

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

FORM 10-Q

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

for the quarterly period ended March 31, 2024

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 001-39412

FATHOM HOLDINGS INC.

(Exact name of Registrant as specified in its Charter)

North Carolina

82-1518164

(State or other jurisdiction of incorporation or organization)

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

2000 Regency Parkway Drive, Suite 300, Cary, North Carolina 27518

(Address of principal executive offices) (Zip Code)

(888) 455-6040

(Registrant's telephone number, including area code)

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|----------------------------|-------------------|---|
| Common Stock, No Par Value | FTHM | The NASDAQ Capital Market |

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input checked="" type="checkbox"/> |

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

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

As of May 13, 2024, the registrant had 20,850,770 shares of common stock outstanding.

FATHOM HOLDINGS INC.
FORM 10-Q
For the Quarterly Period Ended March 31, 2024

TABLE OF CONTENTS

| | | Page |
|--|---|-------------|
| <u>PART I - FINANCIAL INFORMATION</u> | | |
| <u>ITEM 1.</u> | <u>Financial Statements</u> | |
| | Consolidated Balance Sheets as of March 31, 2024 (Unaudited) and December 31, 2023 | 3 |
| | Unaudited Consolidated Statements of Operations for the three months ended March 31, 2024 and 2023 | 4 |
| | Unaudited Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the three months ended March 31, 2024 and 2023 | 5 |
| | Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2024 and 2023 | 6 |
| | Notes to Unaudited Consolidated Financial Statements | 7 |
| <u>ITEM 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 22 |
| <u>ITEM 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 30 |
| <u>ITEM 4.</u> | <u>Controls and Procedures</u> | 30 |
| <u>PART II - OTHER INFORMATION</u> | | |
| <u>ITEM 1.</u> | <u>Legal Proceedings</u> | 32 |
| <u>ITEM 1A.</u> | <u>Risk Factors</u> | 32 |
| <u>ITEM 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 32 |
| <u>ITEM 6.</u> | <u>Exhibits</u> | 33 |
| <u>SIGNATURES</u> | | 34 |

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FATHOM HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

| ASSETS | March 31, 2024 (Unaudited) | December 31, 2023 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,682 | \$ 7,399 |
| Restricted cash | 280 | 141 |
| Accounts receivable | 2,996 | 3,352 |
| Mortgage loans held for sale, at fair value | 8,731 | 8,602 |
| Prepaid and other current assets | 4,601 | 3,700 |
| Total current assets | 22,290 | 23,194 |
| Property and equipment, net | 2,224 | 2,340 |
| Lease right of use assets | 4,997 | 4,150 |
| Intangible assets, net | 23,080 | 23,909 |
| Goodwill | 25,607 | 25,607 |
| Other assets | 50 | 58 |
| Total assets | \$ 78,248 | \$ 79,258 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,830 | \$ 3,396 |
| Accrued and other current liabilities | 3,710 | 2,681 |
| Warehouse lines of credit | 8,518 | 8,355 |
| Lease liability - current portion | 1,507 | 1,504 |
| Long-term debt - current portion | 246 | 416 |
| Total current liabilities | 17,811 | 16,352 |
| Lease liability, net of current portion | 4,630 | 3,824 |
| Long-term debt, net of current portion | 3,490 | 3,467 |
| Other long-term liabilities | 386 | 381 |
| Total liabilities | 26,317 | 24,024 |
| Commitments and contingencies (Note 17) | | |
| Stockholders' equity: | | |
| Common stock (no par value, shares authorized, 100,000,000; shares issued and outstanding, 20,838,420 and 20,671,515 as of March 31, 2024 and December 31, 2023, respectively) | — | — |
| Additional paid-in capital | 129,444 | 126,820 |
| Accumulated deficit | (77,513) | (71,586) |
| Total equity | 51,931 | 55,234 |
| Total liabilities and stockholders' equity | \$ 78,248 | \$ 79,258 |

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

FATHOM HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except share data)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2024 | 2023 |
| Revenue | | |
| Gross commission income | \$ 65,385 | \$ 73,170 |
| Other service revenue | 5,118 | 4,371 |
| Total revenue | 70,503 | 77,541 |
| Operating expenses | | |
| Commission and other agent-related costs | 61,167 | 69,172 |
| Operations and support | 2,109 | 1,614 |
| Technology and development | 1,950 | 1,579 |
| General and administrative | 9,602 | 9,312 |
| Marketing | 600 | 715 |
| Depreciation and amortization | 728 | 695 |
| Total operating expenses | 76,156 | 83,087 |
| Loss from operations | (5,653) | (5,546) |
| Other expense (income), net | | |
| Interest expense (income), net | 105 | (16) |
| Other nonoperating expense | 152 | 159 |
| Other expense (income), net | 257 | 143 |
| Loss before income taxes | (5,910) | (5,689) |
| Income tax expense | 17 | 12 |
| Net loss | \$ (5,927) | \$ (5,701) |
| Net loss per share: | | |
| Basic | \$ (0.31) | \$ (0.36) |
| Diluted | \$ (0.31) | \$ (0.36) |
| Weighted average common shares outstanding: | | |
| Basic | 19,178,474 | 16,011,068 |
| Diluted | 19,178,474 | 16,011,068 |

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

FATHOM HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)
(in thousands, except share data)

| | <u>Common Stock</u> | | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|------------------------------------|--------------|----------------------------------|------------------------|------------------|
| | Number of Outstanding Shares | Par Value | | | |
| Balance at December 31, 2023 | 20,671,515 | \$ — | \$ 126,820 | \$ (71,586) | \$ 55,234 |
| Stock-based compensation, net of forfeitures | 166,905 | — | 2,652 | — | 2,652 |
| Offering costs in connection with public offering | — | — | (28) | — | (28) |
| Net loss | — | — | — | (5,927) | (5,927) |
| Balance at March 31, 2024 | <u>20,838,420</u> | <u>\$ —</u> | <u>\$ 129,444</u> | <u>\$ (77,513)</u> | <u>\$ 51,931</u> |

| | <u>Common Stock</u> | | Additional Paid-in Capital | Accumulated Deficit | Total |
|--|------------------------------------|--------------|----------------------------------|------------------------|------------------|
| | Number of Outstanding Shares | Par Value | | | |
| Balance at December 31, 2022 | 17,468,562 | \$ — | \$ 109,626 | \$ (47,605) | \$ 62,021 |
| Stock-based compensation, net of forfeitures | 602,549 | — | 2,820 | — | 2,820 |
| Net loss | — | — | — | (5,701) | (5,701) |
| Balance at March 31, 2023 | <u>18,071,111</u> | <u>\$ —</u> | <u>\$ 112,446</u> | <u>\$ (53,306)</u> | <u>\$ 59,140</u> |

