

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2024**

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



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

☐

Accelerated filer

☐

Non-accelerated filer

☐

Smaller reporting company

☒

(Do not check if a smaller reporting company)

Emerging growth company

☐

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

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

The number of shares outstanding of the registrant's common stock as of July 31, 2024 was 26,714,907 .

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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)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,611	\$ 10,347
Trade receivables, net of allowance of \$ 86 and \$ 116 , respectively	3,992	3,476
Inventories	554	382
Equipment financing receivables, net of allowance of \$ 62 and \$ 56 , respectively	937	856
Contract costs	1,634	1,345
Prepaid expenses	1,042	508
Income tax receivable	79	-
Other current assets	36	35
Total current assets	21,885	16,949
Contract assets, net of allowance of \$ 100 and \$ 85 , respectively	348	342
Long-term equipment financing receivables, net of allowance of \$ 132 and \$ 115 , respectively	1,985	1,768
Property and equipment, net	512	670
Operating lease right-of-use assets	714	1,009
Intangible assets, net	22,038	23,556
Goodwill	9,454	9,454
Contract costs, net of current portion	2,558	2,273
Other long-term assets	145	139
Total Assets	\$ 59,639	\$ 56,160
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 908	\$ 769
Accrued expenses	5,916	5,951
Finance leases	57	75
Notes payable	467	457
Operating lease liabilities	366	566
Income tax payable	-	53
Contract liabilities	2,727	2,390
Total current liabilities	10,441	10,261
Contract liabilities, net of current portion	278	198

Finance leases, net of current portion	4	23
Notes payable, net of current portion	356	592
Operating lease liabilities, net of current portion	372	473
Total liabilities	11,451	11,547
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, 26,712,685 shares issued and outstanding as of June 30, 2024 and 26,130,218 shares issued and outstanding as of December 31, 2023	27	26
Additional paid-in capital	135,440	132,888
Accumulated deficit	(87,445)	(88,467)
Accumulated other comprehensive income	166	166
Total stockholders' equity	48,188	44,613
Total Liabilities and Stockholders' Equity	\$ 59,639	\$ 56,160

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,	
	2024	2023	2024	2023
Service revenue	\$ 8,067	\$ 7,308	\$ 15,912	\$ 14,466
Software solutions revenue	5,325	3,930	10,471	8,038
Product revenue	1,293	1,432	2,588	2,657
Total revenue	14,685	12,670	28,971	25,161
Operating expenses:				
Cost of service revenue	3,246	3,095	6,355	6,139
Cost of software solutions revenue	1,445	1,293	2,837	2,478
Cost of product revenue	696	881	1,426	1,720
Selling and marketing	3,958	3,613	7,985	7,422
General and administrative	3,432	3,167	6,728	7,164

Research and development	1,328	1,138	2,577	2,329
Total operating expenses	14,105	13,187	27,908	27,252
Income/(loss) from operations	580	(517)	1,063	(2,091)
Other income/(expense):				
Interest expense	(11)	(33)	(24)	(75)
Other income/(expense), net	46	29	37	87
Total other income/(expense), net	35	(4)	13	12
Income/(loss) before income tax	615	(521)	1,076	(2,079)
Income tax benefit/(provision)	(27)	(24)	(54)	(48)
Net income/(loss)	\$ 588	\$ (545)	\$ 1,022	\$ (2,127)
Earnings per common share:				
Basic	\$ 0.02	\$ (0.02)	\$ 0.04	\$ (0.08)
Diluted	\$ 0.02	\$ (0.02)	\$ 0.03	\$ (0.08)
Weighted-average common shares outstanding:				
Basic	26,664,220	25,972,628	26,489,562	25,853,998
Diluted	29,510,903	25,972,628	29,810,838	25,853,998

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,	
	2024	2023	2024	2023
Net income/(loss)	\$ 588	\$ (545)	\$ 1,022	\$ (2,127)
Other comprehensive income, net of tax				
Foreign currency translation gain/(loss)	(1)	(3)	-	(24)
Total other comprehensive income/(loss)	(1)	(3)	-	(24)
Comprehensive income/(loss)	<u>\$ 587</u>	<u>\$ (548)</u>	<u>\$ 1,022</u>	<u>\$ (2,151)</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 Months Ended June 30, 2024 and 2023
(Unaudited, in thousands, except share data)

	Common Stock		Additional	Accumulated		Total
	Shares	Amount	Paid-in	Other	Accumulated	Stockholders'
			Capital	Comprehensive	Deficit	Equity
				Income		
Balance, January 1, 2024	26,130,218	\$ 26	\$ 132,888	\$ 166	\$ (88,467)	\$ 44,613
Share-based compensation	-	-	728	-	-	728
Vesting of restricted stock units	-	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	1	-	1
Issuance of common stock for exercise of stock options	497,804	1	1,048	-	-	1,049
Taxes paid on the net settlement of stock options and RSUs	-	-	(60)	-	-	(60)
Net income/(loss)	-	-	-	-	434	434
Balance, March 31, 2024	<u>26,628,022</u>	<u>\$ 27</u>	<u>\$ 134,604</u>	<u>\$ 167</u>	<u>\$ (88,033)</u>	<u>\$ 46,765</u>
Share-based compensation	-	-	784	-	-	784
Vesting of restricted stock units	23,579	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	(1)	-	(1)
Issuance of common stock for exercise of stock options	61,084	-	84	-	-	84
Taxes paid on the net settlement of stock options and RSUs	-	-	(32)	-	-	(32)
Net income/(loss)	-	-	-	-	588	588
Balance, June 30, 2024	<u>26,712,685</u>	<u>\$ 27</u>	<u>\$ 135,440</u>	<u>\$ 166</u>	<u>\$ (87,445)</u>	<u>\$ 48,188</u>

	Common Stock		Additional	Accumulated		Total
	Shares	Amount	Paid-in	Other	Accumulated	Stockholders'
			Capital	Comprehensive	Deficit	Equity
				Income		
Balance, January 1, 2023	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 income/(loss)	-	-	-	-	(1,582)	(1,582)
Balance, March 31, 2023	<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 income/(loss)	-	-	-	-	(545)	(545)
Balance, June 30, 2023	<u>25,972,804</u>	<u>\$ 26</u>	<u>\$ 131,107</u>	<u>\$ 163</u>	<u>\$ (90,232)</u>	<u>\$ 41,064</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)

	Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ 1,022	\$ (2,127)
Adjustments to reconcile net income/(loss) to net cash provided by/(used for) operating activities:		
Depreciation and amortization	1,676	1,808
Allowance for credit losses	8	22
Share-based compensation	1,512	2,269
Non-cash operating lease amortization	(6)	(2)
Changes in assets and liabilities:		
Trade receivables	(486)	(265)
Contract assets	(21)	28
Equipment financing receivables	(321)	(528)
Inventories	(172)	(14)
Contract costs	(574)	(600)
Prepaid expenses	(534)	(582)
Income tax receivable	(79)	-
Other assets	(7)	165
Accounts payable and accrued expenses	104	(631)
Income tax payable	(53)	(36)
Contract liabilities	417	(180)
Net cash provided by/(used for) operating activities	<u>2,486</u>	<u>(673)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(92)
Net cash used for investing activities	<u>-</u>	<u>(92)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on line of credit, net	-	(82)
Repayments made on finance leases	(37)	(57)
Proceeds from notes payable	-	278
Repayments made on notes payable	(226)	(271)
Proceeds from exercise of options	1,133	40
Dividend payments	-	(130)
Taxes paid on the net settlement of stock options and RSUs	(92)	(264)
Net cash provided by/(used for) financing activities	<u>778</u>	<u>(486)</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>(24)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,264</u>	<u>(1,275)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>10,347</u>	<u>5,475</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 13,611</u>	<u>\$ 4,200</u>
Cash used during the year for:		
Income taxes, net	\$ (186)	\$ (82)
Interest expense	\$ (24)	\$ (75)
Supplemental disclosure of non-cash investing and financing information:		
Transfer of property and equipment, net to property and equipment, held for sale	\$ -	\$ 2,333

