade the related party leased facilities. During the nine months ended September 30, 2023 and 2022, the Company temporarily advanced the Executive Chairman approximately \$330,000 and \$42,000, respectively, to purchase vacant land surrounding the Bagh facility for the sole use and benefit of the Company in order to expedite the purchase on the Company's behalf as only local individuals are allowed to purchase land in this region. Current assets-related party in the consolidated balance sheets includes security deposits related to the leases of the Company's corporate offices in the amount of approximately \$16,000 as of both September 30, 2023 and December 31, 2022. Also at September 30, 2023, there is approximately \$34,000 included in current assets-related party as a result of an advance to the Executive Chairman for the purchase of vacant land surrounding the Bagh facility for the benefit of the Company. All amounts advanced were subsequently repaid shortly after the advance was made. The Company also leases two facilities used for temporary housing from a management employee for approximately \$6,200 per month.

Included in the ROU asset at September 30, 2023 is approximately \$388,000 applicable to the related party leases. Included in the current and non-current operating lease liability at September 30, 2023 is approximately \$207,000 and \$172,000, respectively, applicable to the related party leases.

Included in the ROU asset at December 31, 2022 is approximately \$467,000 applicable to the related party leases. Included in the current and non-current operating lease liability at December 31, 2022 is approximately \$158,000 and \$301,000, respectively, applicable to the related party leases.

During June 2022, the Company entered into a one-year consulting agreement with an entity owned and controlled by one of its former non-independent directors whereby that director received 10,000 shares of the Company's 8.75% Series B Cumulative Redeemable Perpetual Preferred Stock ("Series B Preferred Stock") in exchange for assisting the Company to identify and acquire additional companies, including performing due diligence. In addition, the Company may make additional payments under the agreement for any successful acquisitions by the Company based on the purchase price of the transaction. No such additional payments were made in 2022. During February 2023, the agreement was amended and extended through December 2024 whereby the former director received 14,000 shares of Series B Preferred Stock in February 2023 and will receive an additional 14,000 shares in January 2024. All of the payments made were capitalized and are being amortized over the service period. The amortization is recorded as stock compensation in general and administrative expense in the consolidated statement of operations. All such shares of the Series B Preferred Stock are or will be issued in accordance with the Company's Amended and Restated 2014 Equity Incentive Plan. In addition to the extension of the consulting agreement, the amendment provides that any transaction fees due will be offset against the last two above payments before any amounts are due to that former director. There were no transaction fees through September 30, 2023.



## 9. SHAREHOLDERS' EQUITY

The Company has the right to sell up to \$35 million of its Series B Preferred Stock using its preferred stock at-the-market facility ("ATM"). The underwriter receives 3% of the gross proceeds. During the nine months ended September 30, 2023, the Company sold 59,773 shares of Series B Preferred Stock and received net proceeds of approximately \$1.4 million under this ATM facility. The Company also has the right to sell up to \$50 million of its common stock using a common stock ATM facility. The underwriters of the common stock ATM also receive 3% of the gross proceeds. During the nine months ended September 30, 2023, no shares of common stock were issued under this ATM.

During the nine months ended September 30, 2022, the Company sold 1,299,216 shares of Series B Preferred Stock and received net proceeds of approximately \$30.3 million. This includes 198,406 shares sold under the Company's ATM facility. On March 18, 2022, the Company used a portion of these proceeds to redeem 800,000 shares of the Company's 11% Series A Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock") for \$25.00 per share, plus all accrued and unpaid dividends to, but not including, the redemption date.

## 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. 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 many services, the Company recognizes revenue as a percentage of the amount the customer collects on the medical billing claims. The Company's software is utilized at the time the provider sees the patient, and 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. 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 the standard.

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. The standalone selling prices are based on the contractual price for the service.

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 five primary sources: (1) technology-enabled business solutions, (2) professional services, (3) printing and mailing services, (4) group purchasing services and (5) medical practice management services.

The following table represents a disaggregation of revenue for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(\$ in thousands)			
<b>Healthcare IT:</b>				
Technology-enabled business solutions	\$ 18,763	\$ 21,626	\$ 57,878	\$ 68,457
Professional services	5,691	7,434	17,755	25,572
Printing and mailing services	749	594	2,149	1,515
Group purchasing services	389	310	749	602
<b>Medical Practice Management:</b>				
Medical practice management services	3,688	3,759	10,112	10,146
<b>Total</b>	<b>\$ 29,280</b>	<b>\$ 33,723</b>	<b>\$ 88,643</b>	<b>\$ 106,292</b>

*Technology-enabled business solutions:*

Revenue derived on an on-going basis from our technology-enabled solutions, which typically include revenue cycle management services, is billed as a percentage of payments collected by our customers. The fee for our services often includes the ability to use our electronic health records (“EHR”) and practice management software as well as revenue cycle management (“RCM”) as part of the bundled fee.

Technology-assisted 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. The Company 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 fee for these services typically includes use of practice management software and related tools (on a SaaS basis), electronic health records (on a SaaS basis), medical billing services 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.

Our proprietary, cloud-based practice management application automates the labor-intensive workflow of a medical office in a unified and streamlined SaaS platform. The Company has a large number of clients who utilize the Company’s practice management software, electronic health records software, patient experience management solutions, business intelligence software and/or robotic process automation software on a SaaS basis, but who do not utilize the Company’s revenue cycle management services. SaaS fees may be fixed based on the number of providers, or may be variable.

Our digital health services, which began generating revenue in mid-2022, include chronic care management, where a care manager conducts remote visits with patients with one or more chronic conditions under the supervision of a physician who is our client. It also includes remote patient monitoring where our system monitors recordings from FDA-approved internet connected devices. These devices record patient trends and alerts the physician to changes which might trigger the need for additional follow-up visits. The performance obligation for chronic care management is satisfied at a point in time once the patient receives the services. The performance obligation for remote patient monitoring is satisfied over time as the patient receives the services. The revenue for these services for the three and nine months ended September 30, 2023 was approximately \$623,000 and \$1.2 million, respectively. The revenue for these services was approximately \$24,000 and \$30,000, for the three and nine months ended September 30, 2022, respectively.

The medical billing clearinghouse service takes claim information from customers, checks the claims for errors and sends this information electronically to insurance companies. The Company 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.

Additional services such as coding and transcription 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 or transcription transaction processed represents a performance obligation, which is satisfied over time as that individual service is rendered.

*Professional services:*

Our professional services include an extensive set of services including EHR vendor-agnostic optimization and activation, project management, IT transformation consulting, process improvement, training, education and staffing for large healthcare organizations including health systems and hospitals. The performance obligation is satisfied over time using the input method. The revenue is recorded on a monthly basis as the professional services are rendered.