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

FATHOM HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2024 | 2023 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (5,927) | \$ (5,701) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,480 | 1,357 |
| Non-cash lease expense | 529 | 337 |
| Gain on sale of mortgages | (1,215) | (831) |
| Stock-based compensation | 2,652 | 2,820 |
| Deferred income taxes | 5 | — |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 356 | (336) |
| Prepaid and other current assets | (901) | 202 |
| Other assets | 8 | (3) |
| Accounts payable | 434 | 644 |
| Accrued and other current liabilities | 1,112 | 411 |
| Operating lease liabilities | (566) | (374) |
| Mortgage loans held for sale originations | (49,598) | (37,179) |
| Proceeds from sale and principal payments on mortgage loans held for sale | 50,684 | 37,083 |
| Net cash used in operating activities | (947) | (1,570) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (1) | (9) |
| Purchase of intangible assets | (534) | (579) |
| Net cash used in investing activities | (535) | (588) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on debt | (148) | (318) |
| Borrowings from warehouse lines of credit | 49,440 | 29,826 |
| Repayment on warehouse lines of credit | (49,277) | (28,929) |
| Deferred acquisition consideration payments | (83) | — |
| Payment of offering cost in connection with issuance of common stock in connection with public offering | (28) | — |
| Net cash (used in) provided by financing activities | (96) | 579 |
| Net decrease in cash, cash equivalents, and restricted cash | (1,578) | (1,579) |
| Cash, cash equivalents, and restricted cash at beginning of period | 7,540 | 8,380 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 5,962 | \$ 6,801 |
| <i>Supplemental disclosure of cash and non-cash transactions:</i> | | |
| Cash paid for interest | \$ 90 | \$ 11 |
| Right of use assets obtained in exchange for new lease liabilities | 1,284 | 4 |
| Reconciliation of cash and restricted cash: | | |
| Cash and cash equivalents | \$ 5,682 | \$ 6,723 |
| Restricted cash | 280 | 78 |
| Total cash, cash equivalents, and restricted cash shown in statement of cash flows | \$ 5,962 | \$ 6,801 |

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

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization, Consolidation and Presentation of Financial Statements

Fathom Holdings Inc. (“Fathom,” “Fathom Holdings,” and collectively with its consolidated subsidiaries and affiliates, the “Company”) is a national, technology-driven, real estate services platform integrating residential brokerage, mortgage, title, insurance services and supporting software called IntelliAgent. The Company’s brands include Fathom Realty, Encompass Lending, IntelliAgent, LiveBy, Real Results, Verus Title, and Cornerstone.

The unaudited interim consolidated financial statements include the accounts of Fathom Holdings’ wholly owned subsidiaries. All transactions and accounts between and among its subsidiaries have been eliminated. All adjustments and disclosures necessary for a fair presentation of these unaudited interim consolidated financial statements have been included.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) as determined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the balances and results of operations for the periods presented. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2023 included in the Company’s Annual Report on Form 10-K filed with the Security and Exchange Commission (“SEC”) on March 19, 2024 (the “Form 10-K”). The results of operations for any interim periods are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Certain prior period amounts have been revised to conform to the current presentation. These changes have no impact on our previously reported consolidated balance sheets or statements of operations.

Note 2. Risks and Uncertainties

Certain Significant Risks and Business Uncertainties — The Company is subject to the risks and challenges associated with companies at a similar stage of development. These include dependence on key individuals, successful development and marketing of its offerings, and competition with larger companies with greater financial, technical, and marketing resources. Furthermore, during the period required to achieve higher revenue in order to become consistently profitable, the Company may require additional funds that might not be readily available or might not be on terms that are acceptable to the Company.

Liquidity — The Company has a history of negative cash flows from operations and operating losses. The Company generated net losses of approximately \$.9 million and \$5.7 million for the three months ended March 31, 2024 and 2023, respectively. Additionally, the Company anticipates further expenditures associated with the process of expanding its business organically and via acquisitions. The Company received net proceeds of \$3.3 million in April 2023 from the issuance of convertible notes. The Company had cash and cash equivalents of \$5.7 million and \$7.4 million as of March 31, 2024 and December 31, 2023, respectively. Management believes that existing cash along with its budget, which includes an increase in agent fees implemented in January 2024, growth from increasing attach rates across the Company’s businesses from internal referrals, and proceeds from the sale of Dagley Insurance Agency in the second quarter 2024 (see Note 18 - Subsequent Events for further detail), and the expected ability to achieve sales volumes necessary to cover forecasted expenses, provide sufficient funding to continue as a going concern for a period of at least one year from the date of the issuance of these consolidated financial statements.

Use of Estimates — The preparation of the unaudited interim 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 financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions, including those related to doubtful accounts, legal contingencies, income taxes, deferred tax asset valuation allowances, stock-based compensation, goodwill, estimated lives of intangible assets, and intangible asset impairment. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company might differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Note 3. Recent Accounting Pronouncements

Recently Implemented Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40). The objective of the amendments in this ASU is to address issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments in this ASU reduce the number of accounting models for convertible debt instruments and redeemable convertible preference shares. For convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital, the embedded conversion features are no longer separated from the host contract. The amendments in the ASU are effective for fiscal years beginning after December 15, 2023, including interim periods therein. The Company adopted the standard during the quarter ended June 30, 2023, and the impact of the new standard on its consolidated financial statements was immaterial.

Recent Upcoming Accounting Pronouncement

In November 2023, the FASB issued ASU 2023-07 – Segment Reporting (Topic 280) ("ASU 2023-07"). ASU 2023-07 improves reportable segment disclosure requirements, primarily through enhanced disclosure about significant segment expenses. The amendments in this update require, among other things, a public company to disclose on an annual and interim basis significant segment expense, as well as other segment expenses, that are regularly provided to the CODM. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the effect the amendments in ASU 2023-07 will have on its segment disclosures.