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, in thousands, except per share and share data)

1. Significant Accounting Policies

Description of Business – Crexendo, Inc. is incorporated in the state of Nevada. As used hereafter in the notes to condensed 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 four and a half million end users globally. The Company has two operating segments, which consist of Cloud Telecommunications 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 accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), consistent in all material respects with those applied in our financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Because these financial statements address interim periods, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or for any future periods. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s audited financial statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

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, 2024 and 2023, the Company recorded foreign currency translation gains/(losses) of (\$ 1), and (\$ 3), respectively, and during the six months ended June 30, 2024 and 2023, the Company recorded foreign currency gains/(losses) of \$ 0 and (\$ 24), respectively, on our statements of comprehensive 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, 2024 and December 31, 2023, we had cash and cash equivalents in financial institutions in excess of federally insured limits in the amount of \$ 12,925 and \$ 9,035 , 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 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 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.

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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 software solutions and telecommunication service contracts which are recoverable. The Company capitalized contract costs in the amount of \$ 4,192 and \$ 3,618 at June 30, 2024 and December 31, 2023, 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, 2024 and 2023, the Company amortized \$ 546 and \$ 410 , respectively, and during the six months ended June 30, 2024 and 2023, the Company amortized \$ 1,046 and \$ 798 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 five 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. Depreciable lives by asset group are as follows:

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.

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.

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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 the 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 8 (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.

Amortizable intangible assets are amortized over the estimated useful lives as follows:

Customer relationships	6 to 16 years
Developed technologies	2 to 6 years
Trademark and trade names	4 years

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 contract liabilities.

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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, allowances for doubtful accounts, uncertainties related to certain income tax benefits, valuation of deferred income tax assets, valuations of share-based payments, annual incentive bonuses accrual, 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.

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 2.

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.

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, 2023, 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 \$ 4,782 and \$ 4,782 was recorded against our gross deferred tax asset balance as of June 30, 2024 and December 31, 2023, respectively.

Interest and penalties associated with income taxes are classified as income tax expense in the condensed 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 94% of our total revenue from customers within the United States and 6% of our total revenues from customers in other parts of the world.

Significant Customers – No customer accounted for 10 % or more of our total revenue for the three and six months ended June 30, 2024 and 2023. No customer accounted for 10 % or more of our total trade receivables as of June 30, 2024 and December 31, 2023.

Recently Adopted Accounting Pronouncements – 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" 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 beginning accumulated deficit balance; the impact of the adoption was not material to the 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 4 - Trade Receivables and Allowance for Credit Losses, Note 5 – Equipment Financing Receivables and Allowance for Credit Losses, and Note 2 – Revenues, [Contract Assets and Allowance for Credit Losses] for additional discussion regarding the impacts from the adoption of this standard.

Recently Issued Accounting Pronouncements – In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosure*, to require a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Public entities with a single reportable segment are required to provide the new disclosures and all the disclosures required under ASC 280. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, on a retrospective basis. Early adoption is permitted. We are currently evaluating the impact of adopting this new ASU on our interim and annual consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid. The ASU's amendments are effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements and related disclosures.

2. 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 16.

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.

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Desktop Devices – 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.

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.

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.

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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.
- **SNAPaccel** - 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.

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.

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.

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Three Months Ended June 30, 2024
(In thousands)

	Cloud Telecommunications Segment	Software Solutions Segment	Total Reportable Segments
Major products/services lines			
Desktop devices	\$ 1,293	\$ -	\$ 1,293
Equipment financing revenue	162	-	162
Telecommunications services	6,749	-	6,749
Fees, commissions, and other, recognized over time	519	-	519
One time fees, commissions and other	637	-	637
Software licenses	-	1,146	1,146
Software license and maintenance and support subscriptions	-	3,927	3,927
Professional services and other	-	252	252
	<u>\$ 9,360</u>	<u>\$ 5,325</u>	<u>\$ 14,685</u>
Timing of revenue recognition			
Products, services, and fees recognized at a point in time	\$ 1,930	\$ 1,398	\$ 3,328
Products, services, and fees transferred over time	7,430	3,927	11,357
	<u>\$ 9,360</u>	<u>\$ 5,325</u>	<u>\$ 14,685</u>

Three Months Ended June 30, 2023
(In thousands)

	Cloud Telecommunications Segment	Software Solutions Segment	Total Reportable Segments
Major products/services lines			
Desktop devices	\$ 1,432	\$ -	\$ 1,432
Equipment financing revenue	118	-	118
Telecommunications services	6,232	-	6,232
Fees, commissions, and other, recognized over time	477	-	477
One time fees, commissions and other	481	-	481
Software licenses	-	658	658
Software license and maintenance and support subscriptions	-	3,050	3,050
Professional services and other	-	222	222
	<u>\$ 8,740</u>	<u>\$ 3,930</u>	<u>\$ 12,670</u>
Timing of revenue recognition			
Products, services, and fees recognized at a point in time	\$ 1,913	\$ 880	\$ 2,793
Products, services, and fees transferred over time	6,827	3,050	9,877
	<u>\$ 8,740</u>	<u>\$ 3,930</u>	<u>\$ 12,670</u>

Six Months Ended June 30, 2024
(In thousands)

	Cloud Telecommunications Segment	Software Solutions Segment	Total Reportable Segments
Major products/services lines			
Desktop devices	\$ 2,588	\$ -	\$ 2,588
Equipment financing revenue	314	-	314

Telecommunications services	13,376	-	13,376
Fees, commissions, and other, recognized over time	1,019	-	1,019
One time fees, commissions and other	1,203	-	1,203
Software licenses	-	2,093	2,093
Software license and maintenance and support subscriptions	-	7,838	7,838
Professional services and other	-	540	540
	<u>\$ 18,500</u>	<u>\$ 10,471</u>	<u>\$ 28,971</u>
Timing of revenue recognition			
Products and fees recognized at a point in time	\$ 3,791	\$ 2,633	\$ 6,424
Services and fees transferred over time	14,709	7,838	22,547
	<u>\$ 18,500</u>	<u>\$ 10,471</u>	<u>\$ 28,971</u>

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Six Months Ended June 30, 2023
(In thousands)

	Cloud Telecommunications Segment	Software Solutions Segment	Total Reportable Segments
Major products/services lines			
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>
Timing of revenue recognition			
Products and fees recognized at a point in time	\$ 3,699	\$ 2,022	\$ 5,721
Services and fees transferred over time	13,424	6,016	19,440
	<u>\$ 17,123</u>	<u>\$ 8,038</u>	<u>\$ 25,161</u>

Contract balances

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

(In thousands)	June 30, 2024	December 31, 2023
Receivables, which are included in trade receivables, net of allowance for credit losses	\$ 3,992	\$ 3,476
Contract assets, net of allowance for credit losses	348	342
Contract liabilities	3,005	2,588

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

(In thousands)	For the Six Months Ended June 30, 2024		For the Year Ended December 31, 2023	
	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities
Revenue recognized that was included in the contract liability balance at the beginning of the period	\$ -	\$ (2,059)	\$ -	\$ (3,393)
Increase due to cash received, excluding amounts recognized as revenue during the period	-	2,476	-	2,396
Transferred to receivables from contract assets recognized at the beginning of the period, net of allowance for credit losses	(185)	-	(192)	-
Increase due to additional unamortized discounts	191	-	216	-

Contract assets and 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, 2024	December 31, 2023
Gross contract assets	\$ 448	\$ 427
Less: allowance for credit losses	(100)	(85)
Contract assets, net of allowance for credit losses	<u>\$ 348</u>	<u>\$ 342</u>

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

Balance at December 31, 2023	\$	85
Provision		1
Write-offs		(4)
Recoveries and other		-
Balance at March 31, 2024	\$	82
Provision		18
Write-offs		-
Recoveries and other		-
Balance at June 30, 2024	\$	100

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 22.4% at June 30, 2024 from 20.0% at December 31, 2023.

