

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

FORM 10-Q

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: 001-40904

MARPAI, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction
of incorporation)

86-1916231

(IRS Employer
Identification Number)

615 Channelside Drive, Suite 207
Tampa, Florida 33602

(Address of principal executive offices)

(855) 389-7330

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	MRAI	OTCQX Market

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 7, 2024, there were 11,045,290 shares of the Company's common stock, par value \$0.0001 per share, outstanding.

MARPAI, INC.
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PART I — FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements.

MARPAI, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in thousands, except share and per share data)

	June 30, 2024 (Unaudited)	December 31, 2023
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,293	\$ 1,147
Restricted cash	12,762	12,345
Accounts receivable, net of allowance for credit losses of \$0 and \$25	805	1,124
Unbilled receivable	568	768
Due from buyer for sale of business unit	800	800
Prepaid expenses and other current assets	967	901
Total current assets	17,195	17,085
Property and equipment, net	546	611
Capitalized software, net	933	2,127
Operating lease right-of-use assets	2,253	2,373
Goodwill	—	3,018
Intangible assets, net	—	5,177
Security deposits	1,267	1,267
Other long-term asset	22	22
Total assets	\$ 22,216	\$ 31,680
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 3,172	\$ 4,649
Accrued expenses	2,643	2,816
Accrued fiduciary obligations	9,948	11,573
Deferred revenue	1,295	661
Current portion of operating lease liabilities	541	512
Current portion of convertible debenture, net	1,089	—
Other short-term liabilities	—	632
Total current liabilities	18,688	20,843
Other long-term liabilities	20,144	19,401
Convertible debenture, net of current portion	4,451	—
Operating lease liabilities, net of current portion	3,405	3,684
Deferred tax liabilities	1,190	1,190
Total liabilities	47,878	45,118
COMMITMENTS AND CONTINGENCIES (Note 17)		
STOCKHOLDERS' DEFICIT		
Common stock, \$0.0001 par value, 227,791,050 shares authorized; 11,037,038 shares and 7,960,938 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	1	1
Additional paid-in capital	68,455	63,307
Accumulated deficit	(94,118)	(76,746)
Total stockholders' deficit	(25,662)	(13,438)
Total liabilities and stockholders' deficit	\$ 22,216	\$ 31,680

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

MARPAI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenue	\$ 7,189	\$ 10,047	\$ 14,574	\$ 19,719
Costs and expenses				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	5,174	6,430	10,045	12,838
General and administrative	3,721	5,725	7,142	10,951
Sales and marketing	436	1,473	1,038	3,652
Information technology	1,210	1,319	2,334	3,506
Research and development	8	523	15	1,024
Depreciation and amortization	914	1,003	1,865	2,047
Impairment of goodwill and intangible assets	7,588	—	7,588	—
Loss on disposal of assets	—	344	—	344
Facilities	411	500	885	1,150
Total costs and expenses	19,462	17,317	30,912	35,512
Operating loss	(12,273)	(7,270)	(16,338)	(15,793)
Other income (expenses)				
Other income	120	50	240	101
Interest expense, net	(872)	(333)	(1,270)	(718)
Foreign exchange loss	(1)	(3)	(4)	(19)
Loss before provision for income taxes	(13,026)	(7,556)	(17,372)	(16,429)
Income tax expense	—	—	—	—
Net loss	\$ (13,026)	\$ (7,556)	\$ (17,372)	\$ (16,429)
Net loss per share, basic & fully diluted	\$ (1.23)	\$ (1.10)	\$ (1.73)	\$ (2.70)
Weighted average shares of common stock outstanding, basic and diluted	10,626,516	6,844,778	10,016,146	6,080,200

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

MARPAI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(UNAUDITED)
(in thousands, except share data)

	Common Stock		Additional Paid- In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Three months ended June 30, 2024					
Balance, April 1, 2024	10,308,038	\$ 1	\$ 66,595	\$ (81,092)	\$ (14,496)
Share-based compensation	-	-	1,860	-	1,860
Issuance of common stock upon vesting of restricted stock units	729,000	-	-	-	-
Net loss	-	-	-	(13,026)	(13,026)
Balance, June 30, 2024	11,037,038	\$ 1	\$ 68,455	\$ (94,118)	\$ (25,662)
Three months ended June 30, 2023					
Balance, April 1, 2023	5,403,121	\$ 1	\$ 54,955	\$ (56,867)	\$ (1,911)
Share-based compensation	-	-	367	-	367
Issuance of common stock upon exercise of stock options	2,697	-	-	-	-
Issuance of common stock in connection with public offering, net	1,850,000	-	6,431	-	6,431
Net loss	-	-	-	(7,556)	(7,556)
Balance, June 30, 2023	7,255,818	\$ 1	\$ 61,753	\$ (64,423)	\$ (2,669)
Six months ended June 30, 2024					
Balance, December 31, 2023	7,960,938	\$ 1	\$ 63,307	\$ (76,746)	\$ (13,438)
Share-based compensation	-	-	2,421	-	2,421
Issuance of common stock upon vesting of restricted stock units	844,000	-	-	-	-
Issuance of privately placed shares	2,232,100	-	2,727	-	2,727
Net loss	-	-	-	(17,372)	(17,372)
Balance, June 30, 2024	11,037,038	\$ 1	\$ 68,455	\$ (94,118)	\$ (25,662)
Six months ended June 30, 2023					
Balance, December 31, 2022	5,319,758	\$ 1	\$ 54,128	\$ (47,994)	\$ 6,135
Share-based compensation	-	-	1,115	-	1,115
Issuance of common stock upon vesting of restricted stock units	33,387	-	-	-	-
Common stock issued to vendors in exchange for services	25,000	-	79	-	79
Issuance of common stock upon exercise of stock options	27,673	-	-	-	-
Issuance of common stock in connection with public offering, net	1,850,000	-	6,431	-	6,431
Net loss	-	-	-	(16,429)	(16,429)
Balance, June 30, 2023	7,255,818	\$ 1	\$ 61,753	\$ (64,423)	\$ (2,669)

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

MARPAI, 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 loss	\$ (17,372)	\$ (16,429)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,865	2,047
Loss on disposal of assets	—	344
Loss on sale of receivables	306	
Share-based compensation	2,421	990
Common stock issued to vendors in exchange for services	—	79
Amortization of right-of-use asset	120	1,049
Gain on termination of lease	—	33
Non-cash interest	646	776
Amortization of debt discount and debt issuance costs	62	—
Impairment of goodwill and intangible assets	7,588	—
Changes in operating assets and liabilities:		
Accounts receivable and unbilled receivable	519	74
Prepaid expense and other assets	(66)	425
Security deposits	—	(14)
Accounts payable	(1,477)	729
Accrued expenses	(173)	(235)
Accrued fiduciary obligations	(1,625)	1,713
Operating lease liabilities	(250)	(1,345)
Due to related party	—	(3)
Other liabilities	731	1,028
Net cash used in operating activities	<u>(6,705)</u>	<u>(8,739)</u>
Cash flows from investing activities:		
Disposal of property and equipment	—	18
Net cash provided by investing activities	<u>—</u>	<u>18</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock in a public offering, net	—	6,432
Proceeds from sale of future cash receipts on accounts receivable	1,509	—
Proceeds from issuance of convertible debentures (Note 9)	5,978	—
Payments of convertible debenture issuance costs	(499)	—
Payments to buyer of receivables (Note 3)	(1,816)	—
Payments to seller for acquisition (Note 3)	(631)	—
Proceeds from issuance of common stock in a private offering, net	2,727	—
Net cash provided by financing activities	<u>7,268</u>	<u>6,432</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	563	(2,289)
Cash, cash equivalents and restricted cash at beginning of period	13,492	23,117
Cash, cash equivalents and restricted cash at end of period	\$ 14,055	\$ 20,828
Reconciliation of cash, cash equivalents, and restricted cash reported in the condensed consolidated balance sheet		
Cash and cash equivalents	\$ 1,293	\$ 8,726
Restricted cash	12,762	12,102
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statement of cash flows	\$ 14,055	\$ 20,828
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 1,259	\$ —
Supplemental disclosure of non-cash activity		
Measurement period adjustment to goodwill	\$ —	\$ 198

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

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Organization

Marpai, Inc.'s ("Marpai" or the "Company") operations are principally conducted through its wholly owned subsidiaries, Marpai Health, Inc. ("Marpai Health"), Marpai Administrators LLC ("Marpai Administrators"), and Maestro Health LLC ("Maestro"). Marpai Administrators and Maestro are our healthcare payer subsidiaries that provide administration services to self-insured employer groups across the United States. They act as a third-party administrator ("TPA") handling all administrative aspects of providing healthcare to self-insured employer groups. The Company has combined these two businesses to create what it believes to be the Payer of the Future, which has not only the licenses, processes and know-how of a payer but also the latest technology. This combination allows the Company to differentiate itself in the TPA market by delivering a technology-driven service that it believes can lower the overall cost of healthcare while maintaining or improving healthcare outcomes. Marpai Captive, Inc. ("Marpai Captive") was founded in March 2022 as a Delaware corporation. Marpai Captive engages in the captive insurance market and commenced operations in the first quarter of 2023.