In December 2023, the FASB issued ASU 2023-09 – Income Taxes (Topic 740) ("ASU 2023-09"). ASU 2023-09 improves reporting for income taxes, primarily by requiring disclosure of specific categories in the tax rate reconciliation and providing additional annual information for reconciling items that meet a quantitative threshold. The amendments in ASU 2023-09 also require additional annual information regarding income taxes paid, as well as other additional disclosures. The amendments in ASU 2023-09 are effective for fiscal years beginning after December 15, 2024, and early adoption is permitted. The Company is currently evaluating the effect the amendments in ASU 2023-09 will have on its tax disclosures.

The FASB issued an ASU that provides temporary optional expedients and exceptions to the guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). Entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Entities can also elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. The guidance in this ASU is optional and may be elected through December 31, 2024 as reference rate reform activities occur. We will continue to evaluate the impact of this ASU; however, we currently expect to avail ourselves of such optional expedients and exceptions should our modified contracts meet the required criteria.

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Intangible Assets, Net

Intangible assets, net consisted of the following (amounts in thousands):

| | March 31, 2024 | | |
|------------------------|-----------------------|--------------------------|--------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Trade names | \$ 7,956 | \$ (2,257) | \$ 5,699 |
| Software development | 14,693 | (6,195) | 8,498 |
| Customer relationships | 8,180 | (3,455) | 4,725 |
| Agent relationships | 6,016 | (2,034) | 3,982 |
| Know-how | 430 | (254) | 176 |
| | <u>\$ 37,275</u> | <u>\$ (14,195)</u> | <u>\$ 23,080</u> |

| | December 31, 2023 | | |
|------------------------|-----------------------|--------------------------|--------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Trade names | \$ 7,956 | \$ (2,058) | \$ 5,898 |
| Software development | 14,159 | (5,517) | 8,642 |
| Customer relationships | 8,180 | (3,199) | 4,981 |
| Agent relationships | 6,016 | (1,825) | 4,191 |
| Know-how | 430 | (233) | 197 |
| | <u>\$ 36,741</u> | <u>\$ (12,832)</u> | <u>\$ 23,909</u> |

Estimated future amortization of intangible assets as of March 31, 2024 was as follows (amounts in thousands):

| Years Ending December 31, | |
|---------------------------|------------------|
| 2024 (remaining) | \$ 4,159 |
| 2025 | 5,301 |
| 2026 | 4,665 |
| 2027 | 3,665 |
| 2028 | 2,525 |
| Thereafter | 2,765 |
| Total | <u>\$ 23,080</u> |

The aggregate amortization expense for intangible assets was \$1.4 million and \$1.2 million, of which \$0.8 million and \$0.7 million was included in technology and development expense, for the three months ended March 31, 2024 and 2023, respectively.

Note 5. Goodwill

The carrying amounts of goodwill by reportable segment as of March 31, 2024 and December 31, 2023 were as follows (amounts in thousands):

| | Real Estate Brokerage | Mortgage | Technology | Other (a) | Total |
|---|-----------------------|-----------|------------|-----------|-----------|
| Balance at March 31, 2024 and December 31, 2023 | \$ 2,690 | \$ 10,428 | \$ 4,168 | \$ 8,321 | \$ 25,607 |

(a) Other comprises goodwill not assigned to a reportable segment.

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company has a risk of future impairment to the extent that individual reporting unit performance does not meet projections. Additionally, if current assumptions and estimates, including projected revenues and income growth rates, terminal growth rates, competitive and consumer trends, market-based discount rates, and other market factors, are not met, or if valuation factors outside of the Company’s control change unfavorably, the estimated fair value of goodwill could be adversely affected, leading to a potential impairment in the future. For the three months ended March 31, 2024, no events occurred that indicated it was more likely than not that goodwill was impaired. The Company plans to conduct an annual goodwill impairment test in the fourth quarter of 2024.

Note 6. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following (amounts in thousands):

| | March 31, 2024 | December 31, 2023 |
|--|-------------------|----------------------|
| Deferred annual fee | \$ 1,162 | \$ 948 |
| Due to sellers | 405 | 488 |
| Accrued compensation | 1,367 | 526 |
| Other accrued liabilities | 776 | 719 |
| Total accrued and other current liabilities | \$ 3,710 | \$ 2,681 |

Note 7. Warehouse Lines of Credit

Encompass Lending Group (“Encompass”), a wholly owned subsidiary of the Company, utilizes line of credit facilities as a means of temporarily financing mortgage loans pending their sale. The underlying warehouse lines of credit agreements, as described below, contain financial and other debt covenants. The warehouse credit facilities are classified as current liabilities on our balance sheets. The below table has dollars in millions.

| Lender | March 31, 2024 | | | | December 31, 2023 | | | |
|---------------------|-----------------------|---------------------------|---|---|-----------------------|---------------------------|---|---|
| | Borrowing Capacity | Outstanding Borrowings | Weighted - Average Interest Rate on Outstanding Borrowings | | Borrowing Capacity | Outstanding Borrowings | Weighted - Average Interest Rate on Outstanding Borrowings | |
| Bank A ¹ | \$ 12.5 | \$ 2.5 | 7.58 | % | \$ 7.5 | \$ 3.5 | 7.57 | % |
| Bank B ² | \$ 10.0 | \$ 6.1 | 7.32 | % | \$ 10.0 | \$ 4.8 | 7.35 | % |

(1) Bank A's interest on funds borrowed is equal to the greater of 5.00%, or the 30-Day Secured Overnight Financing Rate (SOFR) plus 2.625%. The agreement ends in July 2024. Encompass was in compliance with debt covenants under this facility as of March 31, 2024.

(2) Bank B's interest on funds borrowed is equal to the greater of 5.75% or the 1-month CME Term SOFR plus 2.00%. The agreement ends in August 2024. Encompass was in compliance with debt covenants under this facility as of March 31, 2024.

