**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, 2022**

**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** | **86-1916231** |
|---|---|
| (State or other jurisdiction of incorporation) | (IRS Employer Identification Number) |

**5701 East Hillsborough Ave., Suite 1417**
**Tampa, Florida 33610-5428**

(Address of principal executive offices)

**(646) 303-3483**
(Registrant's telephone number, including area code)

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

| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common Stock, par value $0.0001 per share | MRAI | The Nasdaq Stock Market LLC |

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 15, 2022, there were 20,682,844 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. Financial Statements.

**MARPAI, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2022 (Unaudited) | December 31, 2021 |
|---|---|---|
| **ASSETS:** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 9,084,839 | $ 19,183,044 |
| Restricted cash | 6,106,210 | 6,750,599 |
| Accounts receivable | 26,482 | 208,762 |
| Unbilled receivable | — | 14,978 |
| Prepaid expenses and other current assets | 503,823 | 743,126 |
| Other receivables | 27,284 | 91,498 |
| **Total current assets** | 15,748,638 | 26,992,007 |
| | | |
| Property and equipment, net | 761,620 | 889,935 |
| Capitalized software, net | 5,777,050 | 6,304,854 |
| Operating lease right-of-use assets | 1,723,760 | 2,043,624 |
| Goodwill | 2,382,917 | 2,382,917 |
| Intangible assets, net | 5,121,522 | 5,507,693 |
| Other long-term asset | 80,610 | 80,610 |
| **Total assets** | $ 31,596,117 | $ 44,201,640 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 490,144 | $ 1,125,906 |
| Accrued expenses | 2,320,550 | 2,525,037 |
| Accrued fiduciary obligations | 5,063,552 | 5,541,067 |
| Deferred revenue | 828,425 | 1,165,248 |
| Current portion of operating lease liabilities | 829,284 | 784,493 |
| Due to related party | 3,201 | 3,637 |
| **Total current liabilities** | 9,535,156 | 11,145,388 |
| | | |
| Other long-term liabilities | 45,000 | 45,000 |
| Operating lease liabilities, net of current portion | 944,450 | 1,301,828 |
| Deferred tax liabilities | 2,001,012 | 2,001,012 |
| **Total liabilities** | 12,525,618 | 14,493,228 |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, $0.0001 par value, 227,791,050 shares authorized; 20,682,844 and 20,299,727 issued and outstanding at June 30, 2022 and December 31, 2021,respectively | 2,068 | 2,030 |
| Additional paid-in capital | 52,748,587 | 51,232,092 |
| Accumulated deficit | (33,680,156) | (21,525,710) |
| **Total stockholders' equity** | 19,070,499 | 29,708,412 |
| **Total liabilities and stockholders' equity** | $ 31,596,117 | $ 44,201,640 |

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

**MARPAI, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Revenue | $ 5,556,506 | $ 3,531,512 | $ 11,775,315 | $ 3,531,512 |
| **Costs and expenses** | | | | |
| Cost of revenue (exclusive of depreciation and amortization shown separately below) | 4,151,560 | 2,720,483 | 8,698,355 | 2,720,483 |
| General and administrative | 2,319,977 | 2,059,608 | 5,222,109 | 2,861,445 |
| Sales and marketing | 2,216,788 | 1,122,665 | 3,775,904 | 1,443,785 |
| Information technology | 1,189,733 | 731,230 | 2,324,006 | 731,230 |
| Research and development | 1,309,157 | 285,363 | 1,902,264 | 549,374 |
| Depreciation and amortization | 776,411 | 402,813 | 1,601,809 | 420,967 |
| Facilities | 196,341 | 180,397 | 392,936 | 180,397 |
| Loss on disposal of assets | 60,471 | — | 60,471 | — |
| **Total costs and expenses** | 12,220,438 | 7,502,559 | 23,977,854 | 8,907,681 |
| **Operating loss** | (6,663,932) | (3,971,047) | (12,202,539) | (5,376,169) |
| **Other income (expenses)** | | | | |
| Other income(expenses) | (9,706) | 47,728 | 39,291 | 54,426 |
| Interest expense | (562) | (92,621) | (4,507) | (276,061) |
| Foreign exchange gain (loss) | 9,418 | (6,034) | 13,309 | (15,784) |
| **Loss before provision for income taxes** | (6,664,782) | (4,021,974) | (12,154,446) | (5,613,588) |
| Income tax benefit | — | (150,000) | — | (150,000) |
| **Net loss** | $ (6,664,782) | $ (3,871,974) | $ (12,154,446) | $ (5,463,588) |
| **Net loss per share, basic & fully diluted[(1)]** | $ (0.34) | $ (0.38) | $ (0.62) | $ (0.84) |
| **Weighted average number of common shares, basic and fully diluted[(1)]** | 19,847,342 | 10,087,809 | 19,790,764 | 6,528,886 |

(1) Reflects 4.555821-for-1 forward stock split that became effective on September 2, 2021. The computation of basic and diluted net loss per share was retroactively adjusted for all periods presented. See Note 14 to the condensed consolidated financial statements.

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' EQUITY (DEFICIT)**

| | Shares | Amount | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|
| **Three months ended June 30, 2022** | | | | | |
| **Balance, April 1, 2022** | 20,299,727 | $ 2,030 | $ 51,481,080 | $ (27,015,374) | $ 24,467,736 |
| Share-based compensation | — | — | 1,244,334 | — | 1,244,334 |
| Issuance of stock upon vesting of restricted stock units | 360,617 | 36 | — | — | 36 |
| Shares issued to vendors in exchange for services | 22,500 | 2 | 23,173 | — | 23,175 |
| Net loss | — | — | — | (6,664,782) | (6,664,782) |
| **Balance, June 30, 2022 (Unaudited)** | **20,682,844** | **$ 2,068** | **$ 52,748,587** | **$ (33,680,156)** | **$ 19,070,499** |
| **Three months ended June 30, 2021** | | | | | |
| **Balance, April 1, 2021** | 142,369 | $ 14 | $ 2,325,673 | $ (7,132,489) | $ (4,806,802) |
| Exchange of common shares of Marpai Health, Inc. (see Note 1) | (142,369) | (14) | — | — | (14) |
| Issuance of common shares of Marpai, Inc. (see Note 1) | 11,147,301 | 1,115 | 17,350,820 | — | 17,351,935 |
| Issuance of warrants to shareholder in exchange for cash | — | — | 2,500 | — | 2,500 |
| Share-based compensation | — | — | 475,528 | — | 475,528 |
| Net loss | — | — | — | (3,871,974) | (3,871,974) |
| **Balance, June 30, 2021 (Unaudited)** | **11,147,301** | **$ 1,115** | **$ 20,154,521** | **$ (11,004,463)** | **$ 9,151,173** |
| **Six months ended June 30, 2022** | | | | | |
| **Balance, January 1, 2022** | 20,299,727 | $ 2,030 | $ 51,232,092 | $ (21,525,710) | $ 29,708,412 |
| Share-based compensation | — | — | 1,493,322 | — | 1,493,322 |
| Issuance of stock upon vesting of restricted stock units | 360,617 | 36 | — | — | 36 |
| Shares issued to vendors in exchange for services | 22,500 | 2 | 23,173 | — | 23,175 |
| Net loss | — | — | — | (12,154,446) | (12,154,446) |
| **Balance, June 30, 2022 (Unaudited)** | **20,682,844** | **$ 2,068** | **$ 52,748,587** | **$ (33,680,156)** | **$ 19,070,499** |
| **Six months ended June 30, 2021** | | | | | |
| **Balance, January 1, 2021** | 142,369 | $ 14 | $ 2,044,362 | $ (5,540,875) | $ (3,496,499) |
| Exchange of common shares of Marpai Health, Inc. (see Note 1) | (142,369) | (14) | — | — | (14) |
| Issuance of common shares of Marpai, Inc. (see Note 1) | 11,147,301 | 1,115 | 17,350,820 | — | 17,351,935 |
| Issuance of warrants to shareholder in exchange for cash | — | — | 53,333 | — | 53,333 |
| Share-based compensation | — | — | 706,006 | — | 706,006 |
| Net loss | — | — | — | (5,463,588) | (5,463,588) |
| **Balance, June 30, 2021 (Unaudited)** | **11,147,301** | **$ 1,115** | **$ 20,154,521** | **$ (11,004,463)** | **$ 9,151,173** |

(1) Reflects 4.555821-for-1 forward stock split that became effective on September 2, 2021. See Note 14 to the condensed consolidated financial statements.

