

REFINITIV

# DELTA REPORT

## 10-Q

CXDO - CREXENDO, INC.

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1282
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CHANGES	409
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DELETIONS	437
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ADDITIONS	436
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☐ (Mark One)

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

For the quarterly period ended **June 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 **001-32277**

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**Crexendo, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**87-0591719**

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

**1615 South 52nd Street, Tempe, AZ**

(Address of Principal Executive Offices)

**85281**

(Zip Code)

**(602) 714-8500**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 ☐.

The number of shares outstanding of the registrant’s common stock as of **July 31, 2023** **October 31, 2023** was **25,975,804** **26,034,604**.

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### **PART I - FINANCIAL INFORMATION**

#### **Item 1. Financial Statements.**

#### **CREXENDO, INC. AND SUBSIDIARIES** **Condensed Consolidated Balance Sheets**

(Unaudited, in thousands, except par value and share data)

			September 30, 2023	December 31, 2022
	June 30, 2023	December 31, 2022		
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 4,200	\$ 5,475	\$ 7,737	\$ 5,475
Trade receivables, net of allowance of \$144 and \$131, respectively	3,549	3,297		
Trade receivables, net of allowance of \$110 and \$131, respectively			3,873	3,297
Inventories	693	679	472	679
Equipment financing receivables, net of allowance of \$47 and \$0, respectively	735	635		
Equipment financing receivables, net of allowance of \$52 and \$0, respectively			812	635
Contract costs	1,039	841	1,265	841
Property and equipment, held for sale	2,333	-		
Prepaid expenses	1,013	431	991	431
Other current assets	483	674	468	674
Total current assets	14,045	12,032	15,618	12,032
Contract assets, net of allowance of \$23 and \$0, respectively	267	318		
Long-term equipment financing receivables, net of allowance of \$98 and \$0, respectively	1,538	1,255		
Contract assets, net of allowance of \$34 and \$0, respectively			299	318
Long-term equipment financing receivables, net of allowance of \$109 and \$0, respectively			1,670	1,255
Property and equipment, net	851	3,315	756	3,315
Operating lease right-of-use assets	899	1,081	1,170	1,081
Intangible assets, net	25,140	26,725	24,348	26,725
Goodwill	9,454	9,454	9,454	9,454
Contract costs, net of current portion	1,706	1,304	1,874	1,304
Other long-term assets	176	150	146	150
Total Assets	\$ 54,076	\$ 55,634	\$ 55,335	\$ 55,634
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Accounts payable	\$ 715	\$ 1,206	\$ 874	\$ 1,206
Accrued expenses	4,750	4,890	5,053	4,890
Finance leases	75	95	75	95
Notes payable	525	420	452	420
Operating lease liabilities	349	363	604	363
Income tax payable	43	79	67	79
Contract liabilities	3,180	3,338	2,971	3,338
Total current liabilities	9,637	10,391	10,096	10,391
Contract liabilities, net of current portion	225	247	205	247
Finance leases, net of current portion	61	98	42	98
Notes payable, net of current portion	2,507	2,605	708	2,605
Line of credit	-	82	-	82
Operating lease liabilities, net of current portion	582	752	597	752
Total liabilities	13,012	14,175	11,648	14,175
Stockholders' equity:				

Preferred stock, par value \$0.001 per share - authorized 5,000,000 shares; none issued			—	—
Common stock, par value \$0.001 per share - authorized 50,000,000 shares, 25,972,804 shares issued and outstanding as of June 30, 2023 and 25,670,773 shares issued and outstanding as of December 31, 2022	26	26		
Common stock, par value \$0.001 per share - authorized 50,000,000 shares, 26,030,104 shares issued and outstanding as of September 30, 2023 and 25,670,773 shares issued and outstanding as of December 31, 2022			26	26
Additional paid-in capital	131,107	129,192	132,003	129,192
Accumulated deficit	(90,232)	(87,946)	(88,528)	(87,946)
Accumulated other comprehensive income	163	187	186	187
Total stockholders' equity	41,064	41,459	43,687	41,459
Total Liabilities and Stockholders' Equity	\$ 54,076	\$ 55,634	\$ 55,335	\$ 55,634

The accompanying notes are an integral part of the condensed consolidated financial statements.

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**CREXENDO, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations**  
(Unaudited, in thousands, except per share and share data)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Service revenue	\$ 7,308	\$ 4,556	\$ 14,466	\$ 8,954	\$ 7,517	\$ 4,473	\$ 21,983	\$ 13,427
Software solutions revenue	3,930	3,598	8,038	6,866	4,691	3,875	12,729	10,741
Product revenue	1,432	692	2,657	1,184	1,666	760	4,323	1,944
Total revenue	12,670	8,846	25,161	17,004	13,874	9,108	39,035	26,112
Operating expenses:								
Cost of service revenue	3,095	1,438	6,139	2,874	3,173	1,375	9,312	4,249
Cost of software solutions revenue	1,293	1,131	2,478	2,792	1,327	1,141	3,805	3,933
Cost of product revenue	881	372	1,720	689	923	453	2,643	1,142
Selling and marketing	3,613	2,771	7,422	5,355	3,502	2,732	10,924	8,087
General and administrative	3,167	2,757	7,164	6,006	3,309	2,800	10,473	8,806
Research and development	1,138	1,229	2,329	1,533	1,276	1,151	3,605	2,684
Total operating expenses	13,187	9,698	27,252	19,249	13,510	9,652	40,762	28,901
Loss from operations	(517)	(852)	(2,091)	(2,245)				
Income/(loss) from operations					364	(544)	(1,727)	(2,789)

Other income/(expense):									
Interest expense	(33)	(19)	(75)	(38)	(36)	(19)	(111)	(57)	
Gain on sale of property and equipment					1,459	-	1,459	-	
Other income/(expense), net	29	(107)	87	(116)	(50)	(165)	37	(281)	
Total other income/(expense), net	(4)	(126)	12	(154)	1,373	(184)	1,385	(338)	
Loss before income tax	(521)	(978)	(2,079)	(2,399)					
Income/(loss) before income tax					1,737	(728)	(342)	(3,127)	
Income tax benefit/(provision)	(24)	82	(48)	283	(33)	32	(81)	315	
Net loss	\$ (545)	\$ (896)	\$ (2,127)	\$ (2,116)					
Net income/(loss)					\$ 1,704	\$ (696)	\$ (423)	\$ (2,812)	
Earnings per common share:									
Basic	\$ (0.02)	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ 0.07	\$ (0.03)	\$ (0.02)	\$ (0.13)	
Diluted	\$ (0.02)	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ 0.06	\$ (0.03)	\$ (0.02)	\$ (0.13)	
Weighted-average common shares outstanding:									
Basic	25,972,628	22,456,420	25,853,998	22,347,510	25,995,507	22,620,703	25,901,686	22,439,575	
Diluted	25,972,628	22,456,420	25,853,998	22,347,510	27,682,764	22,620,703	25,901,686	22,439,575	

The accompanying notes are an integral part of the condensed consolidated financial statements.

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**CREXENDO, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Comprehensive Income**  
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net loss	\$ (545)	\$ (896)	\$ (2,127)	\$ (2,116)				
Net income/(loss)					\$ 1,704	\$ (696)	\$ (423)	\$ (2,812)

Other comprehensive income, net of tax									
Foreign currency translation gain/(loss)	(3)	91	(24)	82	23	164	(1)	246	
Total other comprehensive income/(loss)	(3)	91	(24)	82	23	164	(1)	246	
Comprehensive loss	<u>\$ (548)</u>	<u>\$ (805)</u>	<u>\$ (2,151)</u>	<u>\$ (2,034)</u>					
Comprehensive income/(loss)					<u>\$ 1,727</u>	<u>\$ (532)</u>	<u>\$ (424)</u>	<u>\$ (2,566)</u>	

The accompanying notes are an integral part of the condensed consolidated financial statements.

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**CREXENDO, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022**  
(Unaudited, in thousands, except share data)

	Common Stock		Additional	Other	Accumulated	Total
	Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Stockholders' Equity
<b>Balance, January 1, 2023</b>	25,670,773	\$ 26	\$ 129,192	\$ 187	\$ (87,946)	\$ 41,459
Cumulative effect of accounting change	-	-	\$ -	\$ -	(159)	(159)
Share-based compensation	-	-	1,414	-	-	1,414
Vesting of restricted stock units	266,278	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	(21)	-	(21)
Issuance of common stock for exercise of stock options	35,553	-	40	-	-	40
Taxes paid on the net settlement of stock options and RSUs	-	-	(257)	-	-	(257)
Net loss	-	-	-	-	(1,582)	(1,582)
<b>Balance, March 31, 2023</b>	<u>25,972,604</u>	<u>\$ 26</u>	<u>\$ 130,389</u>	<u>\$ 166</u>	<u>\$ (89,687)</u>	<u>\$ 40,894</u>
Share-based compensation	-	-	855	-	-	855
Foreign currency translation adjustment, net of tax	-	-	-	(3)	-	(3)
Issuance of common stock for exercise of stock options	200	-	-	-	-	-
Taxes paid on the net settlement of stock options and RSUs	-	-	(7)	-	-	(7)
Dividends declared	-	-	(130)	-	-	(130)
Net loss	-	-	-	-	(545)	(545)
<b>Balance, June 30, 2023</b>	<u>25,972,804</u>	<u>\$ 26</u>	<u>\$ 131,107</u>	<u>\$ 163</u>	<u>\$ (90,232)</u>	<u>\$ 41,064</u>
	Common Stock		Additional	Other	Accumulated	Total
	Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Stockholders' Equity
<b>Balance, January 1, 2022</b>	22,054,239	\$ 22	\$ 118,432	\$ 12	\$ (52,533)	\$ 65,933

Share-based compensation	-	-	1,053	-	-	1,053
Vesting of restricted stock units	103,657	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	(9)	-	(9)
Issuance of common stock for exercise of stock options	237,581	-	278	-	-	278
Taxes paid on the net settlement of stock options and RSUs	-	-	(117)	-	-	(117)
Dividends declared	-	-	(111)	-	-	(111)
Net loss	-	-	-	-	(1,220)	(1,220)
<b>Balance, March 31, 2022</b>	<u>22,395,477</u>	<u>\$ 22</u>	<u>\$ 119,535</u>	<u>\$ 3</u>	<u>\$ (53,753)</u>	<u>\$ 65,807</u>
Share-based compensation	-	-	858	-	-	858
Vesting of restricted stock units	8,090	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	91	-	91
Issuance of common stock for exercise of stock options	133,868	1	136	-	-	137
Taxes paid on the net settlement of stock options and RSUs	-	-	(1)	-	-	(1)
Dividends declared	-	-	(112)	-	-	(112)
Net loss	-	-	-	-	(896)	(896)
<b>Balance, June 30, 2022</b>	<u>22,537,435</u>	<u>\$ 23</u>	<u>\$ 120,416</u>	<u>\$ 94</u>	<u>\$ (54,649)</u>	<u>\$ 65,884</u>

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

	Accumulated					Total
	Common Stock		Additional	Other	Accumulated	
	Shares	Amount	Paid-in Capital	Comprehensive Income	Deficit	Stockholders' Equity
<b>Balance, January 1, 2023</b>	25,670,773	\$ 26	\$ 129,192	\$ 187	\$ (87,946)	\$ 41,459
Cumulative effect of accounting change	-	-	-	-	(159)	(159)
Share-based compensation	-	-	1,414	-	-	1,414
Vesting of restricted stock units	266,278	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	(21)	-	(21)
Issuance of common stock for exercise of stock options	35,553	-	40	-	-	40
Taxes paid on the net settlement of stock options and RSUs	-	-	(257)	-	-	(257)
Net loss	-	-	-	-	(1,582)	(1,582)
<b>Balance, March 31, 2023</b>	<u>25,972,604</u>	<u>\$ 26</u>	<u>\$ 130,389</u>	<u>\$ 166</u>	<u>\$ (89,687)</u>	<u>\$ 40,894</u>
Share-based compensation	-	-	855	-	-	855
Foreign currency translation adjustment, net of tax	-	-	-	(3)	-	(3)
Issuance of common stock for exercise of stock options	200	-	-	-	-	-
Taxes paid on the net settlement of stock options and RSUs	-	-	(7)	-	-	(7)
Dividends declared	-	-	(130)	-	-	(130)
Net loss	-	-	-	-	(545)	(545)
<b>Balance, June 30, 2023</b>	<u>25,972,804</u>	<u>\$ 26</u>	<u>\$ 131,107</u>	<u>\$ 163</u>	<u>\$ (90,232)</u>	<u>\$ 41,064</u>
Share-based compensation	-	-	843	-	-	843
Foreign currency translation adjustment, net of tax	-	-	-	23	-	23
Issuance of common stock for exercise of stock options	57,300	-	53	-	-	53
Net income	-	-	-	-	1,704	1,704
<b>Balance, September 30, 2023</b>	<u>26,030,104</u>	<u>\$ 26</u>	<u>\$ 132,003</u>	<u>\$ 186</u>	<u>\$ (88,528)</u>	<u>\$ 43,687</u>

**CREXENDO, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows Stockholders' Equity**  
**Nine Months Ended September 30, 2023 and 2022**



(Unaudited, in thousands) thousands, except share data)

	Six Months Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,127)	\$ (2,116)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,808	1,239
Allowance for credit losses	22	-
Share-based compensation	2,269	1,911
Non-cash operating lease amortization	(2)	(2)
Changes in assets and liabilities:		
Trade receivables	(265)	(1,347)
Contract assets	28	(5)
Equipment financing receivables	(528)	(228)
Inventories	(14)	(27)
Contract costs	(600)	(364)
Prepaid expenses	(582)	(320)
Income tax receivable	-	(344)
Other assets	165	57
Accounts payable and accrued expenses	(631)	(387)
Income tax payable	(36)	(24)
Contract liabilities	(180)	(657)
Net cash used for operating activities	(673)	(2,614)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(92)	(40)
Net cash used for investing activities	(92)	(40)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on line of credit, net	(82)	-
Repayments made on finance leases	(57)	(57)
Proceeds from notes payable	278	-
Repayments made on notes payable	(271)	(37)
Proceeds from exercise of options	40	415
Dividend payments	(130)	(223)
Taxes paid on the net settlement of stock options and RSUs	(264)	(118)
Net cash used for financing activities	(486)	(20)
Effect of exchange rate changes on cash	(24)	82
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,275)	(2,592)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5,475	7,468
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 4,200	\$ 4,876
Cash used during the year for:		
Income taxes, net	\$ (82)	\$ (96)
Interest expense	\$ (75)	\$ (38)
Supplemental disclosure of non-cash investing and financing information:		
Transfer of property and equipment, net to property and equipment, held for sale	\$ 2,333	\$ -

		Accumulated		Total
Common Stock		Additional	Other	
Shares	Amount	Paid-in Capital	Comprehensive Income	Stockholders' Equity
			Accumulated Deficit	

<b>Balance, January 1, 2022</b>	22,054,239	\$	22	\$	118,432	\$	12	\$	(52,533)	\$	65,933
Share-based compensation	-	-	-	-	1,053	-	-	-	-	-	1,053
Vesting of restricted stock units	103,657	-	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	-	-	(9)	-	-	-	-	(9)
Issuance of common stock for exercise of stock options	237,581	-	-	-	278	-	-	-	-	-	278
Taxes paid on the net settlement of stock options	-	-	-	-	(117)	-	-	-	-	-	(117)
Dividends declared	-	-	-	-	(111)	-	-	-	-	-	(111)
Net loss	-	-	-	-	-	-	-	(1,220)	-	-	(1,220)
<b>Balance, March 31, 2022</b>	<u>22,395,477</u>	<u>\$</u>	<u>22</u>	<u>\$</u>	<u>119,535</u>	<u>\$</u>	<u>3</u>	<u>\$</u>	<u>(53,753)</u>	<u>\$</u>	<u>65,807</u>
Share-based compensation	-	-	-	-	858	-	-	-	-	-	858
Vesting of restricted stock units	8,090	-	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	-	-	91	-	-	-	-	91
Issuance of common stock for exercise of stock options	133,868	-	1	-	136	-	-	-	-	-	137
Taxes paid on the net settlement of stock options	-	-	-	-	(1)	-	-	-	-	-	(1)
Dividends declared	-	-	-	-	(112)	-	-	-	-	-	(112)
Net loss	-	-	-	-	-	-	-	(896)	-	-	(896)
<b>Balance, June 30, 2022</b>	<u>22,537,435</u>	<u>\$</u>	<u>23</u>	<u>\$</u>	<u>120,416</u>	<u>\$</u>	<u>94</u>	<u>\$</u>	<u>(54,649)</u>	<u>\$</u>	<u>65,884</u>
Share-based compensation	-	-	-	-	851	-	-	-	-	-	851
Vesting of restricted stock units	6,727	-	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	-	-	164	-	-	-	-	164
Issuance of common stock for exercise of stock options	142,749	-	-	-	161	-	-	-	-	-	161
Taxes paid on the net settlement of stock options	-	-	-	-	(17)	-	-	-	-	-	(17)
Dividends declared	-	-	-	-	(113)	-	-	-	-	-	(113)
Net loss	-	-	-	-	-	-	-	(696)	-	-	(696)
<b>Balance, September 30, 2022</b>	<u>22,686,911</u>	<u>\$</u>	<u>23</u>	<u>\$</u>	<u>121,298</u>	<u>\$</u>	<u>258</u>	<u>\$</u>	<u>(55,345)</u>	<u>\$</u>	<u>66,234</u>

The accompanying notes are an integral part of the condensed consolidated financial statements.

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**CREXENDO, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (423)	\$ (2,812)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization	2,695	1,862
Share-based compensation	3,112	2,762
Non-cash operating lease amortization	(3)	(12)
Gain on sale of property and equipment	(1,459)	-
Allowance for credit losses	44	-
Changes in assets and liabilities:		
Trade receivables	(584)	(1,851)
Contract assets	2	(4)
Equipment financing receivables	(770)	(425)
Inventories	207	53

Contract costs	(994)	(524)
Prepaid expenses	(560)	(638)
Income tax receivable	-	(375)
Other assets	210	65
Accounts payable and accrued expenses	(169)	(742)
Income tax payable	(12)	(24)
Contract liabilities	(409)	-
Net cash provided by/(used in) operating activities	887	(2,665)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(92)	(192)
Proceeds from the sale of property and equipment	3,792	-
Net cash provided by/(used in) investing activities	3,700	(192)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments made on finance leases	(76)	(86)
Repayments made on notes payable	(2,143)	(55)
Proceeds from notes payable	278	-
Proceeds from exercise of options	93	576
Dividend payments	(130)	(336)
Taxes paid on the net settlement of stock options and RSUs	(264)	(135)
Borrowing on a line of credit, net	(82)	-
Net cash used in financing activities	(2,324)	(36)
Effect of exchange rate changes on cash	(1)	246
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,262</b>	<b>(2,647)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>5,475</b>	<b>7,468</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>\$ 7,737</b>	<b>\$ 4,821</b>
<b>Cash used during the year for:</b>		
Income taxes, net	\$ (91)	\$ (96)
Interest expense	\$ (111)	\$ (57)

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

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**CREXENDO, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (unaudited)**

**1. Significant Accounting Policies**

**Description of Business** – Crexendo, Inc. is incorporated in the state of Nevada. As used hereafter in the notes to consolidated financial statements, we refer to Crexendo, Inc. and its wholly owned subsidiaries, as “we,” “us,” or “our Company.” Crexendo, Inc. is an award-winning premier provider of cloud communication platform and services, video collaboration and managed IT services designed to provide enterprise-class cloud solutions to any size business. **Our solutions currently support over three million end users globally.** The Company has two operating segments, which consist of Cloud Telecommunications Services and Software Solutions.