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):

	2024	2025	2026	2027	2028 and thereafter	Total
Desktop devices	\$ 643	\$ -	\$ -	\$ -	\$ -	\$ 643
Telecommunications services	12,424	17,336	11,508	7,069	2,704	51,041
Software Solutions	7,178	6,760	3,664	1,520	356	19,478
Total	20,245	24,096	15,172	8,589	3,060	71,162

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

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3. Earnings Per Common Share

Basic net income/(loss) per common share is computed by dividing the net 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 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/(loss) per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income/(loss) (in thousands) (A)	\$ 588	\$ (545)	\$ 1,022	\$ (2,127)
Weighted-average share reconciliation:				
Weighted-average basic shares outstanding (B)	26,664,220	25,972,628	26,489,562	25,853,998
Dilutive effect of stock-based awards	2,846,683	-	3,321,276	-
Diluted weighted-average outstanding shares of common stock (C)	<u>29,510,903</u>	<u>25,972,628</u>	<u>29,810,838</u>	<u>25,853,998</u>
Earnings per common share:				
Basic (A/B)	\$ 0.02	\$ (0.02)	\$ 0.04	\$ (0.08)
Diluted (A/C)	\$ 0.02	\$ (0.02)	\$ 0.03	\$ (0.08)

For the three and six months ended June 30, 2024 and 2023, 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,	
	2024	2023	2024	2023
Stock options	3,160,358	4,907,395	2,746,780	4,609,364

4. 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, 2024	December 31, 2023
Gross trade receivables	\$ 4,078	\$ 3,592
Less: allowance for credit losses	(86)	(116)
Trade receivables, net	<u>\$ 3,992</u>	<u>\$ 3,476</u>
Current trade receivables, net	\$ 3,992	\$ 3,476
Long-term trade receivables, net	-	-
Trade receivables, net	<u>\$ 3,992</u>	<u>\$ 3,476</u>

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

Balance at December 31, 2023	\$ 116
Provision	57
Write-offs	(48)
Recoveries and other	-
Balance at March 31, 2024	<u>\$ 125</u>
Provision	(21)
Write-offs	(18)
Recoveries and other	-
Balance at June 30, 2024	<u>\$ 86</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 trade receivables decreased to 2.1 % at June 30, 2024 from 3.2 % at December 31, 2023.

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5. 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, 2024	December 31, 2023
Gross equipment financing receivables	\$ 4,472	\$ 3,888
Less: unearned income	(1,356)	(1,093)
Less: allowance for credit losses	(194)	(171)
Equipment financing receivables, net	<u>\$ 2,922</u>	<u>\$ 2,624</u>
Current equipment financing receivables, net	\$ 937	\$ 856
Long-term equipment financing receivables, net	1,985	1,768
Equipment financing receivables, net	<u>\$ 2,922</u>	<u>\$ 2,624</u>

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

Year ending December 31,	
2024 remaining	\$ 837
2025	1,418
2026	1,051
2027	724
2028	381
2029 and thereafter	61
Total	<u>\$ 4,472</u>

Allowance for Credit Losses

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

Balance at December 31, 2023	\$ 171
Provision	22
Write-offs	(13)
Recoveries and other	-
Balance at March 31, 2024	<u>\$ 180</u>
Provision	23
Write-offs	(9)
Recoveries and other	-
Balance at June 30, 2024	<u>\$ 194</u>

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Aging of Receivables

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

	June 30, 2024	December 31, 2023
Past due amounts 0 - 90 days	\$ 2,922	\$ 2,623
Past due amounts > 90 days	-	1
Total	\$ 2,922	\$ 2,624

Our equipment financing receivable portfolio is primarily in the United States. 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 as a percent of gross equipment financing receivables (net of unearned income) increased to 6.2 % at June 30, 2024 from 6.1 % at December 31, 2023.

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, 2024						December 31, 2023
	2024	2023	2022	2021	2020	2019	Total Equipment Financing Receivables
United States	\$ 850	1,352	641	138	120	15	\$ 3,116
Current period gross write offs	\$ 1	2	1	4	-	1	\$ 9
							\$ 2,795
							\$ 33

6. Prepaid Expenses

Prepaid expenses consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
Prepaid corporate insurance	\$ 211	\$ 68
Prepaid software services and support	358	245
Prepaid employee insurance premiums	170	-
Prepaid Nasdaq listing fee	32	-
User group meeting fees	120	84
Other prepaid expenses	151	111
Total prepaid expenses	\$ 1,042	\$ 508

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7. Property and Equipment

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

	June 30, 2024	December 31, 2023
Computer and office equipment	2,700	2,700
Computer software	625	625
Internal-use software	14	14
Furniture and fixtures	64	64
Vehicles	143	143
Leasehold improvements	15	15
Less: accumulated depreciation	(3,049)	(2,891)
Total property and equipment, net	\$ 512	\$ 670

Depreciation expense is included in general and administrative expenses and totaled \$ 78 and \$ 108 for the three months ended June 30, 2024 and 2023, respectively, and \$ 158 and \$ 224 for the six months ended June 30, 2024 and 2023, respectively.

8. Intangible Assets and Goodwill

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

	June 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 26,073	\$ (6,335)	\$ 19,738	\$ 26,073	\$ (5,260)	\$ 20,813
Developed technologies	4,900	(2,675)	2,225	4,900	(2,269)	2,631
Trademark and trade names	400	(325)	75	400	(288)	112
Total acquired intangible assets	\$ 31,373	\$ (9,335)	\$ 22,038	\$ 31,373	\$ (7,817)	\$ 23,556

As of June 30, 2024, the weighted average remaining useful life for customer relationships was 12.9 years and developed technologies was 3.2 years and trademarks and trade names was 1.2 years.

Amortization expense for customer relationships intangible assets is included in selling and marketing expenses and totaled \$ 526 and \$ 539 for the three months ended June 30, 2024 and 2023, respectively, and \$ 1,053 and \$ 1,078 for the six months ended June 30, 2024 and 2023, respectively. Amortization expense for developed technologies intangible assets is included in cost of software solutions revenue and totaled \$ 203 and \$ 215 for the three months ended June 30, 2024 and 2023, respectively, and \$ 406 and \$ 430 for the six months ended June 30, 2024 and 2023, respectively. Amortization expense for trademark and trade name intangible assets is included in general and administrative expenses and totaled \$ 29 and \$ 38 for the three months ended June 30, 2024 and 2023, respectively, and \$ 59 and \$ 76 for the six months ended June 30, 2024 and 2023, respectively.