*Printing and mailing services:*

The Company provides printing and mailing services for both revenue cycle management customers and a 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.

*Group purchasing services:*

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. Fees from the pharmaceutical companies are paid 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.

For all of the above revenue streams other than group purchasing services, revenue is recognized over time, which is approximately one month, 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. 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.

*Medical practice management services:*

The Company also provides medical practice management services under long-term management service agreements to three medical 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 the 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 medical practice management services have approximately an additional 16 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 medical 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:*

As of September 30, 2023, the estimated revenue expected to be recognized in the future related to the remaining revenue cycle management performance obligations outstanding was approximately \$4.6 million. We expect to recognize substantially all of the revenue for the remaining performance obligations over the next three months. Approximately \$331,000 of the contract asset represents revenue earned, not paid, from the group purchasing services.

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 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.

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. The opening and closing balances of the Company's accounts receivable, contract asset and deferred revenue are as follows:

	<u>Accounts Receivable - Net</u>	<u>Contract Asset</u>	<u>Deferred Revenue (current)</u>	<u>Deferred Revenue (long term)</u>
	(\$ in thousands)			
Balance as of January 1, 2023	\$ 14,773	\$ 4,399	\$ 1,386	\$ 342
(Decrease) increase, net	(2,463)	549	141	80
Balance as of September 30, 2023	<u>\$ 12,310</u>	<u>\$ 4,948</u>	<u>\$ 1,527</u>	<u>\$ 422</u>
Balance as of January 1, 2022	\$ 17,006	\$ 4,725	\$ 1,085	\$ 341
(Decrease) increase, net	(725)	(318)	332	49
Balance as of September 30, 2022	<u>\$ 16,281</u>	<u>\$ 4,407</u>	<u>\$ 1,417</u>	<u>\$ 390</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. Deferred commissions were approximately \$543,000 and \$692,000 at September 30, 2023 and 2022, respectively, and are included in the other assets amounts in the consolidated balance sheets.

*Trade Accounts Receivable – Estimate of Credit Losses:*

ASU 2016-13 requires the recognition of lifetime estimated credit losses expected to occur for trade accounts receivable. The guidance also requires we pool assets with similar risk characteristics and consider current economic conditions when estimating losses. The adoption of the ASU 2016-13 for trade accounts receivable was recorded as a charge to accumulated deficit of approximately \$186,000 as of January 1, 2023.

At adoption, we segmented the accounts receivable population into pools based on their risk assessment. Risks related to trade accounts receivable are a customer's inability to pay or bankruptcy. Each pool was defined by their internal credit assessment and business size. The pools are aligned with management's review of financial performance. For the nine months ended September 30, 2023, no adjustment to the pools was necessary.

We utilize a loss-rate method to measure the expected credit loss for each pool. The loss rate is calculated using a three-year lookback period of write-offs and adjustments, divided by the revenue for each pool by aging category, net of customer payments during that period. We consider current and future economic conditions, internal forecasts, customer collection experience and credit memos issued during the current period when assessing loss rates. We reviewed these factors and concluded that no adjustments should be made to the historical loss rate data for the current quarter. In addition, the Company uses specific account identification in determining the total allowance for expected credit losses. Trade receivables are written off only after the Company has exhausted all collection efforts.

Changes in the allowance for expected credit losses for trade accounts receivable are presented in the table below:

	<b>Nine Months Ended September 30, 2023</b>	<b>Year Ended December 31, 2022</b>
	(\$ in thousands)	
Beginning balance	\$ 823	\$ 537
Adoption of ASC 326	186	-
Provision	389	740
Recoveries/adjustments	67	313
Write-offs	(468)	(767)
Ending balance	<u>\$ 997</u>	<u>\$ 823</u>

## 11. STOCK-BASED COMPENSATION

During 2022, an additional 1,000,000 shares of common stock and 200,000 shares of Series B Preferred Stock were added to the Company's Amended and Restated 2014 Equity Incentive Plan (the "A&R Plan") for future issuance. As of September 30, 2023, 500,427 shares of common stock and 38,000 shares of Series B 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.

Certain equity-based RSU agreements 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.

### Common and preferred stock RSUs

In February 2022, the Compensation Committee approved executive bonuses to be paid in shares of Series B Preferred Stock, with the number of shares and the amount based on specified criteria being achieved during the year 2022. These shares were awarded in early 2023 based on the achievement of the specified criteria.

In February 2023, the Compensation Committee approved executive bonuses to be paid in shares of Series B Preferred Stock with the number of shares and the amount based on specified criteria being achieved during the year 2023. For the three and nine months ended September 30, 2023, an expense of approximately \$254,000 and \$629,000, respectively, 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 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 A&R Plan for the nine months ended September 30, 2023 and 2022:

	Common Stock	Series A Preferred Stock	Series B Preferred Stock
Outstanding and unvested shares at January 1, 2023	645,475	-	80,462
Granted	1,056,453	-	62,000
Vested	(843,950)	-	(75,263)
Forfeited	(58,388)	-	-
Outstanding and unvested shares at September 30, 2023	799,590	-	67,199
Outstanding and unvested shares at January 1, 2022	418,039	34,000	-
Granted	625,252	-	80,000
Vested	(426,299)	(34,000)	(10,000)
Forfeited	(55,616)	-	-
Outstanding and unvested shares at September 30, 2022	561,376	-	70,000

The liability for the 41,430 cash-settled awards and the liability for withheld taxes in connection with the equity awards was approximately \$577,000 and \$1.0 million at September 30, 2023 and December 31, 2022, respectively, and is included in accrued compensation in the consolidated balance sheets. During the nine months ended September 30, 2022, approximately \$13,000 was paid in connection with the cash-settled awards. No amounts were paid in connection with cash-settled awards during the nine months ended September 30, 2023.

### Stock-based compensation expense

The following table summarizes the components of share-based compensation expense for the three and nine months ended September 30, 2023 and 2022:

Stock-based compensation included in the consolidated statements of operations:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(\$ in thousands)			
Direct operating costs	\$ 271	\$ 247	\$ 659	\$ 665
General and administrative	771	703	2,225	1,848
Research and development	26	82	105	225
Selling and marketing	141	296	794	661
Total stock-based compensation expense	\$ 1,209	\$ 1,328	\$ 3,783	\$ 3,399

## 12. INCOME TAXES

The income tax expense for the three months ended September 30, 2023 was approximately \$57,000 comprised of a current tax expense of \$30,000, a deferred tax expense of \$17,000 and a foreign tax of \$10,000. The income tax expense for the nine months ended September 30, 2023 was approximately \$204,000 comprised of a current tax expense of \$94,000, a deferred tax expense of \$81,000 and a foreign tax of \$29,000.