**Basis of Presentation** – The consolidated financial statements include the accounts and operations of Crexendo, Inc. and its wholly owned subsidiaries, which include Allegiant Networks, LLC, Crexendo Business Solutions, Inc., NetSapiens, LLC, Crexendo Business Solutions of Virginia, Inc., NSHC, Inc., NetSapiens Canada, Inc., NetSapiens International Limited and Crexendo International, Inc. All intercompany account balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These consolidated financial statements reflect the results of operations, financial position, changes in stockholders’ equity, and cash flows of our Company.

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

**Foreign Currency Translation** - The functional currency of our international subsidiaries is the local currency. We translate assets and liabilities of foreign subsidiaries, whose functional currency is their local currency, at exchange rates in effect at the balance sheet date. We translate revenue and expenses at the monthly average exchange rates. We include accumulated net translation adjustments in stockholders' equity as a component of accumulated other comprehensive income (loss).

Due to changes in exchange rates between reporting periods and changes in certain account balances, the foreign currency translation adjustment will change from period to period. During the three months ended June 30, 2023 September 30, 2023 and 2022, the Company recorded foreign currency translation gains of \$3, \$23, and \$91, \$164, respectively, and during the six nine months ended June 30, 2023 September 30, 2023 and 2022, the Company recorded foreign currency gains gains/(losses) of \$24 (\$1) and \$82, \$246, respectively, on our statements of comprehensive income income/(loss).

**Cash and Cash Equivalents** - We consider all highly liquid, short-term investments with maturities of three months or less at the time of purchase to be cash equivalents. As of June 30, 2023 September 30, 2023 and December 31, 2022, we had cash and cash equivalents in financial institutions in excess of federally insured limits in the amount of \$3,805 \$7,358 and \$4,750, respectively.

**Trade Receivables and Allowance for Credit Losses** - Trade receivables from our cloud telecommunications services and software solutions segments are recorded at invoiced amounts. Trade receivables are generally due within 30 days after the invoice date. We provide an allowance for credit losses based on historical loss experience, the age of the receivables, specific troubled accounts and other currently available information.

The allowance for credit losses is determined based on an assessment of historical collection experience using the aging schedule method as well as consideration of current and future economic conditions. Trade receivables are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our trade receivable credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients. We continually evaluate the adequacy of the allowance for credit losses and adjust as necessary.

**Equipment Financing Receivables and Allowance for Credit Losses** - Equipment financing receivables are comprised of sales-type leases. Sales-type leases are from financing options provided to clients for cloud telecommunications equipment (IP or cloud telephone desktop devices) and are generally due in installments over periods ranging from three to five years.

We provide an allowance for credit losses based on historical loss experience, adverse situations that may affect a client's client's ability to pay, current economic conditions and outlook based on reasonable and supportable forecasts. We continually evaluate the adequacy of the allowance for credit losses and adjust as necessary. Equipment necessary. Equipment financing receivables are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our equipment financing receivable credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients.

**Contract Assets and Allowance for Credit Losses** - Contract assets primarily relate to the Company's rights to consideration for work completed but not billed as of the reporting date. The Company recognizes a contract asset when the Company transfers products or services to a customer and the right to consideration is conditional on something other than the passage of time. The contract assets are transferred to receivables when the rights become unconditional.

The allowance for credit losses is determined based on an assessment of historical collection experience using the loss-rate method as well as consideration of current and future economic conditions and changes in our loss-rate trends. We utilize a five-year lookback period to establish our estimate of expected credit losses, as our contractual terms range from three to five years. Contract assets are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our contract assets credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients. We continually evaluate the adequacy of the allowance for credit losses and adjust as necessary.

**Contract Costs** - Contract costs primarily relate to incremental commission costs paid to sales representatives and sales leadership as a result of obtaining telecommunications contracts which are recoverable. The Company capitalized contract costs in the amount of \$2,745 \$3,139 and \$2,145 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Capitalized commission costs are amortized based on the transfer of goods or services to which the assets relate which typically range from thirty-six to sixty months, and are included in selling and marketing expenses. During the three months ended June 30, 2023 September 30, 2023 and 2022, the Company amortized \$410 \$402 and \$286, \$391, respectively, and during the six nine months ended June 30, 2023 September 30, 2023 and 2022, the Company amortized \$798 \$1,194 and \$548 \$939 respectively, and there was no impairment loss in relation to the costs capitalized.

**Inventory** – Finished goods telecommunications equipment inventory is stated at the lower of cost or net realizable value (first-in, first-out method). In accordance with applicable accounting guidance, we regularly evaluate whether inventory is stated at the lower of cost or net realizable value. If net realizable value is less than cost, the write-down is recognized as a loss in earnings in the period in which the excess occurs.

**Property and Equipment** – Depreciation and amortization expense is computed using the straight-line method in amounts sufficient to allocate the cost of depreciable assets over their estimated useful lives ranging from two to thirty-nine years. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the related lease. Land is not depreciable. Depreciable lives by asset group are as follows:

Building	39 years
Land	Not depreciated
Computer and office equipment	2 to 5 years
Computer software	3 years
Internal-use software	3 years
Furniture and fixtures	4 years
Leasehold improvements	2 to 5 years
Vehicles	5 years

Maintenance and repairs are expensed as incurred. The cost and accumulated depreciation of property and equipment sold or otherwise retired are removed from the accounts and any related gain or loss on disposition is reflected in the statement of operations.

**Property and equipment, held for sale** – Property and equipment are classified as held for sale when the Company commits to and commences a plan of sale that is reasonably expected to be completed within one year and satisfies certain other held for sale criteria. Property and equipment held for sale are recorded at the lesser of carrying value or fair value, less estimated cost to sell. Depreciation ceases once an asset is classified as held for sale. The Company performs an impairment review of assets held for sale each reporting period. An impairment loss is recorded for an asset or asset group held for sale when the carrying value of the asset or asset group exceeds its fair value, less estimated cost to sell.

**Asset Acquisitions** – Periodically we acquire customer relationships that we account for as an asset acquisition and record a corresponding intangible asset that is amortized over its estimated useful life. Any excess of the fair value of the purchase price over the fair value of the identifiable assets and liabilities is allocated on a relative fair value basis. No goodwill is recorded in an asset acquisition. If the fair value of the assets acquired exceeds the initial consideration paid as of the date of acquisition but includes a contingent consideration arrangement and ASC 450 and ASC 815 do not apply to contingent consideration, we analogize to the guidance in ASC 323 on recognizing contingent consideration in the acquisition of an equity method investment. The Company recognizes a liability equal to the lesser of, the maximum amount of contingent consideration or the excess of the fair value of the net assets acquired over the initial cost measurement. In accordance with the requirements of ASC 323 for equity method investments, the Company recognizes any excess of the contingent consideration issued or issuable, over the amount that was initially recognized as a liability, as an additional cost of the asset acquisition. If the amount initially recognized as a liability exceeds the contingent consideration issued or issuable, the entity recognizes that amount as a reduction of the cost of the asset acquisition.

**Business Acquisitions** - We account for business combinations using the acquisition method of accounting. The acquisition method of accounting requires that the purchase price, including the fair value of contingent consideration, of the acquisition be allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of assets acquired and liabilities assumed. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company's estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations. We include the results of all acquisitions in our consolidated financial statements from the date of acquisition. Acquisition related transaction costs, such as banking, legal, accounting and other costs incurred in connection with an acquisition, are expensed as incurred in general and administrative expenses.

**Goodwill** – We have recorded goodwill related to various business acquisitions. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. In each of our acquisitions, the objective of the acquisition was to expand our product offerings and customer base and to achieve synergies related to cross selling opportunities, all of which contributed to the recognition of goodwill. We test goodwill for impairment on an

annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired. Items that could reasonably be expected to negatively affect key assumptions used in estimating fair value include but are not limited to: sustained decline in our stock price due to a decline in our financial performance due to the loss of key customers, loss of key personnel, emergence of new technologies or new competitors; and decline in overall market or economic conditions leading to a decline in our stock price.

The process of estimating the fair value of goodwill is subjective and requires the Company to make estimates that may significantly impact the outcome of the analysis. A qualitative assessment considers events and circumstances such as macroeconomic conditions, industry and market conditions, cost factors and overall financial performance, as well as company specifications. If after performing this assessment, the Company concludes it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then the Company must perform the quantitative test. Under the quantitative test, a goodwill impairment is identified by comparing the fair value of the reporting unit to the carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds the fair value of the reporting unit, goodwill is considered impaired and an impairment charge is recognized in an amount equal to the excess, not to exceed the carrying amount of goodwill.

Impairment assessment inherently involves management judgments regarding a number of assumptions. The reporting unit fair value also depends on the future strength of the U.S. economy. New and developing competition as well as technological change could also adversely affect future fair value estimates. Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of the Company's recorded goodwill, differences in assumptions could have a material effect on the estimated fair values. For further information, see Note 10 (Intangible Assets and Goodwill).

**Intangible Assets** – Our intangible assets consist of customer relationships, developed technologies, trademarks and trade name. The intangible assets are amortized following the patterns in which the economic benefits are consumed or straight-line over the estimated useful life. We periodically review the estimated useful lives of our intangible assets and review these assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The determination of impairment is based on estimates of future undiscounted cash flows. If an intangible asset is considered to be impaired, the amount of the impairment will be equal to the excess of the carrying value over the fair value of the asset.

**Contract Liabilities** – Our contract liabilities consist primarily of advance consideration received from customers for telecommunications contracts. The product and monthly service revenue is recognized on completion of the implementation and the remaining activation fees are reclassified as **deferred revenue, contract liabilities**.

**Use of Estimates** – In preparing the consolidated financial statements, management makes assumptions, estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of net sales and expenses during the reported periods. Specific estimates and judgments include valuation of goodwill and intangible assets in connection with business acquisitions and asset acquisitions, the provision for credit losses related to trade receivables, provision for contract assets, provision for equipment financing receivables, uncertainties related to certain income tax benefits, valuation of deferred income tax assets, valuations of share-based payments, annual incentive bonuses accruals, recoverability of long-lived assets and intangible assets, and product warranty liabilities. Management's estimates are based on historical experience and on our expectations that are believed to be reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our current estimates and those differences may be material.

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**Contingencies** – The Company accrues for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, the Company reviews each of its matters and, where it is probable that a liability has been or will be incurred, it accrues for all probable and reasonably estimable losses. Where the Company can reasonably estimate a range of losses it may incur regarding such a matter, it records an accrual for the amount within the range that constitutes its best estimate. If the Company can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, it uses the amount that is the low end of such range.

**Service, Software Solutions and Product Revenue Recognition** – Revenue is recognized upon transfer of control of promised services, software solutions or products to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services and excludes any amounts collected on behalf of third parties. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. We recognize revenue for delivered elements only when we determine there are no uncertainties regarding customer acceptance. Changes in the allocation of the sales price between delivered and undelivered elements can impact the timing of revenue recognized but does not change the total revenue recognized on any agreement. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. For more detailed information about revenue, see Note **3.3 (Revenue)**.

**Cost of Service Revenue** – Cost of service revenue includes cloud telecommunications services. Cloud telecommunications cost of service revenue primarily consists of fees we pay to third-party telecommunications and broadband Internet providers, costs of other third-party services we resell, personnel and travel expenses related to system

implementation, and customer service.

**Cost of Software Solutions Revenue** – Cost of software solutions revenue consists primarily of royalties and other fees paid to third parties whose technology or products are sold as part of the Company's products, direct costs to manufacture and distribute products, direct costs to provide product support and professional support services, direct costs associated with delivery of the Company's software offerings, and amortization expense related to developed technology intangible assets.

**Cost of Product Revenue** – Cost of product revenue primarily consists of the costs associated with the purchase of desktop devices and other third-party equipment we purchase for resale.

**Product Warranty** – We provide for the estimated cost of product warranties at the time we recognize revenue. We evaluate our warranty obligations on a product group basis. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. We base our estimated warranty obligation upon warranty terms, ongoing product failure rates, and current period product shipments. If actual product failure rates, repair rates or any other post-sales support costs were to differ from our estimates, we would be required to make revisions to the estimated warranty liability. Warranty terms generally last for the duration that the customer has service.

**Contingent Consideration** – Contingent consideration represents deferred business acquisition and asset acquisition consideration to be paid out at some point in the future, typically over a one-year period or less from the acquisition date. Contingent consideration is recorded at the **asset** acquisition date fair value. Contingent consideration recorded in connection with a business acquisition is reported at fair value each reporting period until the contingency is resolved. Any changes in fair value are recognized in earnings. Contingent consideration recorded in connection with an asset acquisition is not derecognized until the related contingency is resolved and the consideration is paid or becomes payable. If the amount initially recorded as contingent consideration exceeds the amount paid or payable, the Company recognizes that excess amount as a reduction in the cost of the related intangible assets.

**Research and Development** – Research and development expenses consist primarily of personnel and related expenses for the Company's research and development staff, including salaries, benefits, bonuses and stock-based compensation and the cost of certain third-party contractors. Research and development costs are expensed as incurred. Costs related to internally developed software are expensed as research and development expense until technological feasibility has been achieved, after which the costs are capitalized.

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**Fair Value Measurements** – The fair value of our financial assets and liabilities was determined based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

*Level 1* — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

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*Level 2* — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

*Level 3* — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

**Lease Obligations** – We determine if an agreement is a lease at inception. We evaluate the lease terms to determine whether the lease will be accounted for as an operating or finance lease. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liabilities, current portion, and operating lease liabilities, net of current portion in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease

payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

A lease that transfers substantially all of the benefits and risks incidental to ownership of property are accounted for as finance leases. At the inception of a finance lease, an asset and finance lease obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Finance lease obligations are classified as either current or long-term based on the due dates of future minimum lease payments, net of interest.

**Notes Payable** – We record notes payable net of any discounts or premiums. Discounts and premiums are amortized as interest expense or income over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period.

**Income Taxes** – We recognize a liability or asset for the deferred tax consequences of all temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. Accruals for uncertain tax positions are provided for in accordance with accounting guidance. Accordingly, we may recognize the tax benefits from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting guidance is also provided on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in the financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, and cash flows. In assessing the need for a valuation allowance, we evaluate all significant available positive and negative evidence, including historical operating results, estimates of future taxable income and the existence of prudent and feasible tax planning strategies. At December 31, 2022, we determined that it is more likely-than-not that we will not be able to realize our deferred income tax assets in the future. A valuation allowance of \$3,179 and \$3,179 was recorded against our gross deferred tax asset balance as of June 30, 2023, September 30, 2023, and December 31, 2022, respectively.

Interest and penalties associated with income taxes are classified as income tax expense in the consolidated statements of operations.

**Stock-Based Compensation** – For equity-classified awards, compensation expense is recognized over the requisite service period based on the computed fair value on the grant date of the award. Equity classified awards include the issuance of stock options and restricted stock units ("RSUs").

**Operating Segments** – Accounting guidance establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires enterprises to report selected information about operating segments in financial reports issued to stockholders. The Company has reorganized into two operating segments, which consist of cloud telecommunications services and software solutions. The software solutions segment includes the results of operation of NetSapiens, LLC, NSHC, Inc., NetSapiens Canada, Inc., and NetSapiens International Limited. The cloud telecommunications segment includes the results of operations of Allegiant Networks, LLC, Crexendo Business Solutions, Inc., Crexendo International, Inc., and Crexendo Business Solutions of Virginia, Inc. We generate 96% 95% of our total revenue from customers within the United States and 4% 5% of our total revenues from customers in other parts of the world.

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**Significant Customers** – No customer accounted for 10% or more of our total revenue for the three and six nine months ended June 30, 2023, September 30, 2023, and 2022. No customer accounted for 10% or more of our total trade accounts receivable as of June 30, 2023, September 30, 2023, and December 31, 2022.

**Recently Adopted Accounting Pronouncements** – In August 2020, the FASB issued ASU 2020-06, which simplifies the accounting for convertible instruments. ASU 2020-06 eliminates certain models that require separate accounting for embedded conversion features, in certain cases. Additionally, among other changes, the guidance eliminates certain of the conditions for equity classification for contracts in an entity's own equity. ASU 2020-06 also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. ASU 2020-06 is effective for our fiscal year beginning after December 15, 2021, including interim periods within this fiscal year. This guidance can be applied using either a modified or full retrospective approach. The Company adopted ASU 2020-06 effective January 1, 2022. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In September 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, with additional updates and amendments being issued in 2018, 2019, 2020 and 2022 (collectively, "ASC 326"). The new standard updates the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities are required to use a new forward-looking "expected loss" "expected loss" model that generally results in the earlier recognition of an allowance for credit losses. The Company adopted ASC 326 on a modified



retrospective basis as of January 1, 2023, through a cumulative-effect adjustment to the Company's Company's beginning accumulated deficit balance; the impact of the adoption was not material to the Company's Company's consolidated financial statements. The adoption of this standard and applicable amendments primarily impacted the estimation of our allowance for credit losses for accounts receivable and established an allowance for credit losses for our equipment finance receivables and contract assets. See Note 2 for disclosures related to changes in accounting policies. See Note 6 - Trade Receivables and Allowance for Credit Losses, Note 7 – Equipment Financing Receivables and Allowance for Credit Losses, and Note 3 – Contract Assets and Allowance for Credit Losses for additional discussion regarding the impacts from the adoption of this standard.

#### Recently Issued Accounting Pronouncements – None

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### 2. Changes in Accounting Principles

On January 1, 2023, the Company adopted ASC 326 *Financial Instruments — Credit Losses* ("ASC 326"). The new standard updates the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans, contract assets, and other instruments, entities are required to use a new forward-looking "expected loss" "expected loss" model that generally results in the earlier recognition of an allowance for credit losses. The Company applied the modified retrospective method of adoption for ASC 326. Under this transition method, the Company applied the transition provisions starting at the date of adoption. The cumulative effect of the adoption of ASC 326 on our January 1, 2023 Condensed Consolidated Balance Sheet was as follows:

Condensed Consolidated Balance Sheet	December 31, 2022 As Previously Reported	New ASC 326 Standard Adjustment	January 1, 2023 As Adjusted
(In thousands)			
<b>Assets</b>			
Trade receivables, net of allowance	\$ 3,297	\$ (18)	\$ 3,279
Contract assets, net of allowance	318	(29)	289
Equipment financing receivables, net of allowance	635	(37)	598
Total current assets	12,032	(84)	11,948
Long-term equipment financing receivables, net of allowance	1,255	(75)	1,180
Total Assets	\$ 55,634	\$ (159)	\$ 55,475
<b>Liabilities and Stockholders' Equity</b>			
Accumulated deficit	(87,946)	(159)	(88,105)
Total stockholders' equity	41,459	(159)	41,300
Total Liabilities and Stockholders' Equity	\$ 55,634	\$ (159)	\$ 55,475

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### 3. Revenue

Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product, service, or software solution to a customer. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, see Note 18.18 (Segment Reporting).

#### Cloud Telecommunications Services Segment

Products and services may be sold separately or in bundled packages. The typical length of a contract for service is thirty-six to sixty months. Customers are billed for these services on a monthly basis. For bundled packages, the Company accounts for individual products and services separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate products and services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the desktop devices and telecommunication services. For items that are not

sold separately (e.g. additional features) the Company estimates stand-alone selling prices using the adjusted market assessment approach. When we provide a free trial period, we do not begin to recognize recurring revenue until the trial period has ended and the customer has been billed for the services.