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As of June 30, 2024, 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,

2024 remaining	\$ 1,511
2025	2,770
2026	2,457
2027	2,202
2028	1,637
2029 and thereafter	11,461
Total	\$ 22,038

The following table provides a summary of changes in the carrying amounts of goodwill (in thousands):

	Goodwill
Balance at January 1, 2023	\$ 9,454
Additions	-
Balance at December 31, 2023	\$ 9,454
Additions	-
Balance at June 30, 2024	<u>\$ 9,454</u>

9. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
Accrued wages and benefits	\$ 1,978	\$ 2,884
Accrued accounts payable	1,449	1,297
Accrued sales and telecommunications taxes	1,560	1,234
Product warranty liability	28	25
Cloud computing arrangements	179	-
Credit cards	116	113
Other	606	398
Total accrued expenses	\$ 5,916	\$ 5,951

The changes in aggregate product warranty liabilities for the year ended December 31, 2023 and the six months ended June 30, 2024 were as follows (in thousands):

	Warranty Liabilities
Balance at January 1, 2023	\$ 55
Accrual for warranties	25
Adjustments related to pre-existing warranties	(32)
Warranty settlements	(23)
Balance at December 31, 2023	25
Accrual for warranties	15
Warranty settlements	(12)

Balance at June 30, 2024

\$ 28

Product warranty expense is included in cost of product revenue expense and totaled \$ 8 and \$ 13 for the three months ended June 30, 2024 and 2023, respectively, and \$ 15 and \$ 27 for the six months ended June 30, 2024 and 2023, respectively.

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10. Notes Payable

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

	June 30, 2024	December 31, 2023
Related party note payable	\$ 662	\$ 843
Other notes payable	161	206
Total notes payable	\$ 823	\$ 1,049
Less: current notes payable	(467)	(457)
Notes payable, net of current portion	\$ 356	\$ 592

On February 27, 2023, we entered into a promissory note with CrossFirst Bank in the amount of \$ 278 . The promissory note has a term of three (3) years with monthly payments of Eight Thousand Five Hundred Forty-Three (\$ 8,543), including interest of 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-One (\$ 98,381), including interest at 4.00 %, beginning on April 1, 2023. As of June 30, 2024 and December 31, 2023, the outstanding balance of the related party note payable was \$ 662 and \$ 843 , respectively. During the three months ended June 30, 2024 and 2023, the Company paid principal of \$ 91 and \$ 80 , respectively, and interest of \$ 7 and \$ 18 , respectively. During the six months ended June 30, 2024 and 2023, the Company paid principal of \$ 181 and \$ 80 , respectively, and interest of \$ 16 and \$ 18 , respectively.

As of June 30, 2024, future principal payments are scheduled as follows (in thousands):

Year ending December 31,

2024 remaining	\$ 231
2025	478
2026	114
2027	-
2028 and thereafter	-
Total	\$ 823

11. 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, 2025. The line of credit bears interest at 0.50 % over the Wall Street Journal Prime Rate. As of June 30, 2024, 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 subject to certain financial covenants.

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12. Fair Value Measurements

We have financial instruments as of June 30, 2024 and December 31, 2023 for which the fair value is summarized below (in thousands):

	June 30, 2024		December 31, 2023	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Trade receivables, net	\$ 3,992	\$ 3,992	\$ 3,476	\$ 3,476
Equipment financing receivables	2,922	2,922	2,624	2,624
Liabilities:				
Finance lease obligations	\$ 61	\$ 61	\$ 98	\$ 98
Notes payable	823	803	1,049	1,012

We have no liabilities for which fair value is recognized in the balance sheet on a recurring basis as of June 30, 2024 and December 31, 2023.

13. Income Taxes

Our effective tax rate for the three months ended June 30, 2024 and 2023 was 4.4 % and 4.6 %, respectively, which resulted in an income tax benefit/(provision) of \$(27) and \$(24), respectively. Our effective tax rate for the six months ended June 30, 2024 and 2023 was 5.0 % and 2.3 %, respectively, which resulted in an income tax benefit/(provision) of \$(54) and \$(48), 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, 2023, 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, 2023 the Company has a cumulative pretax loss for the three year lookback excluding the gain on the sale of property and equipment, 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 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 \$ 4,782 are realizable. Therefore, a valuation allowance of \$ 4,782 was recorded against our gross deferred tax asset balance as of June 30, 2024 and December 31, 2023.

14. 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.

Operating leases are recorded as right-of-use ("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.

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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 June 30, 2024 and 2023 was approximately \$ 78 and \$ 0 , respectively, and for the six months ended June 30, 2024 and 2023 was \$ 156 and \$ 0 , respectively.

We currently lease office space in Reston, Virginia under a non-cancelable operating lease agreement that expires in 2024. The operating lease contains customary escalation clauses. Rental expense for the three months ended June 30, 2024 and 2023 was approximately \$ 13 and \$ 10 , respectively, and for the six months ended June 30, 2024 and 2023 was \$ 26 and \$ 14 , respectively.

We currently lease office space in San Diego, California under a non-cancelable operating lease agreement that expires in 2024 . Rental expense for the three months ended June 30, 2024 and 2023 was approximately \$ 22 and \$ 21 , respectively, and for the six months ended June 30, 2024 and 2023 was \$ 43 and \$ 42 , 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, 2024 and 2023 was approximately \$ 50 and \$ 45 , respectively, and for the six months ended June 30, 2024 and 2023 was \$ 102 and \$ 90 , respectively.

We currently lease other assets under multiple operating leases. The leases expire on various dates through 2027 and the interest rates range from 3.00% to 15.74% . The expense is included in cost of product expenses and totaled approximately \$ 20 and \$ 20 for the three months ended June 30, 2024 and 2023, respectively, and for the six months ended June 30, 2024 and 2023 was \$ 41 and \$ 41 , 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, 2024 and 2023 was approximately \$ 128 and \$ 112 , respectively, and for the six months ended June 30, 2024 and 2023 was \$ 272 and \$ 174 , respectively.

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 one vehicle under a financing agreement. The outstanding balance for finance leases was \$ 61 and \$ 98 as of June 30, 2024 and December 31, 2023, respectively. The Company recorded assets classified as property and equipment under finance lease obligations of \$ 486 and \$ 486 as of June 30, 2024 and December 31, 2023, respectively. Related accumulated depreciation totaled \$ 370 and \$ 337 as of June 30, 2024 and December 31, 2023, respectively. The \$ 40 in support contracts were classified as a prepaid expense and are being amortized over the service period of three years. The support contracts expired in June 2024. Amortization expense is included in general and administrative expenses and totaled \$ 1 and \$ 1 for the three months ended June 30, 2024 and 2023, respectively, and for the six months ended June 30, 2024 and 2023 was \$ 2 and \$ 2 , respectively. The interest rates on the finance lease obligations range from 1.37 % and 15.74 % and interest expense was \$ 1 and \$ 1 for the three months ended June 30, 2024 and 2023, respectively, and for the six months ended June 30, 2024 and 2023 was \$ 2 and \$ 2 , respectively.

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The maturity of operating leases and finance lease liabilities as of June 30, 2024 are as follows:

Year ending December 31,	Operating Leases	Finance Leases
2024 remaining	\$ 337	\$ 38
2025	205	21
2026	179	3
2027	134	-
2028	-	-
Total minimum lease payments	855	62
Less: amount representing interest	(42)	(1)
Present value of minimum lease payments	<u>\$ 813</u>	<u>\$ 61</u>
		June 30, 2024
Lease term and discount rate		
Weighted-average remaining lease term (years)		
Operating leases		2.5
Finance leases		0.9

Weighted-average discount rate

Operating leases	4.7%
Finance leases	2.8%

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 450	\$ 288
Operating cash flows from finance leases	1	4
Financing cash flows from finance leases	(37)	(271)

15. Commitments and Contingencies*Purchase Obligations*

In February 2024, the Company entered into a \$ 5.0 million non-cancellable five-year hosting service contract with Oracle, a third-party network service provider. The contract includes minimum quarterly commitments and the requirements to maintain the service level for the entire contract period. Under this agreement, \$200 remains due during fiscal year 2024, \$700 will be due during fiscal 2025, \$1.1 million will be due during fiscal 2026, \$1.2 million will be due during fiscal 2027, \$1.4 million will be due during fiscal 2028, and \$400 will be due during fiscal 2029. During the three and six months ended June 30, 2024, the Company has expensed \$ 125 and \$ 125, respectively, of the purchase obligation and is included in accrued expenses at June 30, 2024.