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)**

| | Six months ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| **Cash flows from operating activities:** | | |
| Net loss | $ (12,154,446) | $ (5,463,588) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,601,809 | 420,967 |
| Loss on disposal of assets | 60,471 | — |
| Share-based compensation | 1,743,359 | 706,006 |
| Shares issued to vendors in exchange for services | 23,175 | — |
| Amortization of right-of-use asset | 67,816 | 41,810 |
| Amortization of debt discount | — | 26,728 |
| Non-cash interest | — | 246,230 |
| Marketing services performed in exchange for convertible note | — | 75,000 |
| Deferred taxes | | (150,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and unbilled receivable | 239,305 | (13,522) |
| Prepaid expense and other assets | 197,258 | (210,138) |
| Other receivables | 64,214 | 71,443 |
| Accounts payable | (635,765) | (582,986) |
| Accrued expenses | (454,487) | 70,210 |
| Accrued fiduciary obligations | (477,515) | 1,125,031 |
| Operating lease liabilities | (60,539) | (55,722) |
| Other liabilities | (337,259) | (1,183,378) |
| Net cash used in operating activities | (10,122,604) | (4,875,909) |
| **Cash flows from investing activities:** | | |
| Cash and restricted cash acquired as part of acquisitions (See Note 5) | — | 11,384,035 |
| Capitalization of software development costs | (607,700) | (972,181) |
| Purchase of property and equipment | (12,290) | (26,189) |
| Net cash (used in) provided by investing activities | (619,990) | 10,385,665 |
| **Cash flows from financing activities:** | | |
| Proceeds from convertible notes | — | 500,000 |
| Proceeds from issuance of warrants | — | 53,333 |
| Net cash provided by financing activities | — | 553,333 |
| **Net (decrease) increase in cash, cash equivalents and restricted cash** | (10,742,594) | 6,063,089 |
| **Cash, cash equivalents and restricted cash at beginning of period** | 25,933,643 | 1,817,932 |
| **Cash, cash equivalents and restricted cash at end of period** | $ 15,191,049 | $ 7,881,021 |
| **Reconciliation of cash, cash equivalents, and restricted cash reported in the condensed consolidated balance sheet** | | |
| Cash and cash equivalents | $ 9,084,839 | $ 2,339,223 |
| Restricted cash | 6,106,210 | 5,541,798 |
| **Total cash, cash equivalents and restricted cash shown in the condensed consolidated statement of cash flows** | $ 15,191,049 | $ 7,881,021 |

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

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

## NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

***Organization***

Marpai, Inc. ("Marpai") was formed as a Delaware corporation on January 22,2021 with the intention to facilitate an initial public offering ("IPO") and other related transactions in order to carry on the business of two healthcare subsidiaries, Marpai Health, Inc. ("Marpai Health") and Continental Benefits LLC ("Continental Benefits"). In July 2022 Continental Benefits LLC changed its name to Marpai Administrators LLC.

Marpai Health, a Delaware corporation, was incorporated on February 14, 2019. On March 21, 2019, EYME Technologies Ltd. ("EYME"), a wholly owned subsidiary of Marpai Health located in Israel, was formed. Marpai Health, along with its wholly owned subsidiary, EYME, are hereinafter referred to as "Marpai Health".

On April 1, 2021, Marpai Health consummated the acquisition of Continental Benefits. Pursuant to the terms of the Amended and Restated Equity Interest Purchase and Reorganization Agreement, as was further addended on May 7, 2021 (collectively, the "Agreement"), the stockholders of Marpai Health and the sole member of Continental Benefits, contributed their respective shares and ownership interests in Marpai Health and Continental Benefits to Marpai in consideration for shares of Marpai's Class A and Class B common stock. Additionally, options to purchase 1,027,602 shares of Marpai Health's common stock and warrants to purchase 1,366,746 shares of Marpai Health's common stock were exchanged, on a one-to-one basis, for options and warrants to purchase shares of Marpai's Class A common stock (the above transactions are hereinafter referred to as the "Acquisition"). As part of the Acquisition, approximately $3,800,000 of Marpai Health's convertible promissory notes were exchanged for shares of common stock of Marpai immediately prior to the Acquisition, and pursuant to a note exchange agreement, Marpai acquired Marpai Health's certain outstanding convertible promissory notes, with aggregate outstanding principal and accrued but unpaid interest of $2,198,459, in exchange for the issuance of Marpai's convertible promissory notes of an equivalent aggregate principal amount. The Agreement called for Continental Benefits to not have less than $4,762,000 of cash on hand, and to have no debt at the time of closing of the Acquisition.

For accounting purposes, Continental Benefits was considered the acquiree and Marpai Health was considered the acquirer. The acquisition was accounted for using the acquisition method of accounting. See Note 5 for additional information.

Marpai, along with its wholly owned subsidiaries, Marpai Health and Continental Benefits, are hereinafter referred to as the "Company". The Company did not generate any revenues prior to the acquisition of Continental Benefits.

Marpai Captive, Inc. ("Marpai Captive"), a Delaware corporation was founded in March 2022, as a subsidiary of the Company. Marpai Captive is intended to engage in the captive insurance market if and when management decides to enter this market. Marpai Captive has not yet commenced operations.

***Initial Public Offering***

On October 26, 2021, the Company consummated its IPO of 7,187,500 shares of class A common stock, par value $0.0001 per share ("common stock") for a price of $4.00 per share, generating gross proceeds of $28,750,000, which is described in Note 14. Convertible notes in the amount of $5,106,554 were converted into equity as a result of the IPO.

***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 the latter's healthcare claims, to whom the Company refers as "Clients", (ii) employees who receive these healthcare benefits from its clients, to whom the Company refers as "Members", and (iii) healthcare providers including doctors, doctor groups, hospitals, clinics, and any other entities providing healthcare services or products to whom the Company refers as "Providers". The Company's operations are conducted through its wholly owned subsidiaries Marpai Health and Continental Benefits.

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

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS (CONTINUED)**

Marpai Health is engaged in developing artificial intelligence and healthcare technology that enables the analysis of data to predict and prevent costly events related to diagnostic errors, hospital visits and administrative issues.

Continental Benefits and its wholly owned subsidiary WellSystems, LLC ("WellSystems") provide benefits outsourcing services to clients in the United States across multiple industries. Continental Benefits' backroom administration and third-party administration ("TPA") services are supported by a customized technology platform and a dedicated benefits call center. Under its TPA platform, Continental Benefits provides health and welfare administration, dependent eligibility verification, Consolidated Omnibus Budget Reconciliation Act ("COBRA") administration, and benefit billing services. Continental Benefits and WellSystems are Florida limited liability companies.

The global coronavirus pandemic outbreak ("COVID-19") continues to adversely impact commercial activity, globally and in the United States, and has contributed to significant volatility in financial markets. The outbreak could have a continued adverse impact on economic and market conditions, including business and financial services disruption. As of the date these condensed consolidated financial statements were available to be issued, there was no substantial impact and the Company will continue to monitor the potential impact of COVID-19, and potential related variants, on the Company's condensed consolidated financial statements.