**Desktop Devices Telecommunications Equipment** – Revenue generated from the sale of telecommunications equipment (desktop devices) is recognized when the customer takes possession of the devices and the cloud telecommunications services begin. The Company typically bills and collects the fees for the equipment upon entering into a contract with a customer. Cash receipts are recorded as a contract liability until implementation is complete and the services begin.

**Equipment Financing Revenue** – Fees generated from renting our cloud telecommunication equipment (IP or cloud telephone desktop devices) through leasing contracts are recognized as revenue based on whether the lease qualifies as an operating lease or sales-type lease. The two primary accounting provisions which we use to classify transactions as sales-type or operating leases are: 1) lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and 2) the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. The economic life of most of our products is estimated to be three years, since this represents the most frequent contractual lease term for our products, and there is no residual value for used equipment. Residual values, if any, are established at the lease inception using estimates of fair value at the end of the lease term. The vast majority of our leases that qualify as sales-type leases are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. Leases that do not meet the criteria for sales-type lease accounting are accounted for as operating leases. Revenue from sales-type leases is recognized upon installation and the interest portion is deferred and recognized as earned. Revenue from operating leases is recognized ratably over the applicable service period.

**Cloud Telecommunications Services** – Cloud telecommunication services include voice, data, collaboration software, broadband Internet access, managed IT services, cloud server rental and support, managed security, cabling, software license sales, interest generated from equipment financing revenue, and support for premise based PBX phone systems. The Company recognizes revenue as services are provided in service revenue. Fees generated from reselling broadband Internet access are recognized as revenue net of the costs charged by the third-party service providers. Cloud telecommunications services are billed and paid on a monthly basis. Our telecommunications services contracts typically have a term of thirty-six to sixty months.

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*Fees, Commissions, and Other, Recognized over Time* – Includes contracted and non-contracted items such as:

- Contracted activation and flash fees – The Company generally allocates a portion of the activation fees to the desktop devices, which is recognized at the time of the installation or customer acceptance, and a portion to the service, which is recognized over the contract term using the straight-line method.
- Non-contracted carrier cost recovery fee – This fee recovers the various costs and expenses that the Company incurs in connection with complying with legal, regulatory, and other requirements, including without limitation federal, state, and local reporting and filing requirements. This fee is assessed as a set percentage of our monthly billing and is recognized monthly.
- Non-contracted administrative fees – Administrative fees are recognized as revenue on a monthly basis.

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*One-Time Fees, Commissions, and Other* – Includes contracted and non-contracted items such as:

- Contracted professional service revenue – Professional service revenue includes professional installation services, custom integration, and other professional services. The Company typically bills and collects professional service revenue upon entering into a contract with a customer. Professional service revenue is recognized as revenue when the performance obligations are completed.
- Non-contracted cancellation fees – These cancellation fees relate to remaining contractual term buyout payments in connection with early cancellation and are billed and recognized as revenue upon receipt.
- Other non-contracted fees – These fees include disconnect fees, shipping fees, restocking fees, and porting fees. Other non-contracted fees are recognized as revenue upon receipt of payment.

#### **Software Solutions Segment**

The Software Solutions segment derives revenues from three primary sources: software licenses, software maintenance support and professional services. Software and services may be sold separately or in bundled packages. Generally, contracts with customers contain multiple performance obligations, consisting of software and services. For bundled packages, the Company accounts for individual products and services separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any

discounts) is allocated between separate products and services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the software licenses and professional services. For items that are not sold separately (e.g. additional features) the Company estimates stand-alone selling prices using the adjusted market assessment approach. When we provide a free trial period, we do not begin to recognize recurring revenue until the trial period has ended and the customer has been billed for the services.

**Software Licenses** - The Company's software licenses typically provide a perpetual right to use the Company's software. The Company also sells term-based software licenses that expire and Software-as-a-Service ("SaaS") based software which are referred to as subscription arrangements. The Company does not customize its software nor are installation services required, as the customer has a right to utilize internal resources or a third-party service company. The software is delivered before related services are provided and are functional without professional services or customer support. The Company has concluded that its software licenses are functional intellectual property that are distinct, as the user can benefit from the software on its own. The software license revenue could be recognized upon transfer of control or when the software is made available for download, as this is the point that the user of the software can direct the use of, and obtain substantially all of the remaining benefits from, the functional intellectual property. However, historical experience shows that customers regularly renegotiate the number of licenses during the installation process. Therefore, the Company recognizes revenue from software licenses when the setup is complete. The Company does not recognize software revenue related to the renewal of subscription software licenses earlier than the beginning of the subscription period.

- **SNAPsolution®** - a comprehensive, IP-based platform that provides a broad suite of UC services including hosted Private Branch Exchange (PBX), auto-attendant, call center, conferencing, and mobility. The platform includes a broad range of feature-sets, custom-built to provide unprecedented levels of flexibility, making the solution competitive with the market's leading players. SNAPsolution includes a full suite of Voice over Internet Protocol (VoIP)/UC features with one low cost universal license, as opposed to pricing each feature individually. The Company licenses its platform based on concurrent sessions, not per seat/per feature. This allows service providers to oversubscribe their networks, driving down the cost per seat as volume increases. As the service provider increases their customer base, they only have to ensure they have sufficient concurrent call licenses to support users across the network. The Company recognizes one-time upfront software license revenue when the software setup is complete.
- **SNAPacel** - a Software-as-a-Service ("SaaS") based software license referred to as subscription arrangements. The Company recognizes revenue as subscriptions are provided in service revenue on a monthly basis.

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**Subscription Maintenance and Support** - Subscription maintenance and support revenue includes revenue from maintenance service contracts, customer support, and other supportive services. The Company offers warranties on its products. The warranty period for the Company's licensed software is generally 90 days. Certain of the Company's warranties are considered to be assurance-type in nature and do not cover anything beyond ensuring that the product is functioning as intended. Based on the guidance in ASC 606, assurance-type warranties do not represent separate performance obligations. The Company also sells separately-priced maintenance service contracts, which qualify as service-type warranties and represent separate performance obligations. The Company does not typically allow and has no history of accepting material product returns. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. Subscription and maintenance support revenue is recognized ratably over the term of the customer support agreement, which is typically one year.

**Professional Services and Other** - The Company's professional services include consulting, technical support, resident engineer services, design services and installation services. Revenue from professional services and other is recognized when the performance obligation is complete and the customer has accepted the performance obligation.

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### Disaggregation of Revenue

In the following table, revenue is disaggregated by primary major product line, and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the reportable segments.

Three Months Ended June 30, 2023						
	Cloud	Software	Total			
Three Months Ended September 30, 2023						
	Cloud	Software	Total			
(In thousands)	Telecommunications Segment	Solutions Segment	Reportable Segments	Telecommunications Segment	Solutions Segment	Reportable Segments

Major products/services lines					
Desktop devices	\$ 1,432	\$ -	\$ 1,432		
Telecommunications equipment				\$ 1,666	\$ - \$ 1,666
Equipment financing revenue	118	-	118	133	- 133
Telecommunications services	6,232	-	6,232	6,299	- 6,299
Fees, commissions, and other, recognized over time	477	-	477	479	- 479
One time fees, commissions and other	481	-	481	606	- 606
Software licenses	-	658	658	-	971 971
Software license and maintenance and support subscriptions	-	3,050	3,050	-	3,490 3,490
Professional services and other	-	222	222	-	230 230
	<u>\$ 8,740</u>	<u>\$ 3,930</u>	<u>\$ 12,670</u>	<u>\$ 9,183</u>	<u>\$ 4,691 \$ 13,874</u>
<b>Timing of revenue recognition</b>					
Products, services, and fees recognized at a point in time	\$ 1,913	\$ 880	\$ 2,793	\$ 2,272	\$ 1,201 \$ 3,473
Products, services, and fees transferred over time	6,827	3,050	9,877	6,911	3,490 10,401
	<u>\$ 8,740</u>	<u>\$ 3,930</u>	<u>\$ 12,670</u>	<u>\$ 9,183</u>	<u>\$ 4,691 \$ 13,874</u>

Three Months Ended June 30, 2022						
	Cloud	Software	Total			
Three Months Ended September 30, 2022						
(In thousands)	Telecommunications Segment	Solutions Segment	Reportable Segments	Cloud Telecommunications Segment	Software Solutions Segment	Total Reportable Segments
<b>Major products/services lines</b>						
Desktop devices	\$ 692	\$ -	\$ 692			
Telecommunications equipment				\$ 760	\$ -	\$ 760
Equipment financing revenue	79	-	79	87	-	87
Telecommunications services	3,802	-	3,802	3,831	-	3,831
Fees, commissions, and other, recognized over time	413	-	413	423	-	423
One time fees, commissions and other	262	-	262	132	-	132
Software licenses	-	764	764	-	985	985
Software license and maintenance and support subscriptions	-	2,686	2,686	-	2,759	2,759
Professional services and other	-	148	148	-	131	131
	<u>\$ 5,248</u>	<u>\$ 3,598</u>	<u>\$ 8,846</u>	<u>\$ 5,233</u>	<u>\$ 3,875</u>	<u>\$ 9,108</u>
<b>Timing of revenue recognition</b>						
Products, services, and fees recognized at a point in time	\$ 954	\$ 912	\$ 1,866	\$ 892	\$ 1,116	\$ 2,008
Products, services, and fees transferred over time	4,294	2,686	6,980	4,341	2,759	7,100
	<u>\$ 5,248</u>	<u>\$ 3,598</u>	<u>\$ 8,846</u>	<u>\$ 5,233</u>	<u>\$ 3,875</u>	<u>\$ 9,108</u>
Nine Months Ended September 30, 2023						
(In thousands)	Cloud Telecommunications Segment	Software Solutions Segment	Total Reportable Segments			
<b>Major products/services lines</b>						
Telecommunications equipment				\$ 4,323	\$ -	\$ 4,323
Equipment financing revenue				356	-	356

Telecommunications services	18,587	-	18,587
Fees, commissions, and other, recognized over time	1,392	-	1,392
One time fees, commissions and other	1,648	-	1,648
Software licenses	-	2,662	2,662
Software license and maintenance and support subscriptions	-	9,506	9,506
Professional services and other	-	561	561
	<u>\$ 26,306</u>	<u>\$ 12,729</u>	<u>\$ 39,035</u>
<b>Timing of revenue recognition</b>			
Products and fees recognized at a point in time	\$ 5,971	\$ 3,223	\$ 9,194
Services and fees transferred over time	<u>20,335</u>	<u>9,506</u>	<u>29,841</u>
	<u>\$ 26,306</u>	<u>\$ 12,729</u>	<u>\$ 39,035</u>

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<b>Six Months Ended June 30, 2023</b>			
(In thousands)			
	<b>Cloud</b>	<b>Software</b>	<b>Total</b>
	<b>Telecommunications</b>	<b>Solutions</b>	<b>Reportable</b>
	<b>Segment</b>	<b>Segment</b>	<b>Segments</b>
<b>Major products/services lines</b>			
Desktop devices	\$ 2,657	\$ -	\$ 2,657
Equipment financing revenue	223	-	223
Telecommunications services	12,288	-	12,288
Fees, commissions, and other, recognized over time	913	-	913
One time fees, commissions and other	1,042	-	1,042
Software licenses	-	1,691	1,691
Software license and maintenance and support subscriptions	-	6,016	6,016
Professional services and other	-	331	331
	<u>\$ 17,123</u>	<u>\$ 8,038</u>	<u>\$ 25,161</u>
<b>Timing of revenue recognition</b>			
Products and fees recognized at a point in time	\$ 3,699	\$ 2,022	\$ 5,721
Services and fees transferred over time	<u>13,424</u>	<u>6,016</u>	<u>19,440</u>
	<u>\$ 17,123</u>	<u>\$ 8,038</u>	<u>\$ 25,161</u>
<b>Six Months Ended June 30, 2022</b>			
(In thousands)			
	<b>Cloud</b>	<b>Software</b>	<b>Total</b>
	<b>Telecommunications</b>	<b>Solutions</b>	<b>Reportable</b>
	<b>Segment</b>	<b>Segment</b>	<b>Segments</b>
<b>Major products/services lines</b>			
Desktop devices	\$ 1,184	\$ -	\$ 1,184
Equipment financing revenue	151	-	151
Telecommunications services	7,561	-	7,561
Fees, commissions, and other, recognized over time	846	-	846
One time fees, commissions and other	396	-	396
Software licenses	-	1,409	1,409
Software license and maintenance and support subscriptions	-	5,191	5,191
Professional services and other	-	266	266
	<u>\$ 10,138</u>	<u>\$ 6,866</u>	<u>\$ 17,004</u>
<b>Timing of revenue recognition</b>			
Products and fees recognized at a point in time	\$ 1,580	\$ 1,675	\$ 3,255
Services and fees transferred over time	<u>8,558</u>	<u>5,191</u>	<u>13,749</u>
	<u>\$ 10,138</u>	<u>\$ 6,866</u>	<u>\$ 17,004</u>

Nine Months Ended September 30, 2022			
(In thousands)	Cloud	Software	Total
	Telecommunications	Solutions	Reportable
	Segment	Segment	Segments
<b>Major products/services lines</b>			
Telecommunications equipment	\$ 1,944	\$ -	\$ 1,944
Equipment financing revenue	238	-	238
Telecommunications services	11,392	-	11,392
Fees, commissions, and other, recognized over time	1,269	-	1,269
One time fees, commissions and other	528	-	528
Software licenses	-	2,394	2,394
Software license and maintenance and support subscriptions	-	7,950	7,950
Professional services and other	-	397	397
	<u>\$ 15,371</u>	<u>\$ 10,741</u>	<u>\$ 26,112</u>
<b>Timing of revenue recognition</b>			
Products and fees recognized at a point in time	\$ 2,472	\$ 2,791	\$ 5,263
Services and fees transferred over time	12,899	7,950	20,849
	<u>\$ 15,371</u>	<u>\$ 10,741</u>	<u>\$ 26,112</u>

#### Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(In thousands)	June 30, 2023	December 31, 2022
Receivables, which are included in trade receivables, net of allowance for credit losses	\$ 3,549	\$ 3,297
Contract assets, net of allowance for credit losses	267	318
Contract liabilities	3,405	3,585

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(In thousands)	September 30, 2023	December 31, 2022
Receivables, which are included in trade receivables, net of allowance for doubtful accounts	\$ 3,873	\$ 3,297
Contract assets, net of allowance for credit losses	299	318
Contract liabilities	3,176	3,585

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

(In thousands)	For the Six Months Ended		For the Year Ended		For the Nine Months Ended		For the Year Ended	
	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities

Revenue recognized that was included in the contract liability balance at the beginning of the period	\$	-	\$	(2,507)	\$	-	\$	(3,046)	\$	-	\$	(3,256)	\$	-	\$	(3,046)
Increase due to cash received, excluding amounts recognized as revenue during the period		-		2,327		-		3,603		-		2,847		-		3,603
Transferred to receivables from contract assets recognized at the beginning of the period		(123)		-		(166)		-		(186)		-		(166)		-
Increase due to additional unamortized discounts		72		-		223		-		167		-		223		-

#### Contract assets allowance for credit losses

Our contract assets balance consists of the Company's rights to consideration for work completed but not billed as of the reporting date. The contract assets are transferred to receivables when the rights become unconditional. Contract assets were as follows (in thousands):

	June 30, 2023	December 31, 2022
Gross contract assets	\$ 290	\$ 318
Less: allowance for credit losses	(23)	-
Contract assets, net of allowance for credit losses	\$ 267	\$ 318

	September 30, 2023	December 31, 2022
Gross contract assets	\$ 333	\$ 318
Less: allowance for credit losses	(34)	-
Contract assets, net of allowance for credit losses	\$ 299	\$ 318

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The allowance for credit losses was as follows (in thousands):

Balance at December 31, 2022	\$ -	\$ -
Cumulative effect of accounting change	29	29
Provision	2	2
Write-offs	-	-
Recoveries and other	-	-
Balance at March 31, 2023	<u>\$ 31</u>	<u>\$ 31</u>
Cumulative effect of accounting change	-	-
Provision	(8)	(8)
Write-offs	-	-
Recoveries and other	-	-
Balance at June 30, 2023	<u>\$ 23</u>	<u>\$ 23</u>
Provision		11
Write-offs		-
Recoveries and other		-
Balance at September 30, 2023		<u>\$ 34</u>

The allowance for credit losses is determined based on an assessment of historical collection experience using the loss-rate method as well as consideration of current and future economic conditions and changes in our loss-rate trends. We utilize a five-year lookback period to establish our estimate of expected credit losses, as our contractual terms range from three to five years. Based on that assessment, the allowance for credit losses as a percent of gross contract assets increased to 7.9% 10.3% at June 30, 2023 September 30, 2023 from 0% at December 31, 2022.

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#### Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period (in thousands):

	2023	2024	2025	2026	2027 and thereafter	Total	2023	2024	2025	2026	2027 and thereafter	Total
Desktop devices	\$ 361					\$ 361	\$ 271					\$ 271
Telecommunications services	\$ 9,191	11,332	7,866	4,891	2,111	\$ 35,391	\$ 5,715	16,248	11,157	6,174	3,549	\$ 42,843
Software Solutions	\$ 6,031	4,986	3,155	1,023	274	\$ 15,469	\$ 5,368	7,968	4,461	2,128	394	\$ 20,319
All consideration from contracts with customers is included in the amounts presented above												

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All consideration from contracts with customers is included in the amounts presented above

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#### 4. Earnings Per Common Share



Basic net income/(loss) per common share is computed by dividing the net **income** **income/(loss)** for the period by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed giving effect to all dilutive common stock equivalents, consisting of common stock options. Diluted net loss per common share for the three **and six** months ended **June 30, 2023** **September 30, 2022** and **nine months ended September 30, 2023** and 2022 is the same as basic net loss per common share because the common share equivalents were anti-dilutive due to the net loss. The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net loss (in thousands) (A)	\$ (545)	\$ (896)	\$ (2,127)	\$ (2,116)				
Net income/(loss) (in thousands) (A)					\$ 1,704	\$ (696)	\$ (423)	\$ (2,812)
Weighted-average share reconciliation:								
Weighted-average basic shares outstanding (B)	25,972,628	22,456,420	25,853,998	22,347,510	25,995,507	22,620,703	25,901,686	22,439,575
Dilutive effect of stock-based awards	-	-	-	-	1,687,258	-	-	-
Diluted weighted-average outstanding shares of common stock (C)	<u>25,972,628</u>	<u>22,456,420</u>	<u>25,853,998</u>	<u>22,347,510</u>	<u>27,682,765</u>	<u>22,620,703</u>	<u>25,901,686</u>	<u>22,439,575</u>
Earnings per common share:								
Basic (A/B)	\$ (0.02)	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ 0.07	\$ (0.03)	\$ (0.02)	\$ (0.13)
Diluted (A/C)	\$ (0.02)	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ 0.06	\$ (0.03)	\$ (0.02)	\$ (0.13)

For the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, the following potentially dilutive common stock, including awards granted under our equity incentive compensation plans, were excluded from the computation of diluted net income per share because including them would be anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock options	4,907,395	3,304,775	4,609,364	2,300,562

  

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	4,708,364	3,140,362	4,582,503	2,471,886

## 5. Acquisitions

## Allegiant Networks, LLC Business Acquisition

On October 17, 2022, the Company entered into an Acquisition Agreement with Allegiant Networks, LLC, a Kansas limited liability company (the "Allegiant Networks") to acquire from Seller one hundred percent (100%) of the issued and outstanding shares of Allegiant Networks in exchange for (i) a cash payment at closing in the amount of \$2.0 million, (ii) a three-year promissory note by the Company in favor of Seller in the amount of \$1.1 million, and (iii) 2,461,538 shares of the Company's common stock, par value \$0.001 per share. Shares issued in the transaction **shall be were** fully restricted for a period of 6 months from the date of issuance and subject to lock-up thereafter. Pursuant to the lock-up agreement, after 6 months, 25% of the shares **will be were** permitted to be sold, with an additional 25% permitted to be sold every 6-month period thereafter. On November 1, 2022, the Company closed the transaction, and the Company issued the seller cash consideration of \$2.0 million, a three-year promissory note for \$1.1 million, and 2,461,538 shares of the Company's common stock, par value \$0.001 per share valued at \$2.57 per share, for an aggregate purchase price of approximately \$9.4 million.