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, 2024, the Company does not have a recorded liability for estimated losses. Legal costs are expensed as incurred.

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16. 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,	
	2024	2023	2024	2023
Revenue:				
Cloud telecommunications services	\$ 9,360	\$ 8,740	\$ 18,500	\$ 17,123
Software solutions	5,325	3,930	10,471	8,038
Consolidated revenue	14,685	12,670	28,971	25,161
Operating income/(loss) from operations				
Cloud telecommunications services	120	(207)	198	(1,386)
Software solutions	460	(310)	865	(705)
Total operating income/(loss)	580	(517)	1,063	(2,091)
Other income/(expense), net:				
Cloud telecommunications services	45	(26)	40	(65)
Software solutions	(10)	22	(27)	77
Total other income/(expense), net	35	(4)	13	12
Income/(loss) before income tax provision:				
Cloud telecommunications services	165	(233)	238	(1,451)
Software solutions	450	(288)	838	(628)
Income/(loss) before income tax provision	\$ 615	\$ (521)	\$ 1,076	\$ (2,079)

Depreciation and amortization for the cloud telecommunications services segment was \$ 354 and \$ 392 for the three months ended June 30, 2024 and 2023, respectively, and \$ 709 and \$ 794 for the six months ended June 30, 2024 and 2023, respectively. Depreciation and amortization for the software solutions segment was \$ 482 and \$ 507 for the three months ended June 30, 2024 and 2023, respectively, and \$ 967 and \$ 1,014 for the six months ended June 30, 2024 and 2023, respectively.

Interest income for the cloud telecommunications services segment was \$ 53 and \$ 0 for the three months ended June 30, 2024 and 2023, respectively, and \$ 58 and \$ 0 for the six months ended June 30, 2024 and 2023, respectively. Interest income for the software solutions segment was \$ 0 for the three and six months ended June 30, 2024 and 2023, respectively.

Interest expense for the cloud telecommunications services segment was \$ 11 and \$ 33 for the three months ended June 30, 2024 and 2023, respectively, and \$ 24 and \$ 75 for the six months ended June 30, 2024 and 2023, respectively. Interest expense for the software solutions segment was \$ 0 for the three and six months ended June 30, 2024 and 2023, respectively.

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,	
	2024	2023	2024	2023
United States	\$ 13,780	\$ 12,011	\$ 27,211	\$ 24,122
International	905	659	1,760	1,039
Total revenue	<u>\$ 14,685</u>	<u>\$ 12,670</u>	<u>\$ 28,971</u>	<u>\$ 25,161</u>

17. Subsequent Events

On July 19, 2024, we entered into a non-cancelable commercial sublease operating agreement to sublease office space in Tempe Arizona, which will be the headquarters for the Company. This sublease commences on October 1, 2024, and continues for thirty-seven (37) months through October 31, 2027. The base monthly rent is as follows: October 1, 2024 – September 30, 2025, \$ 28 ; October 1, 2025 – September 30, 2026, \$ 29 , and October 1, 2026 – October 31, 2027, \$ 30 . The Company is entitled to three months of rent abatement, which will be January 2025, January 2026, and January 2027. The location is fully furnished and ready for immediate occupancy. If Operating Costs exceed \$20 in a calendar year, then the Company shall be responsible for fifty (50%) percent of the amount exceeding \$20 .

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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, 2023 (the "2023 Form 10-K") filed with the SEC and the Condensed Consolidated Financial Statements and notes thereto included in the 2024 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. 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 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 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, 3rd 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, 4G, 5G, and LTE, as well as other data services. These features are also available on CrexMo, VIP Mobile, and Snap Mobile which are 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 Device Gateways
- 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. 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.
- *SNAPaccel* – 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,	
	2024	2023	2024	2023
Service revenue	\$ 8,067	\$ 7,308	\$ 15,912	\$ 14,466
Software solutions revenue	5,325	3,930	10,471	8,038
Product revenue	1,293	1,432	2,588	2,657
Total revenue	\$ 14,685	\$ 12,670	\$ 28,971	\$ 25,161
Income/(loss) before income tax	615	(521)	1,076	(2,079)
Income tax (provision)/benefit	(27)	(24)	(54)	(48)
Net income/(loss)	588	(545)	1,022	(2,127)
Basic earnings per share	\$ 0.02	\$ (0.02)	\$ 0.04	\$ (0.08)
Diluted earnings per share	\$ 0.02	\$ (0.02)	\$ 0.03	\$ (0.08)

Three months ended June 30, 2024 compared to three months ended June 30, 2023

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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			Percent Change
	2024	2023	Dollar Change	
Total revenue	\$ 14,685	\$ 12,670	\$ 2,015	16%

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The increase in total revenue is due to an increase in software solutions revenue of \$1,395, an increase in service revenue of \$759, offset by a decrease in product revenue of \$139.

Income/(Loss) Before Income Tax

The following table reflects our income/(loss) before income tax for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Income/(loss) before income tax	\$ 615	\$ (521)	\$ 1,136	218%

The increase in income/(loss) before income tax is primarily related to an increase in revenue of \$2,015 and an increase in other income/(expense) of \$39, offset by an increase in operating expenses of \$918. The increase in revenue is related to organic growth from new and existing customers. The increase in operating expenses is primarily related to an increase in commission expense of \$342, an increase in contract labor and outsourced engineering services of \$209, an increase in hosting service fees of \$125, and an increase in accounting software costs of \$54. The increase in other income/(expense) is primarily related to an increase in interest income and a decrease in interest expense.

Income Tax (Provision)/Benefit

The following table reflects our income tax (provision)/benefit for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Income tax (provision)/benefit	\$ (27)	\$ (24)	\$ (3)	13%

We had an income tax provision of \$(27) for the three months ended June 30, 2024 compared to an income tax provision of \$(24) for the three months ended June 30, 2023. We had income before income taxes of \$615 for the three months ended June 30, 2024, compared to a loss before income taxes of \$(521) for the three months ended June 30, 2023. The income tax provision for the three months ended June 30, 2024 and 2023, is related to minimum state tax payments.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

Total Revenue

Total revenue consists of service revenue, software solutions revenue and product revenue. The following table reflects our service revenue for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,				
	2024	2023	Dollar Change	Percent Change	
Total revenue	\$ 28,971	\$ 25,161	\$ 3,810	15%	

The increase in total revenue is due to an increase in software solutions revenue of \$2,433 and an increase in service revenue of \$1,446, offset by a decrease in product revenue of \$69.

Income/(Loss) Before Income Tax

The following table reflects our income/(loss) before income tax for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,				
	2024	2023	Dollar Change	Percent Change	
Income/(loss) before income tax	\$ 1,076	\$ (2,079)	\$ 3,155	152%	

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The increase in income before income tax is primarily related to an increase in revenue of \$3,810 and a net increase in other income/(expense) of \$1, offset by an increase in operating expenses of \$656. The increase in revenue is related to organic growth from new and existing customers. The increase in operating expenses is primarily related to an increase in commission expenses of \$626, an increase in contract labor and outsourced engineering services of \$336, an increase in hosting service fees of \$125, and an increase in accounting software costs of \$54, offset by a decrease in salaries, benefits, bonuses and share-based compensation of \$480 due to a decrease in share-based compensation offset by company-wide salary increases. The increase in other income/(expenses) is primarily related to an increase in interest income of \$58, a decrease in interest expense of \$51 resulting from the sale of our corporate office building during the third quarter of 2023, and a decrease in other income of \$108.

