

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

Form 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023**

or

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

For the transition period from _____ to _____

Commission file number: **001-35824**

Professional Diversity Network, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

80-0900177

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

55 E. Monroe Street, Suite 2120

Chicago, Illinois

(Address of Principal Executive Offices)

60603

(Zip Code)

(312) 614-0950

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	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 and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "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 accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 11,070,484 shares outstanding of the registrant's common stock as of November 14, 2023.

Note Regarding Forward-Looking Statements

This Quarterly Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements concern expectations, beliefs, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Specifically, this Quarterly Report contains forward-looking statements regarding:

- our beliefs regarding our ability to capture and capitalize on market trends;
- our expectations on the future growth and financial health of the online diversity recruitment industry and the industry participants, and the drivers of such growth;
- our expectations regarding continued membership growth;
- our beliefs regarding the increased value derived from the synergies among our segments; and
- our beliefs regarding our liquidity requirements, the availability of cash and capital resources to fund our business in the future and intended use of liquidity.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following:

- our ability to raise funds in the future to support operations;
- our failure to realize synergies and other financial benefits from mergers and acquisitions within expected time frames, including increases in expected costs or difficulties related to integration of merger and acquisition partners;
- inability to identify and successfully negotiate and complete additional combinations with potential merger or acquisition partners or to successfully integrate such businesses;
- our history of operating losses;
- our limited operating history in a new and unproven market;
- increasing competition in the market for online professional networks;
- our ability to comply with increasing governmental regulation and other legal obligations related to privacy;
- our ability to adapt to changing technologies and social trends and preferences;
- our ability to attract and retain a sales and marketing team, management and other key personnel and the ability of that team to execute on the Company’s business strategies and plans;
- our ability to obtain and maintain intellectual property protection;
- any future litigation regarding our business, including intellectual property claims;
- general and economic business conditions; and
- legal and regulatory developments.

The foregoing list of important factors may not include all such factors. You should consult other disclosures made by the Company (such as in our other filings with the Securities and Exchange Commission (“SEC”) or in company press releases) for additional factors, risks and uncertainties that may cause actual results to differ materially from those projected by the Company. Please refer to Part I, Item 1A, “Risk Factors” of our 2022 Annual Report for additional information regarding factors that could affect our results of operations, financial condition and cash flow. You should consider these factors, risks and uncertainties when evaluating any forward-looking statements and you should not place undue reliance on any forward-looking statement. Forward-looking statements represent our views as of the date of this Quarterly Report, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date of this Quarterly Report.

PROFESSIONAL DIVERSITY NETWORK, INC.

FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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Item 1. FINANCIAL STATEMENTS

Professional Diversity Network, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS (Unaudited)

	<u>September 30, 2023</u> <u>(Unaudited)</u>	<u>December 31, 2022</u>
Current Assets:		
Cash and cash equivalents	\$ 615,133	\$ 1,236,771
Accounts receivable, net	904,351	1,318,217
Other receivables	50,000	350,000
Prepaid expense and other current assets	671,963	347,807
Current assets from discontinued operations	4,600	4,600
Total current assets	2,246,047	3,257,395
Property and equipment, net	38,616	35,341
Capitalized technology, net	128,000	64,499
Goodwill	1,417,753	1,274,785
Intangible assets, net	398,141	225,221
Right-of-use assets	315,639	365,324
Security deposits	66,340	66,340
Other assets	1,770,560	1,350,000
Long-term assets from discontinued operations	197,100	197,228
Total assets	\$ 6,578,196	\$ 6,836,133
Current Liabilities:		
Accounts payable	\$ 636,670	\$ 338,600
Accrued expenses	919,773	1,071,842
Deferred revenue	1,867,195	1,925,788
Lease liability, current portion	82,039	103,555
Current liabilities from discontinued operations	509,253	503,090
Total current liabilities	4,014,930	3,942,875
Lease liability, non-current portion	304,329	341,165
Other long-term liabilities	-	100,000
Deferred tax liability	122,229	143,069
Total liabilities	4,441,488	4,527,109
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value; 45,000,000 shares authorized, 11,071,008 and 10,898,376 shares issued as of September 30, 2023 and December 31, 2022, and 11,070,484 and 10,367,431 shares outstanding as of September 30, 2023 and December 31, 2022.	110,705	103,675
Additional paid in capital	104,589,047	101,728,600
Accumulated other comprehensive (loss) income	(16,681)	(10,986)
Accumulated deficit	(102,180,178)	(98,382,540)
Treasury stock, at cost; 524 and 530,945 shares at September 30, 2023 and December 31, 2022	(37,117)	(892,482)
Total Professional Diversity Network, Inc. stockholders' equity	2,465,776	2,546,267
Noncontrolling interest	(329,068)	(237,243)
Total stockholders' equity	2,136,708	2,309,024
Total liabilities and stockholders' equity	\$ 6,578,196	\$ 6,836,133

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

Professional Diversity Network, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Membership fees and related services	\$ 135,145	\$ 152,462	400,303	509,906
Recruitment services	1,242,711	1,165,213	3,422,129	3,839,608
Contracted software development	604,996	757,492	1,906,706	1,882,452
Consumer advertising and marketing solutions	25,516	39,328	75,664	130,916
Total revenues	2,008,368	2,114,495	5,804,802	6,362,882
Costs and expenses:				
Cost of revenues	923,641	1,228,542	2,763,363	3,022,657
Sales and marketing	912,665	759,885	2,850,253	2,179,136
General and administrative	1,352,308	1,003,956	3,649,544	2,468,934
Depreciation and amortization	148,722	232,748	428,655	746,057
Total costs and expenses	3,337,336	3,225,131	9,691,815	8,416,784
Loss from continuing operations	(1,328,968)	(1,110,636)	(3,887,013)	(2,053,902)
Other income (expense)				
Interest and other income	1,746	(10,083)	8,827	(19,519)
Other income (expense), net	1,746	(10,083)	8,827	(19,519)
Loss before income tax benefit	(1,327,222)	(1,120,719)	(3,878,186)	(2,073,421)
Income tax benefit	(7,228)	(25,479)	(17,151)	(35,720)
Loss from continuing operations, net of tax	(1,319,994)	(1,095,240)	(3,861,035)	(2,037,701)
Loss from discontinued operations	(10,620)	(13,319)	(28,428)	(42,213)
Net loss including non-controlling interests	(1,330,614)	(1,108,559)	(3,889,463)	(2,079,914)
Net loss attributable to non-controlling interests	14,483	149,059	91,825	508,212
Net income (loss) attributable to Professional Diversity Network, Inc.	\$ (1,316,131)	\$ (959,500)	(3,797,638)	(1,571,702)
Other comprehensive loss, net of tax:				
Net income (loss) attributable to Professional Diversity Network, Inc.	\$ (1,316,131)	\$ (959,500)	(3,797,638)	(1,571,702)
Foreign currency translation adjustments	1,173	(10,787)	(5,695)	(21,169)
Comprehensive loss, net of tax	\$ (1,314,958)	\$ (970,287)	(3,803,333)	(1,592,871)
Basic and diluted loss per share:				
Continuing operations	\$ (0.12)	\$ (0.13)	\$ (0.37)	\$ (0.25)
Discontinued operations	-	-	-	-
Net loss per share	\$ (0.12)	\$ (0.13)	\$ (0.37)	\$ (0.25)
Weighted-average outstanding shares used in computing net loss per common share:				
Basic and diluted	11,115,612	8,461,494	10,453,764	8,195,282

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

Professional Diversity Network, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest in Subsidiary	Total Stockholders' Equity
	Shares	Amount			Shares	Amount			
Balance at January 1, 2023	10,367,431	\$ 103,675	\$ 101,728,600	\$ (98,382,540)	530,945	\$ (892,482)	\$ (10,986)	\$ (237,243)	\$ 2,309,024
Sale of common stock	803,128	8,031	2,691,969	-	-	-	-	-	2,700,000
Commitment fee	176,200	1,762	748,238	-	-	-	-	-	750,000
Issuance of common stock	99,339	993	199,007	-	-	-	-	-	200,000
Share-based compensation	154,807	1,548	260,700	-	-	-	-	-	262,248
Stock Buyback Plan	(530,421)	(5,304)	(850,061)	-	(530,421)	855,365	-	-	-
Amortization of Funding Commitment	-	-	(93,750)	-	-	-	-	-	(93,750)
Investment in subsidiary	-	-	(95,656)	-	-	-	-	-	(95,656)
Translation adjustments	-	-	-	-	-	-	(5,695)	-	(5,695)
Net loss	-	-	-	(3,797,638)	-	-	-	(91,825)	(3,889,463)
Balance at September 30, 2023	<u>11,070,484</u>	<u>\$ 110,705</u>	<u>\$ 104,589,047</u>	<u>\$ (102,180,178)</u>	<u>524</u>	<u>\$ (37,117)</u>	<u>\$ (16,681)</u>	<u>\$ (329,068)</u>	<u>\$ 2,136,708</u>

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Other Comprehensive Income (Loss)	Non- controlling Interest in Subsidiary	Total Stockholders' Equity
	Shares	Amount			Shares	Amount			
Balance at January 1, 2022	8,033,627	\$ 80,337	\$ 98,520,509	\$ (95,779,818)	524	\$ (37,117)	\$ 6,565	\$ 317,429	\$ 3,107,905
Issuance of common stock	1,003,252	10,032	1,739,968	-	-	-	-	-	1,750,000
Share-based compensation	167,763	1,678	437,977	-	-	-	-	-	439,655
Stock Buyback Plan	-	-	-	-	289,942	(515,445)	-	-	(515,445)
Translation adjustments	-	-	-	-	-	-	(21,169)	-	(21,169)
Net loss	-	-	-	(1,571,702)	-	-	-	(508,212)	(2,079,914)
Balance at September 30, 2022	<u>9,204,642</u>	<u>\$ 92,047</u>	<u>\$ 100,698,454</u>	<u>\$ (97,351,520)</u>	<u>290,466</u>	<u>\$ (552,562)</u>	<u>\$ (14,604)</u>	<u>\$ (190,783)</u>	<u>2,681,032</u>

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

Professional Diversity Network, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Loss from continuing operations	\$ (3,861,035)	\$ (2,037,701)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities - continuing operations:		
Depreciation and amortization	428,655	746,057
Deferred income taxes	(20,840)	(35,720)
Noncash lease expense	68,540	68,540
Stock-based compensation expense	262,248	439,655
Litigation settlement reserve	-	(908,564)
Allowance for credit losses	1,895	(118,048)
Reduction of merchant reserve	-	350,000
Changes in operating assets and liabilities, net of effects of discontinued operations:		
Accounts receivable	411,971	610,601
Prepaid expenses and other current assets	350,844	(277,312)
Accounts payable	298,067	168,630
Accrued expenses	(152,067)	146,490
Lease liability	(77,207)	(75,367)
Deferred revenue	(126,294)	(470,995)
Net cash used in operating activities - continuing operations	(2,415,223)	(1,393,734)
Net cash used in operating activities - discontinued operations	(27,956)	(5,633)
Net cash used in operating activities	(2,443,179)	(1,399,367)
Cash flows from investing activities:		
Payments for technology developed	(114,494)	(17,085)
Purchases of property and equipment	(12,456)	(13,477)
Acquisition of assets of Expo Experts	(400,000)	-
Additional acquisition of equity interest in RemoteMore USA, Inc.	(351,633)	-
Net cash used in investing activities	(878,583)	(30,562)
Cash flows from financing activities:		
Proceeds from the sale of common stock	2,700,000	-
Repurchases of common stock	-	(515,445)
Net cash provided by (used in) financing activities	2,700,000	(515,445)
Effect of exchange rate fluctuations on cash and cash equivalents	124	5,635
Net decrease in cash and cash equivalents	(621,638)	(1,939,739)
Cash, cash equivalents, beginning of period	1,236,771	3,402,697
Cash and cash equivalents, end of period	615,133	1,462,958
Supplemental disclosures of other cash flow information:		
Non-cash stock issuance	\$ 200,000	\$ 400,000
Cash paid for income taxes	\$ 3,690	\$ -

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

Professional Diversity Network, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Description of Business

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying consolidated financial statements include all adjustments, which consist of normal recurring adjustments and transactions or events discretely impacting the interim periods, considered necessary by management to fairly state our results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2022 Form 10-K.