	December 31, 2022
(in thousands)	
<b>Consideration:</b>	
Cash	\$ 2,000
Common stock	6,326
Note Payable	1,100
Total consideration	<u>\$ 9,426</u>

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	December 31, 2022
(in thousands)	
<b>Consideration:</b>	
Cash	\$ 2,000
Common stock	6,326
Note Payable	1,100
Total consideration	<u>\$ 9,426</u>

The acquisition was accounted for under the acquisition method of accounting and the operating results of Allegiant Networks have been included in our consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by us was allocated to Allegiant Networks' net tangible assets and intangible assets based on their estimated fair values as of the acquisition closing date. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon our conclusion that there are strategic and synergistic benefits that are expected to be realized from the acquisition. Goodwill, which is non-deductible for tax purposes, **represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and** is primarily attributable to the customer relationships of the acquired business and expected synergies at the time of the acquisition.

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We retained an independent third-party valuation firm to assist management in our valuation of the acquired assets and liabilities. The following table presents the final allocation of the purchase price for Allegiant Networks as of December 31, 2022 (in thousands):

	Final Purchase Price Allocation
Total purchase price	\$ 9,426
Cash	586
Accounts receivables	759
Prepaid expenses	48
Inventory	484
Other assets	12

Property, plant & equipment	319
Right to use assets	861
Intangible assets acquired (FV)	7,000
Total identifiable assets	10,069
Accounts payable	1,162
Accrued expenses	714
Contract liability	917
Operating lease liability	877
Direct financing liability	142
Buyers note	1,100
Deferred tax liability	1,922
Total liabilities assumed	6,834
Total goodwill	\$ 5,091

The fair values of the customer relationships was established based upon the income approach. The income approach relies on an estimation of the present value of the future monetary benefits expected to flow to the owner of an asset during its remaining economic life. This approach requires a projection of the cash flow that the asset is expected to generate in the future. The projected cash flow is discounted to its present value using a rate of return, or discount rate that accounts for the time value of money and the degree of risk inherent in the asset. The income approach may take the form of a "relief from royalty" methodology, a cost savings methodology, a "with and without" methodology, or excess earnings methodology, depending on the specific asset under consideration.

The customer relationships was valued using the multi-period excess earnings method. The Inherent in the multi-period excess earnings method is the recognition that, in most cases, all of the assets of the business, both tangible and intangible, contribute to the generation of the cash flow of the business and the net cash flows attributable to the subject asset must recognize the support of the other assets which contribute to the realization of the cash flows. This future cash flow was then discounted using an estimated required rate of return for the asset to determine the present value of the future cash flows attributable to the asset. The key assumptions used in valuing the customer relationships acquired are as follows: weighted average cost of capital of 16.0%, tax rate of 25.0%, and estimated economic life of 15 years.

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The following unaudited pro forma information presents our consolidated results of operations as if Allegiant Networks had been included in our consolidated results since January 1, 2022:

	For the Six Months Ended June 30, (Unaudited, in thousands)		For the Nine Months Ended September 30, (Unaudited, in thousands)	
	2023	2022	2023	2022
Revenues	\$ 25,161	\$ 22,385	\$ 39,035	\$ 34,360
Net loss	(2,127)	(1,965)	(423)	(2,580)
Earnings per share	\$ (0.08)	\$ (0.08)	\$ (0.02)	\$ (0.10)

The unaudited pro forma financial information is presented for informational purposes only and may not necessarily reflect the Company's future results of operations or what the results of operations would have been had the Company owned and operated Allegiant Networks as of January 1, 2022.

Acquisition related expenses incurred by us in connection with the Allegiant Networks acquisition totaled \$0 and \$0 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$1 and \$0 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively, and are recorded within general and administrative expenses in our consolidated statements of operations.

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### 6. Trade Receivables and Allowance for Credit Losses

Our trade receivables balance consists of traditional trade receivables. Trade receivables were as follows (in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Gross trade receivables	\$ 3,693	\$ 3,428	\$ 3,983	\$ 3,428
Less: allowance for credit losses	(144)	(131)	(110)	(131)
Trade receivables, net	<u>\$ 3,549</u>	<u>\$ 3,297</u>	<u>\$ 3,873</u>	<u>\$ 3,297</u>
Current trade receivables, net	\$ 3,549	\$ 3,297	\$ 3,873	\$ 3,297
Long-term trade receivables, net	-	-	-	-
Trade receivables, net	<u>\$ 3,549</u>	<u>\$ 3,297</u>	<u>\$ 3,873</u>	<u>\$ 3,297</u>

The allowance for credit losses was as follows (in thousands):

Balance at December 31, 2022	\$ 131	\$ 131
Cumulative effect of accounting change	18	18
Provision	45	45
Write-offs	(7)	(7)
Recoveries and other	-	-
Balance at March 31, 2023	<u>\$ 187</u>	<u>\$ 187</u>
Cumulative effect of accounting change	-	-
Provision	68	68
Write-offs	(111)	(111)
Recoveries and other	-	-
Balance at June 30, 2023	<u>\$ 144</u>	<u>\$ 144</u>
Provision		(30)
Write-offs		(4)
Recoveries and other		-
Balance at September 30, 2023		<u>\$ 110</u>

The allowance for credit losses is determined based on an assessment of historical collection experience using the aging schedule method as well as consideration of current and future economic conditions. Based on that assessment, the allowance for credit losses as a percent of gross accounts receivable **increased** **decreased** to **3.9%** **2.8%** at **June 30, 2023** **September 30, 2023** from 3.8% at December 31, 2022.

## 7. Equipment Financing Receivables and Allowance for Credit Losses

Our equipment financing receivables balance consists of sales-type leases arising from lease financing of cloud telecommunication equipment (IP or cloud telephone desktop devices) bundled and sold with our cloud telecommunications services. The majority of our leases that qualify as sales-type leases are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. Revenue from sales-type leases is recognized upon installation and the interest portion is deferred and recognized as earned. These receivables are typically collateralized by a security interest in the underlying equipment. Equipment financing receivables were as follows (in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Gross equipment financing receivables	\$ 3,418	\$ 2,666	\$ 3,746	\$ 2,666
Less: unearned income	(1,000)	(776)	(1,103)	(776)
Less: allowance for credit losses	(145)	-	(161)	-
Equipment financing receivables, net	<u>\$ 2,273</u>	<u>\$ 1,890</u>	<u>\$ 2,482</u>	<u>\$ 1,890</u>

Current equipment financing receivables, net  
Long-term equipment financing receivables, net  
Equipment financing receivables, net

\$	735	\$	635	\$	812	\$	635
	1,538		1,255		1,670		1,255
\$	2,273	\$	1,890	\$	2,482	\$	1,890

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A summary of our gross equipment financing receivables' future contractual maturities, is as follows (in thousands):

**Year ending December 31.**

2023 remaining	\$	643	\$	358
2024		1,125		1,287
2025		801		965
2026		491		626
2027		312		410
2028 and thereafter		46		100
Total	\$	3,418	\$	3,746

*Allowance for Credit Losses*

The allowance for credit losses was as follows (in thousands):

Balance at December 31, 2022	\$	-
Cumulative effect of accounting change		112
Provision		19
Write-offs		(4)
Recoveries and other		-
Balance at March 31, 2023	\$	127
Cumulative effect of accounting change		-
Provision		23
Write-offs		(5)
Recoveries and other		-
Balance at June 30, 2023	\$	145

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Balance at December 31, 2022	\$	-
Cumulative effect of accounting change		112
Provision		19
Write-offs		(4)
Recoveries and other		-
Balance at March 31, 2023	\$	127
Provision		23
Write-offs		(5)
Recoveries and other		-
Balance at June 30, 2023	\$	145
Provision		23
Write-offs		(7)
Recoveries and other		-
Balance at September 30, 2023	\$	161

## Aging of Receivables

The aging of gross equipment financing receivables was as follows (in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Past due amounts 0 - 90 days	\$ 2,272	\$ 1,888	\$ 2,480	\$ 1,888
Past due amounts > 90 days	1	2	2	2
Total	\$ 2,273	\$ 1,890	\$ 2,482	\$ 1,890

Our equipment financing receivable portfolio is primarily in the United States. Consistent with our adoption of ASC 326, effective January 1, 2023 (see Note 1 – *Recently Adopted Accounting Pronouncements*), the allowance for credit losses is determined principally based on an assessment of origination year and past collection experience as well as consideration of current and future economic conditions and changes in our customer collection trends. Based on that assessment, the allowance for credit losses increased to 6% 6.1% of gross equipment financing receivables (net of unearned income) at June 30, 2023 September 30, 2023 from 0% at December 31, 2022.

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The allowance for credit losses represents an estimate of the losses expected to be incurred from the Company's equipment financing receivable portfolio. The projected loss rates are primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current and future economic conditions as well as delinquency trends, resolution rates, and the aging of receivables. The allowance for credit losses for equipment finance receivables is inherently more difficult to estimate than the allowance for trade receivables because the underlying lease portfolio has an average maturity, at any time, of approximately three to five years and contains unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for credit losses. We believe our estimates, including any qualitative adjustments, are reasonable and have considered all reasonably available information about past events, current conditions, and reasonable and supportable forecasts of future events and economic conditions. The identification of account-specific exposure is not a significant factor in establishing the allowance for credit losses for equipment finance receivables. We continue to monitor developments in future economic conditions and trends, and as a result, our reserve may need to be updated in future periods.

The table below shows gross equipment financing receivables and current period gross write offs by year of origination (in thousands):

	June 30, 2023						December 31, 2022	
	2023	2022	2021	2020	2019	Prior	Total Equipment Financing Receivables	Total Equipment Financing Receivables
United States	\$ 875	912	280	231	115	5	\$ 2,418	\$ 1,890
Current period gross write offs	\$ 2	4	1	1	1	-	\$ 9	\$ 20
	September 30, 2023						December 31, 2022	
	2023	2022	2021	2020	2019	Prior	Total Equipment Financing Receivables	Total Equipment Financing Receivables
United States	\$ 1,261	849	247	200	85	1	\$ 2,643	\$ 1,890
Current period gross write offs	\$ 7	5	1	2	1	-	\$ 16	\$ 20

## 8. Prepaid Expenses

Prepaid expenses consisted of the following (in thousands):

	June 30, 2023	December 31, 2022
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Prepaid corporate insurance	\$	194	\$	117
Prepaid software services and support		308		122
Prepaid employee insurance premiums		176		30
Prepaid Nasdaq listing fee		31		15
User group meeting		126		-
Other prepaid expenses		178		147
Total prepaid expenses	\$	1,013	\$	431

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	September 30, 2023	December 31, 2022
Prepaid corporate insurance	\$ 127	\$ 117
Prepaid software services and support	368	122
Prepaid employee insurance premiums	179	30
Prepaid Nasdaq listing fee	15	15
User group meeting	174	-
Other prepaid expenses	128	147
Total prepaid expenses	\$ 991	\$ 431

## 9. Property and Equipment and Property and Equipment, Held for Sale

Property and equipment consisted of the following (in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Building	\$ -	\$ 2,000	\$ -	\$ 2,000
Land	-	500	-	500
Computer and office equipment	2,735	2,726	2,735	2,726
Computer software	647	576	647	576
Internal-use software	14	14	14	14
Furniture and fixtures	75	75	74	75
Vehicles	142	130	143	130
Leasehold improvements	15	15	15	15
Less: accumulated depreciation	(2,777)	(2,721)	(2,872)	(2,721)
Total property and equipment, net	\$ 851	\$ 3,315	\$ 756	\$ 3,315

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### Property and equipment, held for sale

In March 2023, the Company's committed to and commenced a plan to sell our corporate headquarters land and building located in Tempe, Arizona. On May 16, 2023, the Company entered into a Purchase and Sale Agreement with Nectar Equities, LLC, an independent third-party, for the sale of our corporate headquarters land and building. The Company classified the corporate headquarters land and building as property and equipment, held for sale on the condensed consolidated balance sheet as of June 30, 2023. The Company evaluated sale closed on August 9, 2023, for a purchase price of \$4.0 million. The proceeds from the sale were used to repay the outstanding note payable with Bank of America, N.A. of \$1.8 million, closing costs and commissions of approximately \$208, generating approximately \$2.0 million in net proceeds from the sale. In connection with the sale of the land and building, we entered into a lease agreement to leaseback the property and equipment held for sale an initial term of eighteen full calendar months, see Note 16 - Leases for impairment indicators and determined that no indicators were present. The Company intends to execute a leaseback agreement for the building, for a period of twelve to eighteen months. Property and equipment, held for sale consisted additional details of the following (in thousands): leaseback agreement.

June 30, December 31,

	2023	2022
Building, net	\$ 1,833	\$ -
Land	500	-
Total property and equipment, held for sale	\$ 2,333	\$ -

Depreciation and amortization expense is included in general and administrative expenses and totaled \$108 \$94 and \$70 \$74 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$223 \$318 and \$140 \$213 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. In connection with the sale of our corporate headquarters, accumulated amortization of \$167 was removed.

## 10. Intangible Assets and Goodwill

Acquired intangible assets subject to amortization consist of the following (in thousands):

	June 30, 2023			December 31, 2022			September 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 26,073	\$ (4,155)	\$ 21,918	\$ 26,073	\$ (3,052)	\$ 23,021	\$ 26,073	\$ (4,708)	\$ 21,365	\$ 26,073	\$ (3,052)	\$ 23,021
Developed technologies	4,900	(1,840)	3,060	4,900	(1,410)	3,490	4,900	(2,055)	2,845	4,900	(1,410)	3,490
Trademark and trade names	400	(238)	162	400	(186)	214	400	(262)	138	400	(186)	214
Total acquired intangible assets	\$ 31,373	\$ (6,233)	\$ 25,140	\$ 31,373	\$ (4,648)	\$ 26,725	\$ 31,373	\$ (7,025)	\$ 24,348	\$ 31,373	\$ (4,648)	\$ 26,725

As of June 30, 2023 September 30, 2023, the weighted average remaining useful life for customer relationships was 13.9 13.6 years, and developed technologies was 4.2 3.9 years, and trademarks and trade names was 2.2 1.9 years.

Amortization expense for customer relationships intangible assets is included in sales and marketing expenses and totaled \$539 \$552 and \$299 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$1,078 \$1,630 and \$597 \$896 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Amortization expense for developed technologies intangible assets is included in cost of software solutions revenue and totaled \$215 and \$221 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$430 \$645 and \$441 \$662 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Amortization expense for trademark and trade name intangible assets is included in general and administrative expenses and totaled \$38 \$25 and \$30 \$31 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$77 \$102 and \$61 \$91 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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As of June 30, 2023 September 30, 2023, annual amortization of definite lived intangible assets, based on existing intangible assets and current useful lives, is estimated to be the following (in thousands):

#### Year ending December 31,

2023 remaining	\$ 1,585	\$ 793
2024	3,028	3,028
2025	2,770	2,770
2026	2,457	2,457
2027	2,202	2,202
Thereafter	13,098	13,098



Total	\$ 25,140	\$ 24,348
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The following table provides a summary of changes in the carrying amounts of goodwill (in thousands):

	Goodwill	Goodwill
Balance at January 1, 2022	\$ 36,972	\$ 36,972
Allegiant Networks business acquisition	5,091	5,091
Impairment	(32,609)	(32,609)
Balance at December 31, 2022	\$ 9,454	\$ 9,454
Additions	-	-
Balance at June 30, 2023	\$ 9,454	
Balance at September 30, 2023		\$ 9,454

On December 31, 2022, the Company determined there was a triggering event, primarily caused by a sustained decrease in the Company's stock price and we retained an independent third-party valuation firm to assist management in performing the quantitative impairment tests. The results of the goodwill and intangible asset impairment tests indicated that the carrying value of goodwill exceeded the estimated fair value and no impairment was required for intangible assets. At December 31, 2022, the Company recorded an impairment of \$32.6 million related to its goodwill book value for the software solutions operating segment.

## 11. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2023	December 31, 2022
Accrued wages and benefits	\$ 1,900	\$ 2,427
Accrued accounts payable	1,245	987
Accrued sales and telecommunications taxes	934	846
Product warranty liability	70	55
Credit cards	278	259
Other	323	316
Total accrued expenses	\$ 4,750	\$ 4,890

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	September 30, 2023	December 31, 2022
Accrued wages and benefits	\$ 1,963	\$ 2,427
Accrued accounts payable	1,261	987
Accrued sales and telecommunications taxes	1,144	846
Product warranty liability	77	55
Credit cards	278	259
Other	330	316
Total accrued expenses	\$ 5,053	\$ 4,890

The changes in aggregate product warranty liabilities for the year ended December 31, 2022 and the six months ended June 30, 2023 September 30, 2023 were as follows (in thousands):

	Warranty Liabilities	Warranty Liabilities
Balance at January 1, 2022	\$ 50	\$ 50
Accrual for warranties	55	55
Adjustments related to pre-existing warranties	(26)	(26)
Warranty settlements	(24)	(24)
Balance at December 31, 2022	55	55
Accrual for warranties	27	38
Warranty settlements	(12)	(16)
Balance at June 30, 2023	\$ 70	
Balance at September 30, 2023		\$ 77

Product warranty expense is included in cost of product revenue expense and totaled \$13 \$11 and \$17 \$15 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$27 \$38 and \$28 \$43 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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### 12. Notes Payable

Notes payable consists of a short and long-term financing arrangements:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Notes payable	\$ 3,032	\$ 3,025	\$ 1,160	\$ 3,025
Less: current notes payable	(525)	(420)	(452)	(420)
Notes payable, net of current portion	\$ 2,507	\$ 2,605	\$ 708	\$ 2,605

On February 27, 2023, we entered into a promissory note with CrossFirst Bank in the amount of \$278,070, \$278. The promissory note has a term of three (3) years with monthly payments of Eight Thousand Five Hundred Forty-Three and 12/100 Dollars (\$8,543.12), including interest at 6.58%, beginning on March 27, 2023. Additionally, the promissory note is subject to certain financial covenants.

On November 1, 2022, as part of the acquisition of Allegiant Networks, we entered into a promissory note with the seller in the amount of \$1.1 million. The loan agreement has a term of three (3) years with quarterly payments of Ninety-Eight Thousand Three Hundred Eighty and 54/100 Dollars (\$98,380.54), including interest at 4.00%, beginning on April 1, 2023.