Income Tax (Provision)/Benefit

The following table reflects our income tax (provision)/benefit for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Income tax (provision)/benefit	\$ (54)	\$ (48)	\$ (6)	13%

We had an income tax provision of \$(54) for the six months ended June 30, 2024 compared to an income tax provision of \$(48) for the six months ended June 30, 2023. We had income before income taxes of \$1,076 for the six months ended June 30, 2024, compared to a loss before income taxes of \$(2,079) for the three months ended June 30, 2023. The income tax provision for the six months ended June 30, 2024 and 2023, is related to minimum state tax payments.

USE OF NON-GAAP FINANCIAL MEASURES

To evaluate our business, we consider and use non-generally accepted accounting principles ("Non-GAAP") net income, EBITDA, 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), the gain/(loss) on the sale of property and equipment, 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 6, 2024 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
U.S. GAAP net income/(loss)	\$ 588	\$ (545)	\$ 1,022	\$ (2,127)
Share-based compensation	784	855	1,512	2,269
Acquisition related expenses	-	-	-	1
Amortization of intangible assets	758	792	1,518	1,585
Non-GAAP net income	<u>\$ 2,130</u>	<u>\$ 1,102</u>	<u>\$ 4,052</u>	<u>\$ 1,728</u>
Non-GAAP earnings per common share:				
Basic	\$ 0.08	\$ 0.04	\$ 0.15	\$ 0.07
Diluted	\$ 0.07	\$ 0.04	\$ 0.14	\$ 0.06
Weighted-average common shares outstanding:				
Basic	26,664,220	25,972,628	26,489,562	25,853,998
Diluted	29,510,903	27,401,597	29,810,838	27,467,234

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
U.S. GAAP net income/(loss)	\$ 588	\$ (545)	\$ 1,022	\$ (2,127)
Depreciation and amortization	836	900	1,676	1,808
Interest expense	11	33	24	75
Interest and other expense/(income)	(46)	(29)	(37)	(87)
Income tax provision/(benefit)	27	24	54	48
EBITDA	1,416	383	2,739	(283)
Acquisition related expenses	-	-	-	1
Share-based compensation	784	855	1,512	2,269
Adjusted EBITDA	<u>\$ 2,200</u>	<u>\$ 1,238</u>	<u>\$ 4,251</u>	<u>\$ 1,987</u>

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, 2023.

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, selling and marketing, general and administrative expenses, and research and development.

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

Cloud Telecommunications Services	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Service revenue	\$ 8,067	\$ 7,308	\$ 15,912	\$ 14,466
Product revenue	1,293	1,432	2,588	2,657
Total revenue	\$ 9,360	\$ 8,740	\$ 18,500	\$ 17,123
Operating expenses:				
Cost of service revenue	\$ 3,246	\$ 3,095	\$ 6,355	\$ 6,139
Cost of product revenue	696	881	1,426	1,720
Selling and marketing	2,808	2,504	5,604	5,100
General and administrative	2,232	2,175	4,390	4,959
Research and development	258	291	527	590
Total operating expenses	9,240	8,946	18,302	18,508
Operating income/(loss)	120	(206)	198	(1,385)
Other income/(expense), net	45	(26)	40	(65)
Income/(loss) before income tax	\$ 165	\$ (232)	\$ 238	\$ (1,450)

Three months ended June 30, 2024 compared to three months ended June 30, 2023

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, and administrative fees. The following table reflects our service revenue for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

Three Months Ended June 30,

	2024	2023	Dollar Change	Percent Change
Service revenue	\$ 8,067	\$ 7,308	\$ 759	10%

The increase in service revenue is due to an increase in telecommunications services fees of \$517, an increase in one-time fees, commissions and other of \$156, an increase in sales-type lease interest of \$44, and an increase in fees, commissions, and other, recognized over time of \$42.

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, 2024, compared to the three months ended June 30, 2023:

Three Months Ended June 30,

	2024	2023	Dollar Change	Percent Change
Product revenue	\$ 1,293	\$ 1,432	\$ (139)	-10%

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.

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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, 2024 and 2023. Backlog increased 45%, or \$15,932 to \$51,684 as of June 30, 2024 as compared to \$35,752 as of June 30, 2023. Below is a table which displays the Cloud Telecommunications segment revenue backlog as of April 1, 2024 and 2023, and June 30, 2024 and 2023, which we expect to recognize as revenue within the next five years (in thousands):

Cloud Telecommunications backlog as of April 1, 2024	\$	48,081
Cloud Telecommunications backlog as of June 30, 2024	\$	51,684
Cloud Telecommunications backlog as of April 1, 2023	\$	33,679
Cloud Telecommunications backlog as of June 30, 2023	\$	35,752

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, contract labor costs, customer support salaries, benefits, bonuses, and share-based compensation. The following table reflects our cost of service revenue for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

Three Months Ended June 30,			
2024	2023	Dollar Change	Percent Change

Cost of service revenue	\$	3,246	\$	3,095	\$	151	5%
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The increase in cost of service revenue was primarily related to an increase in contract labor costs to assist with the migration of our customers to our new VIP platform of \$81, an increase in salaries, benefits, bonuses, and share-based compensation of \$35, an increase in third-party telecommunication charges of \$23, and an increase in other cost of service revenue of \$12.

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, 2024, compared to the three months ended June 30, 2023:

	2024	2023	Dollar Change	Percent Change
Cost of product revenue	\$ 696	\$ 881	\$ (185)	-21%

The decrease in cost of product revenue is primarily related to the decrease in product revenue due to eliminating the sale of low margin products.

Selling and Marketing

Selling and marketing expenses consist primarily of direct and channel sales representative salaries, benefits, bonuses, and 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, amortization of customer relationship intangible assets, 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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Selling and marketing	\$ 2,808	\$ 2,504	\$ 304	12%

The increase in selling and marketing expense is primarily related to an increase in commission expense of \$309 directly related to the increase in revenue and an increase in other sales and marketing expense of \$7, offset by a decrease in salaries, benefits, bonuses, and share-based compensation of \$12.

General and Administrative

General and administrative expenses consist of salaries, benefits, bonuses and share-based compensation for executives, administrative personnel, legal, rent, equipment, accounting and other professional services, investor relations, depreciation, amortization of intangible assets, and other administrative corporate expenses. The following table reflects our general and administrative expenses for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
General and administrative	\$ 2,232	\$ 2,175	\$ 57	3%

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The increase in general and administrative expenses is primarily related to an increase in rent expense of \$81 due to the leaseback of our previously sold corporate headquarters land and building, an increase in legal fees of \$56 related to the filing of our Form S-3 and an increase in accounting software costs of \$27 associated with service contract fees for our new accounting system, offset by a decrease in executive and administrative salaries, benefits, bonuses, and share-based compensation of \$99 and an decrease in other general and administrative expenses of \$8.

Research and Development

Research and development expenses primarily consist of salaries, benefits, bonuses, and share-based compensation, 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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,				Percent Change
	2024	2023	Dollar Change		
Research and development	\$ 258	\$ 291	\$ (33)		-11%

The decrease in research and development expenses is primarily related to a decrease in salaries, benefits, bonuses, and share-based compensation of \$32 and a decrease in other research and development costs of \$1.

Other Income/(Expense)

Other income/(expense) primarily relates to interest income, interest expense, net foreign exchange gains or losses, and credit card cash back rewards. The following table reflects our other income/(expense) for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,				Percent Change
	2024	2023	Dollar Change		
Other income/(expense)	\$ 45	\$ (26)	\$ 71		273%

The change in other income/(expense) is primarily related to an increase in interest income of \$53, a decrease in interest expense of \$22, and a decrease in other income of \$4.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

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, and administrative fees. The following table reflects our service revenue for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,				Percent Change
	2024	2023	Dollar Change		
Service revenue	\$ 15,912	\$ 14,466	\$ 1,446		10%

The increase in service revenue is due to an increase in telecommunications services fees of \$1,088, an increase in one-time fees, commissions and other of \$161, an increase in fees, commissions, and other, recognized over time of \$106, and an increase in sales-type lease interest of \$91.