Professional Diversity Network, Inc. (“the Company”, “PDN, Inc.”, “we,” “our,” or “us,”) is both the operator of the Professional Diversity Network (the “PDN Network,” or the “Professional Diversity Network”) and a holding company for NAPW, Inc., a wholly-owned subsidiary of the Company and the operator of the National Association of Professional Women (the “NAPW Network” or “NAPW”). The PDN Network operates online professional networking communities with career resources specifically tailored to the needs of different diverse cultural groups including: Women, Hispanic-Americans, African-Americans, Asian-Americans, persons with disabilities, Military Professionals, Lesbians, Gay, Bisexual, Transgender and Queer (LGBTQ+), and Students and Graduates seeking to transition from education to career. The networks’ purposes, among others, are to assist their registered users in their efforts to connect with like-minded individuals, identify career opportunities within the network and connect with prospective employers. The Company’s technology platform is integral to the operation of its business. In January 2023, the Company purchased the assets and operations of Expo Experts LLC. Expo Experts, LLC specializes in producing premier face-to-face and virtual recruiting events for Engineering, Technology and Security Clearance positions, designed to attract diverse candidates who may also have STEM-based background (see Note. 4 – Business Combinations).

The NAPW Network is a networking organization for professional women, whereby its members can develop their professional networks, further their education and skills, and promote their business and career accomplishments. NAPW provides its members with opportunities to network and develop valuable business relationships with other professionals through its website, as well as at virtual and in-person events hosted at its local chapters across the country.

RemoteMore USA is an innovative, global entity that provides remote-hiring marketplace services for developers and companies. RemoteMore connects companies with reliable, cost-efficient, vetted developers, and empowers software developers to find meaningful jobs regardless of their location. As of September 30, 2023, PDN, Inc. owned 72.62% of RemoteMore USA, Inc. (“RemoteMore USA” or “RemoteMore”). The Company consolidates RemoteMore USA’s operations into its consolidated financial statements.

In March 2020, our Board of Directors decided to suspend all China operations. The results of China operations are presented in the consolidated statements of operations and comprehensive loss as net loss from discontinued operations.

2. Going Concern and Management’s Plans

At September 30, 2023, the Company’s principal sources of liquidity were its cash and cash equivalents.

The Company had an accumulated deficit of \$102,180,178 at September 30, 2023. During the nine months ended September 30, 2023, the Company generated a loss from continuing operations, net of tax, of \$3,861,035. During the nine months ended September 30, 2023, the Company used cash in continuing operations of \$2,415,223. At September 30, 2023, the Company had a cash balance of \$615,133. Total revenues were approximately \$5,805,000 and \$6,363,000 for the nine months ended September 30, 2023 and 2022. The Company had a working capital deficit from continuing operations of approximately \$1,264,000 and \$187,000 at September 30, 2023 and December 31, 2022. These conditions raise substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan, raise capital, and generate revenues. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management believes that its available cash on hand and cash flow from operations may be sufficient to meet our working capital requirements through the fiscal period ending December 31, 2023, however in order to accomplish our business plan objectives, the Company will need to continue its cost reduction efforts, increase revenues, raise capital through the issuance of common stock, issue capital in relation to its line of equity, or through a strategic merger or acquisition. There can be no assurances that our business plans and actions will be successful, that we will generate anticipated revenues, or that unforeseen circumstances will not require additional funding sources in the future or require an acceleration of plans to conserve liquidity. Future efforts to improve liquidity through the issuance of our common stock may not be successful, or if available, they may not be available on acceptable terms.

3. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in accordance with GAAP.

Use of Estimates - The preparation of 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 contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future intervening events. Accordingly, the actual results could differ significantly from estimates.

Significant estimates underlying the financial statements include: the fair value of acquired assets and liabilities associated with acquisitions, the assessment of goodwill for impairment, intangible assets and long-lived assets for impairment, allowances for doubtful accounts and assumptions related to the valuation allowances on deferred taxes, impact of applying the revised federal tax rates on deferred taxes, the valuation of stock-based compensation and the valuation of stock warrants.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and non-wholly-owned subsidiaries that require consolidation per GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents - The Company considers cash equivalents to include all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

Accounts Receivable - Accounts receivable represent receivables generated from fees earned from customers and advertising revenue. The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for credit losses is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt.

Our estimate of the required allowance for credit losses is based on:

- Available and relevant internal and/or external information about historical loss experience with similar assets,
- Current conditions, and
- Reasonable and supportable forecasts that affect the expected collectibility of the reported amount of financial assets

Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Write offs are recognized as a deduction from the allowance for credit losses. Amounts previously written off that are expected to be recovered are included in the determination of the allowance for credit losses to the extent that these expected recoveries do not exceed the aggregate of amounts previously written off. As of September 30, 2023 and December 31, 2022, the allowance for credit losses was approximately \$98,000 and \$103,000, respectively.

Other Receivables – Other receivables represents amounts that are owed to the Company that are not considered trade receivables. The Company periodically reviews its other receivables for credit risk to determine whether an allowance is necessary and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of September 30, 2023 and December 31, 2022, the balance in other receivables as reported on the consolidated balance sheets was deemed collectible.

Property and Equipment - Property and equipment is stated at cost, including any cost to place the property into service, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets which currently range from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of any assets sold or retired and related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting profit or loss is reflected in income or expense for the period. Depreciation expense during the nine months ended September 30, 2023 and 2022 was approximately \$9,000 and \$7,000 and for the three months ended September 30, 2023 and 2022 was approximately \$4,000 and \$2,000 and is recorded in depreciation and amortization expense in the accompanying consolidated statements of operations.

Lease Obligations - The Company leases office space and equipment under various operating lease agreements, including an office for its corporate headquarters, as well as office spaces for its events business, sales and administrative offices under non-cancelable lease arrangements that provide for payments on a graduated basis with various expiration dates.

The Company leases its corporate headquarters. The office lease is for 4,902 square feet of office space and the lease term is for 84 months, commencing on October 1, 2020. Interest is the lessor of (i) 4 percent per annum above the then-current Base Rate, and (ii) the maximum rate permitted by applicable requirements as defined in the lease agreement.

Capitalized Technology Costs - In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350-40, Internal-Use Software, the Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

Business Combinations - ASC 805, Business Combinations (“ASC 805”), applies the acquisition method of accounting for business combinations to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. ASC 805 establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accounting for acquisitions requires the Company to recognize, separately from goodwill, the assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition-date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the interim consolidated statements of operations. (See Note 4 – Business Combinations.)

Goodwill and Intangible Assets - The Company accounts for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”). ASC 350 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill is tested for impairment at the reporting unit level on an annual basis (December 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company considers its market capitalization and the carrying value of its assets and liabilities, including goodwill, when performing its goodwill impairment test.

When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then compares the fair value of the Company’s reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of a reporting unit exceeds its fair value, the Company will measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

Treasury Stock – Treasury stock is recorded at cost as a reduction of stockholders’ equity in the accompanying balance sheets.

Revenue Recognition – Revenue is recognized when all of the following conditions exist: (1) persuasive evidence of an arrangement exists, (2) services are performed, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. (See Note 5 – Revenue Recognition.)

Deferred revenue includes customer payments which are received prior to performing services and revenues are recognized upon the completion of these services. Annual membership fees collected at the time of enrollment are recognized as revenue ratably over the membership period, which are typically for a 12-month membership period.

Discontinued Operations

China Operations

The Company previously disclosed in its Form 10-K for the year ending December 31, 2019 (the “2019 10-K”) and subsequently that the assets of PDN China were frozen by Chinese local authorities in November 2019 in connection with the criminal investigation of alleged illegal public fund raising by Gatewang Group (the “Gatewang Case”), a separate company organized under the laws of the People’s Republic of China (“Gatewang”), with which Mr. Maoji (Michael) Wang, the former Chairman and CEO of the Company was affiliated. A subsequent investigation led by a special committee of the Board concluded that it did not find any evidence that the Company or PDN China had engaged in the criminal activity of illegal fund-raising as alleged against Gatewang. The Company subsequently discontinued all of its operations in China.

The Company also previously disclosed in the 2019 Form 10-K that the seizure of PDN China’s assets had been lifted in March 2020. However, on April 22, 2021, the Company learned that RMB 18,841,064.15 (approximately \$2.9 million) had been seized from the PDN China Account by Longxu District Court of Wuzhou City in Guangxi Province to satisfy a judgment in favor of the plaintiffs in the Gatewang Case. On April 26, 2021, the Company concluded that the seizure of such cash assets was a material reduction of Company assets and was reflected in its consolidated balance sheets subsequent to the occurrence.

The Company has asserted its claim to these funds as the genuine owner to the Chinese officials and asked for their return. The Company plans to pursue all possible legal alternatives to have these funds returned to the Company but such return is uncertain at this time.

All historical operating results for the Company’s China operations are included in a loss from discontinued operations, net of tax, in the accompanying consolidated statements of operations. For the three and nine months September 30, 2023, loss from discontinued operations was approximately \$11,000 and \$28,000 as compared to a loss from discontinued operations of approximately \$13,000 and \$42,000 for the three and nine months ended September 30, 2022.

Assets and liabilities of China operations are included in current assets and long-term assets from discontinued operations, and current liabilities and long-term liabilities from discontinued operations. Current assets from discontinued operations were \$4,600, as of September 30, 2023 and December 31, 2022, and long-term assets from discontinued operations were approximately \$197,000 at September 30, 2023 and December 31, 2022. As of September 30, 2023, current liabilities from discontinued operations were approximately \$509,000, compared to \$503,000 as of December 31, 2022.

Operating Results of Discontinued Operations

The following table represents the components of operating results from discontinued operations, which are included in the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2023 and 2022, net of intercompany eliminations:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	(in thousands)		(in thousands)	
Revenues	\$ -	\$ -	\$ -	\$ -
General and administrative expenses	(11)	(13)	(28)	(42)
Loss from discontinued operations before income tax	(11)	(13)	(28)	(42)
Income tax expense (benefit)	-	-	-	-
Net loss from discontinued operations	<u>\$ (11)</u>	<u>\$ (13)</u>	<u>\$ (28)</u>	<u>\$ (42)</u>

Advertising and Marketing Expenses – Advertising and marketing expenses are expensed as incurred or the first time the advertising takes place. The production costs of advertising are expensed the first time the advertising takes place. For the three and nine months ended September 30, 2023, the Company incurred advertising and marketing expenses of approximately \$242,000 and \$866,000. For the three and nine months ended September 30, 2022, the Company incurred advertising and marketing expenses of approximately \$347,000 and \$862,000. These amounts are included in sales and marketing expenses in the accompanying statements of operations. At September 30, 2023 and December 31, 2022, there were no prepaid advertising expenses recorded in the accompanying consolidated balance sheets.

Concentrations of Credit Risk - Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and accounts receivable. The Company places its cash with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on the account.

Income Taxes - The Company accounts for income taxes in accordance with ASC 740, Income Taxes (“ASC 740”), which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement basis and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with ASC 740-20 and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were \$122,229 of deferred tax liabilities, as of September 30, 2023, recorded in the accompanying consolidated balance sheets. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company may be subject to potential income tax examinations by federal or state authorities. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with federal and state tax laws. Management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months. Tax years that remain open for assessment for federal and state tax purposes include the years ended December 31, 2019 through 2022.