As part of the November 1, 2022 acquisition of Allegiant Networks, we assumed two promissory notes with CrossFirst Bank. One loan agreement for \$125,000 \$125 has a term of three (3) years with monthly payments of Three Thousand Seven Hundred Seven and 62/100 Dollars (\$3,707.62), including interest of 4.25%, beginning on October 30, 2020. On February 27, 2023, the balance of this note was paid off and added to the promissory note with CrossFirst Bank. The second loan agreement for \$150,000 \$150 has a term of three (3) years with monthly payments of Four Thousand Four Hundred Sixty-Six and 08/100 Dollars (\$4,466.08), including interest of 4.50%, beginning on September 1, 2021. On February 27, 2023, the balance of this note was paid off and added to the promissory note with CrossFirst Bank.

On January 27, 2020, we entered into a Fixed Rate Term Loan Agreement with Bank of America, N.A. to finance Two Million Dollars (\$2,000,000) \$2.0 million to purchase our corporate office building. The Loan Agreement has had a term of seven (7) years with monthly payments of Eleven Thousand Eight Hundred Forty-One and 15/100 Dollars (\$11,841.15), including interest at 3.67%, beginning on March 1, 2020, secured by the office building. On August 9, 2023, the Company entered into a sale leaseback agreement and used a portion of the proceed to repay the note payable in full.

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As of June 30, 2023 September 30, 2023, future principal payments are scheduled as follows (in thousands):

**Year ending December 31.**

2023 remaining	\$ 259	\$ 111
2024	536	457
2025	560	478
2026	200	114
2027	1,477	-
2028 and thereafter	-	-
Total	\$ 3,032	\$ 1,160

**13. Line of Credit**

The Company maintains a line of credit with a maximum principal amount of \$700, payable upon demand. The line of credit expires on February 27, 2024. The line of credit bears interest at 0.50% over the Wall Street Journal Prime Rate. As of **June 30, 2023** **September 30, 2023**, there was an outstanding balance of \$0, and \$700 remained available for borrowing. The line of credit is collateralized by all **company assets**. Additionally, the line of credit is **Company assets and** subject to certain financial covenants.

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[Table of Contents](#)**14. Fair Value Measurements**

We have financial instruments as of **June 30, 2023** **September 30, 2023** and December 31, 2022 for which the fair value is summarized below (in thousands):

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:								
Trade receivables, net	\$ 3,549	\$ 3,549	\$ 3,297	\$ 3,297	\$ 3,873	\$ 3,873	\$ 3,297	\$ 3,297
Equipment financing receivables	2,273	2,273	1,890	1,890	2,482	2,482	1,890	1,890
Liabilities:								
Finance lease obligations	\$ 136	\$ 136	\$ 193	\$ 193	\$ 117	\$ 117	\$ 193	\$ 193
Notes payable	3,032	2,651	3,025	2,724	1,160	1,114	3,025	2,724

We have no liabilities for which fair value is recognized in the balance sheet on a recurring basis as of **June 30, 2023** **September 30, 2023** and December 31, 2022.

**15. Income Taxes**

Our effective tax rate for the three months ended **June 30, 2023** **September 30, 2023** and 2022 was **4.6%** **1.9%** and **(8.4%) (4.4%)**, respectively, which resulted in an income tax **benefit** **benefit**/(provision) of **\$(24) \$(33)** and **\$82, \$32**, respectively. Our effective tax rate for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **2.3%** **(23.7%)** and **(11.8%) (10.1%)**, respectively, which resulted in an income tax **benefit** **benefit**/(provision) of **\$(48) \$(81)** and **\$283, \$315**, respectively.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences become deductible. We reduce the carrying amounts of deferred tax assets by a valuation allowance if, based on the evidence available, it is more-likely-than-not that such assets will not be realized. In making the assessment under the more-likely-than-not standard, appropriate consideration must be given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods by jurisdiction, unitary versus stand-alone state tax filings, our experience with loss carryforwards expiring unutilized, and all tax planning alternatives that may be available. As of December 31, 2022, management reviewed the weight of all the positive and negative evidence available. Management reviewed negative evidence such as three years of cumulative pretax loss in the U.S. federal tax jurisdiction, and positive evidence such as projections of future pretax income and the duration of statutory carry-forward periods. As of December 31, 2022, the Company **has had** a cumulative pretax loss for the three-year lookback, which is considered

significant objectively verifiable negative evidence. Management also evaluated projections of future pretax income and the duration of statutory carry-forward periods to determine if the **NOL net operating loss** carryforwards could be utilized in whole or in part before they expire unutilized. Forecasts and projections of future income are inherently subjective and therefore generally are given less weight, based on the extent to which the assumptions can be objectively verified based on historical experience. Although historical trends utilized in our projections are objectively verifiable we assigned less weight to this positive evidence given the subjective nature of assumptions in projections. Management reviewed negative evidence related to experience of credits and loss carryforwards expiring unutilized, and determined that although negative evidence exists, it was not significant evidence, as the current loss carryforwards do not begin to expire until 2032 and therefore risk is minimal. After reviewing the weight of the positive and negative evidence, management determined that the positive evidence was not sufficient enough to overcome the negative evidence of cumulative pretax losses for the three year lookback to conclude that it is more likely than not that deferred tax assets of \$3,179 are realizable. Therefore, a valuation allowance of \$3,179 was recorded against our gross deferred tax asset balance as of **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively.

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### 16. Leases

#### *Lessee Accounting*

We determine if an agreement is a lease at inception. We lease office space, data center colocation space, other assets, and office equipment under operating leases. We lease data center equipment, including maintenance contracts and vehicles under finance leases.

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Operating leases are recorded as **right-of-use ("ROU") "ROU"** assets and lease liabilities on the balance sheet, excluding leases that are less than 12 months. ROU assets represent our right to use the leased asset for the lease term and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate at the commencement date to determine the present value of lease payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives. The Company's lease agreements do not contain any variable lease payments, material residual value guarantees or any restrictive covenants. Our lease terms may include options, at our sole discretion, to extend or terminate the lease. **At the adoption date of ASC Topic 842, the Company was reasonably certain that we would exercise our option to renew our corporate office building operating lease.** Lease expense is recognized on a straight-line basis over the lease term.

We currently lease office space in Tempe, Arizona under a non-cancelable operating lease agreement that expires in 2025. On August 9, 2023, in connection with the sale of our corporate office building and land, we entered into a lease agreement to leaseback the property. The operating lease agreement has an initial term of eighteen full calendar months, with an option to terminate the lease on the last day of the twelfth full calendar month with a sixty-day notice. The operating lease agreement includes fixed fees for property tax, insurance, and common area maintenance (CAM). We account for the lease components and non-lease components such as fixed fee property tax and insurance charges as a single lease component. The CAM charges are considered a separate non-lease component of the lease agreement and are excluded from the measurement of the lease liability. We utilized our incremental borrowing rate of 6.58% to determine the present value of lease payments to determine our lease liability. Rental expense for the three months ended September 30, 2023 and 2022 was approximately \$40 and \$0, respectively and for the nine months ended September 30, 2023 and 2022 was \$40 and \$0, respectively.

We currently lease office space in Reston, Virginia under a non-cancelable operating lease agreement that expires in 2025. The operating lease contains customary escalation clauses. Rental expense for the three months ended **June 30, 2023** **September 30, 2023** and 2022 was approximately **\$10** and **\$12**, respectively **\$13** and for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$14** **\$26** and **\$24**, **\$37**, respectively.

We leased office space in La Jolla, California under a non-cancelable operating lease agreement that expired on December 31, 2022. The operating lease contained customary escalation clauses. Rental expense for the three months ended **June 30, 2023** **September 30, 2023** and 2022 was approximately \$0 and \$90, respectively and for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was \$0 and **\$180**, **\$269**, respectively.

We currently lease office space in San Diego, California under a non-cancelable operating lease agreement that expires in 2023. Rental expense for the three months ended **June 30, 2023** **September 30, 2023** and 2022 was approximately \$21 and \$0, respectively and for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$42** **\$63** and \$0, respectively.

We currently lease office space in Overland Park, Kansas under a non-cancelable operating lease agreement that expires in 2027. The operating lease contains customary escalation clauses. Rental expense for the three months ended **June 30, 2023** **September 30, 2023** and 2022 was approximately **\$45** **\$55** and \$0, respectively and for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$90** **\$144** and \$0, respectively.

We currently lease other assets under multiple operating leases. The leases expire on various dates through 2027 and the interest rates range from 2.81% 3% to 15.74%. The expense is included in cost of product expenses and totaled approximately \$20 \$23 and \$19 \$21 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was \$41 \$64 and \$38, \$58, respectively.

We currently lease data center colocation space in Grand Rapids, Michigan, Las Vegas, Nevada, Dallas, Texas and Lenexa, Kansas, under non-cancelable operating lease agreements that expire in 2024. Rental expense for the three months ended June 30, 2023 September 30, 2023 and 2022 was approximately \$112 \$83 and \$33, \$36, respectively and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was \$174 \$257 and \$71, \$107, respectively.

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We have lease agreements with lease and non-lease components, and we account for the lease and non-lease components as a single lease component. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company leases equipment and support under finance lease agreements which extends through 2026. The Company also leases two vehicles under financing agreements that ended in 2022. The outstanding balance for finance leases was \$136 \$117 and \$193 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The Company recorded assets classified as property and equipment under finance lease obligations of \$486 and \$486 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Related accumulated depreciation totaled \$303 \$319 and \$190 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The \$40 in support contracts were classified as a prepaid expense and are being amortized over the service period of three years. One support contract expired in January 2021 and the other expires in June 2024. Amortization expense is included in general and administrative expenses and totaled \$1 and \$1 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was \$2 and \$2, respectively, \$4. The interest rates on the finance lease obligations range from 1.37% and 15.74% and interest expense was \$1 and \$2 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was \$2 \$3 and \$4, \$6, respectively.

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The maturity of operating leases and finance lease liabilities as of June 30, 2023 September 30, 2023, are as follows:

Year ending December 31.	Operating		Operating	
	Leases	Finance Leases	Leases	Finance Leases
2023 remaining	\$ 244	\$ 36	\$ 201	\$ 19
2024	319	77	601	77
2025	181	21	205	21
2026	179	3	179	3
2027	134	-	134	-
Total minimum lease payments	1,057	137	1,320	120
Less: amount representing interest	(69)	(1)	(78)	(3)
Present value of minimum lease payments	\$ 988	\$ 136	\$ 1,242	\$ 117

	June 30, 2023	September 30, 2023
<b>Lease term and discount rate</b>		
<b>Weighted-average remaining lease term (years)</b>		
Operating leases	3.5	2.7
Finance leases	1.8	1.6
<b>Weighted-average discount rate</b>		
Operating leases	4.1	4.8 %
Finance leases	2.2	2.3 %

Six Months Ended June 30, 2023	Nine Months Ended September 30, 2023
--------------------------------	--------------------------------------

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases  
Operating cash flows from finance leases  
Financing cash flows from finance leases

\$	288	\$	470
	4		5
	(271)		(2,143)

## 17. Commitments and Contingencies

### Annual Employee Bonus Plan Accrual

We utilize incentive bonuses to reward performance achievements, which provides potential annual cash bonus awards to Company employees, including Named Executive Officers ("NEOs"). Under the Bonus Plan, the Compensation Committee of the Board of Directors of the Company (the "Board") has established a bonus pool of \$800, for our NEOs and executive management team for the year ending December 31, 2023. The Board established a bonus pool of \$240 for our non-executive employees, for the year ending December 31, 2023. Participants will be eligible to receive cash bonus awards based upon annual performance targets established by the Compensation Committee for the year ending December 31, 2023, relating to one or more of the following performance targets; annual revenue, Adjusted EBITDA, cash balance and our stock price measured at the end of the Company's fiscal year. Awards will be paid on a tiered scale based upon actual performance as a percentage of the performance targets with a floor and cap. Payments for individual performance targets met or exceeded are payable, whether or not all performance targets are met, consistent with the weighted amounts for each performance target within the bonus pools. Bonus awards for NEOs and executive management will be weighted 30% on annual revenue, 30% on Adjusted EBITDA, 30% on cash balance, and 10% on the Company's stock price. No bonus will be awarded for any performance target for which actual performance is less than 90% of target. At 90% or greater actual performance relative to the target, 50% of the weighted bonus amount apportioned for the performance target is payable. From 90% to 100% actual performance relative to the target, the remaining 50% of the weighted bonus amount is awarded pro rata with the percentage of actual performance exceeding 90% of target (i.e., each 1% excess over 90% of performance target equals 5% of the weighted bonus amount payable). If actual performance reaches 110% of performance target or greater for any individual performance target, then an additional 10% of the amount apportioned to that performance target will be payable as an additional bonus. Based on our financial performance as of September 30, 2023, management determined that the achievement of 90% of the annual revenue, Adjusted EBITDA and cash balance performance targets are probable at this time. Based on management's estimate, the Company recorded a \$488 employee bonus plan accrual, which is included in accrued expenses in the accompanying consolidated balance sheet at September 30, 2023. It is reasonably possible that one or multiple of the performance targets may be achieved at higher than 90% and additional accruals may be necessary.

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### Legal Proceedings

In the ordinary course of business, the Company may be involved in a variety of claims, lawsuits, investigations, and other proceedings, including patent infringement claims, employment litigation, regulatory compliance matters, and contractual disputes, that can arise in the normal course of the Company's operations. The Company recognizes a provision when management believes information available prior to the issuance of the financial statements indicates it is probable a loss has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. The Company adjusts the amount of the provision to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. As of June 30, 2023, September 30, 2023, the Company does not have a recorded liability for estimated losses. Legal costs are expensed as incurred.

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## 18. Segment Reporting

Our chief operating decision maker (who is our Chief Executive Officer) reviews our financial information presented on an operating segment basis for purposes of allocating resources and evaluating our financial performance. Following the merger with NetSapiens, Inc., the Company reorganized into two operating segments, a software solutions operating segment and a cloud telecommunications services operating segment. The cloud telecommunications services segment generates revenue from selling cloud telecommunication services, products, and other internet services. The software solutions segment generates revenue from selling perpetual software licenses and software subscriptions, subscription maintenance and support, and professional services. The Company has two reportable operating segments, which consist of cloud telecommunications services and software solutions. Segment revenue, income/(loss) from operations, other income/(expense) and income/(loss) before income tax provision are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenue:								

Cloud telecommunications services	\$ 8,740	\$ 5,248	\$ 17,123	\$ 10,138	\$ 9,183	\$ 5,233	\$ 26,306	\$ 15,371
Software solutions	3,930	3,598	8,038	6,866	4,691	3,875	12,729	10,741
Consolidated revenue	12,670	8,846	25,161	17,004	13,874	9,108	39,035	26,112
Loss from operations:								
Income/(loss) from operations:								
Cloud telecommunications services	(207)	(543)	(1,386)	(1,597)	73	(639)	(1,312)	(2,236)
Software solutions	(310)	(309)	(705)	(648)	291	95	(415)	(553)
Total operating loss	(517)	(852)	(2,091)	(2,245)				
Total operating income/(loss)					364	(544)	(1,727)	(2,789)
Other income/(expense), net:								
Cloud telecommunications services	(26)	(17)	(65)	(35)	1,425	(17)	1,360	(52)
Software solutions	22	(109)	77	(119)	(52)	(167)	25	(286)
Total other income/(expense), net	(4)	(126)	12	(154)	1,373	(184)	1,385	(338)
Loss before income tax provision:								
Income/(loss) before income tax provision:								
Cloud telecommunications services	(233)	(560)	(1,451)	(1,632)	1,498	(656)	48	(2,288)
Software solutions	(288)	(418)	(628)	(767)	239	(72)	(390)	(839)
Loss before income tax provision	\$ (521)	\$ (978)	\$ (2,079)	\$ (2,399)				
Income/(loss) before income tax provision					\$ 1,737	\$ (728)	\$ (342)	\$ (3,127)

Depreciation and amortization for the cloud telecommunications services segment was \$392 \$381 and \$115 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$794 \$1,176 and \$230 \$344 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Depreciation and amortization for the software solutions segment was \$507 \$506 and \$505 \$509 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$1,014 \$1,520 and \$1,009 \$1,518 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Interest income for the cloud telecommunications services segment was \$0 for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Interest income for the software solutions segment was \$0 for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Interest expense for the cloud telecommunications services segment was \$33 \$36 and \$19 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and \$75 \$111 and \$38 \$57 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Interest expense for the software solutions segment was \$0 for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. 2022.

The Company operates in two geographic areas, the United States and international. Revenue by geography is based on the location of the customer from which the revenue is earned. Revenue by geographic location is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
United States	\$ 12,011	\$ 8,592	\$ 24,122	\$ 16,438
International	659	254	1,039	566
Total revenue	\$ 12,670	\$ 8,846	\$ 25,161	\$ 17,004

## 19. Subsequent Events

On May 16, 2023, the Company entered into a Purchase and Sale Agreement with Nectar Equities, LLC, an independent third-party, for the sale of our corporate headquarters land and building. The sale closed on August 9, 2023, for a purchase price of \$4.0 million. The proceeds from the sale were used to repay the outstanding note payable with Bank of America, N.A. of \$1.8 million, closing costs and commissions of approximately \$223, generating approximately \$2.0 million in net proceeds from the sale.

On August 9, 2023, in connection with the sale of the land and building, we entered into a lease agreement to leaseback the property. The operating lease agreement has an initial term of eighteen full calendar months, with an option to terminate the initial term on the last day of the twelfth full calendar month with a sixty-day notice. Rent expense is \$19 per month, plus real estate taxes, insurance premiums on the property, and maintenance expenses over the lease term.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
United States	\$ 12,862	\$ 8,661	\$ 36,984	\$ 25,116
International	1,012	447	2,051	996
Total revenue	\$ 13,874	\$ 9,108	\$ 39,035	\$ 26,112

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

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," and similar terms. Forward-looking statements are not guarantees of future performance and our Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A, "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2020 Form 10-K") filed with the SEC and the Condensed Consolidated Financial Statements and notes thereto included in the 2023 Form 10-Qs and elsewhere in this Form 10-Q. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

### OVERVIEW

Crexendo, Inc. is an award-winning premier provider of cloud communication platform and services, video collaboration and managed IT services designed to provide enterprise-class cloud solutions to any size business. Our solutions currently support over three million end users globally. By providing a variety of comprehensive and scalable solutions, we are able to cater to businesses of all sizes on a monthly subscription basis without the need for expensive capital investments, regardless of where their business is in its lifecycle. Our products and services can be categorized in the following offerings:

**Cloud Telecommunications Services** – Our cloud telecommunications services transmit calls using IP or cloud technology, which converts voice signals into digital data packets for transmission over the Internet or cloud. Each of our calling plans provides a number of basic features typically offered by traditional telephone service providers, plus a wide range of enhanced features that we believe offer an attractive value proposition to our customers. This platform enables a user, via a single "identity" or telephone number, to access and utilize services and features regardless of how the user is connected to the Internet or cloud, whether it's from a desktop device or an application on a mobile device.

We generate recurring revenue from our cloud telecommunications services, broadband Internet services, managed IT services, software license sales, and infrastructure as a service. Our cloud telecommunications contracts typically have a thirty-six to sixty month term. We may also charge activation and flash fees and the Company generally



allocates a portion of the activation fees to the desktop devices, which is recognized at the time of the installation or customer acceptance, and a portion to the service, which is recognized over the contract term using the straight-line method. We also charge other various contracted and non-contracted fees.

We generate product revenue, equipment financing revenue, and device as a service revenue from the sale and lease of our cloud telecommunications equipment. Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate.