The Company also 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 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, 2021.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, EYME and Marpai Health, for all the periods presented and Continental Benefits and its wholly owned subsidiary, WellSystems, from April 1, 2021, the date of the Acquisition (see Note 5). All significant intercompany balances and transactions have been eliminated in consolidation.

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, 2021. 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.

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

## NOTE 3 – LIQUIDITY

The accompanying condensed consolidated financial statements do not include any adjustments or classifications that may result from the possible inability of the Company to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared on a basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying condensed consolidated financial statements as of June 30, 2022, the Company has an accumulated deficit of $33,680,156 and working capital of $6,213,482. At June 30, 2022, the Company had no debt and $9,084,839 of unrestricted cash on hand. Since inception, the Company has met its cash needs through proceeds from issuing convertible notes, warrants and its IPO.

On August 4, 2022, the Company announced the acquisition of Maestro Health LLC ("Maestro"). Under the terms of the purchase agreement, the sellers have agreed that at the closing of the transaction, Maestro's free cash reserves will be $15.79 million. This cash is available to be used by the Company to fund the operations of the Company after the closing which is expected on or before September 15, 2022. While Maestro is currently generating operating losses, management believes that the integration of the two businesses will lead to substantial improvement in the operating results of the Company over the next year.

Management believes that the Company's current liquid assets combined with the cash expected from the Maestro acquisition are sufficient to fund working capital and operating activities and fund capital expenditures through at least the first half of 2023.

## NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business Combination

The Company accounts for business combinations in accordance with the Financial Accounting Standard Board's ("FASB") Accounting Standard Codification ("ASC") 805, *Business Combinations*. Accordingly, identifiable tangible and intangible assets acquired, and liabilities assumed are recorded at their estimated fair values, the excess of the purchase consideration over the fair values of net assets acquired is recorded as goodwill, and transaction costs are expensed as incurred. The Company includes the results of operations of the businesses that are acquired as of the acquisition date.

### Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, valuation of share-based compensation,valuation of the Company's common stock prior to the IPO, accounting for warrants, allowance for doubtful accounts, useful lives of internally developed software,fair values of net assets acquired, goodwill, intangible assets and property and equipment, whether an arrangement is or contains a lease, the incremental borrowing rate used for operating leases, income tax accruals, the valuation allowance for deferred income taxes, and contingent liabilities.

The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events. Actual results could differ from those estimates.

### 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 and cash in a money market account as required by a credit card company for collateral. 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.

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

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 it's 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 condensed 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. There was no goodwill impairment for the six months ended June 30, 2022 and 2021.

**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. No impairment of the Company's intangible assets was recorded for the six months ended June 30, 2022 and 2021.

**Revenue Recognition**

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 $326,121, which is included in accrued expenses on the accompanying condensed consolidated balance sheet as of June 30, 2022.

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

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

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.

**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 common shares 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 common shares and dilutive common stock equivalents outstanding. During the periods when they are anti-dilutive, common stock equivalents, if any, are not considered in the computation. At June 30, 2022 and 2021, there were 3,359,974 and 6,058,540 common share equivalents, respectively. For the six months ended June 30, 2022 and 2021, 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recently Issued Accounting Pronouncements**

In August 2020, the FASB issued Accounting Standards Update ("ASU") 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which simplifies the guidance on the issuer's accounting for convertible debt instruments by removing the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, entities will not separately present in equity an embedded conversion feature in such debt. Instead, they will account for a convertible debt instrument wholly as debt, unless certain other conditions are met. The elimination of these models will reduce reported interest expense and increase reported net income for entities that have issued a convertible instrument that was within the scope of those models before the adoption of ASU 2020-06.

ASU 2020-06 also requires that the effect of potential share settlement be included in the diluted earnings per share ("EPS") calculation when an instrument may be settled in cash or share. This amendment removes current guidance that allows an entity to rebut this presumption if it has a history or policy of cash settlement. Furthermore, ASU 2020-06 requires the application of the converted method for calculating diluted earnings per share, and the treasury stock method will be no longer available. In addition, ASU 2020-06 clarifies that an average market price should be used to calculate the diluted EPS denominator in cases in which the exercise prices may change on the basis of an entity's share price or changes in the entity's share price may affect the number of shares that may be used to settle a financial instrument and that an entity should use the weighted-average share count from each quarter when calculating the year-to-date weighted-average share. The provisions of ASU 2020-06 are applicable for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. The adoption of this standard did not have a material impact to the Company's condensed consolidated financial statements, since all of the Company's convertible debt were converted to equity at the IPO or repaid during the year ended December 31, 2021.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU No. 2020-04 provides guidance on optional expedients for a limited time to ease the operational burden in accounting for (or recognizing the effects of) reference rate reform (LIBOR) on financial reporting. This guidance is effective upon the ASUs issuance on March 12, 2020, and companies may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the potential effects of this guidance on its condensed consolidated financial statements.

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

## NOTE 5 – ACQUISITION

On April 1, 2021, the Company consummated the acquisition of Continental Benefits. According to the Agreement, Continental Benefits was valued, on a cash-free and debt-free basis, at $8.5 million. In addition, pursuant to the Agreement, Marpai Health was valued at an assumed pre-money valuation of the last convertible note's conversion price of $35 million.

The following table represents the allocation of the purchase consideration among the Continental Benefits' assets acquired and liabilities assumed at their estimated acquisition-date fair values:

| | | |
|---|---|---|
| **Purchase Price** | | |
| Equity value | $ | 13,262,000 |
| Cash acquired | | (4,762,000) |
| Total purchase price paid, net of cash acquired | $ | 8,500,000 |
| | | |
| **Purchase Price Allocation** | | |
| Restricted cash | $ | 6,622,035 |
| Accounts receivable | | 92,231 |
| Prepaid expenses and other current assets | | 131,414 |
| Property and equipment | | 1,601,990 |
| Noncompete agreements | | 990,000 |
| Capitalized software | | 1,200,000 |
| Operating lease - right of use assets | | 1,763,960 |
| Goodwill | | 2,382,917 |
| Trademarks | | 1,520,000 |
| Patents and patent applications | | 650,000 |
| Customer relationships | | 2,920,000 |
| Security deposits | | 54,869 |
| Account payable | | (925,608) |
| Accrued expenses | | (1,267,708) |
| Accrued fiduciary obligations | | (4,070,908) |
| Operating lease liabilities | | (1,763,960) |
| Deferred tax liability | | (2,151,012) |
| Deferred revenue | | (1,205,220) |
| Other long-term liabilities | | (45,000) |
| Total fair value of net assets acquired and liabilities assumed | $ | 8,500,000 |

The following table summarizes the estimated fair values of Continental Benefits' identifiable intangible assets, their estimated useful lives and expected amortization periods:

| | | Acquisition Fair Value | Useful Life in Years |
|---|---|---|---|
| Trademarks | $ | 1,520,000 | 10 Years |
| Noncompete agreements | | 990,000 | 5 Years |
| Customer relationships | | 2,920,000 | 7 Years |
| Patents and patent applications | | 650,000 | (*) |

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

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

**NOTE 5 – ACQUISITION (CONTINUED)**

The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on January 1, 2021:

| | Three Months Ended June 30, 2021 (pro forma) | Six Months Ended June 30, 2021 (pro forma) |
|---|---|---|
| Revenue | $ 7,746,953 | $ 7,746,953 |
| Net loss | (7,479,835) | (7,479,835) |

The unaudited pro forma financial information includes adjustments that are directly attributable to the business combination and are factually supportable. The pro forma adjustments include incremental amortization expense of $303,556 related to intangible and tangible assets acquired.

The unaudited pro forma results do not reflect any cost saving synergies from operating efficiencies or the effect of the incremental costs incurred in integrating the two companies.

Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition had occurred at the beginning of the period presented, nor are they indicative of future results of operations.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Equipment | $ 144,370 | $ 222,222 |
| Furniture and fixtures | 332,179 | 341,769 |
| Leasehold improvements | 687,567 | 621,527 |
| Total cost | 1,164,116 | 1,185,518 |
| Accumulated depreciation | (402,496) | (295,583) |
| Property and equipment, net | $ 761,620 | $ 889,935 |

Depreciation expense was $143,205 and $76,064 for the six months ended June 30, 2022 and 2021, respectively. Depreciation expense was $72,094 and $57,910 for the three months ended June 30, 2022 and 2021, respectively. The decrease in equipment value is due to disposal of $96,770 of obsolete equipment. This equipment had previously been depreciated by $36,299.

**NOTE 7 – CAPITALIZED SOFTWARE**

Capitalized software consists of the following at:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Capitalized software | $ 7,529,900 | $ 7,161,571 |
| Accumulated amortization | (2,322,231) | (1,186,727) |
| Net carrying amount | 5,207,669 | 5,974,844 |
| Capitalized software in-process | 569,381 | 330,010 |
| Capitalized software, net | $ 5,777,050 | $ 6,304,854 |

Amortization expense was $1,135,504 and $126,553 for the six months ended June 30, 2022 and 2021. Amortization expense was $598,575 and $126,553 for the three months ended June 30, 2022 and 2021.

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

## NOTE 8 – INTANGIBLE ASSETS

Intangible assets consist of the following:

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | Useful Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademarks | 10 Years | $ 1,520,000 | $ (190,000) | $ 1,330,000 |
| Noncompete agreements | 5 Years | 990,000 | (247,500) | 742,500 |
| Customer relationships | 7 Years | 2,920,000 | (521,428) | 2,398,572 |
| Patents and patent applications | (*) | 650,450 | — | 650,450 |
| | | $ 6,080,450 | $ (958,928) | $ 5,121,522 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| Trademarks | 10 Years | $ 1,520,000 | $ (114,000) | $ 1,406,000 |
| Noncompete agreements | 5 Years | 990,000 | (148,500) | 841,500 |
| Customer relationships | 7 Years | 2,920,000 | (312,857) | 2,607,143 |
| Patents and patent applications | (*) | 653,050 | — | 653,050 |
| | | $ 6,080,450 | $ (575,357) | $ 5,507,693 |

(*) 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 $383,571 and $218,350 for the six months ended June 30, 2022 and 2021, respectively.
Amortization expense was $166,213 and $218,350 for the three months ended June 30, 2022 and 2021, respectively.

## NOTE 9 – SHARE-BASED COMPENSATION

### Global Stock Incentive Plan

On May 31, 2022, the shareholders of the Company approved the Company's Board of Directors proposal to increase the Company's Global Incentive Plan (the "Plan") by 6,300,000 shares, thus bringing the total number of stock options and restricted stock units ("RSUs") that may be issued pursuant to the Plan to 7,803,421. On June 14, 2022, the Board of Directors of the Company approved the issuance of 2,370,576 stock options and 1,427,404 RSUs. Following the June 14, 2022 issuances, the remaining number of underlying shares available for future issuances under the Plan is 2,558,649.

Under the term of the 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 the earlier of (1) ten years from the date of the grant, (2) May 31, 2031 or (3) 90 days after the termination of employment of the grantee.

### Stock Options

The additional 2,370,576 stock options granted on June 14, 2022, will vest over various periods ranging from immediate to four years. Both incentive stock options and non-qualified stock options expire on the sooner of ten years from the date of the grant or May 31, 2031.

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

The fair value of options and share awards granted under the stock option plan during the six months ended June 30, 2022 was estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions for grants:

| | June 2022 | May 2021 |
|---|---|---|
| Risk-free interest rates | 3.61 % | 0.912 % |
| Expected life | 5 years | 5 years |
| Expected volatility | 41.00 % | 40.81 % |
| Expected dividend yield | 0.00 % | 0.00 % |

**NOTE 9 – SHARE-BASED COMPENSATION (CONTINUED)**

The following table summarizes the stock option activity:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance at January 1, 2022 | 1,472,988 | $ 1.92 | 8.98 | $ 3,616,248 |
| Granted | 2,370,576 | 1.11 | | |
| Forfeited/Cancelled | (26,196) | 0.002 | | |
| Exercised | — | | | |
| Balance at June 30, 2022 | 3,817,368 | 1.43 | 9.38 | $ 360,845 |
| Exercisable at June 30, 2022 | 1,206,163 | $ 1.36 | 9.13 | $ 217,722 |

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

| | Non-vested Options Outstanding | Weighted-Average Grant Date Fair Value |
|---|---|---|
| At January 1, 2022 | 1,058,235 | $ 0.95 |
| Options granted | 2,370,576 | 0.46 |
| Options forfeited/cancelled | (26,196) | 1.97 |
| Options exercised | — | |
| Options vested | (886,608) | 0.60 |
| At June 30, 2022 | 2,516,007 | $ 0.61 |

For the six months ended June 30, 2022 and 2021, the Company recognized $483,211 and $158,695 of stock compensation expense relating to stock options, respectively. For the three months ended June 30, 2022 and 2021, the Company recognized $378,809 and $77,520 of stock compensation expense relating to stock options, respectively. As of June 30, 2022, there was $1,647,208 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 four years.

**Restricted Stock Awards**

In July 2019, the Board of Directors of the Company authorized grants of restricted stock awards ("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 vested based on various milestones. The shares of common stock underlying the RSAs are issued upon grant.

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

The following table summarizes the restricted stock awards activity:

| | Restricted Stock Awards | Weighted-Average Grant Date Fair Value Per Share |
|---|---|---|
| Outstanding at January 1, 2022 | 708,615 | $ 1.42 |
| Granted | — | — |
| Forfeited/cancelled | — | — |
| Vested | (301,454) | 1.44 |
| Outstanding at June 30, 2022 | 407,161 | $ 1.21 |

For the six months ended June 30, 2022 and 2021, the Company recognized $628,318 and $547,311 of stock compensation expense relating to RSAs, respectively. For the three months ended June 30, 2022 and 2021, the Company recognized $483,733 and $398,008 of stock compensation expense relating to RSAs, respectively. As of June 30, 2022, there was $554,413 of unrecognized compensation expense related to unvested restricted share awards that is expected to be recognized over a weighted-average period of approximately two years.

**Restricted Stock Units**

As described above on June 14, 2022, the Board of Directors of the Company authorized the grant of 1,427,404 RSUs, of which 1,346,154 were granted to an officer of the Company who joined the Company in February 2022. Of the RSUs granted to the officer, 192,308 vested immediately and the balance of 1,153,846 will vest in equal quarterly installments through February 28, 2023. Under the terms of the officer's employment agreement, the Company also agreed to guarantee the minimum value of the RSUs on their vesting dates. The Company accrued an amount of $42,692 in accrued expenses in the condensed consolidated balance sheet, reflecting this minimum value obligation as of June 30, 2022.

In addition, the Company agreed to issue to the officer a one-time grant of fully vested shares of the Company's common stock with a fair market value of $250,000 as a signing bonus to be provided following the twelve-month anniversary of the officer's start date with the Company. Included in accrued expenses as of June 30, 2022 in the condensed consolidated balance sheets is an amount of $250,000 representing the full value of the signing bonus.

The following table summarizes the restricted stock units activity:

| | Restricted Stock Units | Weighted-Average Grant Date Fair Value Per Share |
|---|---|---|
| Outstanding at January 1, 2022 | — | $ — |
| Granted | 1,427,404 | 1.11 |
| Forfeited/cancelled | — | — |
| Vested | (360,617) | 1.11 |
| Outstanding at June 30, 2022 | 1,066,787 | $ 1.11 |

For the six months ended June 30, 2022 and 2021, the Company recognized $381,829 and $0 of stock compensation expense relating to RSUs, respectively. For the three months ended June 30, 2022 and 2021, the Company recognized $381,829 and $0 of stock compensation expense relating to RSUs, respectively. As of June 30, 2022, there was $1,169,711 of unrecognized compensation expense related to unvested restricted share units that is expected to be recognized over a period of 9 months or 4 years.