The Company’s policy for recording interest and penalties associated with audits is to record such expense as a component of income tax expense. There were no amounts accrued for penalties or interest as of September 30, 2023.

Fair Value of Financial Assets and Liabilities - Financial instruments, including cash and cash equivalents, short-term investments and accounts payable, are carried at cost. Management believes that the recorded amounts approximate fair value due to the short-term nature of these instruments.

Net Loss per Share - The Company computes basic net loss per share by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the “treasury stock” and/or “if converted” methods as applicable. The computation of basic net loss per share for the three and nine months ended September 30, 2023 and 2022 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	As of September 30,	
	2023	2022
Stock options	28,063	23,063
Unvested restricted stock	110,488	69,114
Total dilutive securities	138,551	92,177

Reclassifications - Certain prior year amounts in the Consolidated Statements of Cash Flows have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are SEC filers that are Smaller Reporting Companies, the amendments in this update are effective for fiscal years beginning after January 2023, including interim periods within those fiscal years. The Company adopted ASU 2022-02 on a prospective basis effective January 1, 2023, and concluded there is no material impact to the consolidated financial statements or disclosures through the third quarter of 2023.

4. Business Combinations

RemoteMore

On September 20, 2021, the Company acquired a 45.62% interest in RemoteMore, a software developer recruiting company, for an estimated total purchase price of \$1,363,333, paying \$863,333 in cash and \$500,000 to be paid within one year of the acquisition date, or until certain factors of the agreement were met.

In February 2022, in connection with the September 2021 acquisition of the 45.62% interest in RemoteMore, and as a component of the aforementioned \$500,000 still to be paid, the Company issued 139,860 shares of its common stock, with a value of \$400,000, to the co-founders of RemoteMore. In January 2023, the Company exercised its option to purchase an additional 20% interest in RemoteMore at a purchase price of \$116,667.

In May 2023, the Company acquired an additional 7% interest in RemoteMore for approximately \$235,000. The acquisition interest and price were based on the original valuation of RemoteMore in September 2021. This acquisition increased the Company's interest in RemoteMore to 72.62%.

Expo Experts

In January 2023, the Company purchased the assets and operations of Expo Experts, LLC ("Expo Experts"), an Ohio limited liability company, for a total consideration of \$600,000 funded by the payment of \$400,000 in cash and the issuance of restricted shares of PDN common stock valued at \$200,000 based on the volume weighted-average price as of twenty (20) days prior to the closing date. Expo Experts specializes in producing premier face-to-face and virtual recruiting events for Engineering, Technology and Security Clearance positions, designed to attract diverse candidates who may also have STEM-based background.

The purchase price allocation as of the date of the acquisition was based on a detailed analysis of the fair value of assets acquired. No liabilities were assumed other than the deferred revenue amount listed below. The major classes of assets and liabilities to which we have allocated the purchase price were as follows:

Goodwill	\$	126,301
Intangible assets		541,400
Deferred revenue		(67,701)
	<u>\$</u>	<u>600,000</u>

The goodwill recognized in connection with the acquisition is primarily attributable to anticipated synergies from future growth and is expected to be deductible for tax purposes.

Intangible assets purchased in connection with the acquisition primarily represent specific events acquired which are expected to create revenue throughout fiscal 2023 and are reflected in the Company's consolidated balance sheets at gross amounts, net of accumulated amortization (see Note 7 – Intangible Assets).

Expo Experts' accounts and operations have been reflected in the PDN Network for segment reporting purposes (see 14. Segment Information).

5. Revenue Recognition

The Company recognizes revenue under the core principle of ASC 606 – Revenue from Contracts with Customers (“ASC 606”), to depict the transfer of control to its customers in an amount reflecting the consideration to which it expects to be entitled. In order to achieve that core principle, the Company has applied the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company's contracts with customers may provide for multiple promised goods and services. The Company typically analyzes the contract and identifies the performance obligations by evaluating whether the promised goods and services are capable of being distinct within the context of the contract at contract inception. Promised goods and services that are not distinct at contract inception are combined. The next step after identifying the performance obligations is determining the transaction price, which includes the impact of variable consideration, based on contractually fixed amounts and an estimation of variable consideration. The Company allocates the transaction price to each performance obligation based on relative stand-alone selling price. Judgment is exercised to determine the stand-alone selling price of each distinct performance obligation. The Company estimates the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract. In general, transaction price is determined by estimating the fixed amount of consideration to which we are entitled for transfer of goods and services and all relevant sources and components of variable consideration. Revenues are generally recognized when control of the promised goods or services is transferred to their customers either at a point in time or over time, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services.

Many of the Company's contracts have one performance obligation and all consideration is allocated to that performance obligation and recognized at a point in time contemporaneous when the service is performed or with the date of the event.

Payment is typically due in full, at net 30, from the moment control of the goods or services have begun to transfer, unless both parties have negotiated an installment-based payment arrangement through the term of the contract. The Company may have contracts where there is an extended timing difference between payment and the time when control of the goods or services is transferred to the customer.

Nature of Goods and Services

The following is a description of principal activities from which the Company generates its revenue:

Recruitment Services

The Company's recruitment services revenue is derived from the Company's agreements through single and multiple job postings, recruitment media, talent recruitment communities, basic and premier corporate memberships, hiring campaign marketing and advertising, e-newsletter marketing and research and outreach services. Recruitment revenue includes revenue recognized from direct sales to customers for recruitment services and events, as well as revenue from the Company's direct e-commerce sales. Direct sales to customers are most typically a twelve-month contract for services and as such the revenue for each contract is recognized ratably over its twelve-month term. Event revenue is recognized in the period that the event takes place and e-commerce sales are for sixty to ninety-day job postings and the revenue from those sales are recognized when the service is provided. The Company's recruitment services mainly consist of the following products:

- On-line job postings to our diversity sites and to our broader network of websites including the NAACP, National Urban League, Kappa Alpha Psi, Phi Beta Sigma and many other partner organizations;
- OFCCP job promotion and recordation services;
- Diversity job fairs, both in person and virtual fairs;
- Diversity recruitment job advertising services; and
- Diversity executive staffing services.

Membership Fees and Related Services

Membership fees are typically month to month; however, members may prepay for a 12-month period. Memberships are collected up-front and member benefits become available immediately. At the time of enrollment, membership fees are recorded as deferred revenue and are recognized as revenue ratably over the membership period. Members who are enrolled in 12-month plan may cancel their membership in the program at any time and receive a partial refund (amount remaining in deferred revenue) or due to consumer protection legislation, a full refund based on the policies of the member's credit card company.

Monthly membership revenues are recognized in the same month fees are collected.

Revenue from related membership services are derived from fees for development and set-up of a member's personal on-line profile and/or press release announcements. Fees related to these services are recognized as revenue at the time the on-line profile is complete and press release is distributed.

Products offered to members relate to custom made plaques. Product sales are recognized as deferred revenue at the time the initial order is placed. Revenue is then recognized at the time these products are shipped. The Company's shipping and handling costs are included in cost of sales in the accompanying consolidated statements of operations.

Contracted Software Development

Revenues for RemoteMore are generated from providing customized software solutions to customers and are recognized in the period work is performed.

Consumer Advertising and Marketing Solutions

The Company provides career opportunity services to its various partner organizations through advertising and job postings on their websites. The Company works with its partners to develop customized websites and job boards where the partners can generate advertising, job postings and career services to their members, students and alumni. Consumer advertising and marketing solutions revenue is recognized as jobs are posted to their hosted sites.

Revenue Concentration

The Company is in an alliance with another company to build, host, and manage the Company's job boards and website. This alliance member also sells two of the Company's recruitment services products and bills customers, collects fees, and provides customer services. For the nine months ended September 30, 2023 and 2022, the Company recorded approximately 8.6% and 11.5% of its recruitment services revenue from this alliance sales relationship.

Disaggregation of Revenue

Revenue is disaggregated by product line and timing of transfer of products and services and is in line with our reportable segments as described in Note 14 - Segment Information.

Contract Balances

The Company's rights to consideration for work completed, but not billed at the reporting date, is classified as a receivable, as it has an unconditional right to payment or only conditional for the passage of time. The Company has no recorded contract assets as of September 30, 2023.

Consideration received in advance from customers is recorded as a contract liability, if a contract exists under ASC 606, until services are delivered or obligations are met and revenue is earned. Contract liability represents the excess of amounts invoiced over amounts recognized as revenues. Contract liabilities to be recognized in the succeeding twelve-month period are classified as current contract liabilities and the remaining amounts, if any, are classified as non-current contract liabilities. Contract liabilities of approximately \$1,867,000 and 1,926,000 are included in current deferred revenues, on the consolidated balance sheets as of September 30, 2023 and December 31, 2022.

For the three months ended September 30, 2023 and 2022, we recognized revenue associated with contract liabilities that were included in the contract liabilities balance at the beginning of the period as follows:

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Balance, beginning of period	\$ 2,109,677	\$ 1,976,612
Recognized revenue associated with contract liabilities	(1,359,744)	(1,314,807)
Amounts collected or invoiced	1,117,262	1,017,085
Balance, end of period	<u>\$ 1,867,195</u>	<u>\$ 1,678,890</u>

Deferred revenue includes customer payments which are received prior to performing services and revenues are recognized upon the completion of these services. Annual membership fees collected at the time of enrollment are recognized as revenue ratably over the membership period, which are typically for a 12-month membership period.

Transaction Price Allocated to the Remaining Performance Obligations

The Company applies the optional exemptions and does not disclose: a) information about remaining performance obligations that have an original expected duration of one year or less or b) transaction price allocated to unsatisfied performance obligations for which variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with the series guidance.

The typical duration of all event related and other contracts is one year or less and, as a result, the Company applies the optional exemptions and does not disclose information about remaining performance obligations that have an original expected duration of one year or less.

Allowance for Credit Losses

The following table summarizes the activity related to the Company's allowance for credit losses:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Balance, beginning of period	\$ 102,515	\$ 247,190
Provision for credit losses	1,895	(144,675)
Write-offs	(6,587)	-
Balance, end of period	<u>\$ 97,823</u>	<u>\$ 102,515</u>

The numbers presented above relate solely to our portfolio of trade accounts receivable as no allowance for credit losses was recognized on other receivables as presented on our consolidated balance sheets. We determine the allowance for credit losses by using an accounts receivable aging schedule and utilizing historical loss percentages adjusted for the effects of current conditions and reasonable and supportable forecasts of the future.

6. Capitalized Technology

Capitalized Technology, net is as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Capitalized cost:		
Balance, beginning of period	\$ 64,499	\$ 43,038
Additional capitalized cost	103,494	45,196
Provision for amortization	(39,993)	(23,735)
Balance, end of period	<u>\$ 128,000</u>	<u>\$ 64,499</u>

For the three months ended September 30, 2023 and 2022, amortization expense related to capitalized technology was approximately \$16,200 and \$6,100, and was approximately \$40,000 and \$15,600 for the nine months ended September 30, 2023 and 2022, and is recorded in depreciation and amortization expense in the accompanying consolidated statements of operations.