**Software Solutions** – Our software solutions segment derives revenues from three primary sources: software licenses, software maintenance support and professional services. Software and services may be sold separately or in bundled packages. Generally, contracts with customers contain multiple performance obligations, consisting of software and services. For bundled packages, the Company accounts for individual products and services separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration is allocated between separate products and services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the software licenses and professional services. For items that are not sold separately (e.g. additional features) the Company estimates stand-alone selling prices using the adjusted market assessment approach. When we provide a free trial period, we do not begin to recognize recurring revenue until the trial period has ended and the customer has been billed for the services.

We generate software license revenue from the sale of perpetual software licenses, term-based software licenses that expire, and Software-as-a-Service ("SaaS") based software which are referred to as subscription arrangements. The Company does not recognize software revenue related to the renewal of subscription software licenses earlier than the beginning of the subscription period.

We generate subscription and maintenance support revenue from customer support and other supportive services. The Company offers warranties on its products. The warranty period for our licensed software is generally 90 days. Certain of the Company's warranties are considered to be assurance-type in nature and do not cover anything beyond ensuring that the product is functioning as intended. Based on the guidance in ASC 606, assurance-type warranties do not represent separate performance obligations. The Company also sells separately-priced maintenance service contracts, which qualify as service-type warranties and represent separate performance obligations. The Company does not typically allow and has no history of accepting material product returns. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. Subscription and maintenance support revenue is recognized ratably over the term of the customer support agreement, which is typically one year.

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We generate professional services and other revenue from consulting, technical support, resident engineer services, design services and installation services. Revenue for professional services and other is recognized when the performance obligation is complete and the customer has accepted the performance obligation.

## OUR SERVICES AND PRODUCTS

Our solutions currently support over three million end users globally and solution was recently recognized as the fastest growing UCaaS platform in the United States. By providing a variety of comprehensive and scalable solutions, we are able to cater to businesses of all sizes on a monthly subscription basis without the need for expensive capital investments, regardless of where their business is in its lifecycle. Our products and services can be categorized in the following offerings:

**Cloud Telecommunications Services** – Our cloud telecommunications service offering includes hardware, software, and unified ng IP or cloud technology over any high-speed Internet connection. These services are rendered through a variety of devices and communication solutions for businesses using user interfaces such as a Crexendo branded desktop phones and/or mobile and desktop applications. Some examples of mobile devices are Android cell phones, iPhones, iPads or Android tablets. These services enable our customers to seamlessly communicate with others through phone calls that originate/terminate on our network or PSTN networks. Our cloud telecommunications services are powered by our proprietary implementation of standards based Web and VoIP cloud technologies. Our services use our highly scalable complex infrastructure that we build and manage based on industry standard best practices to achieve greater efficiencies, better quality of service (QoS) and customer satisfaction. Our infrastructure comprises of compute, storage, network technologies, 3<sup>rd</sup> party products and vendor relationships. We also develop end user portals for account management, license management, billing and customer support and adopt other cloud technologies through our partnerships.

Crexendo's cloud telecommunication service offers a wide variety of essential and advanced features for businesses of all sizes. Many of these features included in the service offering are:

- Business Productivity Features such as dial-by extension and name, transfer, conference, call recording, Unlimited calling to anywhere in the US and Canada, International calling, Toll free (Inbound and Outbound)

- Individual Productivity Features such as Caller ID, Call Waiting, Last Call Return, Call Recording, Music/Message-On-Hold, Voicemail, Unified Messaging, Hot-Desking
- Group Productivity Features such as Call Park, Call Pickup, Interactive Voice Response (IVR), Individual and Universal Paging, Corporate Directory, Multi-Party Conferencing, Group Mailboxes, Web and mobile devices based collaboration applications
- Call Center Features such as Automated Call Distribution (ACD), Call Monitor, Whisper and Barge, Automatic Call Recording, One way call recording, Analytics
- Advanced Unified Communication Features such as Find-Me-Follow-Me, Sequential Ring and Simultaneous Ring, Voicemail transcription
- Mobile Features such as extension dialing, transfer and conference and seamless hand-off from WiFi to/from 3G and 4G, LTE, as well as other data services. These features are also available on CrexMo, an intelligent mobile application for iPhones and Android smartphones, as well as iPads and Android tablets
- Traditional PBX Features such as Busy Lamp Fields, System Hold, 16-48 Port density Analog Devices
- Expanded Desktop Device Selection such as Entry Level Phone, Executive Desktop, DECT Phone for roaming users
- Advanced Faxing solution such as Cloud Fax (cFax) allowing customers to send and receive Faxes from their Email Clients, Mobile Phones and Desktops without having to use a Fax Machine simply by attaching a file
- Web based online portal to administer, manage and provision the system.
- Asynchronous communication tools like SMS/MMS, chat and document sharing to keep in pace with emerging communication trends.

Many of these services are included in our basic offering to our customers for a monthly recurring fee and do not require a capital expense. Some of the advanced features such as Automatic Call Recording and Call Center Features require additional monthly fees. Crexendo continues to invest and develop its technology and CPaaS offerings to make them more competitive and profitable.

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**Software Solutions** – Our software solutions offering provides a comprehensive suite of unified communications (UC), video conferencing, collaboration & contact center solutions to over 215 service providers, servicing over three million users around the globe. Our platform enables service providers to customize packages with unprecedented levels of flexibility, profitability, and ease of use.

Our software solutions offering are as follows:

- **SNAPsolution®** - a comprehensive, IP-based platform that provides a broad suite of UC services including hosted Private Branch Exchange (PBX), auto-attendant, call center, conferencing, and mobility. The platform includes a broad range of feature-sets, custom-built to provide unprecedented levels of flexibility, making the solution competitive with the market's leading players. SNAPsolution includes a full suite of Voice over Internet Protocol (VoIP)/UC features with one low cost universal license, as opposed to pricing each feature individually. The Company licenses its platform based on concurrent sessions, not per seat/per feature. This allows service providers to oversubscribe their networks, driving down the cost per seat as volume increases. As the service provider increases their customer base, they only have to ensure they have sufficient concurrent call licenses to support users across the network.
- **SNAPacel** – a Software-as-a-Service ("SaaS") based software license referred to as subscription arrangements.
- **Subscription Maintenance and Support** - The Company also sells separately-priced maintenance service contracts, which qualify as service-type warranties and represent separate performance obligations and customer support. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches.
- **Professional Services and Other** - The Company's professional services include consulting, technical support, resident engineer services, design services and installation services.

## Results of Operations

The following discussion of financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto and other financial information included elsewhere in this Form 10-Q.

### Results of Consolidated Operations (in thousands, except for per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Service revenue	\$ 7,308	\$ 4,556	\$ 14,466	\$ 8,954	\$ 7,517	\$ 4,473	\$ 21,983	\$ 13,427

Software solutions revenue	3,930	3,598	8,038	6,866	4,691	3,875	12,729	10,741
Product revenue	1,432	692	2,657	1,184	1,666	760	4,323	1,944
Total revenue	\$ 12,670	\$ 8,846	\$ 25,161	\$ 17,004	\$ 13,874	\$ 9,108	\$ 39,035	\$ 26,112
Loss before income taxes	(521)	(978)	(2,079)	(2,399)				
Income/(loss) before income taxes					1,737	(728)	(342)	(3,127)
Income tax benefit/(provision)	(24)	82	(48)	283	(33)	32	(81)	315
Net loss	(545)	(896)	(2,127)	(2,116)				
Net income/(loss)					1,704	(696)	(423)	(2,812)
Basic earnings per share	\$ (0.02)	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ 0.07	\$ (0.03)	\$ (0.02)	\$ (0.13)
Diluted earnings per share	\$ (0.02)	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ 0.06	\$ (0.03)	\$ (0.02)	\$ (0.13)

Three months ended **June 30, 2023** September 30, 2023 compared to three months ended **June 30, 2022** September 30, 2022

#### Total Revenue

Total revenue consists of service revenue, software solutions revenue and product revenue. The following table reflects our total revenue for the three months ended **June 30, 2023** September 30, 2023, compared to the three months ended **June 30, 2022** September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Total revenue	\$ 12,670	\$ 8,846	\$ 3,824	43 %

  

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Total revenue	\$ 13,874	\$ 9,108	\$ 4,766	52 %

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The increase in total revenue is due to an increase in service revenue of \$2,752, \$3,044, an increase in product revenue of \$740, \$906, and an increase in software solutions revenue of \$332, \$816. Our November 1, 2022 acquisition of Allegiant Networks contributed \$2,580, \$2,651 of the increase in service revenue and \$642, \$717 of the increase in product revenue for the three months ended **June 30, 2023** September 30, 2023.

#### Loss Income/(Loss) Before Income Taxes

The following table reflects our loss income/(loss) before income taxes for the three months ended **June 30, 2023** September 30, 2023, compared to the three months ended **June 30, 2022** September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Loss before income taxes	\$ (521)	\$ (978)	\$ 457	47 %

  

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change

Income/(loss) before income taxes	\$	1,737	\$	(728)	\$	2,465	339%
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The decrease in change from a loss before income taxes to income before income taxes is primarily due related to an increase in revenue of \$3,824, \$4,766, of which our recent acquisition of Allegiant Networks contributed \$3,222 \$3,368 of the increase in revenue for the three months ended June 30, 2023 September 30, 2023, a decrease an increase in other expense income of \$122, \$1,557 primarily related to the gain on the sale of our corporate headquarters located in Tempe, Arizona of \$1,459, offset by an increase in operating expenses of \$3,489 \$3,858. The increase in operating expenses is primarily related to \$3,349 \$3,131 of additional operating expenses contributed by our November 1, 2022 acquisition of Allegiant Networks.

#### Income Tax Benefit/(Provision)

The following table reflects our income tax benefit/(provision) benefit for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Income tax benefit/(provision)	\$ (24)	\$ 82	\$ (106)	-129%

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Income tax benefit/(provision)	\$ (33)	\$ 32	\$ (65)	-203%

We had an income tax provision of \$24 \$(33) for the three months ended June 30, 2023 September 30, 2023 compared to an income tax benefit of \$82 \$32 for the three months ended June 30, 2022 September 30, 2022. We had a loss income/(loss) before income tax for the three months ended June 30, 2023 September 30, 2023 and 2022 of \$(521) \$1,737 and \$(896) \$(728), respectively.

Six Nine months ended June 30, 2023 September 30, 2023 compared to six nine months ended June 30, 2022 September 30, 2022

#### Total Revenue

Total revenue consists of service revenue, software solutions revenue and product revenue. The following table reflects our service revenue for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Total revenue	\$ 25,161	\$ 17,004	\$ 8,157	48%

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Total revenue	\$ 39,035	\$ 26,112	\$ 12,923	49%

The increase in total revenue is due to an increase in service revenue of \$5,512 \$8,556, an increase in product revenue of \$1,473 \$2,379, and an increase in software solutions revenue of \$1,172 \$1,988. Our November 1, 2022 acquisition of Allegiant Networks contributed \$5,156 \$7,807 of the increase in service revenue and \$1,168 \$1,885 of the increase in product revenue for the six nine months ended June 30, 2023 September 30, 2023.

#### Loss Before Income Taxes

The following table reflects our loss before income taxes for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Loss before income taxes	\$ (2,079)	\$ (2,399)	\$ 320	13 %

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Loss before income taxes	\$ (342)	\$ (3,127)	\$ 2,785	89 %

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The decrease in loss before income taxes is primarily due related to an increase in revenue of \$8,157, \$12,923, of which our recent acquisition of Allegiant Networks contributed \$6,324 \$9,692 of the increase in revenue for the six nine months ended June 30, 2023 September 30, 2023, a decrease an increase in other expense income of \$154, \$1,723 primarily related to the gain on the sale of our corporate headquarters located in Tempe, Arizona of \$1,459, offset by an increase in operating expenses of \$8,003, \$11,861. The increase in operating expenses is primarily related to \$6,722 \$9,853 of additional operating expenses contributed by our November 1, 2022 acquisition of Allegiant Networks.

### Income Tax Benefit/(Provision) Benefit

The following table reflects our income tax benefit/(provision) benefit for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Income tax benefit/(provision)	\$ (48)	\$ 283	\$ (331)	-117 %

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Income tax benefit/(provision)	\$ (81)	\$ 315	\$ (396)	-126 %

We had an income tax provision of \$48 \$(81) for the six nine months ended June 30, 2023 September 30, 2023 compared to an income tax benefit of \$283 \$315 for the six nine months ended June 30, 2022 September 30, 2022. We had a loss before income tax for the six nine months ended June 30, 2023 September 30, 2023 and 2022 of \$(2,079) \$(342) and \$(2,399) \$(3,127), respectively.

### Use of Non-GAAP Financial Measures

To evaluate our business, we consider and use non-generally accepted accounting principles ("Non-GAAP") net income and Adjusted EBITDA as a supplemental measure of operating performance. These measures include the same adjustments that management takes into account when it reviews and assesses operating performance on a period-to-period basis. We consider Non-GAAP net income to be an important indicator of overall business performance because it allows us to evaluate results without the effects of share-based compensation, acquisition related expenses, changes in fair value of contingent consideration, amortization of intangibles, and goodwill and long-lived asset impairment. We define EBITDA as U.S. GAAP net income/(loss) before interest expense, interest income and other expense/(income), goodwill and long-lived asset impairments, provision/(benefit) for income taxes, and depreciation and amortization. We believe EBITDA provides a useful metric to investors to compare us with other companies within our industry and across industries. We define Adjusted EBITDA as EBITDA adjusted for acquisition related expenses, changes in fair value of contingent consideration and share-based compensation. We use Adjusted EBITDA as a supplemental measure to review and assess operating performance. We also believe use of Adjusted EBITDA facilitates investors' use of operating performance comparisons from period to period, as well as across companies.

In our August 10, 2023 November 9, 2023 earnings press release, as furnished on Form 8-K, we included Non-GAAP net income, EBITDA and Adjusted EBITDA. The terms Non-GAAP net income, EBITDA, and Adjusted EBITDA are not defined under U.S. GAAP, and are not measures of operating income, operating performance or liquidity presented

in analytical tools, and when assessing our operating performance, Non-GAAP net income, EBITDA, and Adjusted EBITDA should not be considered in isolation, or as a substitute for net income/(loss) or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt that we may incur;
- they do not reflect income taxes or the cash requirements for any tax payments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will be replaced sometime in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;
- while share-based compensation is a component of operating expense, the impact on our financial statements compared to other companies can vary significantly due to such factors as the assumed life of the options and the assumed volatility of our common stock; and
- other companies may calculate EBITDA and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures.

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We compensate for these limitations by relying primarily on our U.S. GAAP results and using Non-GAAP net income, EBITDA, and Adjusted EBITDA only as supplemental support for management's analysis of business performance. Non-GAAP net income, EBITDA and Adjusted EBITDA are calculated as follows for the periods presented.

### Reconciliation of Non-GAAP Financial Measures

In accordance with the requirements of Regulation G issued by the SEC, we are presenting the most directly comparable U.S. GAAP financial measures and reconciling the unaudited Non-GAAP financial metrics to the comparable U.S. GAAP measures.

#### Reconciliation of U.S. GAAP Net Loss to Non-GAAP Net Income

(Unaudited, in thousands, except for per share and share data)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
U.S. GAAP net loss	\$ (545)	\$ (896)	\$ (2,127)	\$ (2,116)				
U.S. GAAP net income/(loss)					\$ 1,704	\$ (696)	\$ (423)	\$ (2,812)
Share-based compensation	855	858	2,269	1,911	843	851	3,112	2,762
Acquisition related expenses	-	-	1	23	-	8	1	31
Amortization of intangible assets	792	550	1,585	1,099	793	550	2,377	1,649
Non-GAAP net income	\$ 1,102	\$ 512	\$ 1,728	\$ 917	\$ 3,340	\$ 713	\$ 5,067	\$ 1,630
Non-GAAP earnings per common share:								
Basic	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.04	\$ 0.13	\$ 0.03	\$ 0.20	\$ 0.07
Diluted	\$ 0.04	\$ 0.02	\$ 0.06	\$ 0.04	\$ 0.12	\$ 0.03	\$ 0.18	\$ 0.06

Weighted-average common shares outstanding:								
Basic	25,972,628	22,456,420	25,853,998	22,347,510	25,995,507	22,620,703	25,901,686	22,439,575
Diluted	27,401,597	25,278,052	27,467,234	25,582,196	27,682,764	25,285,848	27,544,993	25,491,062

#### Reconciliation of U.S. GAAP Net Loss to EBITDA to Adjusted EBITDA

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
U.S. GAAP net loss	\$ (545)	\$ (896)	\$ (2,127)	\$ (2,116)				
U.S. GAAP net income/(loss)					\$ 1,704	\$ (696)	\$ (423)	\$ (2,812)
Depreciation and amortization	900	620	1,808	1,239	887	623	2,695	1,862
Interest expense	33	19	75	38	36	19	111	57
Interest and other expense/(income)	(29)	107	(87)	116				
Gain on the sale of property and equipment					(1,459)	-	(1,459)	-
Other, net					50	165	(37)	281
Income tax provision/(benefit)	24	(82)	48	(283)	33	(32)	81	(315)
EBITDA	383	(232)	(283)	(1,006)	1,251	79	968	(927)
Acquisition related expenses	-	-	1	23	-	8	1	31
Share-based compensation	855	858	2,269	1,911	843	851	3,112	2,762
Adjusted EBITDA	\$ 1,238	\$ 626	\$ 1,987	\$ 928	\$ 2,094	\$ 938	\$ 4,081	\$ 1,866

#### Critical Accounting Policies and Estimates CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. Please see Note 1 of Part I, Item 1 of this quarterly report on Form 10-Q for a summary of significant accounting policies. In addition, the estimates, assumptions and judgments involved in our accounting policies described in critical accounting policies and estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

#### Segment Operating Results

The Company has two operating segments, which consist of Cloud Telecommunications Services and Software Solutions. The information below is organized in accordance with our two reportable segments. Segment operating income is equal to segment net revenue less segment cost of service revenue, cost of software solution revenue, cost of product revenue, sales and marketing, research and development, and general and administrative expenses.

**Operating Results of our Cloud Telecommunications Services Segment (in thousands):**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cloud Telecommunications Services				
Service revenue	\$ 7,308	\$ 4,556	\$ 14,466	\$ 8,954
Product revenue	1,432	692	2,657	1,184
Total revenue	\$ 8,740	\$ 5,248	\$ 17,123	\$ 10,138
Operating expenses:				
Cost of service revenue	\$ 3,095	\$ 1,438	\$ 6,139	\$ 2,874
Cost of product revenue	881	372	1,720	689
Selling and marketing	2,504	1,678	5,100	3,259
General and administrative	2,175	1,993	4,959	4,299
Research and development	291	310	590	614
Total operating expenses	8,946	5,791	18,508	11,735
Operating loss	(206)	(543)	(1,385)	(1,597)
Other expense	(26)	(17)	(65)	(35)
Loss before tax benefit	\$ (232)	\$ (560)	\$ (1,450)	\$ (1,632)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cloud Telecommunications Services				
Service revenue	\$ 7,517	\$ 4,473	\$ 21,983	\$ 13,427
Product revenue	1,666	760	4,323	1,944
Total revenue	\$ 9,183	\$ 5,233	\$ 26,306	\$ 15,371
Operating expenses:				
Cost of service revenue	\$ 3,173	\$ 1,375	\$ 9,312	\$ 4,249
Cost of product revenue	923	453	2,643	1,142
Selling and marketing	2,467	1,704	7,567	4,963
General and administrative	2,230	2,056	7,189	6,355
Research and development	317	284	907	898
Total operating expenses	9,110	5,872	27,618	17,607
Operating income/(loss)	73	(639)	(1,312)	(2,236)
Other income/(expense)	1,425	(17)	1,360	(52)
Loss before tax benefit/(provision)	\$ 1,498	\$ (656)	\$ 48	\$ (2,288)

**Three months ended June 30, 2023 September 30, 2023 compared to three months ended June 30, 2022 September 30, 2022**
*Service Revenue*

Cloud telecommunications service revenue consists primarily of fees collected for cloud telecommunications services, professional services, interest from sales-type leases, reselling broadband Internet services, managed IT service, administrative fees, and website hosting services. The following table reflects our service revenue for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			Percent Change
	2023	2022	Dollar Change	
Service revenue	\$ 7,308	\$ 4,556	\$ 2,752	60%

	Three Months Ended September 30,			Percent Change
	2023	2022	Dollar Change	
Service revenue	\$ 7,517	\$ 4,473	\$ 3,044	68%



The increase in service revenue is due to an increase in telecommunications services fees of \$2,430, \$2,468, an increase in one-time fees, commissions and other of \$219, \$474, an increase in fees, commissions, and other, recognized over time of \$64, \$56, and an increase in sales-type lease interest of \$39, \$46. Our November 1, 2022 acquisition of Allegiant Networks, contributed \$2,580, \$2,651 of the total increase in service revenue. A substantial portion of Cloud Telecommunications service revenue is generated through thirty-six to sixty month service contracts.