The income tax expense for the three months ended September 30, 2022 was approximately \$55,000 comprised of a current tax expense of \$20,000 and a deferred tax expense of \$35,000. The income tax expense for the nine months ended September 30, 2022 was approximately \$144,000 comprised of a current tax expense of \$82,000 and a deferred tax expense of \$62,000.

The current income tax provision for the nine months ended September 30, 2023 and 2022 primarily relates to state minimum taxes and foreign income taxes. The deferred tax provision for the three and nine months ended September 30, 2023 and 2022 relates to the book and tax difference of amortization on indefinite-lived intangibles, primarily goodwill. To the extent allowable, the federal deferred tax provision has been offset by the indefinite life net operating loss.

During 2022, it was determined that for the states that follow the federal rules regarding indefinite life net operating losses, the offset to the state deferred tax liability was approximately \$45,000. This amount was recorded as a deferred tax benefit during the second quarter of 2022. Subsequently, the state deferred tax liability has been offset against the state net operating loss to the extent allowable.

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, 2023 and December 31, 2022.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of assets and liabilities required to be measured at fair value are categorized based upon the level of judgement associated with the inputs used to measure their value in one of the following three categories:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. We held no Level 1 financial instruments at September 30, 2023 or December 31, 2022.

Level 2: Quoted prices for similar instruments in active markets with inputs that are observable, either directly or indirectly. Our Level 2 financial instruments include notes payable which are carried at cost and approximate fair value since the interest rates being charged approximate market rates.

Level 3: Unobservable inputs are significant to the fair value of the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Our Level 3 instruments include the fair value of contingent consideration related to completed acquisitions. The fair value at September 30, 2022 is based on discounted cash flow analysis reflecting the likelihood of achieving specified performance measure or events and captures the contractual nature of the contingencies, the passage of time and the associated discount rate. As of September 30, 2022, the contingent consideration was valued using a Monte Carlo simulation model. There was no contingent consideration recorded at September 30, 2023 or December 31, 2022 as the earn-out period ended November 30, 2022 and no amounts were determined payable to the seller as they did not meet the contractual terms.

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 Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
	(\$ in thousands)	
Balance - January 1,	\$ -	\$ 3,090
Acquisitions	-	-
Change in fair value	-	(2,890)
Payments	-	-
Balance - September 30,	<u>\$ -</u>	<u>\$ 200</u>

#### 14. SEGMENT REPORTING

The Company's Chief Executive Officer and Executive Chairman jointly 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) Medical Practice Management.

The Healthcare IT segment includes revenue cycle management, SaaS solutions and other services. The Medical Practice Management segment includes the management of three medical practices. Each segment is considered a reporting unit. The CODM evaluates the financial performance of the business units on the basis of revenue and direct operating costs excluding unallocated amounts that 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, 2022 filed with the SEC on March 2, 2023. The following table presents revenues, operating expenses and operating income (loss) by reportable segment:

<b>Nine Months Ended September 30, 2023</b>				
(\$ in thousands)				
	<b>Healthcare IT</b>	<b>Medical Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 78,531	\$ 10,112	\$ -	\$ 88,643
Operating expenses:				
Direct operating costs	46,003	7,840	-	53,843
Selling and marketing	7,503	26	-	7,529
General and administrative	8,466	1,362	6,690	16,518
Research and development	3,523	-	-	3,523
Depreciation and amortization	10,013	269	-	10,282
Loss on lease terminations and unoccupied lease charges	430	-	-	430
Total operating expenses	<u>75,938</u>	<u>9,497</u>	<u>6,690</u>	<u>92,125</u>
Operating income (loss)	<u>\$ 2,593</u>	<u>\$ 615</u>	<u>\$ (6,690)</u>	<u>\$ (3,482)</u>

<b>Three Months Ended September 30, 2023</b>				
(\$ in thousands)				
	<b>Healthcare IT</b>	<b>Medical Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 25,592	\$ 3,688	\$ -	\$ 29,280
Operating expenses:				
Direct operating costs	15,369	2,891	-	18,260
Selling and marketing	2,329	8	-	2,337
General and administrative	2,719	466	2,297	5,482
Research and development	1,260	-	-	1,260
Depreciation and amortization	3,814	89	-	3,903
Loss on lease terminations and unoccupied lease charges	8	-	-	8
Total operating expenses	<u>25,499</u>	<u>3,454</u>	<u>2,297</u>	<u>31,250</u>
Operating income (loss)	<u>\$ 93</u>	<u>\$ 234</u>	<u>\$ (2,297)</u>	<u>\$ (1,970)</u>



**Nine Months Ended September 30, 2022**

(\$ in thousands)

	<b>Healthcare IT</b>	<b>Medical Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 96,146	\$ 10,146	\$ -	\$ 106,292
Operating expenses:				
Direct operating costs	56,878	7,988	-	64,866
Selling and marketing	7,293	21	-	7,314
General and administrative	10,213	1,312	6,954	18,479
Research and development	3,251	-	-	3,251
Change in contingent consideration	(2,890)	-	-	(2,890)
Depreciation and amortization	8,420	266	-	8,686
Net loss on lease terminations and unoccupied lease charges	928	-	-	928
Total operating expenses	<u>84,093</u>	<u>9,587</u>	<u>6,954</u>	<u>100,634</u>
Operating income (loss)	<u>\$ 12,053</u>	<u>\$ 559</u>	<u>\$ (6,954)</u>	<u>\$ 5,658</u>

**Three Months Ended September 30, 2022**

(\$ in thousands)

	<b>Healthcare IT</b>	<b>Medical Practice Management</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
Net revenue	\$ 29,964	\$ 3,759	\$ -	\$ 33,723
Operating expenses:				
Direct operating costs	17,582	2,824	-	20,406
Selling and marketing	2,496	8	-	2,504
General and administrative	3,231	455	2,814	6,500
Research and development	1,168	-	-	1,168
Change in contingent consideration	(1,660)	-	-	(1,660)
Depreciation and amortization	2,721	89	-	2,810
Net loss on lease terminations and unoccupied lease charges	307	-	-	307
Total operating expenses	<u>25,845</u>	<u>3,376</u>	<u>2,814</u>	<u>32,035</u>
Operating income (loss)	<u>\$ 4,119</u>	<u>\$ 383</u>	<u>\$ (2,814)</u>	<u>\$ 1,688</u>

**15. SUBSEQUENT EVENTS**

During October 2023, the Company committed and began to effectively align resources with business priorities and improve profitability through a reduction in its work force. A majority of the impacted employees will exit the Company in the fourth quarter of 2023.