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

## NOTE 10 – WARRANTS

***Marpai Health Warrants***

On January 17, 2020, Marpai Health issued warrants to an investor to purchase up to 364,466 common shares at an exercise price of $1.43 per share. The warrants were issued in connection with a certain convertible note. The Company estimated the fair value of the warrants to be $213,828 based on a Black-Scholes option pricing model and recorded it as debt discount which amortizes to interest expense over the period of the loan and as additional paid-in capital. The warrants expire and are no longer exercisable at the fifth anniversary of the date the warrants were issued.

In February 2021, Marpai Health granted warrants at a warrant purchase price of $0.05 per share to several founders of Marpai Health to purchase up to 926,349 shares of common stock at an exercise price of $7.90 per share. The warrants expire and are no longer exercisable at the fifth anniversary of the date the warrants were issued. The warrants were purchased for a cash payment of $50,833, which was reflected in additional paid-in capital when the proceeds were received.

On April 1, 2021, as part of the Acquisition, Marpai Health's outstanding warrants to purchase up to 1,290,815 shares of common stock were automatically converted into warrants to purchase Marpai common stock at the same exercise price and terms they were initially granted by Marpai Health.

***Marpai Warrants***

In April 2021, Marpai granted five-year warrants at a warrant purchase price of $0.05 per share to a consultant of the Company to purchase up to 45,558 shares of common stock at an exercise price of $7.90 per share. The warrants were purchased for a cash payment of $2,500, which was reflected in additional paid-in capital when the proceeds were received.

In July 2021, Marpai issued warrants to an investor to purchase up to 225,000 common shares at an exercise price of $4.00 per share in connection with a short-term promissory note. The Company estimated the fair value of the warrants to be $0 based on a Black-Scholes option pricing model and as such, no debt discount was recorded. The warrants were exercised on December 10, 2021 for total proceeds of $900,000.

Upon closing of the IPO, the Company issued to the representatives of its underwriter warrants to purchase 312,500 shares of common stock (5% of the aggregate number of shares of common stock sold in the offering as compensation) (the "Underwriter's Warrants"). The Underwriter's Warrants will be exercisable at a per share exercise price equal to 125% of the public offering price per share in the offering, which was determined to be $5.00 based on the IPO price of $4.00. The Underwriter's Warrants are exercisable at any time, in whole or in part, from April 4, 2022 (the "Initial Exercise Date") through October 26, 2026.

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

**NOTE 10 – WARRANTS (CONTINUED)**

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, 2022 | 1,648,873 | $ 1.43 to 7.90 | $ 5.92 |
| Granted | — | — | — |
| Forfeited | — | — | — |
| Exercised | — | — | — |
| Balance at June 30, 2022 | 1,648,873 | $ 1.43 to 7.90 | $ 5.92 |
| | | | |
| Balance at January 1, 2021 | 364,466 | $ 1.43 | $ 1.43 |
| Granted | 926,349 | 7.90 | 7.90 |
| Forfeited | — | — | — |
| Exercised | — | — | — |
| Balance at June 30, 2021 | 1,290,815 | $ 1.43 to 7.90 | $ 6.07 |

**NOTE 11 – SEGMENT INFORMATION**

Research and development activities are conducted through EYME in Israel. Geographic long-lived asset information presented below is based on the physical location of the assets at the end of year. 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:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| United States | $ 12,848,469 | $ 14,369,511 |
| Israel | 2,918,400 | 2,759,512 |
| Total long-lived assets | $ 15,766,869 | $ 17,129,023 |

**NOTE 12 – 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, 2022 and 2021 was approximately $114,000 and $318,000, respectively. The total cost of these consulting services for the three months ended June 30, 2022 and 2021 was approximately $44,000 and $139,000, respectively. The total cost of marketing services for the six months ended June 30, 2022 and 2021 was approximately $565,000 and $504,000, respectively. The total cost of marketing services for the three months ended June 30, 2022 and 2021 was approximately $0 and $504,000, respectively. The accounts payable to these certain shareholders as of June 30, 2022 and December 31, 2021 was approximately $0 and $297,000, respectively, and are included in accounts payable on the accompanying condensed consolidated balance sheets.

On December 30, 2020, the Company received an advance from a certain investor for reimbursement of certain expenses. This is recorded as due to related party on the accompanying condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021 in the amount of $3,201 and $3,637, respectively

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

## NOTE 13 – ACCRUED EXPENSES

Accrued expenses consisted of the following:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Employee compensation | $ 940,029 | $ 897,288 |
| Accrued bonuses | 776,937 | 743,038 |
| Performance guarantee liabilities | 326,121 | 418,988 |
| Other accrued expenses and liabilities | 277,463 | 465,723 |
| Accrued expenses | $ 2,320,550 | $ 2,525,037 |

## NOTE 14 – STOCKHOLDERS' EQUITY

The Company effected a 4.555821-for-1 forward stock split on September 2, 2021. All share and per share information in the accompanying condensed consolidated financial statements have been retroactively adjusted to reflect this forward stock split.

On October 28, 2021, the Company consummated its IPO of 6,250,000 shares of class A common stock for a price of $4.00 per share, generating gross proceeds of $28,750,000 less certain underwriting discounts and commissions. The Company also granted the underwriters a 45-day option to purchase up to 937,500 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the IPO. The Company's underwriters exercised the over-allotment option in full on October 28, 2021. The IPO, including the sale of the 937,500 over-allotment option shares, closed on October 29, 2021 and was made pursuant to the Registration Statement on Form S-1, which was declared effective by the Securities and Exchange Commission (the "SEC") on October 26, 2021. A final prospectus describing the terms of its IPO was filed with the SEC on October 28, 2021. The net proceeds to the Company from its IPO and the exercise in full of the over-allotment option are $24,547,086, after deducting underwriting commissions and offering expenses. The Company intends to use the net proceeds from its IPO to fund research and development which includes hiring new A.I. scientists and acquiring data from third parties, sales and marketing activities, to repay approximately $783,257 of convertible note debt, and for working capital, general corporate purposes, and potential acquisitions.

During the six months ended June 30, 2022, the Company issued 15,000 shares of common stock to a vendor in consideration for services rendered and another 15,000 shares of common stock will be issued to the vendor in two equal amounts in the third and fourth quarters of 2022.

In May 2022, the Company issued 7,500 shares of common stock to a vendor for services rendered.

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

**NOTE 15 – INCOME TAXES**

The effective tax rate was 0% and 2.67% for the six months ended June 30, 2022 and 2021. The effective tax rate differs from the federal tax rate of 21% for the six months ended June 30, 2022 and 2021 due primarily to the full valuation allowance, and other discrete items.

At December 31, 2021, the Company had federal and state net operating losses ("NOLs") in the amount of $10,687,462 and $11,173,080 respectively. These NOLs expire from 2031 to 2041 or have indefinite lives. However, the Tax Cuts & Jobs Act of 2017 limits the amount of net operating loss utilized each year after December 31, 2020 to 80% of taxable income.

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 for 2019 and 2020 are open to review by the tax authorities.

**NOTE 16 – SUBSEQUENT EVENTS**

On August 4, 2022, the Company announced that it acquired Maestro, a leading TPA servicing over 80 self-insured employers, based in Chicago, Illinois.

Under the terms of the agreement, the purchase price of $22.1 million will be payable in cash on April 1, 2024. However, subject to the Company meeting its obligations under the agreement, this payment may be financed over four years by the seller with minimum annual cash payments, reflecting a 10% per annum cost of capital, of $5 million, $6 million, $8 million and $9 million which will be payable on December 31, 2024, 2025, 2026 and 2027, respectively. In addition, the Company has agreed that a minimum of 35% of the net proceeds of any equity offering will be used to pre-pay its minimum payment obligations. Such payments will offset the minimum payments described above.