#### Product Revenue

Product revenue consists primarily of fees collected from the sale of desktop phone devices, third-party equipment, and device as a service. The following table reflects our product revenue for the three months ended June 30, 2023, September 30, 2023, compared to the three months ended June 30, 2022, September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Product revenue	\$ 1,432	\$ 692	\$ 740	107 %

  

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Product revenue	\$ 1,666	\$ 760	\$ 906	119 %

Product revenue fluctuates from one period to the next based on timing of installations. Our typical customer installation is complete within 30-60 days. However, larger enterprise customers can take multiple months, depending on size and the number of locations. Product revenue is recognized when products have been installed and services commence. Additionally, product revenue can fluctuate due to the allocation of discounts or sales promotions across the performance obligations. The increase in product revenue is primarily due related to additional product revenue of \$642, \$717 contributed by our November 1, 2022 acquisition of Allegiant Networks during the three months ended June 30, 2023, September 30, 2023 and an increase in organic product revenue of \$98, \$189.

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#### Backlog

Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of June 30, 2023, September 30, 2023 and 2022. Backlog increased 21% 43%, or \$6,300, \$13,051 to \$35,752, \$43,114 as of June 30, 2023, September 30, 2023 as compared to \$29,452, \$30,063 as of June 30, 2022, September 30, 2022. Below is a table which displays the Cloud Telecommunications segment revenue backlog as of April 1, 2023, July 1, 2023 and 2022, and June 30, 2023, September 30, 2023 and 2022, which we expect to recognize as revenue within the next five years, thirty-six to sixty months (in thousands):

Cloud Telecommunications backlog as of April 1, 2023	\$ 33,679
Cloud Telecommunications backlog as of June 30, 2023	\$ 35,752
Cloud Telecommunications backlog as of April 1, 2022	\$ 29,973
Cloud Telecommunications backlog as of June 30, 2022	\$ 29,452
Cloud Telecommunications backlog as of July 1, 2023	\$ 35,752
Cloud Telecommunications backlog as of September 30, 2023	\$ 43,114
Cloud Telecommunications backlog as of July 1, 2022	\$ 29,452
Cloud Telecommunications backlog as of September 30, 2022	\$ 30,063

#### Cost of Service Revenue

Cost of service revenue consists primarily of fees we pay to third-party telecommunications carriers, broadband Internet providers, software providers, costs related to installations, customer support salaries, and benefits, bonuses, and share-based compensation. The following table reflects our cost of service revenue for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Cost of service revenue	\$ 3,095	\$ 1,438	\$ 1,657	115 %
	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Cost of service revenue	\$ 3,173	\$ 1,375	\$ 1,798	131 %

The increase in cost of service revenue was primarily due related to additional cost of service revenue of \$1,609 \$1,595 contributed by our November 1, 2022 acquisition of Allegiant Networks during the three months ended June 30, 2023 September 30, 2023. Additionally, we had an increase in third-party telecommunications carrier costs of \$112, a \$24 \$90 increase in salaries, benefits, bonuses, and benefits share-based compensation related to increases in headcount to assist with the migration of our customers to our new VIP platform and the accrual of our annual employee bonuses, and an increase in other cost of service revenue of \$24 \$1.

#### Cost of Product Revenue

Cost of product revenue consists of the costs associated with desktop phone devices and third-party equipment. The following table reflects our cost of product revenue for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Cost of product revenue	\$ 881	\$ 372	\$ 509	137 %
	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Cost of product revenue	\$ 923	\$ 453	\$ 470	104 %

The increase is primarily due related to an increase of \$77 \$101 from our organic product revenue growth and additional cost of product revenue of \$432 \$369 contributed by our November 1, 2022 acquisition of Allegiant Networks during the six three months ended June 30, 2023 September 30, 2023.

#### Selling and Marketing

Selling and marketing expenses consist primarily of direct and channel sales representative salaries, benefits, bonuses, and benefits, share-based compensation, partner channel commissions, amortization of costs to acquire contracts, travel expenses, lead generation services, trade shows, internal and third-party marketing costs, the production of marketing materials, and sales support software. The following table reflects our selling and marketing expenses for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 2,504	\$ 1,678	\$ 826	49 %
	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 2,467	\$ 1,704	\$ 763	45 %

The increase in selling and marketing expense is primarily **due related** to additional selling and marketing expense of **\$688 \$622** contributed by our November 1, 2022 acquisition of Allegiant Networks during the three months ended **June 30, 2023**, **September 30, 2023** and an increase in commission expense of **\$143 \$146** directly related to the increase in revenue, offset by a decrease in other selling and marketing expenses of \$5.

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### General and Administrative

General and administrative expenses consist of salaries, benefits, **bonuses**, and **stock share-based** compensation for executives, administrative personnel, legal, rent, equipment, accounting and other professional services, investor relations, depreciation, amortization of intangibles, and other administrative corporate expenses. The following table reflects our general and administrative expenses for the three months ended **June 30, 2023**, **September 30, 2023**, compared to the three months ended **June 30, 2022**, **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 2,175	\$ 1,993	\$ 182	9%

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 2,230	\$ 2,056	\$ 174	8%

The increase in general and administrative expenses is primarily **due related** to additional general and administrative expense of **\$620 \$546** contributed by our November 1, 2022 acquisition of Allegiant Networks during the three months ended **June 30, 2023**, **September 30, 2023**, offset by a decrease in administrative salaries, **wages benefits, bonuses**, and **benefits share-based compensation** of **\$381 \$314** related to a decrease in share-based compensation and the reclassification of salary, wages, and benefits to the Software Solutions segment, **a decrease** offset by an increase in **corporate insurance** expenses for the accrual of **\$16** **annual employee bonuses**, and a decrease in other general and administrative expenses of **\$41**, **\$58**.

### Research and Development

Research and development expenses primarily consist of salaries, **benefits, bonuses**, and **benefits**, share-based compensation, and outsourced engineering services related to the development of new cloud telecommunications features and products. The following table reflects our research and development expenses for the three months ended **June 30, 2023**, **September 30, 2023**, compared to the three months ended **June 30, 2022**, **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 291	\$ 310	\$ (19)	-6%

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 317	\$ 284	\$ 33	12%

The **decrease increase** in research and development expenses is primarily related to **a decrease** **an increase** in salaries, benefits, bonuses, and share-based compensation of **\$30** and **an increase** in costs for maintenance on our mobile applications and other development costs of **\$17**, and a decrease in salaries, wages and benefits of **\$2**, **\$3**.

### Other Income/(Expense)

Other income/(expense) primarily relates to **the gain or loss on the disposal of property and equipment**, interest expense, and net foreign exchange gains or losses, offset by credit card cash back rewards. The following table reflects our other income/(expense) for the three months ended **June 30, 2023**, **September 30, 2023**, compared to the three months ended **June 30, 2022**, **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Other expense	\$ (26)	\$ (17)	\$ (9)	53%

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Other income/(expense)	\$ 1,425	\$ (17)	\$ 1,442	8482%

The increase in other income/(expense) is primarily related to the gain on the sale of our corporate headquarters located in Tempe, Arizona of \$1,459.

Six Nine months ended June September 30, 2023 compared to six nine months ended June 30, 2022 September 30, 2022

#### Service Revenue

Cloud telecommunications service revenue consists primarily of fees collected for cloud telecommunications services, professional services, interest from sales-type leases, reselling broadband Internet services, managed IT service, administrative fees, and website hosting services. The following table reflects our service revenue for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Service revenue	\$ 14,466	\$ 8,954	\$ 5,512	62%

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Service revenue	\$ 21,983	\$ 13,427	\$ 8,556	64%

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The increase in service revenue is due to an increase in telecommunications services fees of \$4,727, \$7,195, an increase in one-time fees, commissions and other of \$646, \$1,120, an increase in fees, commissions, and other, recognized over time of \$67, \$123, and an increase in sales-type lease interest of \$72, \$118. Our November 1, 2022 acquisition of Allegiant Networks, contributed \$5,156, \$7,807 of the total increase in service revenue. A substantial portion of Cloud Telecommunications service revenue is generated through thirty-six to sixty month service contracts.

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#### Product Revenue

Product revenue consists primarily of fees collected from the sale of desktop phone devices, third-party equipment, and device as a service. The following table reflects our product revenue for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Product revenue	\$ 2,657	\$ 1,184	\$ 1,473	124%

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change

	2023	2022	Dollar Change	Percent Change
Product revenue	\$ 4,323	\$ 1,944	\$ 2,379	122%

Product revenue fluctuates from one period to the next based on timing of installations. Our typical customer installation is complete within 30-60 days. However, larger enterprise customers can take multiple months, depending on size and the number of locations. Product revenue is recognized when products have been installed and services commence. Additionally, product revenue can fluctuate due to the allocation of discounts or sales promotions across the performance obligations. The increase in product revenue is primarily due related to additional product revenue of \$1,168 \$1,885 contributed by our November 1, 2022 acquisition of Allegiant Networks during the six nine months ended June 30, 2023 September 30, 2023, and an increase in organic product revenue of \$305, \$494.

#### Backlog

Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of June 30, 2023 September 30, 2023 and 2022. Backlog increased 21% 43%, or \$6,300 \$13,051 to \$35,752 \$43,114 as of June 30, 2023 September 30, 2023 as compared to \$29,452 \$30,063 as of June 30, 2022 September 30, 2022. Below is a table which displays the Cloud Telecommunications segment revenue backlog as of January 1, 2023 and 2022, and June 30, 2023 September 30, 2023 and 2022, which we expect to recognize as revenue within the next thirty-six to sixty months (in thousands):

Cloud Telecommunications backlog as of January 1, 2023	\$ 32,016	\$ 32,016
Cloud Telecommunications backlog as of June 30, 2023	\$ 35,752	
Cloud Telecommunications backlog as of September 30, 2023		\$ 43,114
Cloud Telecommunications backlog as of January 1, 2022	\$ 30,190	\$ 30,190
Cloud Telecommunications backlog as of June 30, 2022	\$ 29,452	
Cloud Telecommunications backlog as of September 30, 2022		\$ 30,063

#### Cost of Service Revenue

Cost of service revenue consists primarily of fees we pay to third-party telecommunications carriers, broadband Internet providers, software providers, costs related to installations, customer support salaries, and benefits, bonuses, and share-based compensation. The following table reflects our cost of service revenue for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Cost of service revenue	\$ 6,139	\$ 2,874	\$ 3,265	114%

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Cost of service revenue	\$ 9,312	\$ 4,249	\$ 5,063	119%

The increase in cost of service revenue was primarily due related to additional cost of service revenue of \$3,224 \$4,819 contributed by our November 1, 2022 acquisition of Allegiant Networks during the six nine months ended June 30, 2023 September 30, 2023. Additionally, we had a \$77 \$167 increase in salaries, benefits, bonuses, and benefits share-based compensation related to increases in headcount to assist with the migration of our customers to our new VIP platform and expenses for the accrual of annual employee bonuses, and an increase in third-party telecommunications carrier costs of \$112, offset by a decrease in other cost of service revenue of \$36, \$35.

#### Cost of Product Revenue

Cost of product revenue consists of the costs associated with desktop phone devices and third-party equipment. The following table reflects our cost of product revenue for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Cost of product revenue	\$ 1,720	\$ 689	\$ 1,031	150 %

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	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Cost of product revenue	\$ 2,643	\$ 1,142	\$ 1,501	131 %

The increase is primarily due related to an increase of \$180 \$281 from our organic product revenue growth and additional cost of product revenue of \$851 \$1,220 contributed by our November 1, 2022 acquisition of Allegiant Networks during the six nine months ended June 30, 2023 September 30, 2023.

*Selling and Marketing*

Selling and marketing expenses consist primarily of direct and channel sales representative salaries, benefits, bonuses, and benefits, share-based compensation, partner channel commissions, amortization of costs to acquire contracts, travel expenses, lead generation services, trade shows, internal and third-party marketing costs, the production of marketing materials, and sales support software. The following table reflects our selling and marketing expenses for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 5,100	\$ 3,259	\$ 1,841	56 %

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 7,567	\$ 4,963	\$ 2,604	52 %

The increase in selling and marketing expense is primarily due related to additional selling and marketing expense of \$1,417 \$2,039 contributed by our November 1, 2022 acquisition of Allegiant Networks during the six month nine months ended June 30, 2023 September 30, 2023, an increase in commission expense of \$318 \$464 directly related to the increase in revenue, and an increase in salaries, wages benefits, bonuses, and benefits share-based compensation of \$114, related to expansion of our sales team, offset by a decrease in other selling and marketing expenses of \$8, \$13.

*General and Administrative*

General and administrative expenses consist of salaries, benefits, bonuses, and stock share-based compensation for executives, administrative personnel, legal, rent, equipment, accounting and other professional services, investor relations, depreciation, amortization of intangibles, and other administrative corporate expenses. The following table reflects our general and administrative expenses for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 4,959	\$ 4,299	\$ 660	15 %

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 7,189	\$ 6,355	\$ 834	13 %

The increase in general and administrative expenses is primarily due related to additional general and administrative expense of \$1,229 \$1,775 contributed by our November 1, 2022 acquisition of Allegiant Networks during the six nine months ended June 30, 2023 September 30, 2023, offset by a decrease in administrative salaries, wages benefits, bonuses, and benefits share-based compensation of \$515 \$849 related to a decrease in share-based compensation and the reclassification of salary, wages, and benefits to the Software Solutions segment, a decrease offset by an increase in corporate insurance expenses for the accrual of \$7 annual employee bonuses, and a decrease in other general and administrative expenses of \$47. \$92.

#### Research and Development

Research and development expenses primarily consist of salaries, benefits, bonuses, and benefits, share-based compensation, and outsourced engineering services related to the development of new cloud telecommunications features and products. The following table reflects our research and development expenses for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 590	\$ 614	\$ (24)	-4 %

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 907	\$ 898	\$ 9	1 %

The decrease increase in research and development expenses is primarily related to an increase in salaries, wages, benefits, bonuses, and share-based compensation of \$49, offset by a decrease in costs for maintenance on our mobile applications and other development costs of \$43, offset by an increase in salaries, wages and benefits of \$19. \$40.

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#### Other Income/(Expense)

Other income/(expense) primarily relates to the gain or loss on the disposal of property and equipment, interest expense, and net foreign exchange gains or losses, offset by credit card cash back rewards. The following table reflects our other income/(expense) for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Other expense	\$ (65)	\$ (35)	\$ (30)	-86 %

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Other income/(expense)	\$ 1,360	\$ (52)	\$ 1,412	2715 %

The increase in other expenses income/(expense) is primarily due related to additional other expenses the gain on the sale of \$36 contributed by our November 1, 2022 acquisition corporate headquarters located in Tempe, Arizona of Allegiant Networks during the six months ended June 30, 2023. \$1,459.

#### Operating Results of Software Solutions segment (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Software Solutions								

Software solutions revenue	\$ 3,930	\$ 3,598	\$ 8,038	\$ 6,866	\$ 4,691	\$ 3,875	\$ 12,729	\$ 10,741
Operating expenses:								
Cost of software solutions revenue	1,293	1,131	2,478	2,792	1,327	1,141	3,805	3,933
Selling and marketing	1,109	1,093	2,322	2,096	1,035	1,028	3,357	3,124
General and administrative	992	764	2,205	1,707	1,079	744	3,284	2,451
Research and development	847	919	1,739	919	959	867	2,698	1,786
Total operating expenses	4,241	3,907	8,744	7,514	4,400	3,780	13,144	11,294
Operating loss	(311)	(309)	(706)	(648)				
Operating income/(loss)					291	95	(415)	(553)
Other income/(expense)	22	(109)	77	(119)	(52)	(167)	25	(286)
Loss before tax benefit	\$ (289)	\$ (418)	\$ (629)	\$ (767)				
Income/(loss) before tax benefit/(provision)					\$ 239	\$ (72)	\$ (390)	\$ (839)

Three months ended **June 30, 2023** **September 30, 2023** compared to three months ended **June 30, 2022** **September 30, 2022**

#### Software Solutions Revenue

Software solutions revenue consists primarily of software license fees, subscription maintenance and support, and professional services. Software licenses are billed by the number of concurrent sessions a partner has purchased or subscribes to. Subscription maintenance and support is ongoing and provides for software updates and improvements, support for add-on modules, bug fixes, and other general maintenance items. Professional services and other revenues consist of professional services such as the installation of software and integration of other modules, training, and implementation as well as custom mobile branding. The following table reflects our service revenue for the three months ended **June 30, 2023** **September 30, 2023**, compared to the three months ended **June 30, 2022** **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Software solutions revenue	\$ 3,930	\$ 3,598	\$ 332	9 %

  

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Software solutions revenue	\$ 4,691	\$ 3,875	\$ 816	21 %

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The increase is primarily related to a **\$364** **\$731** increase in recurring software license revenue and maintenance and support subscriptions revenue, and an increase in professional services of **\$74** **\$99**, offset by a decrease in perpetual software license revenue of **\$106** **\$14**.