7. Intangible Assets

Intangible assets, net was as follows:

<u>September 30, 2023</u>	<u>Useful Lives (Years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Long-lived intangible assets:				
Sales Process	10	\$ 2,130,956	\$ (2,054,748)	\$ 76,208
Paid Member Relationships	5	803,472	(803,472)	-
Member Lists	5	8,186,181	(8,111,181)	75,000
Developed Technology	3	648,000	(648,000)	-
Trade Name/Trademarks	4	442,500	(441,667)	833
Contracts and events acquired in acquisitions	3 - 12 months	1,377,083	(1,232,383)	144,700
		<u>13,588,192</u>	<u>(13,291,451)</u>	<u>296,741</u>
Indefinite-lived intangible assets:				
Trade name				101,400
Intangible assets, net				<u>\$ 398,141</u>

<u>December 31, 2022</u>	<u>Useful Lives (Years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Long-lived intangible assets:				
Sales Process	10	\$ 2,130,956	\$ (1,997,593)	\$ 133,363
Paid Member Relationships	5	803,472	(803,472)	-
Member Lists	5	8,086,181	(8,086,181)	-
Developed Technology	3	648,000	(648,000)	-
Trade Name/Trademarks	4	442,500	(441,042)	1,458
Contracts acquired in RemoteMore acquisition	3 - 12 months	935,683	(935,683)	-
		<u>13,046,792</u>	<u>(12,911,971)</u>	<u>134,821</u>
Indefinite-lived intangible assets:				
Trade name				90,400
Intangible assets, net				<u>\$ 225,221</u>

As of September 30, 2023, estimated amortization expense in future fiscal years is summarized as follows:

<u>Year ended December 31,</u>		
Remaining of 2023		\$ 172,293
2024		91,114
2025		33,334
Net Carrying Amount		<u>\$ 296,741</u>

For the three months ended September 30, 2023 and 2022, amortization expense related to intangible assets was approximately \$128,000 and \$225,000 and for the nine months ended September 30, 2023 and 2022 amortization expense was approximately \$379,000 and \$724,000, and is recorded in depreciation and amortization expense in the accompanying consolidated statements of operations.

8. Long-term Investments

On September 27, 2022, the Company entered into a Stock Purchase Agreement (the “SPA”) with Koala Malta Limited, a private limited liability company registered under the laws of Malta (the “Seller”).

Upon the execution of the SPA, the Company purchased 65,700 issued ordinary shares of Koala Crypto Limited (“KCL”) from Seller, representing 9 percent of the total issued share capital of KCL, and in exchange, the Company issued 863,392 shares of its common stock to Seller in a private placement (the “Consideration Shares”). The Consideration Shares were valued at \$1,350,000 in the aggregate based on the volume weighted average price of the common stock of the Company for the 20 trading days immediately prior to the date of the SPA. The shares of KCL are recorded in the consolidated balance sheet as ‘other assets’.

Upon execution of the SPA, the Company, the Seller and KCL also entered into a Shareholders’ Agreement. The Shareholders’ Agreement imposes certain transfer restrictions on the Seller and the Company as shareholders of KCL, provides for certain governance and approval rights among the parties, and gives the Company a put option with respect to its investment in KCL in the event of a change of control of the Seller. At the same time, Alan Tak Wai Yau, an individual and the majority shareholder of Koala Capital Limited, which is the parent company of the Seller (“Koala Capital”), provided the Company with a share charge over 15 percent of the issued share capital of Koala Capital (the “Share Charge”) and Koala Capital provided the Company with a guaranty and indemnity (the “Guarantee”), which Share Charge and Guarantee were granted as security for a number of the Seller’s obligations as set forth therein including obtaining the lifting of the voluntary suspension of KCL’s virtual financial assets license by the Malta Financial Services Authority (“MFSA”). Koala Capital has submitted and responded to all queries raised by the MFSA, and the authorization/supervision unit that was currently reviewing its application has given its initial approval to move on to the next steps in the process and testing is in its final stages.

9. Commitments and Contingencies

Lease Obligations - The Company leases office space and equipment under various operating lease agreements, including an office for its headquarters, as well as office spaces for its events business, sales and administrative offices under non-cancelable lease arrangements that provide for payments on a graduated basis with various expiration dates.

The Company leases its corporate headquarters. The office lease is for 4,902 square feet of office space and the lease term is for 84 months, commencing on October 1, 2020. Interest is the lesser of (i) 4 percent per annum above the then-current Base Rate, and (ii) the maximum rate permitted by applicable requirements as defined in the lease agreement. As of September 30, 2023, right of use assets and related lease obligations remaining were \$315,639 and \$386,368, as recorded on the Company’s consolidated balance sheets.

Other - PDN China’s bank account with a balance of approximately \$195,000, at September 30, 2023, was frozen by Guangzhou Police due to the Gatewang Case. The Company has classified this entire cash balance as a long-term asset presented in discontinued operations (see Note 3 - Summary of Significant Accounting Policies – Discontinued Operations).

Legal Proceedings

The Company and its wholly owned subsidiary, NAPW, Inc., are parties to a proceeding captioned Deborah Bayne, et al. vs. NAPW, Inc. and Professional Diversity Network, Inc., No. 18-cv-3591 (E.D.N.Y.), filed on June 20, 2018, and alleging violations of the Fair Labor Standards Act and certain provisions of the New York Labor Law. Plaintiffs are seeking monetary damages and equitable relief. The Company disputes that it or its subsidiary violated the applicable laws or that either entity has any liability and intends to vigorously defend against these claims. The matter is in the final stages of discovery, and we have completed depositions of relevant witnesses. During the first quarter of 2020, the Company recorded a \$450,000 litigation settlement reserve in the event of an unfavorable outcome in this proceeding. In November 2020, both parties entered into mediation proceedings, but a settlement was not reached.

General Legal Matters

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

10. CFL Transaction

On August 12, 2016, the Company entered into a stock purchase agreement (the “Purchase Agreement”), with CFL, a Republic of Seychelles company wholly-owned by a group of Chinese investors. Pursuant to the Purchase Agreement, the Company agreed to issue and sell to CFL, and CFL agreed to purchase a number of shares of the Company’s common stock such that CFL would hold approximately 51% of the outstanding shares of common stock, determined on a fully-diluted basis.

At the closing of the CFL transaction, the Company entered into a Stockholders’ Agreement, dated November 7, 2016 (the “Stockholders’ Agreement”) with CFL and each of its shareholders: Maoji (Michael) Wang, Jingbo Song, Yong Xiong Zheng and Nan Kou (the “CFL Shareholders”). The Stockholders’ Agreement sets forth the agreement of the Company, CFL and the CFL Shareholders relating to board representation rights, transfer restrictions, standstill provisions, voting, registration rights and other matters following the transaction.

As of September 30, 2023, CFL beneficially holds shares of the Company’s outstanding common stock equal to approximately 23.2%. The decrease in CFL’s percentage of the Company’s total outstanding common stock is a result of dilution from other equity offerings.

11. Stockholders’ Equity

As previously disclosed in a Report on Form 8-K filed on November 28, 2022, the Company’s stockholders approved an amendment to the Company’s Amended and Restated Certificate of Incorporation to effect a reverse stock split (the “Reverse Stock Split”) of the Company’s common stock, between the range of 1.5 to 1 and 5 to 1 (the “Split Ratio”), depending upon which ratio is deemed necessary and desirable to achieve a minimum share price of at least \$1.00 per share in the market trading price of the Common Stock. On January 3, 2023, the board of directors of the Company (the “Board”) fixed the Split Ratio at 2 to 1. The Reverse Stock Split was effected as of January 5, 2023. As a result of the Reverse Stock Split, all shares of common stock that were held by the Company as treasury shares related to the Company’s share repurchase plan were retired in accordance with Section 243 of the Delaware General Corporation Law, immediately prior to the effectiveness of the Reverse Stock Split, and such shares resumed the status of authorized and unissued shares of Common Stock.

Preferred Stock – The Company has no preferred stock issued. The Company’s amended and restated certificate of incorporation and amended and restated bylaws include provisions that allow the Company’s Board of Directors to issue, without further action by the stockholders, up to 1,000,000 shares of undesignated preferred stock.

Common Stock – The Company has one class of common stock outstanding with a total number of shares authorized of 45,000,000. As of September 30, 2023, the Company had 11,070,484 shares of common stock outstanding.

In January 2023, in connection with the acquisition of Expo Experts, the Company issued 99,339 shares of its common stock, with a value of \$200,000, to the co-founders of Expo Experts (see Note 4 – Business Combinations).

In March 2023, the Company entered into a stock purchase agreement with Ms. Yiran Gu, a former investor of the Company and a citizen of the People’s Republic of China, in connection with the purchase by Ms. Gu of 333,181 shares of common stock of the Company at a price of approximately \$2.10 per share for aggregate gross proceeds of \$700,000.

In June 2023, the Company entered into a stock purchase agreement with Tumim Stone Capital LLC (“Investor”). Under the terms and subject to the conditions of the stock purchase agreement, the Company has the right, but not the obligation, to sell to the Investor, and the Investor is obligated to purchase, up to \$12,775,000 worth of newly issued shares (the “Purchase Shares”) of the Company’s common stock, subject to certain limitations and the satisfaction (or, where permissible, the waiver) of the conditions set forth in the stock purchase agreement. Pursuant to the stock purchase agreement, the Company issued and sold 469,925 Purchase Shares (the “Initial Purchase Shares”) to the Investor, at a price of \$4.256 per share (representing the average official closing price of the Common Stock on The Nasdaq Capital Market for the five consecutive trading days ending on the trading day immediately prior to the date of the stock purchase agreement), for aggregate gross proceeds to the Company of \$2,000,000, in an initial purchase. Pursuant to the terms of the stock purchase agreement, as consideration for the Investor’s commitment to purchase shares of common stock at the Company’s direction from time to time, upon the terms and subject to the conditions and limitations set forth in the Purchase Agreement, upon execution of the stock purchase agreement on June 30, 2023, the Company also issued to the Investor 176,222 shares of common stock (the “Commitment Shares”), valued at \$4.256 per share (the same per share value as each Initial Purchase Share sold to the Investor in the Initial Purchase), or a total aggregate value equal to \$750,000 for the Commitment Shares.

12. Stock-Based Compensation

Equity Incentive Plans – The Company’s 2013 Equity Compensation Plan (the “2013 Plan”) was adopted for the purpose of providing equity incentives to employees, officers, directors and consultants including options, restricted stock, restricted stock units, stock appreciation rights, other equity awards, annual incentive awards and dividend equivalents. Through a series of amendments to the 2013 Plan, the total number of authorized shares available for issuance of common stock under the Plan was 750,000 shares.

On April 11, 2023, the Board of Directors adopted a new equity incentive plan, the Professional Diversity Network, Inc. 2023 Equity Compensation Plan (the “2023 Equity Compensation Plan”). The 2023 Equity Compensation Plan was approved by the Company’s stockholders on June 15, 2023. The 2023 Equity Compensation Plan supersedes and replaces the 2013 Plan, and no new awards will be granted under the 2013 Plan. Any awards outstanding under the 2013 Plan remain subject to and will be paid under the 2013 Plan. The 2023 Equity Compensation Plan reserves 750,000 shares of common stock for issuance of awards to directors, officers, employees and qualifying consultants of the Company and its affiliates.

Stock Options

The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes pricing model is affected by the Company’s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The risk-free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, the expected life is based on the estimated average of the life of options using the simplified method, and forfeitures are estimated on the date of grant based on certain historical data. The Company utilizes the simplified method to determine the expected life of its options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts.

Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2023 and 2022:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding - January 1, 2023	33,063	\$ 9.04	6.8	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding - September 30, 2023	<u>33,063</u>	<u>\$ 9.04</u>	6.0	<u>\$ -</u>
Exercisable at September 30, 2023	<u>28,063</u>	<u>\$ 9.91</u>	5.7	<u>\$ -</u>

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding - January 1, 2022	33,063	\$ 9.04	7.8	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding - September 30, 2022	<u>33,063</u>	<u>\$ 9.04</u>	7.0	<u>\$ -</u>
Exercisable at September 30, 2022	<u>23,063</u>	<u>\$ 11.14</u>	6.3	<u>\$ -</u>

The Company recorded non-cash stock-based compensation expense of approximately \$8,000 and \$8,000 as a component of general and administrative expenses in the accompanying consolidated statements of operations for the nine months ended September 30, 2023 and 2022, respectively, pertaining to granting of stock option awards.