Nature of Business

The Company's mission is to positively change healthcare for the benefit of (i) its clients who are self-insured employers that pay for their employees' healthcare benefits and engage the Company to administer members' healthcare claims, (ii) employees who receive these healthcare benefits from our clients, and (iii) healthcare providers including doctors, doctor groups, hospitals, clinics, and any other entities providing healthcare services or products.

The Company provides benefits outsourcing services to clients in the United States across multiple industries. The Company's backroom administration and TPA services are supported by a customized technology platform and a dedicated benefits call center. Under its TPA platform, the Company provides health and welfare administration, dependent eligibility verification, Consolidated Omnibus Budget Reconciliation Act ("COBRA") administration, and benefit billing services.

The Company continues to monitor the effects of the global macroeconomic environment, including increasing inflationary pressures; supply chain disruptions; social and political issues; regulatory matters, geopolitical tensions; and global security issues. The Company is also mindful of inflationary pressures on its cost base and is monitoring the impact on customer preferences.

NOTE 2 – UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements furnished reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. The unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for its year ended December 31, 2023.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

NOTE 3 – LIQUIDITY AND GOING CONCERN

As shown in the accompanying condensed consolidated financial statements as of June 30, 2024, the Company had an accumulated deficit of approximately \$94.1 million and negative working capital of approximately \$1.5 million. At June 30, 2024, the Company had long term debt of approximately \$24.5 million and approximately \$1.3 million of unrestricted cash on hand. For the six months ended June 30, 2024, the Company recognized a net loss of approximately \$17.4 million and negative cash flows from operations of approximately \$6.7 million. Since inception, the Company has met its cash needs through proceeds from issuing convertible notes, warrants, and common stock as well as receiving loans from various lenders.

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company currently projects that it will need additional capital to fund its current operations and capital investment requirements until the Company scales to a revenue level that permits cash self-sufficiency. As a result, the Company needs to raise additional capital or secure debt funding to support on-going operations until such time. This projection is based on the Company's current expectations regarding revenues, expenditures, cash burn rate and other operating assumptions. The sources of this capital are anticipated to be from the sale of equity and/or the issuance of debt. Alternatively, or in addition, the Company may seek to sell assets which it regards as non-strategic. Any of the foregoing may not be achievable on favorable terms, or at all. Additionally, any debt or equity transactions may cause significant dilution to existing stockholders.

If the Company is unable to raise additional capital moving forward, its ability to operate in the normal course and continue to invest in its product portfolio may be materially and adversely impacted and the Company may be forced to scale back operations or divest some or all of its assets.

As a result of the above, in connection with the Company's assessment of going concern considerations in accordance with Financial Accounting Standard Board's ("FASB") Accounting Standards Update ("ASU") 2014-15, "Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern," management has determined that the Company's liquidity condition raises substantial doubt about the Company's ability to continue as a going concern through twelve months from the date these unaudited condensed consolidated financial statements are issued. These unaudited condensed consolidated financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

On December 14, 2023, the Company, through Maestro, entered into an asset purchase agreement (the "Asset Purchase Agreement") with Payflex Systems USA, Inc. ("Payflex"), pursuant to which the Company agreed to sell certain assets relating to the consumer directed benefits business. Pursuant to the Asset Purchase Agreement, Payflex agreed to pay the Company \$1 million in cash as well as assume certain liabilities. In addition, provided that two customer agreements remain in place by September 1, 2024, and January 1, 2025, respectively, Payflex shall pay an additional contingent fee of \$500 thousand per customer agreement. The Asset Purchase Agreement contains customary representations and warranties and covenants. The transaction contemplated by the Asset Purchase Agreement closed on December 14, 2023.

On January 16, 2024, the Company entered into a securities purchase agreement (the "Second SPA") with certain Company insiders consisting of HillCour Investment Fund, LLC ("HillCour"), an entity controlled by the Company's Chief Executive Officer, the Company's Chairman, and one of the Company's directors, pursuant to which the Company agreed to issue and sell 1,322,100 shares of Common Stock in a private placement, at a purchase price of \$0.9201 per share (or the consolidated closing bid price of the Company's Common Stock on Nasdaq as of January 16, 2024). The securities issued in the Second SPA are exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506(b) of Regulation D promulgated thereunder. The securities have not been registered under the Securities Act and may not be sold in the United States absent registration or an exemption from registration.

On February 5, 2024, the Company entered into an Agreement of Sale of Future Receipts (the "Libertas Agreement") with Libertas Funding LLC ("Libertas"). Under the Libertas Agreement, the Company sold to Libertas future receipts totaling \$2.2 million for a purchase price of \$1.7 million. At the closing of the Libertas Agreement, the Company received cash proceeds of \$1.5 million, net of the first payment of \$157 thousand.

Pursuant to the terms of the Libertas Agreement, the Company agreed to pay Libertas \$57 thousand each week, including interest, based upon an anticipated 20% of its future receivables until such time as \$2.2 million has been paid, a period Libertas and the Company estimate to be approximately 11 months. The Libertas Agreement also contains customary affirmative and negative conventions, representations and warranties, and default and terminations provisions. In April 2024, the Company repaid \$1.8 million to Libertas to satisfy the Libertas Agreement in full.

On February 7, 2024, the Company entered into Amendment No. 1 to Purchase Agreement (the "AXA Amendment") with AXA S.A., a French société anonyme ("AXA"). The AXA Amendment amends the Membership Interest Purchase Agreement, dated August 4, 2022 (the "AXA Agreement"), executed by and among the Company, XL America Inc., a Delaware corporation, Seaview Re Holdings Inc., a Delaware corporation and AXA, pursuant to which the Company acquired all the membership interests of Maestro.

Pursuant to the AXA Amendment, the parties agreed to reduce the Base Purchase and the Full Base Amount each Price (as defined in the AXA Agreement) by three million dollars in the aggregate, provided that by December 31, 2024, (i) the Company's largest shareholder has contributed at least three million dollars in equity, (ii) the Company maintains a listing of its securities on Nasdaq or a nationally recognized stock exchange and (iii) between February 29, 2024 and April 15, 2024, the Company makes all timely payments owed under the AXA Agreement (collectively, the "Reduction Criteria").

In addition, the AXA Amendment provides that the requirement by the Company to pay AXA an amount equal to thirty five percent of the net proceeds, shall be deferred for any such funds raised in calendar year 2024 such that any such payments shall be paid no later than January 15, 2025, and any amounts due as a result of private offerings of any officers or directors of the Company shall be due and payable no later than December 31, 2025.

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The AXA Amendment also provides that the Company shall make three monthly payments of \$158 thousand on or prior to February 29, 2024, March 31, 2024 and April 15, 2024 for the 2024 year, as well as make such total accumulated annual payments of \$2.3 million, \$5.3 million, \$13.3 million and \$22.3 million in years 2024, 2025, 2026 and 2027 if the Reduction Criteria are met or \$2.3 million, \$8.3 million, \$16.3 million and \$25.3 million in years 2024, 2025, 2026 and 2027, respectively. The Company made timely payments of \$158 thousand for February, March and April 2024.