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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Product revenue	\$ 2,588	\$ 2,657	\$ (69)	-3%

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.

Backlog

Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of June 30, 2024 and 2023. Backlog increased 45%, or \$15,932 to \$51,684 as of June 30, 2024 as compared to \$35,752 as of June 30, 2023. Below is a table which displays the Cloud Telecommunications segment revenue backlog as of January 1, 2024 and 2023, and June 30, 2024 and 2023, which we expect to recognize as revenue within the next thirty-six to sixty months (in thousands):

Cloud Telecommunications backlog as of January 1, 2024	\$ 44,810
Cloud Telecommunications backlog as of June 30, 2024	\$ 51,684
Cloud Telecommunications backlog as of January 1, 2023	\$ 32,016
Cloud Telecommunications backlog as of June 30, 2023	\$ 35,752

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, contract labor costs, customer support salaries, benefits, bonuses, and share-based compensation. The following table reflects our cost of service revenue for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Cost of service revenue	\$ 6,355	\$ 6,139	\$ 216	4%

The increase in cost of service revenue is primarily related to an increase in contract labor costs to assist with the migration of our customers to our new VIP platform of \$132, an increase in salaries, benefits, bonuses, and share-based compensation of \$65, and an increase in other cost of service revenue of \$19.

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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Cost of product revenue	\$ 1,426	\$ 1,720	\$ (294)	-17%

The decrease in cost of product revenue is primarily related to the decrease in product revenue due to eliminating the sale of low margin products.

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Selling and Marketing

Selling and marketing expenses consist primarily of direct and channel sales representative salaries, benefits, bonuses, and 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, amortization of customer relationship intangible assets, the production of marketing materials, and sales support software. The following table reflects our selling and marketing expenses for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Selling and marketing	\$ 5,604	\$ 5,100	\$ 504	10%

The increase in selling and marketing expense is primarily related to an increase in commission expense of \$566 directly related to the increase in revenue and an increase in other sales and marketing expense of \$17, offset by a decrease in salaries, benefits, bonuses, and share-based compensation of \$79.

General and Administrative

General and administrative expenses consist of salaries, benefits, bonuses and share-based compensation for executives, administrative personnel, legal, rent, equipment, accounting and other professional services, investor relations, depreciation, amortization of intangible assets, and other administrative corporate expenses. The following table reflects our general and administrative expenses for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
General and administrative	\$ 4,390	\$ 4,959	\$ (569)	-11%

The decrease in general and administrative expenses is primarily related to a decrease in executive and administrative salaries, benefits, bonuses, and share-based compensation of \$682 and a decrease in other general and administrative expenses of \$51, offset by an increase of rent expense of \$81 due to the leaseback of our previously sold corporate headquarters land and building, an increase in legal fees of \$56 related to the filing of our Form S-3, and an increase in accounting software costs of \$27 associated with service contract fees for our new accounting system.

Research and Development

Research and development expenses primarily consist of salaries, benefits, bonuses, and share-based compensation, 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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Research and development	\$ 527	\$ 590	\$ (63)	-11%

The decrease in research and development expenses is primarily related to a decrease in salaries, benefits, bonuses, and share-based compensation of \$70 offset by an increase in other research and development costs of \$7.

Other Income/(Expense)

Other income/(expense) primarily relates to 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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

Six Months Ended June 30,

	2024	2023	Dollar Change	Percent Change
Other income/(expense), net	\$ 40	\$ (65)	\$ 105	162%

The change in other income/(expense) is primarily related to an increase in interest income of \$53, a decrease in interest expense of \$51, and an increase in other income of \$1.

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Operating Results of Software Solutions segment (in thousands):

Software Solutions	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Software solutions revenue	\$ 5,325	\$ 3,930	\$ 10,471	\$ 8,038
Operating expenses:				

Cost of software solutions revenue	1,445	1,293	2,837	2,478
Selling and marketing	1,150	1,109	2,381	2,322
General and administrative	1,200	992	2,338	2,205
Research and development	1,070	847	2,050	1,739
Total operating expenses	4,865	4,241	9,606	8,744
Operating income/(loss)	460	(311)	865	(706)
Other income/(expense), net	(10)	22	(27)	77
Income/(loss) before income tax	\$ 450	\$ (289)	\$ 838	\$ (629)

Three months ended June 30, 2024 compared to three months ended June 30, 2023

Software Solutions Revenue

Software solutions revenue consists primarily of software license fees, subscription maintenance and support, professional services, and annual user group meeting fees. Software licenses are billed by the number of concurrent sessions a customer 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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Software solutions revenue	\$ 5,325	\$ 3,930	\$ 1,395	35%

The increase in software solutions revenue is primarily related to an increase in recurring software license and maintenance and support subscriptions of \$877, an increase in perpetual software license revenue of \$488, and an increase in professional services and other revenue of \$30.

Backlog

Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of June 30, 2024 and 2023. Backlog increased 26%, or \$4,009 to \$19,478 as of June 30, 2024 as compared to \$15,469 as of June 30, 2023. Below is a table which displays the software solutions segment revenue backlog as of April 1, 2024 and 2023, and June 30, 2024 and 2023, which we expect to recognize as revenue within the next thirty-six to sixty months (in thousands):

Software solutions backlog as of April 1, 2024	\$ 19,295
Software solutions backlog as of June 30, 2024	\$ 19,478
Software solutions backlog as of April 1, 2023	\$ 14,185
Software solutions backlog as of June 30, 2023	\$ 15,469

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Cost of Software Solutions Revenue

Cost of software solutions revenue consists primarily of salaries, benefits, bonuses, and share-based compensation, amortization expense for developed technologies intangible assets, cost of data center hosting, third-party software, annual user group meeting costs, 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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Cost of software solutions revenue	\$ 1,445	\$ 1,293	\$ 152	12%

The increase in cost of software solutions revenue is primarily related to an increase in third-party hosting service costs of \$125 and an increase in other cost of software solutions revenue of \$27.

Selling and Marketing

Selling and marketing expenses consist primarily of sales and marketing salaries, benefits, bonuses, commissions, share-based compensation, travel expenses, lead generation services, trade shows, third-party marketing services, the production of marketing materials, annual user group meeting costs, and sales support software. The following table reflects our selling and marketing expenses for the three months ended June 30, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Selling and marketing	\$ 1,150	\$ 1,109	\$ 41	4%

The increase in selling and marketing expense is primarily related to an increase in marketing materials and trade shows of \$60 and an increase in commission expense of \$33 directly related to the increase in revenue, offset by a decrease in salaries, benefits, bonuses, and share-based compensation of \$39 and a decrease in other selling and marketing costs of \$13.

General and Administrative

General and administrative expenses consist of salaries and benefits for executives, administrative personnel, amortization of trademark and trade name intangible assets, 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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change

General and administrative	\$	1,200	\$	992	\$	208	21%
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The increase in general and administrative expenses is primarily related to an increase in salaries, benefits, bonuses, and share-based compensation of \$115, an increase in professional service fees of \$54, an increase in accounting software costs of \$27 associated with service contract fees for our new accounting system, and an increase in other general and administrative expenses of \$12.

Research and Development

Research and development expenses primarily consists of salaries, benefits, bonuses, share-based compensation, and outsourcing 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, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Research and development	\$ 1,070	\$ 847	\$ 223	26%

The increase in research and development expenses is primarily related to an increase in outsourced engineering services expenses of \$128, an increase in salaries, benefits, bonuses, and share-based compensation of \$92, and an increase in other research and development expenses of \$3.