Total unrecognized stock-based compensation expense related to unvested stock options at September 30, 2023 was approximately \$7,700 and is expected to be recognized through the second quarter of 2024.

Restricted Stock Units

As of September 30, 2023 and 2022, the following is a summary of restricted stock unit activity:

	<u>Number of Shares</u>
Outstanding - January 1, 2023	69,114
Granted	117,334
Forfeited	-
Vested	(69,114)
Outstanding - September 30, 2023	<u>117,334</u>

	Number of Shares
Outstanding - January 1, 2022	79,763
Granted	170,937
Forfeited	(13,823)
Vested	(167,763)
Outstanding – September 30, 2022	69,114

During the period ended June 30, 2023, the Company granted 30,490 total restricted stock units for a value of \$125,000 to the members of the Board of Directors per their compensation agreements. The shares will vest one year from the grant date of June 15, 2023.

During the period ended September 30, 2023, the Company granted 86,844 total restricted stock to certain officers and managers with immediate vesting as of July 18, 2023. The aggregate grant date fair value of the combined awards amounted to approximately \$141,000.

In July 2023, the Company granted 120,000 restricted stock units to Mr. He, Chief Executive Officer of the Company, as part of his employment agreement entered into July 18, 2023. The shares will vest as follows: 1/3 immediately upon grant, 1/3 on the first anniversary of the employment agreement, and the final 1/3 on the second anniversary of the employment agreement; provided, however, that Mr. He must remain continuously employed by the Company and/or its affiliates through the applicable vesting date. The aggregate grant date fair value of the combined awards amounted to approximately \$361,000.

The Company recorded non-cash stock-based compensation expense of \$262,248 and \$439,655 as a component of general and administrative expenses in the accompanying consolidated statements of operations for the nine months ended September 30, 2023 and 2022, respectively, pertaining to granting of restricted stock awards.

Total unrecognized stock-based compensation expense related to 110,488 unvested restricted stock units at September 30, 2023 was approximately \$426,000 and is expected to be fully recognized by the third quarter of 2025.

13. Income Taxes

The Company's quarterly income tax provision is based upon an estimated annual income tax rate. The Company's quarterly provision for income taxes also includes the tax impact of discrete items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

During the three months ended September 30, 2023 and 2022, the Company recorded income tax benefit of \$7,228 and \$25,479, respectively. For the nine months ended September 30, 2023 and 2022, the Company recorded a benefit for income tax of \$17,151 and \$35,720. The decrease in income tax benefit during the current three-month period, as compared to the same periods in the prior year, was primarily due to a decrease in discrete tax items and changes in the Company's net operating losses.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, management has determined that enough uncertainty exists relative to the realization of the deferred income tax asset balances to warrant the application of a valuation allowance as of September 30, 2023. The valuation allowance at September 30, 2023 was approximately \$10,877,000. The net change in the valuation allowance during the nine months ended September 30, 2023 was an increase of approximately \$898,000.

14. Segment Information

The Company operates in the following segments: (i) PDN Network, (ii) NAPW Network, and (iii) RemoteMore. The financial results of China Operations have been reclassified from the Company's reportable segments to discontinued operations for all periods presented.

The following tables present key financial information related of the Company's reportable segments related to financial position as of September 30, 2023 and December 31, 2022 and results of operations for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023				
	PDN Network	NAPW Network	Remote More	Corporate Overhead	Consolidated
Membership fees and related services	\$ -	\$ 135,145	\$ -	\$ -	\$ 135,145
Recruitment services	1,242,711	-	-	-	1,242,711
Contracted software development	-	-	604,996	-	604,996
Consumer advertising and marketing solutions	25,516	-	-	-	25,516
Total revenues	1,268,227	135,145	604,996	-	2,008,368
Income (loss) from continuing operations	(446,060)	(26,910)	(51,722)	(804,276)	(1,328,968)
Depreciation and amortization	127,702	20,673	347	-	148,722
Income tax benefit	(2,441)	(359)	-	(4,428)	(7,228)
Net loss from continuing operations	(440,769)	(26,480)	(52,897)	(799,848)	(1,319,994)

	As of September 30, 2023				
Goodwill	\$ 465,752	\$ -	\$ 952,001	\$ -	\$ 1,417,753
Intangibles assets, net	321,100	76,208	833	-	398,141
Assets from continuing operations, net of intercompany eliminations	6,734,947	134,368	(492,819)	-	6,376,496

	Three Months Ended September 30, 2022				
	PDN Network	NAPW Network	Remote More	Corporate Overhead	Consolidated
Membership fees and related services	\$ -	\$ 152,462	\$ -	\$ -	\$ 152,462
Recruitment services	1,165,213	-	-	-	1,165,213
Contracted software development	-	-	757,492	-	757,492
Consumer advertising and marketing solutions	39,328	-	-	-	39,328
Total revenues	1,204,541	152,462	757,492	-	2,114,495
Income (loss) from continuing operations	(77,907)	(261,132)	(266,161)	(505,436)	(1,110,636)
Depreciation and amortization	7,475	19,597	205,676	-	232,748
Income tax expense (benefit)	(1,895)	(10,410)	-	(13,174)	(25,479)
Net income (loss) from continuing operations	(74,971)	(250,689)	(277,318)	(492,262)	(1,095,240)

	As of December 31, 2022				
Goodwill	\$ 339,451	\$ -	\$ 935,334	\$ -	\$ 1,274,785
Intangibles assets, net	90,400	133,363	1,458	-	225,221
Assets from continuing operations, net of intercompany eliminations	6,718,226	203,534	(287,455)	-	6,634,305

Nine Months Ended September 30, 2023

	PDN	NAPW		Corporate	
	Network	Network	RemoteMore	Overhead	Consolidated
Membership fees and related services	\$ -	\$ 400,303	\$ -	\$ -	\$ 400,303
Recruitment services	3,422,129	-	-	-	3,422,129
Contracted software development	-	-	1,906,706	-	1,906,706
Consumer advertising and marketing solutions	75,664	-	-	-	75,664
Total revenues	3,497,793	400,303	1,906,706	-	5,804,802
Income (loss) from continuing operations	(1,255,094)	(407,155)	(237,343)	(1,987,421)	(3,887,013)
Depreciation and amortization	367,669	59,946	1,040	-	428,655
Income tax expense (benefit)	(4,037)	(3,024)	850	(10,940)	(17,151)
Net income (loss) from continuing operations	(1,244,924)	(404,007)	(235,623)	(1,976,481)	(3,861,035)

Nine Months Ended September 30, 2022

	PDN	NAPW		Corporate	
	Network	Network	RemoteMore	Overhead	Consolidated
Membership fees and related services	\$ -	\$ 509,906	\$ -	\$ -	\$ 509,906
Recruitment services	3,839,608	-	-	-	3,839,608
Contracted software development	-	-	1,882,452	-	1,882,452
Consumer advertising and marketing solutions	130,916	-	-	-	130,916
Total revenues	3,970,524	509,906	1,882,452	-	6,362,882
Income (loss) from continuing operations	372,156	257,213	(919,883)	(1,763,388)	(2,053,902)
Depreciation and amortization	20,589	58,556	666,912	-	746,057
Income tax expense (benefit)	15,983	(4,769)	-	(46,934)	(35,720)
Net income (loss) from continuing operations	361,489	262,192	(944,928)	(1,716,454)	(2,037,701)

15. Subsequent Events

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basis of Presentation

This MD&A should be read in conjunction with the accompanying consolidated financial statements and the notes thereto, and the audited consolidated financial statements and notes thereto included in our 2022 Form 10-K.

Forward-looking statements in this MD&A are not guarantees of future performance and may involve risks and uncertainties that could cause actual results to differ materially from those projected. Refer to the "Note Regarding Forward-Looking Statements" section of this Quarterly Report on Form 10-Q and Item 1A. Risk Factors of our 2022 Form 10-K for a discussion of these risks and uncertainties.

Overview

We are an operator of professional networks with a focus on diversity, employment, education and training. We use the term "diversity" (or "diverse") to describe communities, or "affinities," that are distinct based on a wide array of criteria, which may change from time to time, including ethnic, national, cultural, racial, religious or gender classification. We serve a variety of such communities, including Women, Hispanic-Americans, African-Americans, Asian-Americans, persons with disabilities, Military Professionals, and Lesbian, Gay, Bisexual and Transgender (LGBTQ+) persons, and students and graduates seeking to transition from education to career. The Company's technology platform is integral to the operation of its business.

We currently operate in three business segments. PDN Network, our primary business segment, includes online professional job seeking communities with career resources tailored to the needs of various diverse cultural groups and employers looking to hire members of such groups. Our second business segment consists of the NAPW Network, a women-only professional networking organization. Our third business segment consists of RemoteMore, which connects companies with reliable, cost-efficient software developers with less effort and friction, and empowers developers to find meaningful jobs regardless of their location.

We believe that the combination of our solutions allows us to approach recruiting and professional networking in a unique way and thus create enhanced value for our members and customers by:

- Helping employers address their workforce diversity needs by connecting them with the right candidates from our diverse job seeking communities such as African Americans, Hispanics, Asians, Veterans, individuals with disabilities and members of the LGBTQ+ community (with the ability to roll out to our other affinities);
- Providing a robust online and in-person network for our women members to make professional and personal connections; and
- Connecting companies with reliable, cost-efficient developers to meet their software needs.

In the second quarter of fiscal 2023, we made some strategic changes in the Company that we feel will position ourselves better for the remainder of 2023 and into fiscal 2024.

- We created an internal marketing department, utilizing employees from NAPW and PDN that had marketing backgrounds and experience, that will focus on our organic growth, digital marketing, and other efforts in further matching job seekers with the employment needs of our clients.
- We restructured the NAPW business segment by reducing the NAPW staff by 50% and replacing certain technology contracts with lower cost alternatives, or removing them altogether, thus resulting in the ability to keep the current revenue stream with a much smaller staff and reduced overhead.
- We restructured certain marketing and technology contracts with vendors to provide us with assets that should yield better profitability, or, in some cases, terminated unprofitable contacts.

Sources of Revenue

We generate revenue from (i) paid membership subscriptions and related services, (ii) recruitment services, (iii) contracted software development, and (iv) consumer advertising and consumer marketing solutions. The following table sets forth our revenues from each product as a percentage of total revenue for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Nine Months Ended September 30,	
	2023	2022
Revenues:		
Membership fees and related services	6.9%	8.0%
Recruitment services	58.9%	60.3%
Contracted software development	32.9%	29.6%
Consumer advertising and marketing solutions	1.3%	2.1%

Recruitment Services. We provide recruitment services through PDN Network to medium and large employers seeking to diversify their employment ranks. Our recruitment services revenue is derived from the Company's agreements through single and multiple job postings, recruitment media, career fair events, talent recruitment communities, basic and premier corporate memberships, hiring campaign marketing and advertising, e-newsletter marketing and research and outreach services. Recruitment revenue includes revenue recognized from direct sales to customers for recruitment services and events, as well as revenue from the Company's direct e-commerce sales. The majority of recruitment services revenue comes from job recruitment advertising. We also offer to businesses subject to the regulations and requirements of the Equal Employment Opportunity Office of Federal Contract Compliance Program ("OFCCP") our OFCCP compliance product, which combines diversity recruitment advertising with job postings and compliance services.