#### Backlog



Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of **June 30, 2023** **September 30, 2023** and 2022. Backlog increased **22%** **52%**, or **\$2,800** **\$6,975** to **\$15,649** **\$20,319** as of **June 30, 2023** **September 30, 2023** as compared to **\$12,669** **\$13,344** as of **June 30, 2022** **September 30, 2022**. Below is a table which displays the software solutions segment revenue backlog as of **April 1, 2023** **July 1, 2023** and 2022, and **June 30, 2023** **September 30, 2023** and 2022, which we expect to recognize as revenue within the next thirty-six to sixty months (in thousands):

Software solutions backlog as of April 1, 2023	\$	14,185
Software solutions backlog as of June 30, 2023	\$	15,469
Software solutions backlog as of April 1, 2022	\$	13,054
Software solutions backlog as of June 30, 2022	\$	12,669

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Software solutions backlog as of July 1, 2023	\$	15,469
Software solutions backlog as of September 30, 2023	\$	20,319
Software solutions backlog as of July 1, 2022	\$	12,669
Software solutions backlog as of September 30, 2022	\$	13,344

#### Cost of Software Solutions Revenue

Cost of software solutions revenue consists primarily of salaries, **wages** **benefits, bonuses,** and **benefits**, share-based compensation, amortization expense related to the technology, cost of **Data Center** **data-center** hosting, third-party software modules and outsourced services required to install and support software solutions. The following table reflects our cost of service revenue for the three months ended **June 30, 2023** **September 30, 2023**, compared to the three months ended **June 30, 2022** **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Cost of software solutions revenue	\$ 1,293	\$ 1,131	\$ 162	14%

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Cost of software solutions revenue	\$ 1,327	\$ 1,141	\$ 186	16%

The increase in cost of service revenue is primarily related to an increase in **software costs of \$81,** an increase in **outside consulting services of \$44,** **\$85,** an increase in **software costs of \$51,** an increase in **salaries, benefits, bonuses and share-based compensation of \$43,** and an increase **in data-center related expenses of \$38,** offset by a **decrease** in other cost of software solutions revenue of **\$1,** **\$7.**

#### Selling and Marketing

Selling and marketing expenses consist primarily of sales and marketing salaries, **wages** **benefits, bonuses,** and **benefits, commissions,** share-based compensation, **commissions,** travel expenses, lead generation services, trade shows, third-party marketing services, the production of marketing materials, amortization expense related to customer relationships intangible asset, and sales support software. The following table reflects our selling and marketing expenses for the three months ended **June 30, 2023** **September 30, 2023**, compared to the three months ended **June 30, 2022** **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 1,109	\$ 1,093	\$ 16	1%

Three Months Ended September 30,			
----------------------------------	--	--	--

	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 1,035	\$ 1,028	\$ 7	1 %

The increase in selling and marketing expense is primarily due related to an increase in commission expense salaries, benefits, bonuses, and share-based compensation of \$57 directly related to the increase in revenue, and an increase in other selling and marketing costs of \$9, \$40, offset by a decrease in marketing consultant costs of \$50, \$24 and a decrease in other selling and marketing expenses of \$9.

#### General and Administrative

General and administrative expenses consist of salaries, wages benefits, bonuses and benefits share-based compensation for executives share-based compensation, and, administrative personnel, amortization of intangible asset related to trademarks and trade names, legal, rent, equipment, accounting and other professional services, and other administrative corporate expenses. The following table reflects our general and administrative expenses for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 992	\$ 764	\$ 228	30 %

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 1,079	\$ 744	\$ 335	45 %

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The increase in general and administrative expenses is primarily related to the reclassification of salary, wages salaries and benefits from the Cloud Telecommunication Services segment of \$249 \$260 after carefully reviewing expenses that related to the Software Solutions segment offset by a decrease and an increase of other general and administrative costs of \$21, \$75.

#### Research and Development

Research and development expenses primarily consists consist of salaries, wages benefits, bonuses, and benefits, share-based compensation, and outsourcing outsourced engineering services related to the development of our software solutions. The following table reflects our research and development expenses for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 847	\$ 919	\$ (72)	-8 %

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	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 959	\$ 867	\$ 92	11 %

The decrease increase in research and development expenses is primarily related to an decrease increase in outside consulting services of \$63, an increase in salaries, wages benefits, bonuses, and benefits share-based compensation of \$74, \$32, offset by an increase a decrease in other research and development expenses of \$2, \$3.

#### Other Income/(Expense)

Other expense primarily relates to interest expense, net foreign exchange gains or losses, and other income and expenses. The following table reflects our other expense for the three months ended **June 30, 2023** **September 30, 2023**, compared to the three months ended **June 30, 2022** **September 30, 2022**:

	Three Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Other income/ (expense)	\$ 22	\$ (109)	\$ 131	120%

  

	Three Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Other income/(expense)	\$ (52)	\$ (167)	\$ 115	69%

The increase in other income/(expense) is primarily **due related** to an increase in foreign exchange gains of **\$111**, and an increase in other income of **\$20**. **\$115**.

**Six Nine months ended June September 30, 2023 compared to six nine months ended June 30, 2022 September 30, 2022**

#### Software Solutions Revenue

Software solutions revenue consists primarily of software license fees, subscription maintenance and support, and professional services. Software licenses are billed by the number of concurrent sessions a partner has purchased or subscribes to. Subscription maintenance and support is ongoing and provides for software updates and improvements, support for add-on modules, bug fixes, and other general maintenance items. Professional services and other revenues consist of professional services such as the installation of software and integration of other modules, training, and implementation as well as custom mobile branding. The following table reflects our service revenue for the **six nine months ended June 30, 2023 September 30, 2023**, compared to the **six nine months ended June 30, 2022 September 30, 2022**:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Software solutions revenue	\$ 8,038	\$ 6,866	\$ 1,172	17%

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Software solutions revenue	\$ 12,729	\$ 10,741	\$ 1,988	19%

The increase is primarily related to an increase in recurring software license revenue and maintenance and support subscriptions revenue of **\$825**, **\$1,556**, an increase in perpetual software license revenue of **\$282**, **\$268**, and an increase in professional services of **\$65**. **\$164**.

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#### Backlog

Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of **June 30, 2023 September 30, 2023** and 2022. Backlog increased **22%** **52%**, or **\$2,800** **\$6,975** to **\$15,649** **\$20,319** as of **June 30, 2023 September 30, 2023** as compared to **\$12,669** **\$13,344** as of **June 30, 2022 September 30, 2022**. Below is a table which displays the software solutions segment revenue backlog as of **January 1, 2023 July 1, 2023** and 2022, and **June 30, 2023 September 30, 2023** and 2022, which we expect to recognize as revenue within the next thirty-six to sixty months (in thousands):

Software solutions backlog as of January 1, 2023	\$ 14,830	\$ 14,830
Software solutions backlog as of June 30, 2023	\$ 15,649	
Software solutions backlog as of September 30, 2023		\$ 20,319

Software solutions backlog as of January 1, 2022	\$	13,034	\$	13,034
Software solutions backlog as of June 30, 2022	\$	12,669		
Software solutions backlog as of September 30, 2022			\$	13,344

#### Cost of Software Solutions Revenue

Cost of software solutions revenue consists primarily of salaries, wages benefits, bonuses, and benefits, share-based compensation, amortization expense related to the technology, cost of Data Center data-center hosting, third-party software modules and outsourced services required to install and support software solutions. The following table reflects our cost of service revenue for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Cost of software solutions revenue	\$ 2,478	\$ 2,792	\$ (314)	-11 %

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	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Cost of software solutions revenue	\$ 3,805	\$ 3,933	\$ (128)	-3 %

The decrease in cost of service revenue is primarily related to the reclassification of \$452 of research and development expenses out of cost of service revenue after carefully reviewing operating expenses that qualify as research and development operating expenses, offset by an increase in software costs of \$81 \$132, an increase in outside consulting services of \$85, an increase in salaries, benefits, bonuses, and share-based compensation of \$43, and an increase in other cost of software solutions revenue of \$57. \$64.

#### Selling and Marketing

Selling and marketing expenses consist primarily of sales and marketing salaries, wages benefits, bonuses, and benefits, commissions, share-based compensation, commissions, travel expenses, lead generation services, trade shows, third-party marketing services, the production of marketing materials, amortization expense related to customer relationships intangible asset, and sales support software. The following table reflects our selling and marketing expenses for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 2,322	\$ 2,096	\$ 226	11 %

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Selling and marketing	\$ 3,357	\$ 3,124	\$ 233	7 %

The increase in selling and marketing expense is primarily due related to an increase in salaries, wages benefits, bonuses, and benefits share-based compensation of \$138 \$218 related to an increase in headcount and expenses for the accrual of annual employee bonuses, and an increase in commission expense of \$104 directly related to the increase in revenue, and an increase in share-based compensation of \$40, offset by a decrease in marketing consultants costs of \$50 \$74 and a decrease in other selling and marketing costs of \$6. \$15.

#### General and Administrative

General and administrative expenses consist of salaries, wages benefits, bonuses and benefits share-based compensation for executives share-based compensation, and, administrative personnel, amortization of intangible asset related to trademarks and trade names, legal, rent, equipment, accounting and other professional

services, and other administrative corporate expenses. The following table reflects our general and administrative expenses for the **six nine** months ended **June 30, 2023** September 30, 2023, compared to the **six nine** months ended **June 30, 2022** September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 2,205	\$ 1,707	\$ 498	29 %

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
General and administrative	\$ 3,284	\$ 2,451	\$ 833	34 %

The increase in general and administrative expenses is primarily related to the reclassification of **salary, wages** salaries and benefits from the Cloud Telecommunication Services segment of **\$552 \$812** after carefully reviewing expenses that related to the Software Solutions segment, an increase in share-based compensation of \$64, **and an increase in other general and administrative expenses of \$50**, offset by a decrease in general and administrative expenses relating to the reclassification of research and development expenses out of general and administrative expenses after carefully reviewing expenses that qualify of **\$93 and a decrease in other general and administrative expenses of \$25, \$93**.

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#### Research and Development

Research and development expenses primarily **consists consist** of salaries, **wages** benefits, bonuses, and **benefits**, share-based compensation, and **outsourcing outsourced** engineering services related to the development of our software solutions. The following table reflects our research and development expenses for the **six nine** months ended **June 30, 2023** September 30, 2023, compared to the **six nine** months ended **June 30, 2022** September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 1,739	\$ 919	\$ 820	89 %

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Research and development	\$ 2,698	\$ 1,786	\$ 912	51 %

The increase in research and development expenses is primarily related to the reclassification of research and development expenses out of cost of service revenue of \$452 and out of general and administrative expense of \$93, after carefully reviewing expenses that qualify as research and development operating expenses, an increase in salaries, **wages** benefits, bonuses, and **benefits** share-based compensation of **\$132 \$263** related to an increase in headcount, **and salary increases, and the 2023 annual bonus plan accrual, an increase in share-based compensation outside consulting services of \$99, \$63, and an increase in other research and development expenses of \$44, \$41**.

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#### Other Income/(Expense)

Other **expense income/(expense)** primarily relates to interest expense, net foreign exchange gains or losses, and other income and expenses. The following table reflects our other expense for the **six nine** months ended **June 30, 2023** September 30, 2023, compared to the **six nine** months ended **June 30, 2022** September 30, 2022:

Six Months Ended June 30,			

	2023	2022	Dollar Change	Percent Change
Other income/(expense)	\$ 77	\$ (119)	\$ 196	165 %

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Other income/(expense)	\$ 25	\$ (286)	\$ 311	109 %

The increase in other income/(expense) is primarily due related to an increase in foreign exchange gains of \$116, \$231, and an increase in other income of \$80.

## Liquidity and Capital Resources

Liquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. We finance our operations primarily through services, software solutions, and product sales to our customers. As of June 30, 2023, September 30, 2023 and December 31, 2022, we had cash and cash equivalents of \$4,200, \$7,737 and \$5,475, respectively. Changes in cash and cash equivalents are dependent upon changes in, among other things, working capital items such as contract liabilities, contract costs, accounts payable, accounts receivable, prepaid expenses, and various accrued expenses, as well as purchases of property and equipment, asset acquisitions, business combinations, and changes in our capital and financial structure due to debt repayments and issuances, stock option exercises, sales of equity investments and similar events. We believe that our operations along with existing liquidity sources will satisfy our cash requirements for at least the next 12 months.

On November 1, 2022, the Company acquired 100% of the issued and outstanding shares of Allegiant Networks, a provider of telecommunications products, services, and solutions in Kansas and Missouri. The aggregate purchase price of \$9.4 million consisted of \$2.0 million of cash paid at closing, 2,461,538 shares of our common stock with an estimated fair value of \$6.3 million issued at closing, and a three-year promissory note for \$1.1 million.

### Operating Activities

Cash provided by or used in operating activities is driven by our net loss, adjustments to reconcile to net cash provided by or used in operating activities, the timing of customer collections, as well as the amount and timing of disbursements to our vendors, the amount of cash we invest in personnel, marketing, and infrastructure costs to support the anticipated growth of our business. The following table reflects our net cash used in operating activities for the six nine months ended June 30, 2023, September 30, 2023, compared to the six nine months ended June 30, 2022, September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Net cash used in operating activities	\$ (673)	\$ (2,614)	\$ 1,941	74 %

The net cash used for operations was primarily driven by our net loss for the six months ended June 30, 2023 of \$2,127, an increase in contract costs of \$600, an increase in prepaid expenses of \$582, an increase in equipment financing receivables of \$528, an increase in trade receivables of \$265, a decrease in accounts payable and accrued expenses of \$631, and a decrease in contract liabilities of \$180, offset by non-cash expenses for depreciation and amortization of \$1,808 and share-based compensation of \$2,269 and a decrease in other assets of \$165.

The net cash used for operations was primarily driven by our net loss for the six months ended June 30, 2022 of \$2,116, an increase in accounts receivable of \$1,347, an increase in contract costs of \$364, an increase in income tax receivable of \$344, an increase in prepaid expenses of \$320, an increase in equipment financing receivables of \$228, a decrease in contract liabilities of \$657, a decrease in accounts payable and accrued expenses of \$387, offset by non-cash expenses for depreciation and amortization of \$1,239 and share-based compensation of \$1,911.

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Net cash provided by/(used in) operating activities	\$ 887	\$ (2,665)	\$ 3,552	133 %

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The net cash provided by operations was primarily driven by our net loss for the nine months ended September 30, 2023 of \$423, a decrease in inventories of \$207, and a decrease in other assets of \$210, offset by an increase in contract costs of \$994, an increase in equipment financing receivables of \$770, an increase in trade receivables of \$584, an increase in prepaid expenses of \$560, a decrease in contract liabilities of \$409, and a decrease in accounts payable and accrued expenses of \$169, offset by non-cash expenses for depreciation and amortization of \$2,695, share-based compensation of \$3,117, and a gain on disposal of property and equipment of \$1,459.

The net cash used in operations for the nine months ended September 30, 2022, was primarily driven by our net loss for the nine months period of \$2,812, an increase in accounts receivable of \$1,851, an increase in prepaid expenses of \$638, an increase in contract costs of \$524, an increase in equipment financing receivables of \$425, an increase in income tax receivable of \$375, and a decrease in accounts payable and accrued expenses of \$742, offset by non-cash expenses for depreciation and amortization and share-based compensation of \$1,862 and \$2,762, respectively.

#### Investing Activities

Cash provided by or used in investing activities is driven by the purchase of property and equipment, business combinations, and asset acquisitions. The following table reflects our net cash used in investing activities for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Net cash used in investing activities	\$ (92)	\$ (40)	\$ (52)	-130%

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Net cash provided by/(used in) investing activities	\$ 3,792	\$ (192)	\$ 3,984	2075%

Net cash used for provided by investing activities in for the six nine months ended June 30, 2023 September 30, 2023 primarily relates to the sale of the corporate headquarters located in Tempe, Arizona, which generated \$3,792 in proceeds from the sale, offset by the purchases of property and June 30, 2022, equipment of \$92. Net cash used in investing activities for the nine months ended September 30, 2022 primarily relates to the purchase of property and equipment.

#### Financing Activities

Cash provided by or used in financing activities is driven by the proceeds from the exercise of options, taxes paid on the net settlement of stock options and RSUs, dividend payments, payment of contingent consideration, proceeds from finance leases and notes payable, repayments made on finance leases and notes payable, proceeds and repayments on line of credit, and proceeds from the issuance of common stock in connection with an offering. The following table reflects our net cash provided by/(used in) financing activities for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Dollar Change	Percent Change
Net cash provided by/(used in) financing activities	\$ (486)	\$ (20)	\$ (466)	-2330%

  

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percent Change
Net cash used in financing activities	\$ (2,324)	\$ (36)	\$ (2,288)	-6356%

Net cash used for in financing activities in for the six nine months ended June 30, 2023 September 30, 2023 primarily relates to the repayments made on notes payable of \$2,143, the payments of employee tax withholdings from the net settlement of stock options and RSUs of \$264, repayments made on notes payable of \$271, dividend payments of \$130, repayments made on a line of credit of \$82, and repayments made on finance leases of \$57, \$76, offset by proceeds from notes payable of \$278 and cash received from the exercise of stock options of \$40, \$93.

Net cash used for in financing activities in for the six nine months ended June 30, 2022 September 30, 2022, primarily relates to cash proceeds from the exercise of stock options of \$576, offset by the payments of employee tax withholdings from related to the net settlement of stock options and RSUs of \$118, repayments made on notes payable of \$37, \$135, dividend payments of \$223, \$336, and repayments made on of notes payable and finance leases of \$57, offset by cash received from the exercise of stock options of \$415, \$141.

#### Contractual Obligations and Commitments

Except as set forth in Notes 5, 12, 4, 10, and 16 13 in the accompanying notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, there were no significant changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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#### Off Balance Sheet Arrangements

As of, June 30, 2023 September 30, 2023, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

#### Related Party Transactions

None

#### Impact of Recent Accounting Pronouncements

The information set forth under Note 1 to the condensed consolidated financial statements under the caption "Recent Accounting Pronouncements" is incorporated herein by reference.

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

##### *Foreign Currency Risk*

For all periods presented, our sales and operating expenses were predominately denominated in U.S. dollars. We therefore have not had material foreign currency risk associated with sales and cost-based activities. The functional currency of our material operating entities is the U.S. dollar.

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For the periods presented, we believe the exposure to foreign currency fluctuation from operating expenses is immaterial as the related costs do not constitute a significant portion of our total expenses. As we grow operations, our exposure to foreign currency risk may become more significant.

#### Item 4. Controls and Procedures

##### *Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report, have concluded that, based on the evaluation of these controls and procedures, our disclosure controls and procedures were effective.

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

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2023 September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings



From time to time, we are involved in lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. There are no matters pending or threatened that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

## Item 1A. Risk Factors

There are many risk factors that may affect our business and the results of our operations, many of which are beyond our control. Information on certain risks that we believe are material to our business is set forth in "Part I – Item 1A. Risk Factors" of the 2022 Form 10-K.

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

None

## Item 6. Exhibits

EXHIBIT INDEX					
Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Date	Number	
<a href="#">31.1</a>	<a href="#">Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended</a>				
<a href="#">31.2</a>	<a href="#">Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended</a>				
<a href="#">32.1</a>	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350</a>				
<a href="#">32.2</a>	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350</a>				
101.INS	XBRL INSTANCE DOCUMENT				
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT				
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT				
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT				
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT				
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT				

\* In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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## 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.

### Crexendo, Inc.

August 10, November 9, 2023

By: /s/ Jeffrey JEFFREY G. Korn KORN  
 Jeffrey G. Korn  
 Chief Executive Officer

August 10, November 9, 2023

By: /s/ Ronald Vincent  
 Ronald Vincent  
 Chief Financial Officer

**Certification Pursuant to  
Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Amended**

I, Jeffrey G. Korn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Crexendo, 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 disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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.

Date: November 9, 2023

By: /s/ JEFFREY G. KORN

Date: August 10, 2023

By: /s/ Jeffrey G. Korn

Jeffrey G. Korn  
Chief Executive Officer

**Certification Pursuant to  
Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Amended**

I, Ronald Vincent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Crexendo, 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 disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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.

Date: August 10, 2023 November 9, 2023

By: /s/ Ronald Vincent  
 Ronald Vincent  
 Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATIONS PURSUANT TO  
 SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
 (18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Crexendo, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), Jeffrey G. Korn, Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2023

By: /s/ JEFFREY G. KORN

Date: August 10, 2023

By: /s/ Jeffrey G. Korn

Jeffrey G. Korn  
Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Crexendo, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), Ronald Vincent, Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 10, 2023 November 9, 2023

By: /s/ Ronald Vincent

Ronald Vincent  
Chief Financial Officer

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