In addition, the parties have also agreed that Maestro's free cash position at closing will be $15.79 million and have also agreed that Maestro will have certain minimum working capital amount at the closing.

The transaction is expected to close in September 2022 subject to certain regulatory and customary closing conditions.

On July 12, 2022, Continental Benefits name was changed to Marpai Administrators LLC to align with the branding of the Company.

## 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, Inc. ("Marpai Captive"), Continental Benefits, LLC ("Continental Benefits") and Marpai Health, Inc. ("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 31, 2022 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.

**Overview**

Marpai, Inc. was formed as a Delaware corporation on January 22, 2021 with the intention to facilitate an initial public offering and other related transactions in order to carry on the business of two healthcare entities, Marpai Health and Continental Benefits LLC. Marpai Inc.'s 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 the Company to administer the latter's healthcare claims, to whom the Company refers as "Clients"; (ii) employees who receive these healthcare benefits from its clients, to whom we refer as "Members", and (iii) healthcare providers including doctors, doctor groups, hospitals, clinics, and any other entities providing healthcare services or products to whom we refer as "Providers". The Company's mission is to positively change healthcare for the benefit of (i), (ii), and (iii). We are creating the healthcare payer of the future for self-insured employers in the U.S., what we refer to as the "Payer of the Future." Through the use of the latest technology and artificial intelligence or "A.I.," we believe we have the ability to predict costly events, such as who is likely to develop a chronic disease or require a costly operation over the next twelve months. With this knowledge, we aim to optimize care so that employers can save money, while employees can have access to high-quality care and enjoy good healthcare outcomes.

Our company is the combination of Marpai Health, Inc., and Continental Benefits LLC. Marpai Health is our A.I.-focused subsidiary, with a research and development team in Tel Aviv, Israel. Continental Benefits is our healthcare payer subsidiary that provides administration services to self-insured employer groups across the United States. It acts as a third-party administrator or "TPA" handling all administrative aspects of providing healthcare to self-insured employer groups. We have combined these two businesses to create what we believe to be the Payer of the Future, which has not only the licenses, processes and know- how of a payer but also the latest A.I. technology. This combination allows us to differentiate in the TPA market by delivering something new — a technology-driven service that we believe 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 is intended to be engaged in the captive insurance market. To date, Marpai Captive is in its initial exploratory phase and has not yet commenced its operations.

Since December 2019, Marpai Health and Continental Benefits have been working together on information exchange and joint development of A.I. models to predict the onset of chronic conditions and up- coming high-cost events such as expensive imaging or orthopedic surgeries. We believe early detection would lead some portion of Continental Benefits' Members to avoid, delay or better manage their disease. This matters in both cost terms to the employers and in wellbeing for the Members. By recommending our members to seek appropriate medical consultation with effective providers, we believe our technology can help mitigate the financial and wellbeing costs for employers and Members.

Many states have enacted laws prohibiting physicians from practicing medicine in partnership with non- physicians, such as business corporations. In some states, including New York, these take the form of laws or regulations prohibiting splitting of physician fees with non-physicians or others. As we do not engage in the practice of medicine or fee-splitting with any medical professionals, we do not believe these laws restrict our business. Our activities involve only monitoring and analyzing historical claims data, including our Members' interactions with licensed healthcare professionals, and recommending healthcare providers and/or sources of treatment. We do not provide medical prognosis or healthcare. In accordance with various states' corporate practice of medicine laws and states' laws and regulations which define the practice of medicine, our call center staff are prohibited from providing Members with any evaluation or recommendation concerning a medical condition, diagnosis, prescription, care and/or treatment. Rather, our call center staff can only provide Members with general and publicly available information that is non-specific to the Members' medical conditions and statistical information about the prevalence of medical conditions within certain populations or under certain circumstances. Our call center staff do not discuss Members' individual medical conditions and are prohibited from asking Members for any additional PHI as such term is defined under the HIPAA. Our call center staff have been trained and instructed to always inform Members that they are not licensed medical professionals, are not providing medical advice, and that Members should reach out to their medical provider for any medical advice.

In the area of high-cost events, like a high-cost image or a surgery, our customer data show large variations in cost for the same procedure, even given the same geography. For example, the median cost of an MRI of the brain may be approximately $1,000 in a given geography, but a significant amount of procedures priced above the median cost 3-5 times the median. By predicting which Members are on trajectories to have high-cost tests or surgeries, we can help guide them to lower cost, but high-quality providers. This saves money for employers, while ensuring Members get the best care.

After having worked together for over a year to identify and collaboratively develop A.I. solutions tailored to the self-insured employer market, Marpai Health started to implement its A.I.-enabled prediction tools as part of Continental Benefits' patent-pending TopCare program®. In January 2021, our A.I.- powered TopCare program® went live, making it possible for us to offer our members care management with high-impact predictions. Although our A.I. technology has not yet been integrated with any of our TPA business' core systems, other than TopCare, to date, we plan to use A.I. in virtually every part of our TPA business. On April 1, 2021, we acquired all of the equity interests of Continental Benefits ("Acquisition"). Since the Acquisition, Marpai Health and Continental Benefits have been operating as one company under the "Marpai" brand.

**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 Health (and its subsidiary EYME) for all periods presented and the results of Continental Benefits (and its subsidiary WellSystems) since its acquisition on April 1, 2021. The results for the three and six months periods ended June 30, 2022, as applicable, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

The global coronavirus pandemic outbreak ("COVID-19") continues to adversely impact commercial activity, globally and in the United States, and has contributed to significant volatility in financial markets. The outbreak could have a continued adverse impact

on economic and market conditions, including business and financial services disruption. As of the date these condensed consolidated financial statements were available to be issued, there was no substantial impact and the Company will continue to monitor the potential impact of COVID-19, and potential related variants, on the Company's condensed consolidated financial statements

***Results of Operations***

***Comparison of the Three and Six Months ended June 30, 2022 and 2021***

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

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | 2021 | Change | % |
| **Revenue** | | | | |
| Revenue | $ 11,775,315 | 3,531,512 | $ 8,243,803 | 233.4 % |
| **Costs and Expenses** | | | | |
| Cost of revenue (exclusive of depreciation and amortization shown separately below) | 8,698,355 | 2,720,483 | 5,977,872 | 219.7 % |
| General and administrative | 5,222,109 | 2,861,445 | 2,360,664 | 82.5 % |
| Sales and marketing | 3,775,904 | 1,443,785 | 2,332,119 | 161.5 % |
| Information technology | 2,324,006 | 731,230 | 1,592,776 | 217.8 % |
| Research and development | 1,902,264 | 549,374 | 1,352,890 | 246.3 % |
| Depreciation and amortization | 1,601,809 | 420,967 | 1,180,842 | 280.5 % |
| Facilities | 392,936 | 180,397 | 212,539 | 117.8 % |
| Loss on disposal of asset | 60,471 | — | 60,471 | n/a |
| **Total Costs and Expenses** | **23,977,854** | **8,907,681** | **15,070,173** | **169.2 %** |
| **Operating Loss** | **(12,202,539)** | **(5,376,169)** | **(6,826,370)** | **127.0 %** |
| **Other income and (expenses)** | | | | |
| Other income, net | 39,291 | 54,426 | (15,135) | (27.8)% |
| Interest expense | (4,507) | (276,061) | 271,554 | (98.4)% |
| Foreign exchange gain (loss) | 13,309 | (15,784) | 29,093 | (184.3)% |
| **Total other income (expense)** | **48,093** | **(237,419)** | **285,512** | **(120.3)%** |
| **Loss before income taxes** | **(12,154,446)** | **(5,613,588)** | **(6,540,858)** | **116.5 %** |
| Income tax benefit | — | (150,000) | 150,000 | n/a |
| **Net Loss** | **(12,154,446)** | **(5,463,588)** | **(6,690,858)** | **122.5 %** |
| **Net loss per share, basic and fully diluted** | **(0.62)** | **(0.84)** | **(0.22)** | **26.2 %** |