On March 7, 2024, the Company entered into a securities purchase agreement with HillCour pursuant to which the Company agreed to issue and sell 910,000 shares of Common Stock in a private placement, at a purchase price of \$1.65 per share (or the consolidated closing bid price of the Company's Common Stock on Nasdaq as of March 7, 2024).

On April 15, 2024, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with each of the purchasers that are parties thereto (each, including its successors and assigns, a "Purchaser" and collectively, the "Purchasers") and JGB Collateral LLC ("JGB"), a Delaware limited liability company, as collateral agent for the Purchasers (the "Agent"). Pursuant to the terms of the Purchase Agreement, on April 15, 2024, the Company issued the Senior Secured Convertible Debentures (the "Debentures") due on April 15, 2027 for a principal sum of \$11.83 million, subject to the redemption of \$5 million at the Company's election. In accordance with the Purchase Agreement JGB purchased an aggregate of \$6.35 million in principal amount of the Debentures. On June 21, 2024, the Company elected not to redeem an additional \$5 million of the Debentures with JGB. See Note 9.

On May 24, 2024, Marpai, Inc. (the "Company") informed the staff of the Nasdaq Stock Market LLC of its intention to withdraw from the Nasdaq hearings process and transition the listing of its common shares from the Nasdaq Capital Market ("Nasdaq") and have the Shares quoted on the OTCQX Market ("OTCQX").

NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Descriptions of the Company's significant accounting policies are discussed in the notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. Management evaluates the related estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Concentrations of Credit Risk

For the three month periods ended June 30, 2024 and 2023, we had one customer that accounted for 16.6% and 12.0% of total revenue, respectively. For the six month periods ended June 30, 2024 and 2023, we had one customer that had 15.8% and 11.0% of total revenue, respectively. At June 30, 2024, three customer accounted for 41.9%, 13.3% and 11.6% of accounts receivable. At December 31, 2023, two customers accounted for 16.6% and 14.0% of accounts receivable.

Restricted Cash

Restricted cash balances are composed of funds held on behalf of clients in a fiduciary capacity, cash held in a separate bank account pledged to a bank as collateral for a bank guarantee provided to the lessor to secure the Company's obligations under a lease agreement, cash in a money market account as required by a credit card company for collateral, cash in a money market account as required by a financial surety bond company for collateral, and a certificate of deposit ("CD") held for collateral for a letter of credit. Fiduciary funds generally cannot be utilized for general corporate purposes and are not a source of liquidity for the Company. A corresponding fiduciary obligation, included in current liabilities in the accompanying condensed consolidated balance sheets, exists for disbursements to be made on behalf of the clients and may be more than the restricted cash balance if payment from customers has not been received.

Capitalized Software

The Company complies with the guidance of ASC Topic 350-40, "Intangibles—Goodwill and Other—Internal Use Software", in accounting for its internally developed system projects that it utilizes to provide its services to customers. These system projects generally relate to software of the Company that is not intended for sale or otherwise marketed. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Once a project has reached the development stage, the Company capitalizes direct internal and external costs until the software is substantially complete and ready for its intended use. Costs for upgrades and enhancements are capitalized, whereas costs incurred for maintenance are expensed as incurred. These capitalized software costs are amortized on a project-by-project basis over the expected economic life of the underlying software on a straight-line basis, which is generally three to five years. Amortization commences when the software is available for its intended use.

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Goodwill

Goodwill is recognized and initially measured as any excess of the acquisition-date consideration transferred in a business combination over the acquisition-date amounts recognized for the net identifiable assets acquired. Goodwill is not amortized but is tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not result in an impairment of goodwill. The Company operates in one reporting segment and reporting unit; therefore, goodwill is tested for impairment at the consolidated level. First, the Company assesses qualitative factors to determine whether or not it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company conducts a quantitative goodwill impairment test comparing the fair value of the applicable reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds the fair value of the reporting unit, the Company recognizes an impairment loss in the consolidated statement of operations for the amount by which the carrying amount exceeds the fair value of the reporting unit. The Company performs its annual goodwill impairment test at December 31.

During the three and six months ended June 30, 2024, the Company recognized an impairment of its goodwill – see Note 7.

Intangible Assets

Intangible assets consist of customer relationships, non-compete agreements, and amounts attributed to patent and patent applications that were acquired through an acquisition and are amortized on a straight-line basis over useful lives ranging from five to ten years. The Company's intangible assets are reviewed for impairment when events or circumstances indicate their carrying amounts may not be recoverable. The Company reviews the recoverability of its intangible assets by comparing the carrying value of such assets to the related undiscounted value of the projected cash flows associated with the assets, or asset group. If the carrying value is found to be greater, the Company records an impairment loss for the excess of book value over fair value.

During the three and six months ended June 30, 2024, the Company recognized an impairment of its intangible assets – see Note 7.

Revenue Recognition

Third Party Administrator Revenue

Revenue is recognized when control of the promised services is transferred to the Company's customers in an amount that reflects the consideration expected to be entitled to in exchange for those services. As the Company completes its performance obligations, it has an unconditional right to consideration, as outlined in the Company's contracts.

The Company also provides certain performance guarantees under their contracts with customers. Customers may be entitled to receive compensation if the Company fails to meet the guarantees. Actual performance is compared to the contractual guarantee for each measure throughout the period. The Company had performance guarantee liabilities of \$225 thousand, which is included in accrued expenses on the accompanying condensed consolidated balance sheet as of June 30, 2024.

Significant Payment Terms

Generally, the Company's accounts receivable are expected to be collected in 30 days in accordance with the underlying payment terms. Invoices for services are typically sent to the customer on the 15th day of the month prior to the service month with a 10-day payment term. The Company does not offer discounts if the customer pays some or all of the invoiced amount prior to the due date.

MARPAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consideration paid for services rendered by the Company is nonrefundable. Therefore, at the time revenue is recognized, the Company does not estimate expected refunds for services.

The Company uses the practical expedient and does not account for significant financing components because the period between recognition and collection does not exceed one year for all of the Company's contracts.

Timing of Performance Obligations

All of the Company's contracts with customers obligate the Company to perform services. Services provided include health and welfare administration, dependent eligibility verification, COBRA administration, and benefit billing. Revenue is recognized over time as services are provided as the performance obligations are satisfied through the effort expended to research, investigate, evaluate, document, and report claims, and control of these services is transferred to the customer. The Company has the right to receive payment for all services rendered.

Determining and Allocating the Transaction Price

The transaction price of a contract is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer.

To determine the transaction price of a contract, the Company considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, the Company assumes that the services will be transferred to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified.

The Company's contracts with customers have fixed fee prices that are denominated per covered employee per month. The Company includes amounts of variable consideration in a contract's transaction price only to the extent that it is probable that the amounts will not be subject to significant reversals (that is, downward adjustments to revenue recognized for satisfied performance obligations). In determining amounts of variable consideration to include in a contract's transaction price, the Company relies on its experience and other evidence that supports its qualitative assessment of whether revenue would be subject to a significant reversal. The Company considers all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur.

Captive Revenue

All general insurance premiums pertain to annual policies and are reflected in income on a pro-rata basis.

Loss and Loss Adjustment Expenses

The establishment of loss reserves by the primary insurer is a reasonably complex and dynamic process influenced by numerous factors. These factors principally include past experience with like claims. Consequently, the reserves established are a reflection of the opinions of a large number of persons and the Company is exposed to the possibility of higher or lower than anticipated loss cost due to real expense.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of outstanding shares of common stock for the period, considering the effect of participating securities. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding. During the periods when they are anti-dilutive, shares of common stock equivalents, if any, are not considered in the computation. At June 30, 2024 and 2023, there were 4,811,192 and 1,149,108 common stock equivalents, respectively. For the six months ended June 30, 2024 and 2023, these potential shares were excluded from the shares used to calculate diluted net loss per share as their effect would have been antidilutive.