Other Income/(Expense)

Other 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 three months ended June 30, 2024, compared to the three months ended June 30, 2023:

	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Other income/(expense), net	\$ (10)	\$ 22	\$ (32)	145%

The change in other income/(expense) is primarily related to a decrease in other income of \$33 and a decrease in foreign exchange losses of \$1.

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Six months ended June 30, 2024 compared to six months ended June 30, 2023

Software Solutions Revenue

Software solutions revenue consists primarily of software license fees, subscription maintenance and support, professional services, and annual user group meeting fees. Software licenses are billed by the number of concurrent sessions a customer 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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Software solutions revenue	\$ 10,471	\$ 8,038	\$ 2,433	30%

The increase in software solutions revenue is primarily related to an increase in recurring software license and maintenance and support subscriptions of \$1,822, an increase in perpetual software license revenue of \$402, and an increase in professional services and other revenue of \$209.

Backlog

Backlog represents the total contract value of all contracts signed, less revenue recognized from those contracts as of June 30, 2024 and 2023. Backlog increased 26%, or \$4,009 to \$19,478 as of June 30, 2024 as compared to \$15,469 as of June 30, 2023. Below is a table which displays the software solutions segment revenue backlog as of January 1, 2024 and 2023, and June 30, 2024 and 2023, which we expect to recognize as revenue within the next thirty-six to sixty months (in thousands):

Software solutions backlog as of January 1, 2024	\$ 19,122
Software solutions backlog as of June 30, 2024	\$ 19,478
Software solutions backlog as of January 1, 2023	\$ 14,830

Cost of Software Solutions Revenue

Cost of software solutions revenue consists primarily of salaries, benefits, bonuses, and share-based compensation, amortization expense for developed technologies intangible assets, cost of data center hosting, third-party software, annual user group meeting costs, and outsourced services required to install and support software solutions. The following table reflects our cost of service revenue for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Cost of software solutions revenue	\$ 2,837	\$ 2,478	\$ 359	14%

The increase in cost of software solutions revenue is primarily related to an increase in salaries, benefits, bonuses, and share-based compensation of \$131, an increase in third-party hosting service costs of \$125, an increase in software costs of \$91, and an increase in other cost of software solutions revenue of \$12.

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Selling and Marketing

Selling and marketing expenses consist primarily of sales and marketing salaries, benefits, bonuses, commissions, share-based compensation, travel expenses, lead generation services, trade shows, third-party marketing services, the production of marketing materials, annual user group meeting costs, and sales support software. The following table reflects our selling and marketing expenses for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Selling and marketing	\$ 2,381	\$ 2,322	\$ 59	3%

The increase in selling and marketing expense is primarily related to an increase in marketing materials and trade shows of \$60, an increase in commission expense of \$60 directly related to the increase in revenue, and an increase in other selling and marketing costs of \$7, offset by a decrease in salaries, benefits, bonuses, and share-based compensation of \$68.

General and Administrative

General and administrative expenses consist of salaries and benefits for executives, administrative personnel, amortization of trademark and trade name intangible asset, 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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
General and administrative	\$ 2,338	\$ 2,205	\$ 133	6%

The increase in general and administrative expenses is primarily related to increase in salaries, benefits, bonuses, and share-based compensation of \$129 and an increase in accounting software costs of \$27 associated with the service contract fees for our new accounting system, offset by a decrease in other general and administrative expenses of \$23.

Research and Development

Research and development expenses primarily consists of salaries, benefits, bonuses, share-based compensation, and outsourcing engineering services related to the development of our software solutions. The following table reflects our research and development expenses for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Research and development	\$ 2,050	\$ 1,739	\$ 311	18%

The increase in research and development expenses is primarily related to an increase in outsourced engineering services expenses of \$204, an increase in salaries, benefits, bonuses, and share-based compensation of \$94, and an increase in other research and development expenses of \$13.

Other Income/(Expense)

Other 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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Other income/(expense)	\$ (27)	\$ 77	\$ (104)	135%

The change in other income/(expense) is primarily related to a decrease in other income of \$102 and an increase in foreign exchange losses of \$2.

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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, 2024 and December 31, 2023, we had cash and cash equivalents of \$13,611 and \$10,347, 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.

Operating Activities

Cash provided by or used in operating activities is driven by our net income/(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 provided by/(used in) operating activities for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Net cash provided by/(used in) operating activities	\$ 2,486	\$ (673)	\$ 3,159	469%

The net cash provided by operating activities for the six months ended June 30, 2024 was primarily driven by non-cash expenses for depreciation and amortization of \$1,676, share-based compensation of \$1,512, our net income for the six months ended June 30, 2024 of \$1,022, an increase in contract liabilities of \$417, and an increase in accounts payable and accrued expenses of \$104, offset by an increase in contract costs of \$574, an increase in prepaid expense of \$534, an increase in trade receivables of \$516, an increase in equipment financing receivables of \$321, and an increase in inventories of \$172.

The net cash used in operating activities 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.

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 provided by/(used in) investing activities for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

Six Months Ended June 30,

	2024	2023	Dollar Change	Percent Change
Net cash provided by/(used in) investing activities	\$ -	\$ (92)	\$ 92	100%

Net cash used in investing activities in the six months ended June 30, 2023, primarily relates to the purchase of property and equipment.

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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, payments 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 months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Net cash provided by/(used in) financing activities	\$ 778	\$ (486)	\$ 1,264	260%

Net cash provided by financing activities for the six months ended June 30, 2024 primarily relates to cash received from the exercise of stock options of \$1,113, offset by repayments made on notes payable of \$226, the payments of employee tax withholdings from the net settlement of stock options and RSUs of \$92, and repayments made on finance leases of \$37.

Net cash used in financing activities for the six months ended June 30, 2023 primarily relates to 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, offset by proceeds from notes payable of \$278 and cash received from the exercise of stock options of \$40.

Contractual Obligations and Commitments

Except as set forth in Notes 10, 14, and 15 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, 2023.

Off Balance Sheet Arrangements

As of, June 30, 2024, 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

On November 1, 2022, the Company completed the acquisition of 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. In connection with this transaction, the seller Bryan Dancer, became a greater than five percent shareholder of the Company. Therefore, the three-year promissory note in the amount of \$1.1 million, is considered a related party transaction. The loan agreement has a term of three (3) years with quarterly payments of Ninety-Eight Thousand Three Hundred Eighty-one Dollars (\$98,381), including interest at 4.00%, beginning on April 1, 2023. As of June 30, 2024 and December 31, 2023, the outstanding balance of the related party note payable was \$662 and \$843, respectively. During the three months ended June 30, 2024 and 2023, the Company paid principal of \$91 and \$80, respectively, and interest of \$7 and \$18, respectively. During the six months ended June 30, 2024 and 2023, the Company paid principal of \$181 and \$80, respectively, and interest of \$16 and \$18, respectively.

On February 1, 2024, the Company entered into a consulting agreement with Steven G. Mihaylo, Chairman Emeritus of the board of directors and a greater than five percent shareholder. In exchange for his consulting services, Mr. Mihaylo is to receive monthly consideration of \$14 or \$168 annually. During the three months ended June 30, 2024 and 2023, the Company paid \$42 and \$0, respectively, and \$70 and \$0 for the six months ended June 30, 2024 and 2023, respectively.

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.

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.

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Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

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, 2024 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 2023 Form 10-K.

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

None

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Date	Number	
31.1	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended				X
31.2	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended				X
32.1	Certification Pursuant to 18 U.S.C. Section 1350				X
32.2	Certification Pursuant to 18 U.S.C. Section 1350				X
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 6, 2024

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

August 6, 2024

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: August 6, 2024

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 6, 2024

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

**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, 2024, 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: August 6, 2024

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

**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, 2024, 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 6, 2024

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