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Debt

Total debt consisted of the following (amounts in thousands):

| | March 31, 2024 | December 31, 2023 |
|--|-----------------|-------------------|
| 3.75% Small Business Administration installment loan due May 2050 | \$ 115 | \$ 117 |
| Convertible note payable, less unamortized costs of \$104 | 3,397 | 3,372 |
| Director and officer (D&O) insurance policy promissory note ¹ | 89 | 179 |
| Executive and officer (E&O) insurance policy promissory note | 135 | 215 |
| Total debt | 3,736 | 3,883 |
| Long-term debt, current portion | (246) | (416) |
| Long-term debt, net of current portion | \$ 3,490 | \$ 3,467 |

(1) The 2023 D&O note carries a 6.85% interest rate and is payable quarterly with the last quarterly payment due in July 2024. The 2022 D&O note carried a 6.0% interest rate and final payment was made in April 2023.

(2) The 2023 E&O note carries 13.5% interest rate and is payable monthly with the last monthly payment being due in August 2024. The 2022 E&O note carried a 9% interest rate and final payment was made in August 2023.

On April 13, 2023, the Company entered into a securities purchase agreement (the "Purchase Agreement") with an accredited investor (the "Holder") and issued a Senior Secured Convertible Promissory Note in the principal amount of \$3,500,000 (the "Note"), in a private placement (the "Offering"). The Company paid a placement agent fee in the amount of \$175,000 in connection with the Offering. The cash proceeds disbursed to the Company from the issuance of the Note were \$3,300,000, after deducting the placement agent fee and approximately \$25,000 in purchaser expenses.

The Company shall pay interest to the Holder quarterly in cash on the principal amount of this Note at a rate which fluctuates every calendar month, and is equal to (i) the monthly average Secured Overnight Financing Rate (SOFR) plus (ii) 5%, per annum (which interest rate may be increased as provided by the Purchase Agreement); provided, however, that in no event will the rate of interest for any month be less than 8% per annum. Interest shall be due and payable on the last calendar day of each quarter and on the maturity date, April 12, 2025 (the "Fixed Interest Payment Date"); provided, however, notwithstanding anything to the contrary provided in the Purchase Agreement or the Note, interest accrued but not yet paid will be due and payable upon any conversion, prepayment, and/or acceleration whether as a result of an Event of Default, as defined, or otherwise with respect to the principal amount being so converted, prepaid and/or accelerated.

In connection with the Offering, the Company also entered into a Security Agreement pursuant to which the Note is secured by all the Company's existing and future assets.

All or any portion of the principal amount of the Note, plus accrued and unpaid interest and any late charges thereon, is convertible at any time, in whole or in part, at the Investor's option, into shares of the Company's common stock at an initial fixed conversion price of \$ 6.00 per share, subject to certain customary adjustments. The Note imposes penalties on the Company for any failure to timely deliver any shares of the Company's common stock issuable upon conversion. The Note may not be converted by the Investor into shares of common stock if such conversion would result in the Investor and its affiliates owning an aggregate of in excess of 4.99% of the then-outstanding shares of the Company's common stock, provided that upon 61 days' notice, such ownership limitation may be adjusted by the Investor, but in any case, to no greater than 9.99%.

Note 9. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement* ("ASC 820"), defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

date. The methodology establishes consistency and comparability by providing a fair value hierarchy that prioritizes the inputs to valuation techniques into three broad levels, which are described below:

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities (these are observable market inputs).
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability (includes quoted market prices for similar assets or identical or similar assets in markets in which there are few transactions, prices that are not current or prices that vary substantially).
- Level 3 inputs are unobservable inputs that reflect the entity’s own assumptions in pricing the asset or liability (used when little or no market data is available).

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where evaluated. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure the financial instruments are recorded at fair value.

While management believes the Company’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Mortgage loans held for sale – The fair value of mortgage loans held for sale is determined, when possible, using quoted secondary-market prices or purchaser commitments. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan, which would be used by other market participants. The loans are considered Level 2 on the fair value hierarchy.

Derivative financial instruments – Derivative financial instruments are reported at fair value. Fair value is determined using a pricing model with inputs that are unobservable in the market or cannot be derived principally from or corroborated by observable market data. These instruments are Level 3 on the fair value hierarchy.

The fair value determination of each derivative financial instrument categorized as Level 3 required one or more of the following unobservable inputs:

- Agreed prices from Interest Rate Lock Commitments (“IRLC”);
- Trading prices for derivative instruments; and
- Closing prices at March 31, 2024 and December 31, 2023 for derivative instruments.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023 (amounts in thousands):

| | March 31, 2024 | | | |
|------------------------------|----------------|-----------------|--------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mortgage loans held for sale | \$ — | \$ 8,731 | \$ — | \$ 8,731 |
| Derivative assets | — | — | 51 | 51 |
| Derivative liabilities | — | — | (29) | (29) |
| | <u>\$ —</u> | <u>\$ 8,731</u> | <u>\$ 22</u> | <u>\$ 8,753</u> |

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| | December 31, 2023 | | | |
|------------------------------|-------------------|-----------------|----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mortgage loans held for sale | \$ — | \$ 8,602 | \$ — | \$ 8,602 |
| Derivative assets | — | — | 32 | 32 |
| Derivative liabilities | — | — | (52) | (52) |
| | <u>\$ —</u> | <u>\$ 8,602</u> | <u>\$ (20)</u> | <u>\$ 8,582</u> |

The Company enters into IRLCs to originate residential mortgage loans held for sale, at specified interest rates and within a specific period of time (generally between 30 and 90 days), with customers who have applied for a loan and meet certain credit and underwriting criteria. These IRLCs meet the definition of a derivative and are reflected on the consolidated balance sheets at fair value with changes in fair value recognized in other service revenue on the consolidated statements of operations. Unrealized gains and losses on the IRLCs, reflected as derivative assets and derivative liabilities, respectively, are measured based on the fair value of the underlying mortgage loan, quoted agency mortgage-backed security (“MBS”) prices, estimates of the fair value of the mortgage servicing rights and the probability that the mortgage loan will fund within the terms of the IRLC, net of commission expense and broker fees. The fair value of the forward loan sales commitment and mandatory delivery commitments being used to hedge the IRLCs and mortgage loans held for sale not committed to purchasers are based on quoted agency MBS prices.

Note 10. Leases

Operating Leases

The Company has operating leases primarily consisting of office space with remaining lease terms of less than one year to six years, subject to certain renewal options as applicable.

Leases with an initial term of twelve months or less are not recorded on the balance sheet, and the Company does not separate lease and non-lease components of contracts. There are no material residual guarantees associated with any of the Company’s leases, and there are no significant restrictions or covenants included in the Company’s lease agreements. Certain leases include variable payments related to common area maintenance and property taxes, which are billed by the landlord, as is customary with these types of charges for office space.