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures,” which will add required disclosures of significant expenses for each reportable segment, as well as certain other disclosures to help investors understand how the Chief Operating Decision Maker evaluates segment expenses and operating results. The new standard will also allow disclosure of multiple measures of segment profitability, if those measures are used to allocate resources and assess performance. The amendments will be effective for public companies for fiscal years beginning after December 15, 2023 and for interim reporting periods beginning after December 15, 2024. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures,” which requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. The standard will be effective for public companies for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at:

(in thousands)

	June 30, 2024	December 31, 2023
Equipment	\$ 141	\$ 141
Furniture and fixtures	621	621
Total cost	<u>762</u>	<u>762</u>
Accumulated depreciation	(216)	(151)
Property and equipment, net	<u>\$ 546</u>	<u>\$ 611</u>

Depreciation expense was \$65 thousand and \$269 thousand for the six months ended June 30, 2024 and 2023, respectively.

Depreciation expense was \$32 thousand and \$114 thousand for the three months ended June 30, 2024 and 2023, respectively.

NOTE 6 – CAPITALIZED SOFTWARE

Capitalized software consists of the following at:

(in thousands)

	June 30, 2024	December 31, 2023
Capitalized software	\$ 8,094	\$ 8,094
Accumulated amortization	(7,161)	(5,967)
Capitalized software, net	<u>\$ 933</u>	<u>\$ 2,127</u>

Amortization expense was \$1,194 thousand and \$1,230 thousand for the six months ended June 30, 2024 and 2023, respectively.

Amortization expense was \$579 thousand and \$615 thousand for the three months ended June 30, 2024 and 2023, respectively.

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill consists of the following:

(in thousands)

	June 30, 2024
Balance as of December 31, 2023	\$ 3,018
Impairment of goodwill	(3,018)
Balance as of June 30, 2024	\$ —

The Company conducts an annual impairment test of goodwill at December 31st or if events or circumstances exist that would indicate that the Company's goodwill may be impaired. As circumstances changed during the three months ended June 30, 2024, that would, more likely than not, reduce the Company's fair value below its net equity value, the Company performed qualitative and quantitative analyses of the potential impairment of its goodwill, specifically evaluating trends in market capitalization, current and future cash flows, revenue growth rates, and the impact of macroeconomic conditions on the Company and its performance. Based on the analysis performed, the Company determined that its goodwill was fully impaired due to the continuation of revenues being below management's expectations, continued operating losses and negative operating cash flows, reductions in the Company's stock price and market capitalization, and the delisting from Nasdaq and subsequent transition to the OTCQX market in the second quarter of 2024 whereby the Company's common stock has been thinly traded. As a result, the Company recorded a goodwill impairment charge in the amount of \$3.0 million for the three and six months ended June 30, 2024.

Intangible assets consist of the following:

(in thousands)

	June 30, 2024					
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Disposal	Impairment	Net Carrying Amount
Trademarks	5-10 Years	\$ 2,320	\$ (761)	\$ —	\$ (1,559)	\$ —
Noncompete agreements	5 Years	990	(644)	—	(346)	—
Customer relationships	5-7 Years	3,760	(1,628)	(51)	(2,081)	—
Patents and patent applications	5 Years	650	(65)	—	(585)	—
		\$ 7,720	\$ (3,098)	\$ (51)	\$ (4,571)	\$ —

	December 31, 2023					
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Disposal	Impairment	Net Carrying Amount
Trademarks	5-10 Years	\$ 2,320	\$ (605)	\$ —	\$ —	\$ 1,715
Noncompete agreements	5 Years	990	(545)	—	—	445
Customer relationships	5-7 Years	3,760	(1,342)	(51)	—	2,367
Patents and patent applications	(*)	650	—	—	—	650
		\$ 7,720	\$ (2,492)	\$ (51)	\$ —	\$ 5,177

(*) Patents have yet to be approved by the United States Patent and Trademark Office. Useful life is determined upon placement into service after approval.

Amortization expense was \$606 thousand and \$548 thousand for the six months ended June 30, 2024 and 2023, respectively.

Amortization expense was \$303 thousand and \$274 thousand for the three months ended June 30, 2024 and 2023, respectively.

The Company conducts an impairment test of intangible assets when events occur or circumstances exist that would indicate the Company's long-lived assets may be impaired. Based on the matters discussed above for goodwill and the qualitative and quantitative analyses performed, the Company determined that its intangible assets were fully impaired. As a result, the Company recorded an intangible impairment charge in the amount of \$4.6 million for the three and six months ended December 31, 2024.

MARPAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – LOSS AND LOSS ADJUSTMENT EXPENSES

The following tables shows changes in aggregate reserves for the Company’s loss and loss adjustment expenses:

(in thousands)

	2024	2023
Net reserves at April 1	\$ 236	\$ 84
Incurred loss and loss adjustment expenses		
Provisions for insured events of the current year	4	63
Change in provision for insured events of prior year	—	—
Total incurred loss and loss adjustment expense	<u>4</u>	<u>63</u>
Payments		
Loss and loss adjustment expenses attributable to insured events of the current year	2	4
Loss and loss adjustment expenses attributable to insured events of the prior year	52	—
Total payments	<u>54</u>	<u>4</u>
Net reserves at June 30	<u>\$ 186</u>	<u>\$ 143</u>

(in thousands)

	2024	2023
Net reserves at January 1	\$ 266	\$ —
Incurred loss and loss adjustment expenses		
Provisions for insured events of the current year	8	147
Change in provision for insured events of prior year	90	—
Total incurred loss and loss adjustment expense	<u>98</u>	<u>147</u>
Payments		
Loss and loss adjustment expenses attributable to insured events of the current year	7	4
Loss and loss adjustment expenses attributable to insured events of the prior year	171	—
Total payments	<u>178</u>	<u>4</u>
Net reserves at June 30	<u>\$ 186</u>	<u>\$ 143</u>

NOTE 9 – CONVERTIBLE DEBENTURE

Securities Purchase Agreement

On April 15, 2024, the Company entered into the Purchase Agreement with each of the Purchasers and JGB, as collateral agent for the Purchasers (the “Agent”). In accordance with the Purchase Agreement JGB purchased an aggregate of \$6,350,000 in principal amount of the Debentures. On April 15, 2024, the Company issued the Debentures due on April 15, 2027 for a principal sum of \$11,830,000.

Debentures

The Debentures bear interest at a rate equal to the prime interest rate plus 5.75% per annum (subject to increase upon the occurrence and continuance of an Event of Default (as defined in the Debentures)), require monthly principal payments of \$140,000 beginning on October 15, 2024, have a maturity date of April 15, 2027 and are convertible, in whole or in part, at any time after their issuance date at the option of the Purchasers, into shares of the Company’s common stock at a conversion price equal to \$3.00 per share (the “Conversion Price”), subject to adjustment as set forth in the Debentures. The Conversion Price of the Debentures is subject to anti-dilution protection upon subsequent equity issuances, subject to certain exceptions, provided that the Conversion Price shall not be adjusted to a price less than \$2.23 per share, the closing price of the Company’s Common Stock on Nasdaq on the day immediately preceding the Closing Date.

MARPAL, INC. AND SUBSIDIARIES
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The Company's obligations under the Debentures may be accelerated, at the Purchasers' election or upon the occurrence of certain customary events of default. The Debentures contain customary representations, warranties and covenants including among other things and subject to certain exceptions, covenants that restrict the Company from incurring additional indebtedness, creating or permitting liens on assets, amending its charter documents and bylaws, repurchasing or otherwise acquiring more than a de minimis number of its Common Stock or equivalents thereof, repaying outstanding indebtedness, paying dividends or distributions, assigning or selling certain assets, making or holding any investments, and entering into transactions with affiliates. In addition, at any time within sixty days after the Closing Date, and provided that \$5.0 million remains on deposit in a certain blocked account, the Company may elect to redeem up to an aggregate of \$5.0 million of the Debentures. Effective June 21, 2024, the Company elected not to redeem the additional \$5 million.

As of June 30, 2024, the net carrying amount of the convertible debt instrument is \$6.0 million, of which \$1.3 million is short term. The loan has unamortized debt discount and issuance cost of \$326 thousand and \$462 thousand, respectively. The estimated fair value (Level 3) of the convertible debt instrument was \$6.0 million as of June 30, 2024. As of June 30, 2024, interest of \$321 thousand was paid as it was incurred.