Also during October 2023, the Executive Chairman was advanced approximately \$30,000 for the purchase of land surrounding the Bagh facility for the benefit of the Company. (See Note 8). This amount was repaid within the month.

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

The following is a discussion of our consolidated financial condition and results of operations for the three and nine months ended September 30, 2023 and 2022, and other factors that are expected to affect our prospective financial condition. The following discussion and analysis should be read together with our Consolidated Financial Statements and related notes beginning on page 4 of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 2, 2023.

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 Update**

In response to the COVID-19 pandemic, we implemented a business continuity plan to respond quickly and provide ongoing guidance so that we could continue offering our clients uninterrupted products, services and support while also protecting our employees. We believe these actions have been successful and that the pandemic, and our responses, have not significantly affected our financial results for the nine months ended September 30, 2023.

Refer to Part I, Item 1A. Risk Factors, Risks Related to Our Business in the Company's Annual Report on Form 10-K filed with the SEC on March 2, 2023 for further discussion of the potential impact of the COVID-19 pandemic on our business.

### **Financial Risks**

The Company maintains cash balances at Silicon Valley Bank ("SVB"), a division of First-Citizens Bank & Trust Company in excess of the FDIC insurance coverage limits. The Company performs periodic evaluations of the relative credit standing of this financial institution to ensure its credit worthiness. As of September 30, 2023 and December 31, 2022, the Company held cash of approximately \$71,000 and \$1.8 million, respectively, in the name of its subsidiaries at banks in Pakistan and Sri Lanka. The banking systems in these countries do not provide deposit insurance coverage. The Company has not experienced any losses on its cash accounts.

During the three months ended September 30, 2023, the Company experienced a decline in its market capitalization as a result of a sustained decrease in the Company's stock price for its common and preferred shares. If the stock prices were to continue to decline, it could result in another triggering event that could impact the valuation of goodwill.

### **Overview**

The Company is a healthcare information technology company that provides technology-enabled revenue cycle management and a full suite of proprietary cloud-based solutions to healthcare providers, from small practices to enterprise medical groups, hospitals, and health systems throughout the United States. Our integrated Software-as-a-Service ("SaaS") platform includes revenue cycle management ("RCM"), practice management ("PM"), electronic health record ("EHR"), business intelligence, telehealth, patient experience management ("PXM") solutions and complementary software tools and business services for high-performance medical groups and health systems. The Company also offers printing and mailing and group purchasing services.

Our technology-enabled business solutions can be categorized as follows:

- **Technology-enabled revenue cycle management:**
  - Revenue Cycle Management ("RCM") services including end-to-end medical billing, eligibility, analytics, and related services, all of which can be provided utilizing our technology platform and robotic process automation tools or leveraging a third-party system;
  - Medical coding and credentialing services to improve provider collections, back-end cost containment, and drive total revenue realization for our healthcare clients; and
  - Healthcare claims clearinghouse which enables our clients to electronically scrub and submit claims and process payments from insurance companies.
- **Cloud-based software:**
  - Electronic Health Records ("EHR"), which are easy to use and sometimes integrated with our business services, and enable our healthcare provider clients to deliver better patient care, streamline their clinical workflows, decrease documentation errors, and potentially qualify for government incentives;

- Practice Management (“PM”) software and related capabilities, which support our clients’ day-to-day business operations and financial workflows, including automated insurance eligibility software, a robust billing and claims rules engine, and other automated tools designed to maximize reimbursement;
  - Patient Experience Management (“PXM”) solutions designed to transform interactions between patients and their clinicians, including smartphone applications that assist patients and healthcare providers in the provision of healthcare services, contactless digital check-in solutions, messaging, and online appointment scheduling tools;
  - Business Intelligence (“BI”) and healthcare analytics platforms that allow our clients to derive actionable insights from their vast amount of data; and
  - Customized applications, interfaces, and a variety of other technology solutions that support our healthcare clients.
- **Digital health:**
    - Chronic care management is a program that supports care for patients with chronic conditions by certified care managers that operate under the supervision of the patient’s regular physician;
    - Remote patient monitoring enables patient data collected outside the clinical setting through remote devices to be fed into their provider’s EHR to enable proactive patient care; and
    - Telemedicine solutions which allow healthcare providers to conduct remote patient visits and extend the timely delivery of care to patients unable to travel to a provider’s office.

Our professional services solutions can be categorized as follows:

- **Healthcare IT professional services & staffing:**
  - Professional services consisting of a broad range of consulting services including full software implementations and activation, revenue cycle optimization, data analytic services, and educational training services;
  - Strategic advisory services to manage system evaluations and selection, provide interim management, and operational assessments; and
  - Workforce augmentation and on-demand staffing to support our clients as they expand their businesses, seek highly trained personnel, or struggle to address staffing shortages.

Our medical practice management solutions include:

- **Medical practice management:**
  - Medical practice management services for medical providers, including facilities, equipment, supplies, support services, nurses, and administrative support staff.

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 450 experienced health industry experts throughout the United States. These experts are supported by our highly educated and specialized offshore workforce of approximately 3,500 team members that are approximately 13% of the cost of comparably educated and skilled workers in the U.S. 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 CareCloud.

Our offshore operations in the Pakistan Offices, UAE and Sri Lanka together accounted for approximately 13% and 12% of total expenses for the nine months ended September 30, 2023 and 2022, respectively. A significant portion of those foreign expenses were personnel-related costs (approximately 77% and 80% for the nine months ended September 30, 2023 and 2022, 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 and 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., the Pakistan Offices, UAE 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 (loss) income:

- Income tax expense 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, and transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees and exit costs related to contractual agreements;
- Net loss on lease terminations and unoccupied lease charges; and
- Change in contingent consideration.