Membership Fees and Related Services. We offer paid membership subscriptions through our NAPW Network, a women-only professional networking organization, operated by our wholly-owned subsidiary. Members gain access to networking opportunities through a members-only website at www.iawomen.com and "virtual" events which occur in a webcast setting, as well as through in-person networking local chapters nationwide, additional career and networking events such as the National Networking Summit Series, Power Networking Events and the PDN Network events. NAPW members also receive ancillary (non-networking) benefits such as educational discounts, shopping, and other membership perks. The basic package is the Initiator level, which provides online benefits only. Upgrades to an Innovator membership include the Initiator benefits, as well as membership in local chapters. The most comprehensive level, the Influencer, provides all the aforementioned benefits plus expanded opportunities for marketing and promotion, including the creation and distribution of a press release, which is sent over major newswires. Additionally, all memberships offer educational programs with discounts or at no cost, based on the membership level. NAPW Membership is renewable and fees are payable on an annual or monthly basis, with the first fee payable at the commencement of the membership. We offer to new purchasers of our NAPW memberships the opportunity to purchase a commemorative wall plaque at the time of purchase.

Contracted Software Development. RemoteMore generates revenue by providing contracted programmers to assist customers with their software solutions through customized software development.

Consumer Advertising and Consumer Marketing Solutions. We work with partner organizations to provide them with integrated job boards on their websites which offer their members or customers the ability to post recruitment advertising and job openings. We generate revenue from fees charged for those postings.

Cost of Revenue

Cost of revenue primarily consists of costs of producing job fair and other events, revenue sharing with partner organizations, costs of web hosting and operating our websites for the PDN Network. Costs of hosting member conferences and local chapter meetings are also included in the cost of revenue for NAPW Network. Costs of paying outside developers are included in the cost of revenue for RemoteMore.

	Nine Months Ended September 30,	
	2023	2022
Cost of revenues:		
PDN Network	31.0%	37.2%
NAPW Network	5.1%	7.4%
RemoteMore	63.9%	55.4%

Results of Operations

Revenues

Total Revenues

The following tables set forth our revenue for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended September 30		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
Revenues:				
Membership fees and related services	\$ 135	\$ 153	\$ (18)	(11.8)%
Recruitment services	1,243	1,166	77	6.6%
Contracted software development	605	757	(152)	(20.1)%
Consumer advertising and marketing solutions	25	39	(14)	(33.3)%
Total revenues	\$ 2,008	\$ 2,115	\$ (107)	(5.0)%

Total revenues for the three months ended September 30, 2023, decreased approximately \$107,000, or 5.0 percent, to approximately \$2,008,000 from approximately \$2,115,000 during the same period in the prior year. The decrease was predominantly attributable to a reduction in contracted software development of approximately \$152,000, and an approximate \$18,000 decrease in membership fees and related services revenues, as compared to the same period in the prior year. Partially offsetting the decrease was an approximate \$77,000 increase in recruitment services. Recruitment services for the quarter included approximately \$92,000 of event revenue from the recently acquired Expo Experts for which there was no comparable revenue in the same period of the prior year.

	Nine Months Ended September 30		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
Revenues:				
Membership fees and related services	\$ 400	\$ 510	\$ (110)	(21.6)%
Recruitment services	3,422	3,840	(418)	(10.9)%
Contracted software development	1,907	1,882	25	1.3%
Consumer advertising and marketing solutions	76	131	(55)	(42.0)%
Total revenues	\$ 5,805	\$ 6,363	\$ (558)	(8.8)%

Total revenues for the nine months ended September 30, 2023, decreased approximately \$558,000, or 8.8 percent, to approximately \$5,805,000 from approximately \$6,363,000 during the same period in the prior year. The decrease was predominantly attributable to a reduction in comparable recruitment services revenues of approximately \$658,000 and an approximate \$110,000 decrease in membership fees and related services revenues, as compared to the same period in the prior year. Partially offsetting the decrease were increases of approximately \$25,000 of contracted software development related to RemoteMore, as compared to the same period in the prior year, and approximately \$240,000 of event revenue from the recently acquired Expo Experts for which there was no comparable revenue in the same period of the prior year.

Revenues by Segment

The following table sets forth each operating segment's revenues for the periods presented. The period-to-period comparison is not necessarily indicative of future results.

	Three Months Ended September 30,		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
PDN Network	\$ 1,268	\$ 1,206	\$ 62	5.1%
NAPW Network	135	152	(17)	(11.2)%
RemoteMore	605	757	(152)	(20.1)%
Total revenues	<u>\$ 2,008</u>	<u>\$ 2,115</u>	<u>\$ (107)</u>	<u>(5.0)%</u>

During the three months ended September 30, 2023, our PDN Network generated approximately \$1,176,000 in comparable revenues compared to approximately \$1,206,000 in revenues during the three months ended September 30, 2022, a decrease of approximately \$30,000 or 2.4 percent. Offsetting the decrease was an increase in event revenues of \$92,000 related to Expo Experts operations for which there was no comparable activity in the same period of the prior year. The decrease in revenues was primarily driven by the continued softening in client hiring due to the macroeconomic environment change stemming from the latter half of 2022 and continuing in the third quarter of 2023.

During the three months ended September 30, 2023, NAPW Network revenues were approximately \$135,000, compared to revenues of approximately \$152,000 during the same period in the prior year, a decrease of approximately \$17,000 or 11.2 percent. We believe that the membership services that we provide to our customers continue to represent a discretionary spending item and the services that we provide were postponed or halted by the consumer as a result of the financial and economic impact of the current economy, and prior to that the effect of COVID-19, as many in-person events were cancelled. In-person local chapter events have begun to resume in the third quarter of fiscal 2023.

During the three months ended September 30, 2023, RemoteMore revenue was approximately \$605,000, compared to revenues of approximately \$757,000 during the same period in the prior year, a decrease of approximately \$152,000, or 20.1 percent.

	Nine Months Ended September 30,		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
PDN Network	\$ 3,498	\$ 3,971	\$ (473)	(11.9)%
NAPW Network	400	510	(110)	(21.6)%
RemoteMore	1,907	1,882	25	1.3%
Total revenues	<u>\$ 5,805</u>	<u>\$ 6,363</u>	<u>\$ (558)</u>	<u>(8.8)%</u>

During the nine months ended September 30, 2023, our PDN Network generated approximately \$3,258,000 in comparable revenues compared to approximately \$3,971,000 in revenues during the nine months ended September 30, 2022, a decrease of approximately \$713,000 or 18.0 percent. The decrease in revenues was primarily driven by the continuing softening in client hiring due to the macroeconomic environment change stemming from the latter half of 2022 and continued in the third quarter of 2023. Offsetting the decrease was an increase in event revenues of \$240,000 related to Expo Experts' operations for which there was no comparable activity in the same period of the prior year.

During the nine months ended September 30, 2023, NAPW Network revenues were approximately \$400,000, compared to revenues of approximately \$510,000 during the same period in the prior year, a decrease of approximately \$110,000 or 21.6 percent. We believe that the membership services that we provide to our customers continue to represent a discretionary spending item and the services that we provide were postponed or halted by the consumer as a result of the financial and economic impact of the current economy, and prior to that the effect of COVID-19, as many in-person events were cancelled. In-person local chapter events have begun to resume in the third quarter of fiscal 2023.

During the nine months ended September 30, 2023, RemoteMore revenue was approximately \$1,907,000, compared to revenues of approximately \$1,882,000 during the same period in the prior year, an increase of approximately \$25,000, or 1.3 percent.

Costs and Expenses

The following tables set forth our costs and expenses for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended September 30,		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
Cost and expenses:				
Cost of revenues	\$ 923	\$ 1,229	\$ (306)	(24.9)%
Sales and marketing	912	760	152	20.0%
General and administrative	1,353	1,003	350	34.9%
Depreciation and amortization	149	233	(84)	(36.1)%
Total pre-tax cost and expenses:	<u>\$ 3,337</u>	<u>\$ 3,225</u>	<u>\$ 112</u>	<u>3.5%</u>

	Nine Months Ended September 30,		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
Cost and expenses:				
Cost of revenues	\$ 2,763	\$ 3,023	\$ (260)	(8.6)%
Sales and marketing	2,850	2,179	671	30.8%
General and administrative	3,650	2,469	1,181	47.8%
Depreciation and amortization	429	746	(317)	(42.5)%
Total cost and expenses:	<u>\$ 9,692</u>	<u>\$ 8,417</u>	<u>\$ 1,275</u>	<u>15.1%</u>

Cost of revenues: Cost of revenues during the three months ended September 30, 2023 was approximately \$923,000, a decrease of approximately \$306,000, or 24.9 percent, from approximately \$1,229,000 during the same period of the prior year. The decrease was predominantly due to approximately \$143,000 of contracted software development costs related to RemoteMore, approximately \$128,000 of reduced third-party computer services, and approximately \$66,000 of other costs of revenues. Partially offsetting the decrease were approximately \$31,000 in reduced salaries and related benefits, as compared to the same period of the prior year.

Cost of revenues during the nine months ended September 30, 2023 was approximately \$2,763,000, a decrease of approximately \$260,000, or 8.6 percent, from approximately \$3,023,000 during the same period of the prior year. The decrease was predominantly attributed to a reduction in third-party computer services of approximately \$377,000 which were recorded sales and marketing in the current period as compared to the same period in the prior year. Partially offsetting the decrease was an increase of approximately \$63,000 of contracted software development costs related to RemoteMore, and approximately \$55,000 of other costs of revenue, as compared to the same period of the prior year.

Sales and marketing expense: Sales and marketing expense during the three months ended September 30, 2023 was approximately \$912,000, an increase of approximately \$152,000, or 20.0 percent, from \$760,000 during the same period in the prior year. The increase was predominantly attributed to approximately \$71,000 of payroll related costs due to the onboarding of Expo Experts in fiscal 2023, for which there were no comparable charges in the same period of the prior year, and \$70,000 of payroll related costs due to the aforementioned creation of our new marketing department, and approximately \$77,000 of third-party computer services, some of which were recorded in cost of revenues in the same period of the prior year. Partially offsetting the increase were approximately \$66,000 of other marketing costs due to restructuring of unfavorable contracts and other sales and marketing charges.

Sales and marketing expense during the nine months ended September 30, 2023 was approximately \$2,850,000, an increase of approximately \$671,000, or 30.8 percent, from \$ 2,179,000 during the same period in the prior year. The increase was predominantly attributed to approximately \$241,000 of third-party computer services, some of which were recorded in cost of revenues in the same period of the prior year, and approximately \$79,000 of other costs related to sales and marketing. Also contributing to the increase were approximately \$222,000 of payroll related costs due to the onboarding of Expo Experts in fiscal 2023, and approximately \$130,000 payroll related costs due to the aforementioned creation of our new marketing department, for which there were no comparable charges in the same period of the prior year.

General and administrative expense: General and administrative expenses increased by approximately \$350,000, or 34.9 percent, to approximately \$1,353,000 during the three months ended September 30, 2023, as compared to approximately \$1,003,000 the same period in the prior year. The increase was predominantly due approximately \$164,000 of discretionary share based compensation, \$122,000 of salaries and related benefit charges, inclusive of \$70,000 relates to employee annual bonuses, \$53,000 of legal expenses, and \$44,000 of third-party computer services. Partially offsetting the increase was a reduction in other purchased services of approximately \$35,000, as compared to the same period in the prior year.

General and administrative expenses increased by approximately \$1,181,000, or 47.8 percent, to approximately \$3,650,000 during the nine months ended September 30, 2023, as compared to approximately \$2,469,000 the same period in the prior year. The increase was predominantly due to the settlement of litigation resulting in a one-time, non-cash gain of approximately \$908,000 in the prior year for which there was no comparable transaction in the current year. Also contributing to the increase, as compared to the same period in the prior year, were approximately \$240,000 of salaries and related benefit charges, \$137,000 of financing expenses and approximately \$125,000 of legal expenses primarily related to the aforementioned equity transaction, and \$122,000 of third-party computer services that were recorded in cost of revenues in the same period of the prior year. Offsetting the increase were decreases in discretionary share-based compensation of approximately \$177,000 and other purchased services of approximately \$49,000, as compared to the same period in the prior year.