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | 2021 | Change | % |
| **Revenue** | | | | |
| Revenue | $ 5,556,506 | 3,531,512 | $ 2,024,994 | 57.3 % |
| **Costs and Expenses** | | | | |
| Cost of revenue (exclusive of depreciation and amortization shown separately below) | 4,151,560 | 2,720,483 | 1,431,077 | 52.6 % |
| General and administrative | 2,319,976 | 2,059,608 | 260,368 | 12.6 % |
| Sales and marketing | 2,216,788 | 1,122,665 | 1,094,123 | 97.5 % |
| Information technology | 1,189,733 | 731,230 | 458,503 | 62.7 % |
| Research and development | 1,309,157 | 285,363 | 1,023,794 | 358.8 % |
| Depreciation and amortization | 776,411 | 402,813 | 373,598 | 92.78 % |
| Facilities | 196,341 | 180,397 | 15,944 | 8.8 % |
| Loss on disposal of asset | 60,471 | — | 60,471 | n/a |
| **Total Costs and Expenses** | **12,220,437** | **7,502,559** | **4,717,878** | **62.9 %** |
| **Operating Loss** | **(6,663,931)** | **(3,971,047)** | **(2,692,884)** | **67.8 %** |
| **Other income and (expenses)** | | | | |
| Other income, net | (9,706) | 47,728 | (57,434) | (83.1)% |
| Interest expense | (562) | (92,621) | 92,059 | (99.4)% |
| Foreign exchange gain (loss) | 9,418 | (6,034) | 15,452 | (256.1)% |
| **Total other income (expense)** | **(850)** | **(50,927)** | 50,077 | **(98.3)%** |
| **Loss before income taxes** | **(6,664,781)** | **(4,021,974)** | **(2,642,807)** | **65.7 %** |
| Income tax benefit | — | (150,000) | 150,000 | n/a |
| **Net Loss** | **(6,664,781)** | **(3,871,974)** | **(2,792,807)** | **72.1 %** |
| **Net loss per share, basic and fully diluted** | **(0.34)** | **(0.38)** | **(0.04)** | **10.5 %** |

*Comparison of the Three and Six Months Ended June 30, 2022 and 2021*

*Revenues and Cost of Revenue*

During the three months ended June 30, 2022 and 2021, our total revenue was $5,556,506 and $3,531,512, respectively. The revenues for the three months ended June 30, 2022 consist exclusively of Continental Benefits' revenues. Continental Benefits results of operations have been included in our consolidated results of operations since its acquisition on April 1, 2021. The main reason for the increase in revenues was the addition of a large client in September of 2021 with revenue of approximately $1,444,000 for the second quarter.

During the six months ended June 30, 2022 and 2021, our total revenue was $11,775,315 and $3,531,512, respectively. The revenues for the six months ended June 30, 2022 consist exclusively of Continental Benefits' revenues. Continental Benefits results of operations have been included in our consolidated results of operations since its acquisition on April 1, 2021. The increase was due to revenue of Continental Benefits amounting to approximately $6,218,809 which were not included in the operating results of the Company prior to its acquisition on April 1, 2021.

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, 2022 and 2021, our cost of revenue exclusive of depreciation and amortization was $4,151,560 and $2,720,483, respectively. The main reason for the increase in cost of revenue was the addition of a large client in September of 2021.

During the six months ended June 30, 2022 and 2021, our cost of revenue exclusive of depreciation and amortization was $8,698,355 and $2,720,483, respectively. The cost of revenue for the six months ended June 30, 2022 consists exclusively of Continental Benefits' cost of revenue. Continental Benefits results of operations have been included in our consolidated results of operations since its acquisition on April 1, 2021. The increase was due to cost of sales of Continental Benefits amounting to approximately $4,546,795 which were not included in the operating results of the Company prior to its acquisition on April 1, 2021.

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.

*Research and Development Expenses*

We incurred $1,309,157 of research and development expenses for the three months ended June 30, 2022 compared to $285,363 for the three months ended June 30, 2021, an increase of $1,023,794. The increase is attributable to increased expenditures in EYME amounting to approximately $210,960, associated primarily with a higher number of research and development personnel, and a decrease of approximately $261,451 in the amount of research and development costs that were capitalized in the three months ended June 30, 2022 as compared to the three months ended June 30, 2021. We began to capitalize certain research and development costs when certain projects reached the development stage in August 2020, which resulted in a substantial portion of the software development costs being capitalized commencing at that time. In March 2022, we added a new President of Product and Development whose time is being split in all aspects of the business which resulted in additional compensation of $185,954 included in research and development expenses. A onetime expense of $378,535 was incurred for the release of the remaining RSA shares of a founding company member upon his exit from the company.

We incurred $1,902,264 of research and development expenses for the six months ended June 30, 2022 compared to $549,374 for the six months ended June 30, 2021, an increase of $1,352,890. The increase is attributable to increased expenditures in EYME amounting to approximately $455,897, associated primarily with a higher number of research and development personnel, and coupled with a decrease of approximately $289,784 in the amount of research and development costs that were capitalized in the six months ended June 30, 2022 as compared to the six months ended June 30, 2021. We began to capitalize certain research and development costs when certain projects reached the development stage in August 2020, which resulted in a substantial portion of the software development costs being capitalized commencing at that time. In March 2022, we added a new President of Product and Development, whose time is being split in all aspects of the business, which resulted in an allocation of additional compensation of $300,811 included in research and development expenses.

*General and Administrative Expenses*

We incurred $2,319,976 of general and administrative expenses for the three months ended June 30, 2022 compared to $2,059,608 for the six months ended June 30, 2021, an increase of $260,368. The reason for the increase is due to the addition of our President of Product and Development in March 2022, whose time is being split in all aspects of the business, which resulted in additional compensation of $185,954 included in general and administrative expenses.

We incurred $5,222,109 of general and administrative expenses for the six months ended June 30, 2022 compared to $2,861,445 for the six months ended June 30, 2021, an increase of $2,360,664. The increase was due to general and administrative expenses of Continental Benefits amounting to approximately $876,110 which were not included in the operating results of the Company prior to its acquisition on April 1, 2021, as well as an increase in the general and administrative expenses of Continental Benefits amounting to $373,544 and Marpai, Inc. amounting to $2,130,096, related to increases in the cost of personnel and professional fees associated with the growth of the Company over the last year and it becoming a publicly traded company. In March 2022, we added a new President of Product and Development, whose time is being split in all aspects of the business, which resulted in an allocation of additional compensation of $300,811 included in general and administrative expenses.

*Sales and Marketing Expenses*

We incurred $2,216,788 of sales and marketing expenses for the three months ended June 30, 2022 compared to $1,122,665 for the three months ended June 30, 2021, an increase of $1,094,123. This increase was primarily due to Continental Benefits' and Marpai Inc. sales and marketing increased staffing, and the inaugural tradeshow. In March 2022, we added a new President of Product and Development, whose time is being split in all aspects of the business, which resulted in an allocation of additional compensation of $185,954 included in sales and marketing expenses.

We incurred $3,775,904 of sales and marketing expenses for the six months ended June 30, 2022 compared to $1,443,785 for the six months ended June 30, 2021, an increase of $2,332,119. This increase was primarily due to Continental Benefits' sales and marketing expenses in the amount of approximately $2,875,937 (which were not included in the operating results of the Company prior to its acquisition on April 1, 2021). In March 2022, we added a new President of Product and Development, whose time is being split

in all aspects of the business, which resulted in additional an allocation of compensation of $300,811 included in sales and marketing expenses.