The Company's future loan payments, which are presented as current portion of convertible debenture, net and Convertible debenture, net of current portion on the Company's accompanying unaudited condensed consolidated balance sheet as of June 30, 2024, are as follows:

June 30, 2024

Convertible debenture principal	\$ 6,328
Unamortized debt discount and issuance costs	(788)
Outstanding balance, Net	5,540
Less: current portion	(1,089)
Long-term portion	\$ 4,451

NOTE 10 – REVENUE

Disaggregation of Revenue

The following tables illustrates the disaggregation of revenue by similar products:

For the six months ended:
(in thousands)

	June 30, 2024	June 30, 2023
TPA services	\$ 14,520	\$ 19,574
Captive insurance	54	145
Total	\$ 14,574	\$ 19,719

For the three months ended:
(in thousands)

	June 30, 2024	June 30, 2023
TPA services	\$ 7,168	\$ 9,992
Captive insurance	21	55
Total	\$ 7,189	\$ 10,047

MARPAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – SHARE-BASED COMPENSATION

Global Stock Incentive Plan

On May 31, 2023, the shareholders of the Company approved the Company’s Board of Directors proposal to increase the Company’s 2020 Global Incentive Plan (the “2020 Plan”) by an additional 500,000 shares, thus bringing the total number of stock options, restricted stock units (“RSUs”) and restricted stock awards (“RSAs”) that may be issued pursuant to the Plan to 2,450,855.

Under the term of the 2020 Plan, on the grant date, the Board of Directors determines the vesting schedule of each stock option and RSUs on an individual basis. All stock options expire ten (10) years from the date of the grant. Vested options expire 90 days after the termination of employment of the grantee.

On May 6, 2024, the shareholders of the Company approved the Company’s 2024 Global Incentive Plan (the “2024 Plan”) with 2,227,910 shares of common stock initially issuable under the 2024 Plan.

Under the terms of the 2024 Plan, on the grant date, the Board of Directors determines the vesting schedule of each stock option and RSUs on an individual basis. All stock options expire ten (10) years from the date of the grant. Vested options expire 90 days after the termination of employment of the grantee.

Stock Options

There were no options granted for the six months ended June 30, 2024. The fair value of options granted under the 2020 Plan during the six months ended June 30, 2023 was estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions for grants:

	2023
Risk-free interest rates	3.43%
Expected life	5 years
Expected volatility	41.00%
Expected dividend yield	0.00%

The following table summarizes the stock option activity for the six months ended June 30, 2024:
(in thousands except share and per share data)

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at January 1, 2024	1,213,957	\$ 4.43	8.70	\$ —
Granted	—	—		
Forfeited/Cancelled	(147,358)	6.47		
Exercised	—	—		
Balance at June 30, 2024	1,066,599	\$ 4.13	8.25	\$ —
Exercisable at June 30, 2024	727,634	\$ 4.69	8.06	\$ —

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the Company's non-vested stock options:

	Non-vested Options Outstanding	Weighted- Average Grant Date Fair Value
Balance at January 1, 2024	506,522	\$ 1.67
Options granted	—	—
Options forfeited/cancelled	(48,247)	1.73
Options exercised	—	—
Options vested	(119,310)	1.72
Balance at June 30, 2024	<u>338,965</u>	<u>\$ 1.64</u>

For the six months ended June 30, 2024 and 2023, the Company recognized \$215 thousand and \$388 thousand of stock compensation expense relating to stock options, respectively. For the three months ended June 30, 2024 and 2023, the Company recognized \$94 thousand and \$172 thousand of stock compensation expense relating to stock options, respectively. As of June 30, 2024, there was \$561 thousand of unrecognized stock compensation expense related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 2.3 years.

Restricted Stock Awards

In July 2019, the Board of Directors of the Company authorized grants of RSAs through a restricted stock award purchase agreement to certain founders, consultants, and advisors of the Company. Certain grants to the Company's founders were fully vested at the date of incorporation, other grants vest over a four-year period on each anniversary of the grant date, based on continued employment, and other grants vest based on various milestones. The shares of common stock underlying the RSAs were issued upon grant.

For the six months ended June 30, 2024 and 2023, the Company recognized \$0 and \$242 thousand of stock compensation expense relating to RSAs, respectively. For the three months ended June 30, 2024 and 2023, the Company recognized \$0 and \$121 thousand of stock compensation expense relating to RSAs, respectively. As of June 30, 2024, there was \$0 of unrecognized compensation expense related to unvested restricted share awards.

Restricted Stock Units

On May 23, 2024, the Company approved a special one-time grant of 100,000 RSUs each to three executive team members, which will vest immediately once the Company achieves year-end unadjusted EBITDA of \$5.0 million. The EBITDA metric is currently not probable and no share-based compensation expense was recognized for the periods presented. The probability will be evaluated each reporting period. Since these RSUs only vest upon the achievement of the EBITDA metric, the Company is unable to determine the weighted-average period over which the unrecognized cost will be recognized.

On June 18, 2024, the Company approved a special one-time grant of 100,000 RSUs to a director for a special project to get the Company uplisted to a national securities exchange. 50,000 RSUs will vest December 31, 2024 and the remaining 50,000 RSUs will vest upon the successful uplisting of the Company. The successful uplisting is currently not probable and no share-based compensation expense was recognized for the periods presented for the remaining 50,000 units.

MARPAI, INC. AND SUBSIDIARIES
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The following table summarizes the restricted stock units activity for the six months ended June 30, 2024:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value Per Share
Outstanding at January 1, 2024	—	\$ —
Granted	2,367,000	1.90
Forfeited/cancelled	(76,758)	1.45
Vested	(852,242)	1.95
Outstanding at June 30, 2024	<u>1,438,000</u>	<u>\$ 1.90</u>

For the six months ended June 30, 2024 and 2023, the Company recognized \$1.5 million and \$358 thousand of stock compensation expense relating to RSUs, respectively. For the three months ended June 30, 2024 and 2023, the Company recognized \$1.1 million and \$72 thousand of stock compensation expense relating to RSUs, respectively. As of June 30, 2024, there was \$1.6 million of unrecognized compensation expense remaining related to unvested time-vested restricted share units.

NOTE 12 – WARRANTS

The Company has issued warrants as part of equity offerings and severance packages.

The table below summarizes the Company's warrant activities:

	Number of Warrants to Purchase Common Shares	Exercise Price Range Per Share	Weighted Average Exercise Price
Balance at January 1, 2024	644,718	\$ 2.50 to 31.60	\$ 16.40
Granted	—	—	—
Forfeited	—	—	—
Exercised	—	—	—
Balance at June 30, 2024	<u>644,718</u>	<u>\$ 2.50 to 31.60</u>	<u>\$ 16.40</u>
Balance at January 1, 2023	412,218	\$ 5.72 to 31.60	\$ 23.68
Granted	92,500	5.00	5.00
Forfeited	—	—	—
Exercised	—	—	—
Balance at June 30, 2023	<u>504,718</u>	<u>\$ 5.00 to 31.60</u>	<u>\$ 20.25</u>

NOTE 13 – SEGMENT INFORMATION

Research and development activities are conducted through the Company's wholly owned subsidiary, EYME Technologies, Ltd., in Israel. Geographic long-lived asset information presented below is based on the physical location of the assets at the reporting date. All of the Company's revenues are derived from customers located in the United States.

Long-lived assets including goodwill, intangible assets, capitalized software, property and equipment and operating lease right-of-use, by geographic region, are as follows at:

(in thousands)

	June 30, 2024	December 31, 2023
United States	\$ 3,422	\$ 12,015
Israel	310	1,291
Total long-lived assets	<u>\$ 3,732</u>	<u>\$ 13,306</u>

MARPAI, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company receives consulting services and marketing services from various shareholders and directors. The total cost of these consulting services for the six months ended June 30, 2024, and 2023 was approximately \$0 and \$95 thousand, respectively. The total cost of these consulting services for the three months ended June 30, 2024, and 2023 was approximately \$0 and \$44 thousand, respectively. No amounts due to these certain shareholders were included in accounts payable as of June 30, 2024 and December 31, 2023.