Our lease agreements generally do not provide an implicit borrowing rate. Therefore, the Company used a benchmark approach to derive an appropriate imputed discount rate. The Company benchmarked itself against other companies of similar credit ratings and comparable quality and derived an imputed rate, which was used in a portfolio approach to discount its real estate lease liabilities. The Company used estimated incremental borrowing rates for all active leases.

The table below presents certain information related to lease costs for the Company’s operating leases (amounts in thousands):

| | Three Months Ended March 31, | |
|--------------------------|------------------------------|---------------|
| | 2024 | 2023 |
| Operating lease expense | \$ 413 | \$ 460 |
| Short-term lease expense | 175 | 161 |
| Total lease cost | <u>\$ 588</u> | <u>\$ 621</u> |

The following table presents the weighted average remaining lease term and the weighted average discount rate related to operating leases:

| | March 31, 2024 | December 31, 2023 |
|---|----------------|-------------------|
| Weighted average remaining lease term (in years) - operating leases | 4.7 | 3.9 |
| Weighted average discount rate - operating leases | 7.37 % | 6.33 % |

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the maturities of lease liabilities (amounts in thousands):

| Years Ended December 31, | Operating Leases |
|--|---------------------|
| 2024 (remaining) | \$ 1,430 |
| 2025 | 1,703 |
| 2026 | 1,291 |
| 2027 | 1,176 |
| 2028 | 923 |
| Thereafter | 849 |
| Total minimum lease payments | 7,372 |
| Less effects of discounting | (1,235) |
| Present value of future minimum lease payments | \$ 6,137 |

Note 11. Shareholders' Equity

On March 10, 2022, the Company's Board of Directors authorized an expenditure of up to \$10.0 million for the repurchase of shares of the Company's common stock. The share repurchase program does not have a fixed expiration. Under the program, repurchases can be made from time-to-time using a variety of methods, including open market transactions, privately negotiated transactions or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The actual timing and amount of future repurchases are subject to business and market conditions, corporate and regulatory requirements, stock price, acquisition opportunities and other factors. The repurchase program does not obligate the Company to acquire any particular number of shares and may be suspended or discontinued at any time at the Company's discretion. There were no equity repurchases during the quarter ended March 31, 2024 and the full year ended December 31, 2023, leaving approximately \$4.0 million remaining under the share repurchase authorization.

The Company has an outstanding equity-classified warrant issued to an underwriter in August 2020 (the "Underwriter Warrant") to purchase 240,100 shares of common stock. The Underwriter Warrant is exercisable at a per share exercise price of \$11.00 and is exercisable at any time through August 4, 2025. As of March 31, 2024, no portion of the Underwriter Warrant had been exercised.

During the year ended December 31, 2023, the Company completed an offering of common stock, which resulted in the issuance and sale by the Company of 2,450,000 shares of common stock, at a public offering price of \$2.00 per share, generating gross proceeds of \$4.9 million, of which the Company received approximately \$4.2 million, after deducting underwriting discounts and other offering costs.

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Stock-based Compensation

The Company's 2019 Omnibus Stock Incentive Plan (the "2019 Plan") provides for granting stock options, restricted stock awards, and restricted stock units to employees, directors, contractors and consultants of the Company. As of March 31, 2024, there were approximately 228,959 shares available for future grants under the 2019 Plan.

Restricted Stock Awards

Following is the restricted stock award activity for the three months ended March 31, 2024:

| | Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|-----------|--|
| Nonvested at December 31, 2023 | 1,766,417 | \$ 10.01 |
| Granted | 244,122 | 2.63 |
| Released | (595,108) | 8.61 |
| Forfeited | (168,903) | 9.19 |
| Nonvested at March 31, 2024 | 1,246,528 | \$ 9.34 |

Restricted Stock Unit Awards

During 2023, the Company commenced granting restricted stock units to employees and agents.

The following is the restricted stock unit award activity for the three months ended March 31, 2024:

| | Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|-----------|--|
| Nonvested at December 31, 2023 | 2,191,297 | \$ 4.94 |
| Granted | 597,965 | 2.02 |
| Released | (91,686) | 3.83 |
| Forfeited | (66,192) | 4.63 |
| Nonvested at March 31 2024 | 2,631,384 | \$ 4.32 |

Stock Option Awards

There were no stock option awards granted during the three-month period ended March 31, 2024.

Stock-based Compensation expense

Stock-based compensation expense related to all awards issued under the Company's stock compensation plans for the three months ended March 31, 2024 and 2023 was as follows (amounts in thousands):

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------------|
| | 2024 | 2023 |
| Commission and other agent-related cost | \$ 855 | \$ 998 |
| Operations and support | 182 | 202 |
| Technology and development | 55 | 22 |
| General and administrative | 1,480 | 1,507 |
| Marketing | 80 | 91 |
| Total stock-based compensation | <u>\$ 2,652</u> | <u>\$ 2,820</u> |

At March 31, 2024, the total unrecognized compensation cost related to nonvested restricted stock awards was \$0.4 million, which is expected to be recognized over a weighted average period of approximately 6 months.

At March 31, 2024, the total unrecognized compensation cost related to nonvested restricted stock units was \$0.6 million, which the Company expects to recognize over a weighted average period of approximately 1 year.

Note 13. Related Party Transactions

We lease office space from entities affiliated with certain of our employees. We paid \$0.2 million and \$0.1 million in total rent expense under these leases for each of the three months ended March 31, 2024 and 2023, respectively.

Marketing expense for each of the three-month periods ended March 31, 2024 and 2023 includes approximately \$0.1 million, respectively, paid to related parties in exchange for the Company receiving marketing services.

Note 14. Net Loss per Share Attributable to Common Stock

Basic loss per share of common stock is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted loss per share is calculated by adjusting the weighted-average number of shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method. Diluted loss per share excludes, when applicable, the potential impact of stock options, unvested shares of restricted stock awards, and common stock warrants because their effect would be anti-dilutive due to net loss.