*Information Technology Expenses*

We incurred $1,189,733 of information technology expenses for the three months ended June 30, 2022 compared to $731,230 for the three months ended June 30, 2021, an increase of $458,503. This increase was primarily due to Continental Benefits' increased information technology staffing. In March 2022, we added a new President of Product and Development, whose time is being split in all aspects of the business, which resulted in additional compensation of $185,954 included in information technology expenses.

We incurred $2,324,006 of information technology expenses for the six months ended June 30, 2022 compared to $731,230 for the six months ended June 30, 2021, an increase of $1,592,776. This increase was primarily due to Continental Benefits' information technology expenses during first quarter in the amount of approximately $1,134,273 (which were not included in the operating results of the Company prior to its acquisition on April 1, 2021). In March 2022, we added a new President of Product and Development, whose time is being split in all aspects of the business, which resulted in an allocation of additional compensation of $300,811 included in information technology expenses.

*Depreciation and Amortization*

We incurred $776,411 of depreciation and amortization expenses for the three months ended June 30, 2022 compared to $402,813 for the three months ended June 30, 2021, an increase of $373,598. This increase was primarily due to the amortization of software in the amount of $270,833.

We incurred $1,601,809 of depreciation and amortization expenses for the six months ended June 30, 2022 compared to $420,967 for the six months ended June 30, 2021, an increase of $1,180,842. This increase was primarily due to Continental Benefits' depreciation and amortization expenses during first quarter in the amount of approximately $381,846 (which were not included in the operating results of the Company prior to its acquisition on April 1, 2021), as well as the amortization of software in the amount of $541,666.

*Interest Expense, net*

We incurred $562 of interest expense for the three months ended June 30, 2022 compared to $92,621 for the three months ended June 30, 2021, a decrease of $92,059. Interest expense decreased due to the repayment or conversion of all of the Company's debt in the fourth quarter of 2021.

We incurred $4,507 of interest expense for the six months ended June 30, 2022 compared to $276,061 for the six months ended June 30, 2021, a decrease of $271,554. Interest expense decreased due to the repayment or conversion of all of the Company's debt in the fourth quarter of 2021.

**Liquidity and Capital Resources**

As of June 30, 2022, the Company had an accumulated deficit of approximately $33.7 million, cash and cash equivalents of approximately $9.1 million and working capital of approximately $6.2 million.

The Company has spent most of its cash resources on funding its operating activities. Through June 30, 2022, the Company has financed its operations primarily with the proceeds from the sale and issuance of its common stock as well as convertible promissory notes.

On October 29, 2021, the Company consummated its initial public offering ("IPO"). The Company issued a total of 7,187,500 shares of common stock at a public offering price of $4.00 per share for gross proceeds of $28.75 million. Net of underwriting fees and all offering expenses, the proceeds to the Company amounted to approximately $24.5 million. As a result of the IPO, all of the Company's outstanding notes were either converted pursuant to their terms or repaid in full.

*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, 2022 and 2021:

***Comparison of the Six Months Ended June 30, 2022 and 2021***

| | Six Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Net cash used in operating activities | $ (10,122,604) | $ (4,875,909) |
| Net cash (used in) provided by investing activities | (619,990) | 10,385,665 |
| Net cash provided by financing activities | — | 553,333 |
| Net (decrease) increase in cash and cash equivalents and restricted cash | $ (10,742,594) | $ 6,063,089 |

*Net Cash Used in Operating Activities*

Net cash used in operating activities totaled $10,122,604 for the six months ended June 30, 2022, an increase of $5,246,695 as compared to $4,875,909 for the six months ended June 30, 2021. Net cash used in operating activities was primarily driven by our net loss for the period of $12,154,446 which included non-cash items totaling $3,496,630 and was offset by decrease in net working capital items amounting to $1,464,788.

*Net Cash (Used in) Provided by Investing Activities*

A total of $619,990 was used in investing activities in the six months ended June 30, 2022, a decrease of $11,005,655 as compared to $10,385,665 in cash provided by investing activities for the six months ended June 30, 2021. Cash used in investing activities included capitalization of software of $607,700. The acquisition of Continental Benefits on April 1, 2021 provided $4,762,000 unrestricted cash and $6,622,035 restricted cash.

*Net Cash Provided by Financing Activities*

There were no financing activities during the six months ended June 30, 2022. Cash provided from financing activities in the six months ended June 30, 2021 was $553,333 from proceeds from the issuance of convertible notes and warrants.

*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 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, 2022. 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 $9,084,839 and $19,183,044 on June 30, 2022 and December 31, 2021, 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, 2022.

**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, 2022. 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 not effective due to our previously identified material weakness in internal control over financial reporting. Notwithstanding the identified material weaknesses, management, including our Chief Executive Officer and Chief Financial and Accounting Officer, believes the financial statements included in this Quarterly Report on Form 10-Q are fairly presented, in all material respects, in accordance with U.S. GAAP.

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.

**Previously Identified Material Weakness and Plans to Remediate**

In preparation for our IPO, we identified a material weakness in our internal control over financial reporting related to our control environment. Specifically, we have determined that we have not maintained adequate formal accounting policies, processes and controls related to complex transactions. We also determined that we have not maintained sufficient staffing or written policies and procedures for accounting and financial reporting, which contributed to the lack of a formalized process or controls for management's timely review and approval of financial information. More specifically, we have determined that our financial statement close process includes significant control gaps mainly driven by the small size of our accounting and finance staff and, as a result, a significant lack of appropriate segregation of duties. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

We are in the process of implementing a number of measures to address the material weakness that has been identified including: (i) engaging additional accounting and financial reporting personnel with U.S. GAAP, and SEC reporting experience, (ii) developing, communicating and implementing an accounting policy manual for our accounting and financial reporting personnel for

recurring transactions and period-end closing processes, and (iii) establishing effective monitoring and oversight controls for non-recurring and complex transactions to ensure the accuracy and completeness of our consolidated financial statements and related disclosures.

These additional resources and procedures are designed to enable us to broaden the scope and quality of our internal review of underlying information related to financial reporting and to formalize and enhance our internal control procedures. With the oversight of senior management and our audit committee, we have begun taking steps and plan to take additional measures to remediate the underlying causes of the material weaknesses.

We intend to complete the implementation of our remediation plan during 2022. Although we believe that our remediation plan will improve our internal control over financial reporting, additional time may be required to fully implement it and to make conclusions regarding the effectiveness of our internal control over financial reporting. Our management will closely monitor and modify, as appropriate, the remediation plan to eliminate the identified material weakness.

**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, 2022 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the second quarter of 2022, we issued an aggregate of 22,500 shares of our common stock to certain of our service providers as compensation in lieu of cash compensation owed to them for services rendered. We claimed exemption from registration under the Securities Act of 1933, as amended (the “Securities Act”) for the foregoing transactions under Section 4(a)(2) of the Securities Act.

**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, not filed, in accordance with item 601(32)(ii) of Regulation S-K.*

**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 15, 2022

**MARPAI, INC.**

/s/ Edmundo Gonzales

Name: Edmundo Gonzales
Title: Chief Executive Officer
(Principal Executive Officer)

/s/ Yoram Bibring

Name: Yoram Bibring
Title Chief Financial Officer
(Principal Financial and Accounting Officer)

**Exhibit 31.1**

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

I, Edmundo Gonzalez, 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 15, 2022

/s/ Edmundo Gonzalez
Edmundo Gonzalez
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

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

I, Yoram Bibring, 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 15, 2022

/s/ Yoram Bibring
Yoram Bibring
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**MARPAI, 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, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edmundo Gonzalez, 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/ Edmundo Gonzalez
Edmundo Gonzalez
Chief Executive Officer
(Principal Executive Officer)
August 15, 2022

**Exhibit 32.2**

**MARPAI, 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, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yoram Bibring, 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/ Yoram Bibring
Yoram Bibring
Chief Financial Officer
(Principal Financial Officer)
August 15, 2022