In January 2024 and March 2024, the Company entered into security purchase agreements with an entity controlled by the Company’s Chief Executive Officer (See Note 3).

NOTE 15 – ACCRUED EXPENSES

Accrued expenses consisted of the following:

(in thousands)

	June 30, 2024	December 31, 2023
Employee compensation	\$ 1,016	\$ 1,202
Accrued bonuses	284	178
Performance guarantee liabilities	225	165
Other accrued expenses and liabilities	1,118	1,271
Accrued expenses	\$ 2,643	\$ 2,816

NOTE 16 – INCOME TAXES

The effective tax rate was 0% for the six months ended June 30, 2024 and 2023. The effective tax rate differs from the federal tax rate of 21% for the six months ended June 30, 2024 and 2023 due primarily to the full valuation allowance on deferred tax assets and other discrete items.

At December 31, 2023, the Company had federal and state net operating losses (“NOLs”) in the amount of approximately \$48.2 million and \$39.7 million. While the federal NOLs carryforward indefinitely, the Tax Cuts & Jobs Act of 2017 limits the amount of federal net operating loss utilized each year after December 31, 2020 to 80% of taxable income. The state NOLs begin to expire in 2031.

Income tax expense is recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, using current tax rates. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset will not be realized. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent that the Company believes that recovery is not likely, it must establish a valuation allowance. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets.

The Company and its subsidiaries’ income tax returns since 2019 remain subject to examination by tax jurisdictions.

NOTE 17 – LITIGATION AND LOSS CONTINGENCIES

From time to time, the Company may be subject to other legal proceedings, claims, investigations, and government inquiries (collectively, legal proceedings) in the ordinary course of business. It may receive claims from third parties asserting, among other things, infringement of their intellectual property rights, defamation, labor and employment rights, privacy, and contractual rights. There are no currently pending legal proceedings that the Company believes will have a material adverse impact on the Company’s business or condensed consolidated financial statements.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date the unaudited condensed consolidated financial statements were available for issuance.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF MARPAI, INC.

As used in this report, the terms “we”, “us”, “our”, the “Company”, and “Marpai” mean Marpai, Inc., and our wholly owned subsidiaries, Marpai Captive, Marpai Administrators, Maestro Health, and Marpai Health and its wholly owned Israeli subsidiary EYME Technologies, Ltd. (“EYME”), unless otherwise indicated or required by the context.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding the Company’s financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. Words such as “expect,” “believe,” “anticipate,” “intend,” “estimate,” “seek” and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performances, but reflect management’s current beliefs, based on information currently available. A number of factors could cause actual events, performances or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to Part II, Item 1A of this Quarterly report and the Risk Factors section of our Annual Report on Form 10-K, filed on March 26, 2024 with the SEC.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information.

The Company’s securities filings can be accessed on the EDGAR section of the SEC’s website at www.sec.gov. Except as expressly required by applicable securities law, the Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

On May 24, 2024, the Company informed the staff of the Nasdaq Stock Market LLC of its intention to withdraw from the Nasdaq hearings process and transition the listing of its common shares from the Nasdaq Capital Market (“Nasdaq”) and have its shares of common stock quoted on the OTCQX Market (“OTCQX”).

Overview

We are a national technology-driven healthcare third party administration (“TPA”), which uses AI and data analytics combined with cost containment programs to help our Clients lower their cost of healthcare by enabling better health outcomes for their employees and families. Our mission is to positively change healthcare for the benefit of (i) our Clients who are self-insured employers that pay for their employees’ healthcare benefits and engage us to administer the latter’s healthcare claims, and we refer to them as our “Clients”, (ii) employees and their family members who receive these healthcare benefits from our Clients, and we refer to them as our “Members”, and (iii) healthcare providers including, doctors, doctor groups, hospitals, clinics, and any other entities providing healthcare services or products, and we refer to them as the “Providers.” We provide affordable, intelligent, healthcare programs for self-insured employers in the U.S. We provide administrative services, and act as TPA to self-insured employers who provide healthcare benefits to their employees. Most of our Clients are small and medium-sized companies as well as local government entities.

Based on our current financial condition, our Board of Directors, supported by our management team, is considering exploring strategic alternatives focused on maximizing shareholder value. Strategic alternatives may include, among others, a strategic investment financing which would allow the company to pursue its current business plan to commercialize its products, a business combination such as a merger with another party, or a sale of the company.

Representation in the Financial Statements of Marpai, Inc.

The unaudited condensed consolidated financial statements of Marpai, Inc and the discussion of the results of its operations in this quarterly report, reflect the results of the operations of Marpai for all periods presented. The results for the three and six months ended June 30, 2024, as applicable, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2024 and 2023

The following tables set forth our consolidated results of operations for the periods indicated.

(dollars in thousands)

	Three Months Ended June 30,			
	2024	2023	Change	%
Revenue	\$ 7,189	\$ 10,047	\$ (2,858)	(28.4)%
Costs and expenses				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	5,174	6,430	(1,256)	(19.5)%
General and administrative	3,721	5,725	(2,004)	(35.0)%
Sales and marketing	436	1,473	(1,037)	(70.4)%
Information technology	1,210	1,319	(109)	(8.3)%
Research and development	8	523	(515)	(98.5)%
Depreciation and amortization	914	1,003	(89)	(8.9)%
Impairment of goodwill and intangible assets	7,588	—	7,588	N/A
Loss on disposal of assets	—	344	(344)	(100.00)%
Facilities	411	500	(89)	(17.8)%
Total costs and expenses	19,462	17,317	2,145	12.4%
Operating loss	(12,273)	(7,270)	(5,003)	68.8%
Other income and (expenses)				
Other income, net	120	50	70	140.0%
Interest expense, net	(872)	(333)	(539)	161.9%
Foreign loss gain	(1)	(3)	2	(66.7)%
Total other expense	(753)	(286)	(467)	(163.3)%
Loss before income taxes	(13,026)	(7,556)	(5,470)	(72.4)%
Income tax expense	—	—	—	—
Net loss	\$ (13,026)	\$ (7,556)	\$ (5,470)	(72.4)%
Net loss per share, basic and fully diluted	\$ (1.23)	\$ (1.10)	\$ (0.13)	(11.8)%

	Six Months Ended June 30,			
	2024	2023	Change	%
Revenue	\$ 14,574	\$ 19,719	\$ (5,145)	(26.1)%
Costs and expenses				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	10,045	12,838	(2,793)	(21.8)%
General and administrative	7,142	10,951	(3,809)	(34.8)%
Sales and marketing	1,038	3,652	(2,614)	(71.6)%
Information technology	2,334	3,506	(1,172)	(33.4)%
Research and development	15	1,024	(1,009)	(98.5)%
Depreciation and amortization	1,865	2,047	(182)	(8.9)%
Impairment of goodwill and intangible assets	7,588	—	7,588	N/A
Loss on disposal of assets	—	344	(344)	(100.0)%
Facilities	885	1,150	(265)	(23.0)%
Total costs and expenses	30,912	35,512	(4,600)	(13.0)%
Operating loss	(16,338)	(15,793)	(545)	3.5%
Other income and (expenses)				
Other income (expense), net	240	101	139	137.6%
Interest expense, net	(1,270)	(718)	(552)	76.9%
Foreign exchange loss	(4)	(19)	15	(78.9)%
Total other expense	(1,034)	(636)	(398)	62.6%
Loss before income taxes	(17,372)	(16,429)	(943)	5.7%
Income tax expense	—	—	—	—
Net loss	\$ (17,372)	\$ (16,429)	\$ (943)	5.7%
Net loss per share, basic and fully diluted	\$ (1.73)	\$ (2.70)	\$ 0.97	(35.9)%

Comparison of the Three and Six Months Ended June 30, 2024 and 2023

Revenues and Cost of Revenue

During the three months ended June 30, 2024 and 2023, our total revenue was \$7.2 million and \$10 million, respectively, representing a decrease in revenue of \$2.8 million. The decline is primarily due to customer turnover. The market is evolving, and we are adapting our approach to better serve our customers' needs. While we have seen some customer turnover, we are confident that our new initiatives will lead to long-term revenue growth.