The calculation of basic and diluted net loss per share attributable to common stock was as follows (amounts in thousands except share data):

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2024 | 2023 |
| Numerator: | | |
| Net loss attributable to common stock—basic and diluted | \$ (5,927) | \$ (5,701) |
| Denominator: | | |
| Weighted-average basic and diluted shares outstanding | 19,178,474 | 16,011,068 |
| Net loss per share attributable to common stock—basic and diluted | \$ (0.31) | \$ (0.36) |

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following outstanding shares of common stock equivalents were excluded from the computation of the diluted net loss per share attributable to common stock for the periods presented because their effect would have been anti-dilutive:

| | Three Months Ended March 31, | |
|------------------------------------|---------------------------------|-----------|
| | 2024 | 2023 |
| Stock options | 147,707 | 147,707 |
| Non-vested restricted stock awards | 1,246,528 | 1,974,828 |
| Non-vested restricted stock units | 2,631,384 | 1,274,603 |
| Common stock warrants | 240,100 | 240,100 |
| Convertible debt | 583,333 | — |

Note 15. Income Taxes

In determining the quarterly provision for income taxes, the Company used the annual effective tax rate applied to year-to-date income. The Company's annual estimated effective tax rate differs from the statutory rate primarily as a result of state taxes, permanent differences, and changes in the Company's valuation allowance. The income tax effects of unusual or infrequent items including a change in the valuation allowance as a result of a change in judgment regarding the realizability of deferred tax assets are excluded from the estimated annual effective tax rate and are required to be discretely recognized in the interim period they occur.

The Company has historically maintained a valuation allowance against deferred tax assets and reported only minimal current state tax expense. For the three months ended March 31, 2024 and March 31, 2023, the Company recorded income tax expense of approximately \$0.02 million and \$0.01 million, respectively. The Company expects to maintain a valuation allowance on current year remaining net deferred tax assets by year-end due to historical operating losses, but records a net deferred tax liability when reversals of deferred tax liabilities that relate to indefinite-life intangible assets may not be used in realizing deferred tax assets.

The Company applies the standards on uncertainty in income taxes contained in ASC Topic 740, Accounting for Income Taxes. The application of this interpretation did not have any impact on the Company's consolidated financial statements, as the Company did not have any significant unrecognized tax benefits during the three months ended March 31, 2024 or the year ended December 31, 2023. Due to the Company's carryforward of net operating losses the statute of limitations remains open subsequent to and including the year ended December 31, 2015.

Note 16. Segment Reporting

The Company identifies an operating segment as a component: (i) that engages in business activities from which it may earn revenues and incur expenses; (ii) that has available discrete financial information; and (iii) whose operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to allocate resources and to assess the operating results and financial performance of each operating segment.

Our Chief Operating Decision Maker makes operating decisions and assesses performance based on the services of identified operating segments and has identified three reportable segments: Real Estate Brokerage; Mortgage; and Technology. Through its Real Estate Brokerage segment, the Company provides real estate brokerage services. Through its Mortgage segment, the Company provides residential loan origination and underwriting services. Through its Technology segment, the Company provides SaaS solutions and data mining for third party customers and continues to develop its IntelliAgent platform for current use by the Company's real estate agents.

Revenue and Adjusted EBITDA are the primary measures used by the CODM to evaluate financial performance of the reportable segments and to allocate resources. Adjusted EBITDA represents the revenues of the operating segment less operating expenses directly attributable to the respective operating segment. Adjusted EBITDA is defined by us as net income (loss), excluding other income and expense, costs related to acquisitions, income taxes, depreciation and amortization, and stock-based compensation expense. In particular, the Company believes the exclusion of non-cash stock-based compensation expense related to restricted stock awards, restricted stock units, and stock options and transaction-related costs provides a useful supplemental measure in evaluating the performance of our operations and provides better

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

transparency into our results of operations. The Company’s presentation of Adjusted EBITDA might not be comparable to similar measures used by other companies.

The Company does not allocate assets to its reportable segments as they are not included in the review performed by the CODM for purposes of assessing segment performance and allocating resources. The balance sheet is managed on a consolidated basis and is not used in the context of segment reporting.

Key operating data for the reportable segments for the three months ended March 31, 2024 and 2023 are set forth in the tables below (amounts in thousands):

| | Revenue | |
|----------------------------------|---------------------------------|------------------|
| | Three Months Ended March 31, | |
| | 2024 | 2023 |
| Real Estate Brokerage | \$ 65,385 | \$ 73,170 |
| Mortgage | 2,264 | 1,464 |
| Technology | 1,117 | 756 |
| Corporate and other services (a) | 1,737 | 2,151 |
| Total revenue | \$ 70,503 | \$ 77,541 |

| | Adjusted EBITDA | |
|----------------------------------|---------------------------------|-------------------|
| | Three Months Ended March 31, | |
| | 2024 | 2023 |
| Real Estate Brokerage | \$ 843 | \$ 1,298 |
| Mortgage | (520) | (567) |
| Technology | (27) | (212) |
| Total Segment Adjusted EBITDA | 296 | 519 |
| Corporate and other services (a) | (1,817) | (1,888) |
| Total Company Adjusted EBITDA | (1,521) | (1,369) |
| Stock based compensation | (2,652) | (2,820) |
| Depreciation and amortization | (1,480) | (1,357) |
| Other expense, net | (257) | (143) |
| Income tax expense | (17) | (12) |
| Net loss | \$ (5,927) | \$ (5,701) |

(a) Transactions between segments are eliminated in consolidation. Such amounts are eliminated through the Corporate and other services line.

Note 17. Commitments and Contingencies

Legal Proceedings

From time to time the Company is involved in litigation, claims, and other proceedings arising in the ordinary course of business. Such litigation and other proceedings may include, but are not limited to, actions relating to employment law and misclassification of employees versus independent contractors, intellectual property, commercial or contractual claims, brokerage or real estate disputes, or other consumer protection statutes, ordinary-course brokerage disputes like the failure to disclose property defects, commission disputes, and various liabilities based upon conduct of individuals or entities outside of the Company’s control, including agents and third-party contractor agents. Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur.