Set forth below is a presentation of our adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(\$ in thousands)			
Net revenue	\$ 29,280	\$ 33,723	\$ 88,643	\$ 106,292
GAAP net (loss) income	(2,749)	1,056	(4,982)	4,933
Provision for income taxes	57	55	204	144
Net interest expense	300	82	705	281
Foreign exchange loss / other expense	426	523	609	359
Stock-based compensation expense	1,209	1,328	3,783	3,399
Depreciation and amortization	3,903	2,810	10,282	8,686
Transaction and integration costs	91	316	270	724
Net loss on lease terminations and unoccupied lease charges	8	307	430	928
Change in contingent consideration	-	(1,660)	-	(2,890)
Adjusted EBITDA	<u>\$ 3,245</u>	<u>\$ 4,817</u>	<u>\$ 11,301</u>	<u>\$ 16,564</u>

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

- 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, and transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees and exit costs related to contractual agreements;
- Net loss on lease terminations and unoccupied lease charges; and
- Change 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, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(\$ in thousands)			
Net revenue	\$ 29,280	\$ 33,723	\$ 88,643	\$ 106,292
GAAP net (loss) income	(2,749)	1,056	(4,982)	4,933
Provision for income taxes	57	55	204	144
Net interest expense	300	82	705	281
Other expense - net	422	495	591	300
GAAP operating (loss) income	(1,970)	1,688	(3,482)	5,658
GAAP operating margin	(6.7%)	5.0%	(3.9%)	5.3%
Stock-based compensation expense	1,209	1,328	3,783	3,399
Amortization of purchased intangible assets	1,201	1,428	3,775	4,884
Transaction and integration costs	91	316	270	724
Net loss on lease terminations and unoccupied lease charges	8	307	430	928
Change in contingent consideration	-	(1,660)	-	(2,890)
Non-GAAP adjusted operating income	\$ 539	\$ 3,407	\$ 4,776	\$ 12,703
Non-GAAP adjusted operating margin	1.8%	10.1%	5.4%	12.0%

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

- 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, and transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees and exit costs related to contractual agreements;
- Net loss on lease terminations and unoccupied lease charges;
- Change in contingent consideration; and
- Income tax expense 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) income to non-GAAP adjusted net income for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(\$ in thousands)			
GAAP net (loss) income	\$ (2,749)	\$ 1,056	\$ (4,982)	\$ 4,933
Foreign exchange loss / other expense	426	523	609	359
Stock-based compensation expense	1,209	1,328	3,783	3,399
Amortization of purchased intangible assets	1,201	1,428	3,775	4,884
Transaction and integration costs	91	316	270	724
Net loss on lease terminations and unoccupied lease charges	8	307	430	928
Change in contingent consideration	-	(1,660)	-	(2,890)
Income tax expense related to goodwill	17	35	81	61
Non-GAAP adjusted net income	<u>\$ 203</u>	<u>\$ 3,333</u>	<u>\$ 3,966</u>	<u>\$ 12,398</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,	
	2023	2022	2023	2022
GAAP net loss attributable to common shareholders, per share	\$ (0.42)	\$ (0.18)	\$ (1.07)	\$ (0.45)
Impact of preferred stock dividend	0.25	0.25	0.76	0.78
Net (loss) income per end-of-period share	<u>(0.17)</u>	<u>0.07</u>	<u>(0.31)</u>	<u>0.33</u>
Foreign exchange loss / other expense	0.02	0.03	0.04	0.02
Stock-based compensation expense	0.08	0.09	0.24	0.23
Amortization of purchased intangible assets	0.07	0.09	0.23	0.31
Transaction and integration costs	0.01	0.02	0.02	0.05
Net loss on lease terminations and unoccupied lease charges	0.00	0.02	0.03	0.06
Change in contingent consideration	0.00	(0.11)	0.00	(0.19)
Income tax expense related to goodwill	0.00	0.00	0.00	0.00
Non-GAAP adjusted earnings per share	<u>\$ 0.01</u>	<u>\$ 0.21</u>	<u>\$ 0.25</u>	<u>\$ 0.81</u>
End-of-period common shares	15,857,650	15,211,136	15,857,650	15,211,136
In-the-money warrants and outstanding unvested RSUs	758,160	605,526	758,160	605,526
Total fully diluted shares	<u>16,615,810</u>	<u>15,816,662</u>	<u>16,615,810</u>	<u>15,816,662</u>
Non-GAAP adjusted diluted earnings per share	<u>\$ 0.01</u>	<u>\$ 0.21</u>	<u>\$ 0.24</u>	<u>\$ 0.78</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, 2023 and 2022. 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 earnings per share and non-GAAP adjusted diluted earnings per share do not take into account dividends paid on 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 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 both September 30, 2023 and 2022, we provided services to an estimated universe of approximately 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 2,600 independent medical practices and hospitals. In addition, we served approximately 150 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 subscription-based technology-enabled business solutions, reported in our Healthcare IT segment, which are typically billed as a percentage of payments collected by our customers. This fee includes technology-enabled RCM, as well as the ability to use our EHR, practice management system and other software as part of the bundled fee. These solutions accounted for approximately 64% of our revenues during both the three months ended September 30, 2023 and 2022, and 65% and 64% for the nine months ended September 30, 2023 and 2022, respectively. Other healthcare IT services, including printing and mailing operations, group purchasing and professional services, represented approximately 23% and 25% of revenues for the three months ended September 30, 2023 and 2022, respectively, and 23% and 26% for the nine months ended September 30, 2023 and 2022, respectively.

We earned approximately 13% and 12% of our revenue from medical practice management services during the three and nine months ended September 30, 2023, respectively, and approximately 11% and 10% during the three and nine months ended September 30, 2022, respectively. This revenue represents fees based on our actual costs plus a percentage of the operating profit and is reported in our Medical 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 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, software expense and third-party contractor costs.

*Change in 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 five 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 medical practice management clients is amortized on a straight-line basis over a period of twelve years.

*Net Loss on Lease Terminations and Unoccupied Lease Charges.* Net loss on lease terminations represents the write-off of leasehold improvements and gains or losses as the result of lease terminations. Unoccupied lease charges represent the portion of the lease and related costs for that portion of the space that is vacant and not being utilized by the Company. One of the leases that had unoccupied space ended in February 2023. The Company was able to turn back to the landlord one of the other unused facilities effective January 1, 2022.

*Interest Income, Interest Expense and Other Expense - net.* Interest income represents interest earned on temporary cash investments and late fees from customers. Interest expense consists primarily of interest costs related to our line of credit, term loans and the amortization of deferred financing costs. Other expense - net results primarily from foreign currency transaction (losses)/gains.

*Income Taxes.* In preparing our 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, 2023 and December 31, 2022.

### Critical Accounting Policies and Estimates

The critical accounting policies and estimates used in the preparation of our consolidated financial statements that we believe affect our more significant judgments and estimates used in the preparation of our 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, 2022.

#### *Capitalized Software Costs:*

As of September 30, 2023 and December 31, 2022, the carrying amounts of internally-developed capitalized software in use was \$17.6 million and \$16.6 million, respectively. The increase in the capitalized software costs represents the continued investment in proprietary technology.

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, 2022, filed with the SEC on March 2, 2023.