During the six months ended June 30, 2024 and 2023, our total revenue was \$14.6 million and \$19.7 million, respectively, representing a decrease in revenue of \$5.1 million. The decline is primarily due to customer turnover. The market is evolving, and we are adapting our approach to better serve our customers' needs. While we have seen some customer turnover, we are confident that our new initiatives will lead to long-term revenue growth.

Total revenues consist of fees that we charge our customers in consideration for administering their self-insured healthcare plans as well as fees that we receive for ancillary services such as care management, case management, cost containment services, and other services provided to our customers by us or other vendors.

During the three months ended June 30, 2024 and 2023, our cost of revenue exclusive of depreciation and amortization was \$5.2 million and \$6.4 million, respectively, representing a decrease of \$1.2 million, in line with the decrease in revenue.

During the six months ended June 30, 2024 and 2023, our cost of revenue exclusive of depreciation and amortization was \$10 million and \$12.8 million, respectively, representing a decrease of \$2.8 million, in line with the decrease in revenue.

Total cost of revenues consists of (i) service fees, which primarily include vendor fees associated with the client's benefit program selections, (ii) the direct labor cost associated with claim management and processing services, and (iii) direct labor costs associated with providing customer support and services to the clients, members, and other external stakeholders.

General and Administrative Expenses

We incurred \$3.7 million of general and administrative expenses for the three months ended June 30, 2024 compared to \$5.7 million for the three months ended June 30, 2023, a decrease of \$2.0 million. The reason for the decrease is due to (i) the actions taken throughout 2023 to aligning the two TPA companies into one amounting to approximately \$1.2 million in savings and, (ii) the elimination of non-value added services amounting to approximately \$224 thousand in savings.

We incurred \$7.1 million of general and administrative expenses for the six months ended June 30, 2024 compared to \$11.0 million for the six months ended June 30, 2023, a decrease of \$3.9 million. The reason for the decrease is due to (i) the actions taken throughout 2023 to aligning the two TPA companies into one amounting to approximately \$3.4 million in savings and, (ii) the elimination of non-value added services amounting to approximately \$449 thousand in savings.

Sales and Marketing Expenses

We incurred \$436 thousand of sales and marketing expenses for the three months ended June 30, 2024 compared to \$1.5 million for the three months ended June 30, 2023, a decrease of \$1.0 million. The reason for the decrease is due to the actions taken throughout 2023 to align the two TPA companies into one amounting to approximately \$1.5 million in savings.

We incurred \$1.0 million of sales and marketing expenses for the six months ended June 30, 2024 compared to \$3.7 million for the six months ended June 30, 2023, a decrease of \$2.7 million. The reason for the decrease is due to the actions taken throughout 2023 to align the two TPA companies into one amounting to approximately \$2.6 million in savings.

Information Technology Expenses

We incurred \$1.2 million of information technology expenses for the three months ended June 30, 2024 compared to \$1.3 million for the three months ended June 30, 2023, a decrease of \$109 thousand. The reason for the decrease is due to the actions taken throughout 2023 to align the two TPA companies into one amounting to approximately \$109 thousand in savings.

We incurred \$2.3 million of information technology expenses for the six months ended June 30, 2024 compared to \$3.5 million for the six months ended June 30, 2023, a decrease of \$1.2 million. The reason for the decrease is due to the actions taken throughout 2023 to align the two TPA companies into one amounting to approximately \$1.2 million in savings.

Research and Development Expenses

We incurred \$8 thousand of research and development expenses for the three months ended June 30, 2024 compared to \$523 thousand for the three months ended June 30, 2023, a decrease of \$515 thousand. The decrease is attributable to adapting our approach to better serve our customers' needs by the elimination of non-value added development projects amounting to approximately \$523 thousand.

We incurred \$15 thousand of research and development expenses for the six months ended June 30, 2024 compared to \$1.0 million for the six months ended June 30, 2023, a decrease of \$1.0 million. The decrease is attributable to adapting our approach to better serve our customers' needs by the elimination of non-value added development projects amounting to approximately \$1.0 million.

Depreciation and Amortization

We incurred \$914 thousand of depreciation and amortization expenses for the three months ended June 30, 2024 compared to \$1.0 million for the three months ended June 30, 2023, a decrease of \$89 thousand. This decrease was primarily due to a reduction by approximately \$91 thousand in the depreciation of assets that were disposed of during the prior year and software becoming fully depreciated in early 2024 amounting to approximately \$36 thousand, partially offset by the new patents placed into service during 2024 amounting to approximately \$33 thousand.

We incurred \$1.9 million of depreciation and amortization expenses for the six months ended June 30, 2024 compared to \$2.0 million for the six months ended June 30, 2023, a decrease of \$182 thousand. This decrease was primarily due to a reduction by approximately \$203 thousand in the depreciation of assets that were disposed of during the prior year and software becoming fully depreciated in early 2024 amounting to approximately \$36 thousand, partially offset by the new patents placed into service during 2024 amounting to approximately \$65 thousand.

Impairment of Goodwill and Intangible Assets

The Company conducts an annual impairment test of goodwill and intangible asset at December 31st or if events or circumstances exist that would indicate that the Company's goodwill may be impaired. As circumstances changed during the three months ended June 30, 2024, that would, more likely than not, reduce the Company's fair value below its net equity value, the Company performed qualitative and quantitative analyses of the potential impairment of its goodwill and intangible assets, specifically evaluating trends in market capitalization, current and future cash flows, revenue growth rates, and the impact of macroeconomic conditions on the Company and its performance. Based on the analysis performed, the Company determined that its goodwill and intangible assets were fully impaired due to the continuation of revenues being below management's expectations, continued operating losses and negative operating cash flows, reductions in the Company's stock price and market capitalization, and the delisting from the Nasdaq and subsequent transition to the OTCQX market in the second quarter of 2024 whereby the Company's common stock has been thinly traded. As a result, the Company recorded a goodwill and intangible asset impairment charge in the amount of \$7.6 million for the three and six months ended June 30, 2024.

Interest Expense, net

We incurred \$872 thousand of interest expense for the three months ended June 30, 2024 compared to \$333 thousand for the three months ended June 30, 2023, an increase of \$539 thousand. Interest expense increased primarily due to the debt to Libertas Funding LLC ("Libertas") and JGB Collateral LLC ("JGB") which was offset by the decrease in interest due to AXA S.A., a French société anonyme ("AXA") for the acquisition of Maestro being partially paid down in 2023.

We incurred \$1.3 million of interest expense for the six months ended June 30, 2024 compared to \$718 thousand for the six months ended June 30, 2023, an increase of \$552 thousand. Interest expense increased primarily due to the debt to and JGB which was offset by the decrease in interest due to AXA for the acquisition of Maestro being partially paid down in 2023.

Liquidity and Capital Resources

As of June 30, 2024, we had an accumulated deficit of approximately \$94.1 million, unrestricted cash and cash equivalents of approximately \$1.3 million and negative working capital of approximately \$1.5 million. For the six months ended June 30, 2024, we recognized a net loss of approximately \$17.4 million and negative cash flows from operations of approximately \$6.7 million.

We have spent most of our cash resources on funding our operating activities. Through June 30, 2024, we have financed our operations primarily with the proceeds from loans, the issuance of convertible promissory notes and warrants, and sales of our equity securities.

On April 15, 2024, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with each of the purchasers that are parties thereto (each, including its successors and assigns, a "Purchaser" and collectively, the "Purchasers") and JGB, as collateral agent for the Purchasers (the "Agent"). Pursuant to the terms of the Purchase Agreement, on April 15, 2024, we issued the Senior Secured Convertible Debentures (the "Debentures") due on April 15, 2027 for a principal sum of \$11.83 million, subject to the redemption of \$5 million at the Company's election. In accordance with the Purchase Agreement JGB purchased an aggregate of \$6.35 million in principal amount of the Debentures. On June 21, 2024, the Company elected not to redeem an additional \$5 million of the Debentures with JGB.

Management continues to evaluate additional funding alternatives and is seeking to raise additional funds through the issuance of equity or debt securities.