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As previously reported in a Current Report on Form 8-K filed on November 28, 2023, the Company has been named as a defendant in a purported class action complaint in the United States District Court for the Eastern District of Texas Sherman Division, filed on November 13, 2023, by plaintiffs QJ Team, LLC and Five Points Holdings, LLC, individually and on behalf of all other persons similarly situated. A second purported class action complaint was filed on December 14, 2023, by plaintiffs Julie Martin, Mark Adams and Adelaida Matta in the same court, naming the Company as a defendant along with others, many of whom are also named in the first lawsuit. These lawsuits are purportedly brought on behalf of a class consisting of all persons who listed properties on a Multiple Listing Service in Texas (the "MLS") using a listing agent or broker affiliated with one of the defendants named in the lawsuits and paid a buyer broker commission beginning on November 13, 2019. The lawsuits allege unlawful conspiracy in violation of federal antitrust law and, against certain defendants (but not the Company) deceptive trade practices under the Texas Deceptive Trade Practices Act.

A third purported class action complaint was filed on April 11, 2024, by plaintiffs Shauntell Burton, Benny D. Cheatham, Robert Douglass, Douglas Fender, and Dana Fender in the United States District Court for the District of South Carolina. Like the Texas lawsuits, the South Carolina lawsuit alleges unlawful conspiracy in violation of federal antitrust law and is purportedly brought on behalf of a class consisting of all persons who used a listing broker in the sale of a home listed on an MLS in the District of South Carolina beginning on November 6, 2019. Given the breadth of the residential real estate industry and the volume of participants in the residential real estate industry throughout the United States, we expect additional lawsuits to be filed, although no additional cases filed to date have named the Company as a defendant.

The Company intends to vigorously defend itself as we believe the lawsuits are particularly without merit with respect to the Company because of its flat fee business model. However, we cannot predict with certainty the cost of the Company's defense, prosecution, insurance coverage, or the ultimate outcome of the lawsuits and any others that might be filed in the future, including remedies or damage awards. Adverse results in such litigation might harm the Company's business and financial condition. Moreover, defending these lawsuits, regardless of their merits, could entail substantial expense and require the time and attention of our key management personnel.

Assets in Escrow

In conducting its operations, the Company routinely holds customers' assets in escrow, pending completion of real estate transactions, and is responsible for the proper disposition of these balances for its customers. Certain of these amounts are maintained in segregated bank accounts and have not been included in the accompanying consolidated balance sheets, consistent with GAAP and industry practice. The balance amounted to \$3.6 million and \$1.4 million at March 31, 2024 and December 31, 2023, respectively.

Encompass Net Worth Requirements

In order to maintain approval from the U.S. Department of Housing and Urban Development to operate as a Title II non-supervised mortgagee, our indirect subsidiary Encompass is required as of December 31 to have adjusted net worth of \$1,000,000 and must maintain liquid assets (cash, cash equivalents, or readily convertible instruments) of 20% of the required net worth. As of December 31, 2023, Encompass had adjusted net worth of approximately \$2.4 million and liquid assets of \$2.6 million.

Commitments to Extend Credit

Encompass enters into IRLCs with borrowers who have applied for residential mortgage loans and have met certain credit and underwriting criteria. These commitments expose Encompass to market risk if interest rates change and the underlying loan is not economically hedged or committed to a purchaser. Encompass is also exposed to credit loss if the loan is originated and not sold to a purchaser and the mortgagor does not perform. The collateral upon extension of credit is typically a first deed of trust in the mortgagor's residential property. Commitments to originate loans do not necessarily reflect future cash requirements as commitments are expected to expire without being drawn upon.

Regulatory Commitments

Encompass is subject to periodic audits and examinations, both formal and informal in nature, from various federal and state agencies, including those made as part of the regulatory oversight of mortgage origination, servicing and financing activities. Such audits and examinations could result in additional actions, penalties or fines by state or federal government bodies, regulators or the courts.

FATHOM HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to March 31, 2024, through the date the consolidated financial statements were filed with the SEC. Based on this evaluation the Company has determined that there was one subsequent event that occurred:

On May 3, 2024, the Company sold its subsidiary Dagley Insurance Agency for \$15.0 million, in cash, subject to certain purchase price adjustments, consisting of (i) \$8.0 million in cash paid at closing, (ii) \$4.0 million in cash paid on the first anniversary of the closing date, and (iii) \$3.0 million in cash paid on the second anniversary of the closing date.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company's consolidated operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability, including the risk factors described in our most recent Annual Report on Form 10-K, as amended (the "Form 10-K"), and the risk factors described in this quarterly report. As a result of these and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, consolidated financial condition, liquidity, operating results, and common stock prices. Furthermore, this quarterly report, the Form 10-K and other documents filed by the Company with the Securities and Exchange Commission ("SEC") contain certain forward-looking statements under the Private Securities Litigation Reform Act of 1995 ("Forward-Looking Statements") with respect to the business of the Company. Forward-Looking Statements are necessarily subject to risks and uncertainties, many of which are outside our control, that could cause actual results to differ materially from these statements. Forward-Looking Statements can be identified by such words as "anticipate," "believe," "goals," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue," "forecast" and similar references to future periods. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans and objectives and inflation are Forward-Looking Statements. These Forward-Looking Statements are subject to certain risks and uncertainties, including those detailed in the Form 10-K and in the risk factors described in this quarterly report, which could cause actual results to differ materially from these Forward-Looking Statements. Except as required by law, the Company undertakes no obligation to publicly release the results of any revisions to these Forward-Looking Statements which may be necessary to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Any Forward-Looking Statement made by the Company is based only on information currently available to us and speaks only as of the date on which it is made.

The terms the "Company," "Fathom," "we," "us," and "our" as used in this report refer to Fathom Holdings Inc. and its consolidated subsidiaries unless otherwise specified.

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

The information in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with the Company’s consolidated financial statements and the related notes set forth in Item 1 of Part I of this Quarterly Report on Form 10-Q, our MD&A set forth in the Form 10-K, and our audited consolidated financial statements and related notes set forth in the Form 10-K. See Part II, Item 1A, “Risk Factors,” below, and “Special Note Regarding Forward-Looking Information,” above, and the information referenced therein, for a description of risks that we face and important factors that we believe could cause actual results to differ materially from those in our forward-looking statements. All statements herein regarding potential risks constitute forward-looking statements. When we cross-reference to a “Note,” we are referring to our “Notes to Unaudited Condensed Consolidated Financial Statements,” unless the context indicates otherwise. All amounts noted within the tables are in thousands except per share amounts or where otherwise noted and percentages are approximate due to rounding.