### 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,	
	2023	2022	2023	2022
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Direct operating costs	62.4%	60.5%	60.7%	61.0%
Selling and marketing	8.0%	7.4%	8.5%	6.9%
General and administrative	18.7%	19.3%	18.6%	17.4%
Research and development	4.3%	3.5%	4.0%	3.1%
Change in contingent consideration	0.0%	(4.9%)	0.0%	(2.7%)
Depreciation and amortization	13.3%	8.3%	11.6%	8.2%
Net loss on lease terminations and unoccupied lease charges	0.0%	0.9%	0.5%	0.9%
Total operating expenses	106.7%	95.0%	103.9%	94.8%
Operating (loss) income	(6.7%)	5.0%	(3.9%)	5.2%
Interest expense - net	1.0%	0.2%	0.8%	0.3%
Other expense - net	(1.4%)	(1.5%)	(0.7%)	(0.3%)
(Loss) income before provision for income taxes	(9.1%)	3.3%	(5.4%)	4.6%
Income tax provision	0.2%	0.2%	0.2%	0.1%
Net (loss) income	(9.3%)	3.1%	(5.6%)	4.5%



Comparison of the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
	(\$ in thousands)							
Net revenue	\$ 29,280	\$ 33,723	\$ (4,443)	(13%)	\$ 88,643	\$ 106,292	\$ (17,649)	(17%)

*Net Revenue.* Net revenue of \$29.3 million and \$88.6 million for the three and nine months ended September 30, 2023, respectively, decreased by \$4.4 million or 13% and \$17.6 million or 17% from net revenue of \$33.7 million and \$106.3 million for the three and nine months ended September 30, 2022, respectively. Revenue for the three and nine months ended September 30, 2023 includes \$18.8 million and \$57.9 million relating to technology-enabled business solutions, \$5.7 million and \$17.8 million related to professional services and \$3.7 million and \$10.1 million for medical practice management services, respectively.

There was a \$1.7 million and \$7.8 million decrease in project-based professional services revenue for the three and nine months ended September 30, 2023 compared to the same periods in the prior year. The 2023 revenue was also negatively impacted by two large accounts that had each been previously acquired prior to our beginning to serve them after a 2020 acquisition. The services provided to them were each winding down at the time of our acquisition and they both transitioned to the systems of their acquirers during 2022. Revenue from these two customers for the three months ended September 30, 2023 and 2022 was \$0.7 million and \$3.0 million, respectively. Revenue from these customers for the nine months ended September 30, 2023 was \$2.7 million, accounting for approximately \$8.0 million of the decline in revenue. Revenue from these customers is expected to be approximately \$0.3 million for the remainder of 2023. (Refer to Forward-Looking Statements disclosure on page 2 of this Form 10-Q.)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
	(\$ in thousands)							
Direct operating costs	\$ 18,260	\$ 20,406	\$ (2,146)	(11%)	\$ 53,843	\$ 64,866	\$ (11,023)	(17%)
Selling and marketing	2,337	2,504	(167)	(7%)	7,529	7,314	215	3%
General and administrative	5,482	6,500	(1,018)	(16%)	16,518	18,479	(1,961)	(11%)
Research and development	1,260	1,168	92	8%	3,523	3,251	272	8%
Change in contingent consideration	-	(1,660)	1,660	100%	-	(2,890)	2,890	100%
Depreciation	493	474	19	4%	1,496	1,405	91	6%
Amortization	3,410	2,336	1,074	46%	8,786	7,281	1,505	21%
Net loss on lease terminations and unoccupied lease charges	8	307	(299)	(97%)	430	928	(498)	(54%)
Total operating expenses	\$ 31,250	\$ 32,035	\$ (785)	(2%)	\$ 92,125	\$ 100,634	\$ (8,509)	(8%)

*Direct Operating Costs.* Direct operating costs of \$18.3 million and \$53.8 million for the three and nine months ended September 30, 2023, respectively, decreased by \$2.1 million or 11% and \$11.0 million or 17% compared to direct operating costs of \$20.4 million and \$64.9 million for the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2023, salary costs decreased by \$1.4 million and \$7.4 million, outsourcing and processing costs decreased by \$762,000 and \$3.0 million and other costs such as medical supplies, vaccines, rent and consultancy fees decreased by \$142,000 and \$736,000, respectively. The decrease in the salary costs was due to the decrease in the Pakistan exchange rate, a decrease in the U.S. headcount and due to lower revenue, the redeployment of employees performing functions that were previously classified as direct operating costs to functions classified as research and development expense for the nine months ended September 30, 2023.

*Selling and Marketing Expense.* Selling and marketing expense of \$2.3 million and \$7.5 million for the three and nine months ended September 30, 2023, respectively, decreased by \$167,000 or 7% and increased by \$215,000 or 3% from selling and marketing expense of \$2.5 million and \$7.3 million for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2023 was due to lower spending on selling and marketing activities.

*General and Administrative Expense.* General and administrative expense of \$5.5 million and \$16.5 million for the three and nine months ended September 30, 2023, respectively, decreased by \$1.0 million or 16% and \$2.0 million or 11% compared to general and administrative expense of \$6.5 million and \$18.5 million for the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2023, salary costs decreased by \$292,000 and \$1.4 million, computer expenses decreased by \$89,000 and \$314,000 and provision for doubtful accounts decreased by \$48,000 and \$327,000, respectively. The decrease in salary costs was due to lower headcount and a favorable change in foreign exchange rates. Also there was a decrease in the Company's contributions to community based projects in Pakistan.

*Research and Development Expense.* Research and development expense of \$1.3 million and \$3.5 million for the three and nine months ended September 30, 2023, respectively, increased by approximately \$92,000 or 8% and \$272,000 or 8% from research and development expense of \$1.2 million and \$3.3 million for the three and nine months ended September 30, 2022, respectively. The increase was due to the redeployment of employees performing functions that were previously classified as direct operating costs to functions classified as research and development expense which was offset by a decrease in the U.S. headcount. During the nine months ended September 30, 2023 and 2022, the Company capitalized approximately \$6.6 million and \$7.0 million, respectively, of development costs in connection with its internal-use software.

*Change in Contingent Consideration.* There was no change in contingent consideration during the nine months ended September 30, 2023 as the balance of contingent consideration was \$0 at December 31, 2022. The change of \$1.7 million and \$2.9 million for the three and nine months ended September 30, 2022, respectively, reflected the estimated decrease in the fair value of the contingent consideration from the medSR acquisition.

*Depreciation.* Depreciation of \$493,000 and \$1.5 million for the three and nine months ended September 30, 2023, respectively, increased by \$19,000 or 4% and \$91,000 or 6% from the depreciation of \$474,000 and \$1.4 million for the three and nine months ended September 30, 2022, respectively.

*Amortization Expense.* Amortization expense of \$3.4 million and \$8.8 million for the three and nine months ended September 30, 2023, respectively, increased by \$1.1 million or 46% and \$1.5 million or 21% from amortization expense of \$2.3 million and \$7.3 million for the three and nine months ended September 30, 2022, respectively. The increase in amortization expense was due to placing certain internal-use software into production and commencing amortization on that balance.