If we are unable to raise additional capital moving forward, our ability to operate in the normal course and continue to invest in its product portfolio may be materially and adversely impacted and we may be forced to scale back operations or divest some or all of our assets.

As a result of the above, in connection with our assessment of going concern considerations in accordance with Financial Accounting Standard Accounting Standards Update ("ASU") 2014-15, "Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern," management has determined that our liquidity condition raises substantial doubt about our ability to continue as a going concern through twelve months from the date these condensed consolidated financial statements are available to be issued. The condensed consolidated financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should we be unable to continue as a going concern.

Cash Flows

The following tables summarizes selected information about our sources and uses of cash and cash equivalents for the six months ended June 30, 2024 and 2023:

Comparison of the Six Months Ended June 30, 2024 and 2023

(in thousands)

	Six Months Ended June 30,	
	2024	2023
Net cash used in operating activities	\$ (6,705)	\$ (8,739)
Net cash provided by investing activities	—	18
Net cash provided by financing activities	7,268	6,432
Net increase (decrease) in cash and cash equivalents and restricted cash	\$ 563	\$ (2,289)

Net Cash Used in Operating Activities

Net cash used in operating activities totaled \$6.7 million for the six months ended June 30, 2024, a decrease of \$2.0 million as compared to \$8.7 million for the six months ended June 30, 2023. The primary reason for the decrease was the reduction in our net loss from the prior year. Net cash used in operating activities was primarily driven by our net loss for the period of \$17.4 million, net of (i) non-cash items totaling \$13.0 million and (ii) a decrease in net working capital items amounting to \$2.3 million.

Net Cash Provided by Investing Activities

A total of \$0 was provided by investing activities in the six months ended June 30, 2024 a decrease of \$18 thousand as compared to \$18 thousand for the six months ended June 30, 2023. The primary reason for the decrease was no disposal of property and equipment.

Net Cash Provided by Financing Activities

A total of \$7.3 million was received from financing activities during the six months ended June 30, 2024, an increase of \$836 thousand compared to \$6.4 million for the six months ended June 30, 2023. The net proceeds for 2024 were provided from private offerings of common stock of \$2.7 million, net proceeds from the Debenture of \$5.5 million proceeds from the sale of future cash receipts on accounts receivable of \$1.5 million partially offset by the repayment of the AXA loan of \$631 thousand, and payments to the buyer of receivables of \$1.8 million. The net proceeds for 2023 were provided from the public offering of common stock of \$6.4 million.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We evaluate our estimates, assumptions and judgments on an ongoing basis. Our estimates, assumptions and judgments are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our condensed consolidated financial statements, which, in turn, could change the results from those reported.

See Note 4 to our condensed consolidated financial statements included in this Form 10-Q for a description of the significant accounting policies that we use to prepare our consolidated financial statements.

New Accounting Pronouncements

We have considered recently issued accounting pronouncements and do not believe the adoption of such pronouncements will have a material impact on our condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

The cash generated from revenue is denominated in U.S. Dollars. Our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations, which are in the United States and Israel. Our results of current and future operations and cash flows are therefore subject to fluctuations due to changes in the exchange rate of the New Israeli Shekel (NIS). The effect of a hypothetical 10% change in the exchange rate of the NIS versus the U.S. Dollar would not have had a material impact on our historical condensed consolidated financial statements for the six months ended June 30, 2024. To date we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency becomes or is expected to become more significant.

Interest rate risk

We had cash and cash equivalents balances of \$1.3 million and \$1.1 million on June 30, 2024 and December 31, 2023, respectively. Currently, management does not view this exposure to be a significant risk.

Inflation Risk

Inflation generally affects us by increasing our labor costs. We do not believe that inflation had a material effect on our business, financial condition or results of operations during the six months ended June 30, 2024.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial and Accounting Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal quarter ended June 30, 2024. Based on this evaluation, our Chief Executive Officer and Chief Financial and Accounting Officer have concluded that, during the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer or persons performing similar functions, as appropriate, to allow timely decisions.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter ended June 30, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II – OTHER INFORMATION

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed below and in Part I, “Item 1A. Risk Factors” in our 2023 Annual Report, which could materially affect our business, financial condition or future results.

For the three month periods ended June 30, 2024 and 2023, we had one customer that accounted for 16.6% and 12.0% of total revenue, respectively. For the six month periods ended June 30, 2024 and 2023, we had one customer that had 15.8% and 11.0% of total revenue, respectively. At June 30, 2024, three customer accounted for 41.9%, 13.3% and 11.6% of accounts receivable. At December 31, 2023, two customers accounted for 16.6% and 14.0% of accounts receivable.

Currently, our revenues are concentrated with one major customers and our revenues may decrease significantly if we were to lose our major customer.

Due to our limited operating history, we have a limited customer base and have depended on a major customer for a significant portion of our revenue. For the three month period ended June 30, 2024 and 2023 we had one customer that accounted for 15.1% and 12.0% of total revenue, respectively. For the six month period ended June 30, 2024 and 2023 we had one customer that accounted for 15.8% and 10.8% of total revenue, respectively. At June 30, 2024, one customer accounted for 21.0% of accounts receivable. At December 31, 2023, two customer accounted for 16.6% and 14.0% of accounts receivable.

If our major customer were to terminate their agreement with us, or if we fail to adequately perform under our agreement, and if we are unable to diversify our customer base, our revenue could decline, and our results of operations could be adversely affected.

Based on the Company’s current financial condition, the Company’s Board of Directors, supported by its management team, is considering exploring strategic alternatives focused on maximizing shareholder value. Strategic alternatives may include, among others, a strategic investment financing which would allow the company to pursue its current business plan to commercialize its products, a business combination such as a merger with another party, or a sale of the company.

We are reviewing strategic alternatives and there can be no assurance that we will be successful in identifying or completing any strategic transaction, that any such strategic transaction will result in additional value for our stockholders or that the process will not have an adverse impact on our business.

The process of reviewing strategic alternatives may be costly, time consuming and disruptive to our business operations and, if we are unable to effectively manage the process, our business, financial condition and results of operations could be adversely affected. We may incur significant costs associated with identifying, evaluating and negotiating potential strategic alternatives, such as legal, financial advisor and accounting fees and expenses and other related charges. We may also incur additional unanticipated expenses in connection with this process. A considerable portion of these costs will be incurred regardless of whether any such course of action is implemented or transaction is completed, decreasing cash available for use in our business.

There can be no assurance that any potential transaction, or series of transactions, or other strategic alternative, if found and if consummated, will provide greater value to our stockholders than that reflected in the current price of our common stock. Until the review process is concluded, perceived uncertainties related to our future may impact our business performance and volatility in the market price of our common stock and may make it more difficult for us to attract and retain qualified personnel and key employees. Our Board has not set a timetable for the conclusion of this review, nor has it made any definitive decisions related to taking any further actions or potential strategic options at this time or at all.

ITEM 6. Exhibits.

Exhibit No.	Description
31.1	Certification Statement of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification Statement of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1*	Certification Statement of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2*	Certification Statement of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101*	Interactive Data Files
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Furnished herewith.

** Filed herewith.

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.

Date: August 7, 2024

MARPAI, INC.

/s/ Damien Lamendola

Name: Damien Lamendola
Title: Chief Executive Officer
(Principal Executive Officer)

/s/ Steve Johnson

Name: Steve Johnson
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a)**

I, Damien Lamendola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marpai, 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 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 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 7, 2024

/s/ Damien Lamendola
Damien Lamendola
Chief Executive Officer
(Principal Executive Officer)

**Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a)**

I, Steve Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marpai, 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 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 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 7, 2024

/s/ Steve Johnson

Steve Johnson
Chief Financial Officer
(Principal Financial Officer)

MARPAL, INC.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Marpai, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Damien Lamendola, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, that to my 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.

/s/ Damien Lamendola
Damien Lamendola
Chief Executive Officer
(Principal Executive Officer)

August 7, 2024

MARPAL, INC.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Marpai, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steve Johnson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, that to my 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.

/s/ Steve Johnson
Steve Johnson
Chief Financial Officer
(Principal Financial Officer)

August 7, 2024