Depreciation and amortization expense: Depreciation and amortization expense during the three months ended September 30, 2023 was approximately \$149,000, a decrease of approximately \$84,000, compared to approximately \$233,000 during the same period in the prior year. The decrease was primarily attributable to approximately \$205,000 of amortization expense related to RemoteMore's intangible assets and assets and other intangible assets reaching the end of their useful lives, partially offset by amortization expense of approximately \$109,000 related to Expo Experts' intangible assets for which there were no comparable charges in the same period of the prior year.

Depreciation and amortization expense during the nine months ended September 30, 2023 was approximately \$429,000, a decrease of approximately \$317,000, compared to approximately \$746,000 during the same period in the prior year. The decrease was primarily attributable to approximately \$666,000 of amortization expense related to RemoteMore's intangible assets and assets and intangible assets reaching the end of their useful lives, partially offset by amortization expense of approximately \$322,000 related to Expo Experts' intangible assets for which there were no comparable charges in the same period of the prior year.

Costs and Expenses by Segment

The following table sets forth each operating segment's costs and expenses for the periods presented. The period-to-period comparison is not necessarily indicative of future results.

	Three Months Ended		Change	Change
	September 30,			
	2023	2022		
	(in thousands)			
PDN Network	\$ 1,716	1,282	434	33.7%
NAPW Network	162	414	(252)	(60.9)%
RemoteMore	657	1,024	(367)	(35.9)%
Corporate Overhead	802	505	297	58.8%
Total costs and expenses:	\$ 3,337	\$ 3,225	\$ 112	3.5%

	Nine Months Ended		Change	Change
	September 30,			
	2023	2022		
	(in thousands)			
PDN Network	\$ 4,754	3,599	1,155	32.0%
NAPW Network	807	253	554	219.0%
RemoteMore	2,144	2,802	(658)	(23.5)%
Corporate Overhead	1,987	1,763	224	12.7%
Total costs and expenses:	\$ 9,692	\$ 8,417	\$ 1,275	15.1%

For the three months ended September 30, 2023, costs and expenses related to our PDN Network segment increased by approximately \$434,000, or 33.7 percent, as compared to the same period in the prior year. The increase is primarily as a result of increases of approximately \$266,000 related to Expo Experts for which there were no comparable expenses in the same period of the prior year. Also contributing to the period increase as compared to the same period of the prior were approximately \$207,000 of salary and benefits related costs, predominantly from the aforementioned creation of our marketing department and inclusive of approximately \$96,000 of discretionary bonus charges, which were recorded in the second quarter in the prior year. Partially offsetting the increase were approximately \$55,000 in marketing expenses, as compared to the same period in the prior year.

For the nine months ended September 30, 2023, costs and expenses related to our PDN Network segment increased by approximately \$1,155,000, or 32.0 percent, as compared to the same period in the prior year. The increase is primarily as a result of increases of approximately \$803,000 related to Expo Experts for which there were no comparable expenses in the same period of the prior year. Also, primarily contributing to the period increase as compared to the same period of the prior were approximately \$304,000 of salary and benefits related costs, predominantly from the aforementioned creation of our marketing department, and \$64,000 related to a reduction in bad debt charges in the period of the prior year, for which there were no comparable charges in the current period.

For the three months ended September 30, 2023, costs and expenses related to the NAPW Network decreased by approximately \$252,000, or 60.9 percent. The decrease is predominantly due to a reduction in payroll related costs of approximately \$72,000 as a result of the aforementioned restructuring of the NAPW business unit, \$45,000 related to legal fees, and \$128,000 of other sales, marketing and general expenses.

For the nine months ended September 30, 2023, costs and expenses related to the NAPW Network increased by approximately \$554,000, or 219.0 percent. The increase is predominantly due to settlement of litigation resulting in a one-time, non-cash gain of approximately \$908,000 in the prior year for which there was no comparable transaction in the current period. Partially offsetting the increase was a decrease in payroll related costs of approximately \$93,000 as a result of the aforementioned restructuring of the NAPW business unit, \$55,000 related to legal fees, and \$176,000 of other sales, marketing and general expenses.

For the three months ended September 30, 2023, cost and expenses related to RemoteMore decreased by approximately \$367,000, a decrease of approximately 35.9 percent, as compared to the same period in the prior year, predominantly consisting of decreases in amortization expenses of approximately \$205,000, contractor costs of approximately \$143,000, and other purchased services of approximately \$18,000.

For the nine months ended September 30, 2023, cost and expenses related to RemoteMore decreased by approximately \$658,000, a decrease of approximately 23.5 percent, as compared to the same period in the prior year, predominantly consisting of decreases in amortization expenses of approximately \$666,000, and legal expenses of approximately \$59,000. Partially offsetting the decrease was an increase in contractor costs of approximately \$63,000, as compared to the same period of the prior year.

For the three months ended September 30, 2023, costs and expenses related to Corporate Overhead increased by approximately \$297,000, or 58.8 percent, as compared to the same period in the prior year. The increase is predominantly a result of share-based compensation costs of approximately \$165,000, \$109,000 of legal expenses, substantially as a result of the aforementioned equity transaction, and payroll related costs of approximately \$107,000. Partially offsetting the increase was a reduction in other charges of approximately \$85,000, as compared to the same period in the prior year.

For the nine months ended September 30, 2023, costs and expenses related to Corporate Overhead increased by approximately \$224,000, or 12.7 percent, as compared to the same period in the prior year. The increase is primarily a result of approximately \$218,000 in payroll related costs, \$133,000 of financing costs and \$238,000 of legal expenses, substantially as a result of the aforementioned equity transaction, as compared to the same period in the prior year. Partially offsetting the increase were decreases in share-based compensation costs of approximately \$177,000, accounting costs of approximately \$45,000, and other costs of approximately \$143,000.

Income Tax Benefit

	Three Months Ended September 30,		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
Income tax benefit	\$ (7)	\$ (26)	\$ 19	73.1%

	Nine Months Ended September 30,		Change (Dollars)	Change (Percent)
	2023	2022		
	(in thousands)			
Income tax expense (benefit)	\$ (17)	\$ (36)	\$ 19	52.8%

During the three months ended September 30, 2023 and 2022, we recorded income tax benefits of approximately \$7,000 and \$26,000. The decrease in income tax benefit during the current period was primarily due to changes in discrete tax items and in the Company's net operating losses.

During the nine months ended September 30, 2023 and 2022, we recorded income tax benefits of approximately \$17,000 and \$36,000. The decrease in income tax benefit during the current period was primarily due to changes in discrete tax items and in the Company's net operating losses.

Net loss from Continuing Operations, Net of Tax

The following table sets forth each operating segment's net income or loss for the periods presented. The period-to-period comparison is not necessarily indicative of future results.

	Three Months Ended		Change (Dollars)	Change (Percent)
	September 30,			
	2023	2022		
	(in thousands)			
PDN Network	\$ (441)	(75)	(366)	(257.4)%
NAPW Network	(26)	(251)	224	89.4%
RemoteMore	(53)	(277)	224	80.8%
Corporate Overhead	(800)	(492)	(308)	(62.6)%
Consolidated net loss from continuing operations, net of tax	\$ (1,320)	\$ (1,095)	\$ (226)	(20.6)%

	Nine Months Ended		Change (Dollars)	Change (Percent)
	September 30,			
	2023	2022		
	(in thousands)			
PDN Network	\$ (1,245)	361	(1,607)	(289.6)%
NAPW Network	(404)	262	(666)	(254.0)%
RemoteMore	(236)	(945)	709	75.0%
Corporate Overhead	(1,976)	(1,716)	(260)	(15.1)%
Consolidated net loss from continuing operations, net of tax	\$ (3,861)	\$ (2,038)	\$ (1,824)	(89.5)%

Consolidated Net Loss from Continuing Operations, Net of Tax. As the result of the factors discussed above, during the three months ended September 30, 2023, we incurred a net loss from continuing operations of approximately \$1,320,000, an increase in the net loss of approximately \$226,000, compared to a net loss of approximately \$1,095,000 during the three months ended September 30, 2022. During the nine months ended September 30, 2023, we incurred a net loss of approximately \$3,861,000 from continuing operations, an increase in the net loss of approximately \$1,824,000, compared to a net loss of approximately \$2,038,000 during the same period in the prior year.

Discontinued Operations

In March 2020, our Board decided to suspend all China operations generated by the former CEO, Michael Wang. The results of operations for China operations are presented in the statements of operations and comprehensive loss as loss from discontinued operations.

Operating Results of Discontinued Operations

The following table represents the components of operating results from discontinued operations, which are included in the statements of operations and comprehensive loss for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Revenues	\$ -	\$ -	\$ -	\$ -
General and administrative expenses	(11)	(13)	(28)	(42)
Loss from discontinued operations before income tax	(11)	(13)	(28)	(42)
Income tax expense (benefit)	-	-	-	-
Net loss from discontinued operations	<u>\$ (11)</u>	<u>\$ (13)</u>	<u>\$ (28)</u>	<u>\$ (42)</u>

Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	(in thousands)			
Cash and cash equivalents	\$	615	\$	1,237
Working deficiency from continuing operations	\$	(1,264)	\$	(187)

Our principal sources of liquidity are our cash and cash equivalents, including net proceeds from the issuances of common stock, if any. As of September 30, 2023, we had cash and cash equivalents of \$615,000 compared to cash and cash equivalents of \$1,237,000 at December 31, 2022. We had an accumulated deficit of \$102,180,178 at September 30, 2023.

In March 2023, we entered into a stock purchase agreement with Ms. Yiran Gu, a former investor of the Company and a citizen of the People's Republic of China, in connection with the purchase by Ms. Gu of 333,181 shares of our common stock at a price of approximately \$2.10 per share for aggregate gross proceeds of \$700,000.

In June 2023, we entered into a stock purchase agreement with Tumim Stone Capital LLC (“Investor”). Under the terms and subject to the conditions of the stock purchase agreement, we have the right, but not the obligation, to sell to the Investor, and the Investor is obligated to purchase, up to \$12,775,000 worth of newly issued shares (the “Purchase Shares”) of our common stock, subject to certain limitations and the satisfaction (or, where permissible, the waiver) of the conditions set forth in the stock purchase agreement. Pursuant to the stock purchase agreement, we issued and sold 469,925 Purchase Shares to the Investor, at a price of \$4.256 per share (representing the average official closing price of the common stock on The Nasdaq Capital Market for the five consecutive trading days ending on the trading day immediately prior to the date of the stock purchase agreement), for aggregate gross proceeds to the Company of \$2,000,000, in an initial purchase (the “Initial Purchase”). Pursuant to the terms of the stock purchase agreement, as consideration for the Investor’s commitment to purchase shares of common stock at our direction from time to time, subject to the conditions and limitations set forth in the stock purchase agreement, upon execution of the stock purchase agreement on September 30, 2023, we also issued to the Investor 176,222 shares of common stock (the “Commitment Shares”), valued at \$4.256 per share (the same per share value as each Initial Purchase Share sold to the Investor in the Initial Purchase), or a total aggregate value equal to \$750,000 for the Commitment Shares.

We continue to focus on our overall profitability by reducing operating and overhead expenses. We have continued to generate negative cash flows from operations, and we expect to incur net losses for the foreseeable future, especially considering the recessionary and inflationary environments has had and may continue on our liquidity and financial position. These conditions raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to further implement our business plan, raise capital, and generate revenues. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We are closely monitoring operating costs and capital requirements. Our Management continues to contain and reduce costs, including terminating non-performing employees and eliminating certain positions, replacing and negotiating with certain vendors, and implementing technology to reduce manual time spent on routine operations. If we are still not successful in sufficiently reducing our costs, we may then need to dispose of our other assets or discontinue business lines.