*Net Loss on Lease Terminations and Unoccupied Lease Charges.* Net loss on lease terminations represents the write-off of leasehold improvements and gains or losses as the result of lease terminations. During the nine months ended September 30, 2023, the Miami office lease that we assumed in connection with an acquisition ended and we entered into a new lease arrangement with the landlord for significantly less space. Charges of \$2,000 and \$73,000 for the three and nine months ended September 30, 2023, respectively, were incurred as a result of vacating the former premises. During the year ended December 31, 2022, a facility lease was terminated in conjunction with the Company ceasing its document storage services resulting in additional costs for the three and nine months ended September 30, 2023, of \$1,000 and \$162,000, respectively. In addition, during the nine months ended September 30, 2023, the Company paid \$27,000 to settle a claim regarding a lease termination in India. Unoccupied lease charges represent the portion of the lease and related costs for that portion of the space that is vacant and not being utilized by the Company. The Company was able to turn back to the landlord one of the unused facilities effective January 1, 2022. Unoccupied lease charges for the three and nine months ended September 30, 2023 were \$5,000 and \$168,000, respectively. During the three and nine months ended September 30, 2022, there were \$257,000 and \$786,000, respectively, of unoccupied lease charges.

	<b>Three Months Ended September 30,</b>		<b>Change</b>		<b>Nine Months Ended September 30,</b>		<b>Change</b>	
	<b>2023</b>	<b>2022</b>	<b>Amount</b>	<b>Percent</b>	<b>2023</b>	<b>2022</b>	<b>Amount</b>	<b>Percent</b>
	(\$ in thousands)							
Interest income	\$ 52	\$ 14	\$ 38	271%	\$ 124	\$ 22	\$ 102	464%
Interest expense	(352)	(96)	(256)	(267%)	(829)	(303)	(526)	(174%)
Other expense - net	(422)	(495)	73	15%	(591)	(300)	(291)	(97%)
Income tax provision	57	55	2	4%	204	144	60	42%

*Interest Income.* Interest income of \$52,000 and \$124,000 for the three and nine months ended September 30, 2023, respectively, increased by \$38,000 and \$102,000 from interest income of \$14,000 and \$22,000 for the three and nine months ended September 30, 2022, respectively. The interest income represents interest earned on temporary cash investments, which increased due to rising interest rates and late fees from customers.

*Interest Expense.* Interest expense of \$352,000 and \$829,000 for the three and nine months ended September 30, 2023, respectively, increased by \$256,000 and \$526,000 from interest expense of \$96,000 and \$303,000 for the three and nine months ended September 30, 2022, respectively. The increase in interest expense was due to the increased use of the line of credit. Interest expense includes the amortization of deferred financing costs, which was \$114,000 and \$92,000 during the nine months ended September 30, 2023 and 2022, respectively.

*Other Expense – net.* Other expense – net was \$422,000 and \$591,000 for the three and nine months ended September 30, 2023, respectively, compared to other expense – net of \$495,000 and \$300,000 for the three and nine months ended September 30, 2022, respectively. Other expense or income primarily represents foreign currency transaction losses or gains. These transaction losses or gains result from revaluing intercompany accounts which are denominated in U.S. dollars that represent amounts payable/receivable between the entities. Whenever the exchange rate varies, the losses or gains are recorded in the consolidated statements of operations.

*Income Tax Provision.* The provision for income taxes was \$57,000 and \$204,000 for the three and nine months ended September 30, 2023, respectively, compared to the provision for income taxes of \$55,000 and \$144,000 for the three and nine months ended September 30, 2022, respectively. As a result of the Company having certain net operating losses with an indefinite life under the current federal tax rules, the federal deferred tax liability was offset against the federal net operating loss to the extent allowable in 2023 and 2022. During 2022, it was determined that for the states that follow the federal rules regarding indefinite life net operating losses, the offset to the state deferred tax liability was \$45,000. This amount was recorded during the second quarter of 2022. Subsequently, the state deferred tax liability has been offset against state net operating losses to the extent allowable.

The current income tax expense for the three and nine months ended September 30, 2023 was approximately \$40,000 and \$123,000, respectively, and includes 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, 2023 and December 31, 2022.

### **Liquidity and Capital Resources**

As of September 30, 2023, the Company had total cash of \$6.4 million and net working capital of \$5.5 million. For the three and nine months ended September 30, 2023, cash provided by operations was \$4.3 million and \$11.7 million, respectively, offset by cash used in investing and financing activities of \$5.8 million and \$17.7 million, respectively, resulting in a decrease in cash of \$1.3 million and \$5.9 million, respectively, after accounting for the effect of \$0.2 million and \$0.1 million, respectively, of exchange rate changes.

The Company is currently looking at various ways to increase its revenue through organic growth via its current salesforce, which would generate additional gross margin with no change to operating expenses. A number of clients have signed up for the new CareCloud Wellness offering, and as this volume ramps up, it will generate additional margin. There is also significant effort being expended in increasing the professional services business, where clients are charged “cost-plus,” generating additional margin. Concurrently, the Company is reviewing its expenses and capital expenditures and has begun and will continue to reduce spending in non-critical areas, to reduce cash usage even without additional revenue.

Additional funding, if necessary, could come from the sale of the Company’s three public securities, i.e., sales of its common stock or one or both of its two series of Nasdaq-listed preferred stock. There are active “at-the-market” facilities to sell common stock and Series B preferred stock, and the Company can sell shares utilizing its existing shelf registration facility. Further, additional capital could be obtained from the Company’s credit line since the amount drawn is less than the borrowing base and the Company is in compliance with all covenants. Accordingly, we believe our cash on hand, our cash flows from operations and our ability to raise capital, if necessary, will be sufficient to fund our operations for the next 12 months and beyond.

The Company has a revolving line of credit, and as of September 30, 2023, there was \$12 million outstanding of which \$2 million was repaid in early October 2023. As of September 30, 2023, the unused borrowing base was approximately \$3.3 million. During the nine months ended September 30, 2023, the Company sold 59,773 shares of 8.75% Series B Preferred Stock and raised \$1.4 million in net proceeds after fees and expenses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Change	
	2023	2022	2023	2022	Amount	Percent
	(\$ in thousands)					
Net cash provided by operating activities	\$ 4,313	\$ 6,977	\$ 11,721	\$ 15,103	\$ (3,382)	(22%)
Net cash used in investing activities	(3,245)	(3,496)	(9,322)	(9,123)	(199)	(2%)
Net cash used in financing activities	(2,581)	(9,047)	(8,406)	(11,144)	2,738	25%
Effect of exchange rate changes on cash	253	213	114	(309)	423	137%
Net decrease in cash and restricted cash	\$ (1,260)	\$ (5,353)	\$ (5,893)	\$ (5,473)	\$ (420)	(8%)

The loss before income taxes was \$2.7 million and \$4.8 million for the three and nine months ended September 30, 2023, respectively, which included \$3.9 million and \$10.3 million of non-cash depreciation and amortization, respectively. The income before income taxes was \$1.1 million and \$5.1 million for the three and nine months ended September 30, 2022, respectively, which included \$2.8 million and \$8.7 million of non-cash depreciation and amortization, respectively.

#### *Operating Activities*

Net cash provided by operating activities was \$11.7 million and \$15.1 million during the nine months ended September 30, 2023 and 2022, respectively. This decrease was primarily the result of the decrease in net income of \$9.9 million which included the following changes in non-cash items: an increase in depreciation and amortization of \$1.6 million and an increase in stock-based compensation of \$384,000. The decrease in the net income was partially offset by the change in accounts receivable which decreased by \$1.9 million for the nine months ended September 30, 2023, compared with a decrease of \$10,000 for the nine months ended September 30, 2022. Accounts payable, accrued compensation and accrued expenses decreased by \$2.3 million during the nine months ended September 30, 2023, compared with a decrease of \$4.3 million for the nine months ended September 30, 2022. The contract asset increased by \$867,000 during the nine months ended September 30, 2023 compared to the prior period.

#### *Investing Activities*

Net cash used in investing activities was \$9.3 million and \$9.1 million for the nine months ended September 30, 2023 and 2022, respectively. Capital expenditures were \$2.7 million and \$2.1 million for the nine months ended September 30, 2023 and 2022, respectively. The capital expenditures for the nine months ended September 30, 2023 and 2022 primarily represented computer equipment purchased and leasehold improvements for the Pakistan Offices. Software development costs of \$6.6 million and \$7.0 million for the nine months ended September 30, 2023 and 2022, respectively, were capitalized in connection with the development of software for providing technology-enabled business solutions.

#### *Financing Activities*

Net cash used in financing activities was \$8.4 million and \$11.1 million during the nine months ended September 30, 2023 and 2022, respectively. Cash used in financing activities during the nine months ended September 30, 2023 included \$11.7 million of preferred stock dividends, \$717,000 of repayments for debt obligations and \$1.4 million of tax withholding obligations paid in connection with stock awards issued to employees. During the nine months ended September 30, 2023, the Company sold 59,773 shares of Series B Preferred Stock and received net proceeds of approximately \$1.4 million. Cash used in financing activities during the nine months ended September 30, 2022 included \$11.5 million of preferred stock dividends, \$769,000 of repayments for debt obligations and \$1.1 million of tax withholding obligations paid in connection with stock awards issued to employees. During the nine months ended September 30, 2022, the Company received net proceeds from the sale of Series B Preferred Stock of \$30.3 million of which \$20.0 million was used to redeem 800,000 shares of Series A Preferred Stock. Net proceeds and repayments on the line of credit were \$4.0 million and \$8.0 million, respectively, for the nine months ended September 30, 2023 and 2022, respectively.

## **Contractual Obligations and Commitments**

We have contractual obligations under our line of credit. We were in compliance with all covenants as of September 30, 2023. We also maintain operating leases for property and certain office equipment. 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, 2022, filed with the SEC on March 2, 2023.

## **Off-Balance Sheet Arrangements**

As of September 30, 2023, and 2022, 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 Internal Control-Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023 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, 2023, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

#### *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 7, Commitments And Contingencies” of the Notes to 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, 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 March 2, 2023, which could materially affect our business, financial condition and/or future results. The risks described in our Annual Report on Form 10-K 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.

#### *We Maintain Our Cash at Financial Institutions, Often in Balances That Exceed Federally Insured Limits.*

The financial markets recently have encountered volatility associated with concerns about the balance sheets of banks, especially small and regional banks who may have significant losses associated with investments that make it difficult to fund demands to withdraw deposits and other liquidity needs. Although the federal government has announced measures to assist these banks and protect depositors, some banks have already been impacted and others may be materially and adversely impacted. Our business is dependent on bank relationships and we are proactively monitoring the financial health of such bank relationships. Continued strain on the banking system may adversely impact our business, financial condition and results of operations.

### Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

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

Exhibit Number	Exhibit Description
31.1	<a href="#">Certification of the Company’s Principal Executive Officer pursuant to the Exchange Act Rules 13a-14(a)/15d-14(a), of the Securities Exchange Act of 1934, as amended.</a>
31.2	<a href="#">Certification of the Company’s Principal Financial Officer pursuant to the Exchange Act Rules 13a-14(a)/15d-14(a), of the Securities Exchange Act of 1934, as amended.</a>
32.1*	<a href="#">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.</a>
32.2*	<a href="#">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.</a>
101.INS	Inline XBRL Instance
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\*The certifications on Exhibit 32 hereto are not deemed “filed” for purposes of Section 18 of the Securities 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.

### CareCloud, Inc.

By: /s/ A. Hadi Chaudhry

A. Hadi Chaudhry  
Chief Executive Officer  
Date: November 2, 2023

By: /s/ Lawrence J. Steenvoorden

Lawrence J. Steenvoorden  
Chief Financial Officer  
Date: November 2, 2023

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

I, A. Hadi Chaudhry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CareCloud, 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.

**CareCloud, Inc.**

By: /s/ A. Hadi Chaudhry

A. Hadi Chaudhry  
Chief Executive Officer (Principal Executive Officer)

Dated:  
November 2, 2023

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

I, Lawrence J. Steenvoorden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CareCloud, 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.

**CareCloud, Inc.**

By: /s/ Lawrence J. Steenvoorden

Lawrence J. Steenvoorden  
Chief Financial Officer (Principal Financial Officer)

Dated:  
November 2, 2023

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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, A. Hadi Chaudhry, 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 CareCloud, Inc. on Form 10-Q for the quarter ended September 30, 2023 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 CareCloud, Inc.

**CareCloud, Inc.**

By: */s/ A. Hadi Chaudhry*

A. Hadi Chaudhry

Chief Executive Officer (Principal Executive Officer)

Dated:  
November 2, 2023

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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, Lawrence J. Steenvoorden, 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 CareCloud, Inc. on Form 10-Q for the quarter ended September 30, 2023 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 CareCloud, Inc.

**CareCloud, Inc.**

By: */s/ Lawrence J. Steenvoorden*

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Lawrence J. Steenvoorden

Chief Financial Officer (Principal Financial Officer)

Dated:  
November 2, 2023

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