While we believe that our cash and cash equivalents at September 30, 2023 and cash flow from operations may be sufficient to meet our working capital requirements for the fiscal year ending December 31, 2023, beyond that time frame our available funds and cash flow from operations may not be sufficient to meet our working capital requirements without the need to increase revenues, or raise capital by the issuance of common stock, including through the aforementioned line of equity. There can be no assurances that our business plans and actions will be successful, that we will generate anticipated revenues, or that unforeseen circumstances will not require additional funding sources in the future or require an acceleration of plans to conserve liquidity. Future efforts to raise additional funds may not be successful or they may not be available on acceptable terms, if at all.

Our PDN Network sells recruitment services to employers, generally on a 30-to-60-day period or a one-year contract basis. This revenue is also deferred and recognized over the period of the contract. Our payment terms for PDN Network customers range from 30 to 60 days. We consider the difference between the payment terms and payment receipts a result of transit time for invoice and payment processing and to date have not experienced any liquidity issues as a result of the payments extending past the specified terms. Our NAPW Network collects membership fees generally at the commencement of the membership term or at renewal periods thereafter. The memberships we sell are for one year and we defer recognition of the revenue from membership sales and renewals and recognize it ratably over the twelve-month period. We also offer monthly membership for IAW USA for which we collect a fee on a monthly basis. RemoteMore generates revenue by providing contracted programmers to assist customers with their software solutions through customized software development. Customers are charged for the period the work is performed and payment terms are typically net 10 days.

	Nine Months Ended September 30,	
	2023	2022
Cash provided by (used in) continued operations	(in thousands)	
Operating activities	\$ (2,415)	\$ (1,394)
Investing activities	(879)	(31)
Financing activities	2,700	(515)
Effect of exchange rate fluctuations on cash and cash equivalents	-	6
Cash provided by (used in) discontinued operations	(28)	(6)
Net increase (decrease) in cash and cash equivalents	\$ (622)	\$ (1,940)

Cash and Cash Equivalents

The Company considers cash and cash equivalents to include all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less and may consist of cash on deposit with banks and investments in money market funds, corporate and municipal debt and U.S. government and U.S. government agency securities. As of September 30, 2023 and December 31, 2022, cash and cash equivalents consisted of cash on deposit with banks and investments in money market funds.

Net Cash Used in Operating Activities

Net cash used in operating activities from continuing operations during the nine months ended September 30, 2023, was approximately \$2,415,000. We had a net loss from continuing operations of approximately \$3,861,000 during the nine months ended September 30, 2023, which included stock-based compensation expense of approximately \$262,000, depreciation and amortization expense of approximately \$429,000, allowance for credit losses of approximately \$2,000, and noncash lease expense of \$69,000, which was partially offset by deferred tax benefit of approximately \$21,000. Changes in operating assets and liabilities provided approximately \$705,000 of cash during the three months ended September 30, 2023, consisting primarily of decreases in accounts receivable, prepaid expenses, accrued expenses, deferred revenues and lease liability, partially offset by increases in accounts payable.

Net cash used in operating activities from continuing operations during the nine months ended September 30, 2022, was approximately \$1,394,000. We had a net loss from continuing operations of approximately \$2,038,000 during the nine months ended September 30, 2022, which included a non-cash litigation settlement reserve of approximately \$909,000, stock-based compensation expense of approximately \$440,000, depreciation and amortization expense of approximately \$746,000, which was partially offset by deferred tax benefit of approximately \$36,000 and amortization of right-of-use assets of approximately \$8,000. We received \$350,000 in cash resulting in a decrease of our Merchant Reserve. Changes in operating assets and liabilities provided approximately \$60,000 of cash during the nine months ended September 30, 2022, consisting primarily of decreases in accounts receivable, accounts payable and accrued expenses, partially offset by increases in prepaid expenses and deferred revenues.

Net Cash Used in Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2023, was approximately \$879,000, which consisted of \$400,000 related to the acquisition of Expo Experts, \$352,000 related to additional investment in RemoteMore, and \$127,000 related to investments in developed technology and computer equipment purchases.

Net cash used in investing activities during the nine months ended September 30, 2022, was approximately \$31,000, which consisted of investments in developed technology and computer equipment purchases.

Net Cash Provided by Financing Activities

Net cash provided in financing activities during the nine months ended September 30, 2023 was approximately \$2,700,000 representing the proceeds from the sale of restricted stock.

Net cash used in financing activities during the nine months ended September 30, 2022 was approximately \$515,000 which consisted of the reacquisition of previously issued common stock as a result of the stock buyback plan.

Non-GAAP Financial Measure

Adjusted EBITDA

We believe Adjusted EBITDA provides a meaningful representation of our operating performance that provides useful information to investors regarding our financial condition and results of operations. Adjusted EBITDA is commonly used by financial analysts and others to measure operating performance. Furthermore, management believes that this non-GAAP financial measure may provide investors with additional meaningful comparisons between current results and results of prior periods as they are expected to be reflective of our core ongoing business. However, while we consider Adjusted EBITDA to be an important measure of operating performance, Adjusted EBITDA and other non-GAAP financial measures have limitations, and investors should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Further, Adjusted EBITDA, as we define it, may not be comparable to EBITDA, or similarly titled measures, as defined by other companies.

The following non-GAAP financial information in the tables that follow are reconciled to comparable information presented using GAAP, derived by adjusting amounts determined in accordance with GAAP for certain items presented in the accompanying selected operating statement data.

The following table provides a reconciliation of net loss from continuing operations to Adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022, the most directly comparable GAAP measure reported in our consolidated financial statements:

	Three Months Ended	
	September 30,	
	2023	2022
	(in thousands)	
Loss from Continuing Operations	\$ (1,320)	\$ (1,095)
Stock-based compensation	199	-
Litigation settlement reserve	-	34
Loss attributable to noncontrolling interest	14	149
Depreciation and amortization	149	233
Other (expense) income, net	(2)	(1)
Income tax expense (benefit)	(7)	(25)
Adjusted EBITDA	\$ (967)	\$ (705)

	Nine Months Ended	
	September 30,	
	2023	2022
	(in thousands)	
Loss from Continuing Operations	\$ (3,861)	\$ (2,038)
Stock-based compensation	262	440
Litigation settlement reserve	-	(909)
Loss attributable to noncontrolling interest	92	508
Depreciation and amortization	429	746
Other (expense) income, net	(9)	(5)
Income tax expense (benefit)	(17)	(36)
Adjusted EBITDA	\$ (3,104)	\$ (1,294)

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet activities within the meaning of Item 303 of Regulation S-K

Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of these consolidated financial statements requires us to exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the consolidated financial statements.

We base our estimates on our historical experience, knowledge of our business and industry, current and expected economic conditions, the attributes of our products, the regulatory environment, and in certain cases, the results of outside appraisals. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

While our significant accounting policies are more fully described in Note 3 to our consolidated financial statements included in Part I, Item I of this Quarterly Report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our consolidated financial statements.

Accounts Receivable

Our policy is to reserve for uncollectible accounts based on our best estimate of the amount of probable credit losses in our existing accounts receivable. We periodically review our accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Goodwill and Intangible Assets

The Company accounts for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”). ASC 350 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill is tested for impairment at the reporting unit level on an annual basis (December 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company considers its market capitalization and the carrying value of its assets and liabilities, including goodwill, when performing its goodwill impairment test.

When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then compares the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of a reporting unit exceeds its fair value, the Company will measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

Capitalized Technology Costs

We account for capitalized technology costs in accordance with ASC 350-40, Internal-Use Software (“ASC 350-40”). In accordance with ASC 350-40, we capitalize certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

Business Combinations

ASC 805, Business Combinations (“ASC 805”), applies the acquisition method of accounting for business combinations to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. ASC 805 establishes principles and requirements for how the acquirer a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accounting for acquisitions requires the Company to recognize, separately from goodwill, the assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition-date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of comprehensive loss.

Revenue Recognition

Our principal sources of revenue are recruitment revenue, consumer marketing and consumer advertising revenue, event revenues from career fairs, membership subscription fees, and contracted software development. Recruitment revenue includes revenue recognized from direct sales to customers for recruitment services and events, as well as revenue from our direct ecommerce sales. Revenues from recruitment services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed or determinable and collectability is probable. Our recruitment revenue is derived from agreements through single and multiple job postings, recruitment media, talent recruitment communities, basic and premier corporate memberships, hiring campaign marketing and advertising, e-newsletter marketing and research and outreach services.

Consumer marketing and consumer advertising revenue is recognized either based upon a fixed fee for revenue sharing agreements in which payment is required at the time of posting or billed based upon the number of impressions (the number of times an advertisement is displayed) recorded on the websites as specified in the customer agreement.

Revenue generated from NAPW Network membership subscriptions is recognized ratably over the 12-month membership period, although members pay their annual fees at the commencement of the membership period. We also offer a monthly membership for which we collect fees on a monthly basis and we recognize revenue in the same month as the fees are collected. Revenue from related membership services is derived from fees for development and set-up of a member’s personal on-line profile and/or press release announcements. Fees related to these services are recognized as revenue at the time the on-line profile is complete and press release is distributed.

Revenues generated from RemoteMore consist of contracts entered into to provide customers with software solutions and are recognized in the month work is performed.

Revenue Concentration

We are in an alliance with another company to build, host, and manage our job boards and website. This alliance member also sells two of our recruitment services products and bills customers, collects fees, and provides customer services. For the nine months ended September 30, 2023 and 2022, we recorded approximately 8.6% and 11.5% of our recruitment services revenue from this alliance sales relationship.

Recent Accounting Pronouncements

See Note 3 to our financial statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of September 30, 2023, our management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (“Exchange Act”), under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective on September 30, 2023.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our third quarter of fiscal 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1 – LEGAL PROCEEDINGS

We and our wholly-owned subsidiary, NAPW, Inc., are parties to a proceeding captioned Deborah Bayne, et al. vs. NAPW, Inc. and Professional Diversity Network, Inc., No. 18-cv-3591 (E.D.N.Y.), filed on June 20, 2018 and alleging violations of the Fair Labor Standards Act and certain provisions of the New York Labor Law. Plaintiffs are seeking monetary damages and equitable relief. We dispute that we or our subsidiary violated the applicable laws or that either entity has any liability and intend to vigorously defend against these claims. The matter is in the final stages of discovery, and we have completed depositions of relevant witnesses. During the first quarter of 2020, we recorded a \$450,000 litigation settlement reserve in the event of an unfavorable outcome in this proceeding. In November 2020, both parties entered into mediation proceedings, but a settlement was not reached.

General Legal Matters

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

ITEM 1A – RISK FACTORS

In addition to other information set forth in this report, you should carefully consider the risk factors described in Part I, Item 1A, “Risk Factors” in our 2022 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 [Employment Agreement, dated July 18, 2023, between Professional Diversity Network, Inc., and Xin \(Adam\) He \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2023\).](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14\(a\) or Rule 15d- 14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14\(a\) or Rule 15d- 14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

- 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 Labels Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

PROFESSIONAL DIVERSITY NETWORK, INC.

Date: November 14, 2023

By: /s/ Larry Aichler

Name: Larry Aichler

Title: Chief Financial Officer

CERTIFICATIONS

I, Xin (Adam) He, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Professional Diversity Network, 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: November 14, 2023

/s/ Xin (Adam) He

Xin (Adam) He
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Larry S. Aichler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Professional Diversity Network, 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: November 14, 2023

/s/ Larry S. Aichler

Larry S. Aichler
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO 18
U.S.C. SECTION 1350

In connection with the Quarterly Report of Professional Diversity Network, Inc. (the “registrant”) on Form 10-Q for the fiscal quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “report”), the undersigned of the registrant, certify, pursuant to 18 U.S.C. § 1350, that to our knowledge:

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

Date: November 14, 2023

/s/ Xin (Adam) He

Xin (Adam) He
Chief Executive Officer

/s/ Larry S. Aichler

Larry S. Aichler
Chief Financial Officer