Overview

Fathom Holdings Inc. (the “Company”, “Corporate”, “Our”, “We”), headquartered in Cary, North Carolina, is a national, technology-driven, end to end real estate services company integrating residential brokerage, mortgage, title, insurance and SaaS offerings for brokers and agents. The Company’s brands include Fathom Realty, Encompass Lending, IntelliAgent, LiveBy, Real Results, Verus Title and Cornerstone. Our primary operation, Fathom Realty (as defined below), operates as a real estate brokerage company, working with real estate agents to help individuals purchase and sell residential and commercial properties, primarily in the South, Atlantic, Southwest, and Western parts of the United States, with the intention of expanding into all states.

Fathom Realty Holdings, LLC, a Texas limited liability company (“Fathom Realty”), is a wholly owned subsidiary of Fathom Holdings Inc. Fathom Realty owns 100% of 41 subsidiaries, each an LLC representing the state in which the entity operates (e.g. Fathom Realty NJ, LLC).

Corporate Developments During 2024

Starting in January 2024, we increased the agent’s annual fee which is charged on an agent’s first transaction of each anniversary year from \$600 to \$700. We also added a fee which affects sales of properties over \$600,000 and in addition to the agent’s existing transaction fee of \$550. This new ‘High-Value Property Fee’ will consist of an additional \$200 on properties priced between \$600,000 and \$999,999, and an additional fee of \$250 charged for each \$500,000 tier range in property price. (See our Current Report on Form 8K filed with the SEC on November 28, 2023 for further information).

Rising Interest Rates and Other Risks

Our business is dependent on the economic conditions within the markets in which we operate. Changes in these conditions can have a positive or negative impact on our business. The economic conditions influencing the housing markets primarily include economic growth, interest rates, unemployment, consumer confidence, mortgage availability, and supply and demand.

In periods of economic growth, demand typically increases resulting in increasing home sales transactions and home sales prices. Similarly, a decline in economic growth, increasing interest rates and declining consumer confidence generally decreases demand. These are the trends we are currently facing. Additionally, industry litigation, and regulations imposed by local, state, and federal government agencies can also negatively impact the housing markets in which we operate. Finally, national and global events, geopolitical instability, that impact economic conditions and financial markets, including interest rates, can adversely impact the housing market.

Beginning in the second quarter of 2022, several economic factors began to adversely impact the residential real estate market, including higher mortgage interest rates, lower consumer sentiment, increased inflation, and declining financial market conditions. This shift in the macroeconomic backdrop had an adverse impact on consumer demand for our services, as consumers weighed the financial implications of selling or purchasing a home and taking out a mortgage. As previously reported, our growth slowed beginning in the third quarter of 2022. Our mortgage business also experienced significant declines in loan volumes beginning in the second quarter of 2022, particularly from refinancing prior mortgages.

In response to these macroeconomic and consumer demand developments, we took action to adjust our operations and manage our business towards longer-term profitability despite these adverse macroeconomic factors. We achieved our goal

of reaching total company Adjusted EBITDA breakeven in the second quarter of 2023 although it turned marginally negative again in the third and fourth quarters of 2023. Looking ahead, we remain focused on generating positive operating cash flow even in today's market environment. We believe that our cost reduction initiatives, combined with the increase in agent transaction fees that became effective in January 2024, have positioned our business for profitable growth in the future.

On October 31, 2023, a federal jury in Missouri found that the NAR and certain companies conspired to artificially inflate brokerage commissions, which violates federal antitrust law. The judgment was appealed on October 31, 2023, while the plaintiffs have now sued a number of other companies, including us. See Part II, Item I below. On or about March 15, 2024, NAR agreed to settle these lawsuits, by agreeing to pay \$418 million over approximately four years, and changing certain of its rules surrounding agent commissions. This settlement is subject to court approval. Due to this litigation, there may be rule changes for the NAR. In the settlement, effective mid-July 2024, NAR has agreed to put in place a new rule prohibiting offers of compensation on the MLS, as well as adopt new rules requiring written agreements between buyers and buyers' agents. However, the direct and indirect effects, if any, of the litigation upon the real estate industry are not yet entirely clear.

There could also be further changes in real estate industry practices. All of this has prompted discussion of changes to rules established by local or state real estate boards or multiple listing services. All of this may require changes to many brokers' business models, including changes in agent and broker compensation. For example, many of our competitors may need to develop mechanisms and a plan that enable buyers and sellers to negotiate commissions. In contrast, our flat fee per real estate transaction model has always enabled our agents to negotiate their own fees. Our flat fee allows our agents greater ability to negotiate commissions, and we have no direct incentive to interfere with that. Our flat fee per real estate transaction model enables our agents to freely settle their transaction commissions at their own discretion. The Company will continue to monitor ongoing and similar antitrust litigation against our competitors, however, as our agent compensation model fully supports commission negotiation, we do not expect to have to change our compensation model in a manner that would adversely affect our financial condition and results of operations. However, the litigation and its ramifications could cause unforeseen turmoil in our industry, the impacts of which could have a negative effect on us as an industry participant.

Real Estate Agents

Due to our low-overhead business model, which leverages our proprietary technology, we can offer our agents the ability to keep significantly more of their commissions compared to traditional real estate brokerage firms. We believe we offer our agents some of the best technology, training, and support available in the industry. We believe our business model and our focus on treating our agents well will attract more agents and higher-producing agents.

As of March 31, 2024 and March 31, 2023, we had approximately 11,986 and 10,628 agent licenses, respectively. These figures represent growth of approximately 12.8% year-over-year.

Reportable Segments

Our Chief Operating Decision Maker makes operating decisions and assesses performance based on the services of identified operating segments and has identified three reportable segments: Real Estate Brokerage; Mortgage; and Technology. Through its Real Estate Brokerage segment, the Company provides real estate brokerage services. Through its Mortgage segment, the Company provides residential loan origination and underwriting services. Through its Technology segment, the Company provides SaaS solutions and data mining for third party customers and continues to develop its IntelliAgent platform for current use by the Company's real estate agents.

Components of Our Results of Operations

Revenue

Our revenue primarily consists of commissions generated from real estate brokerage services. We also have other service revenue, including mortgage lending, title insurance, home and other insurance, and SaaS revenues.

Gross commission income

We recognize commission-based revenue on the closing of a transaction, less the amount of any closing-cost reductions. Revenue is affected by the number of real estate transactions we close, the mix of transactions, home sale prices, and commission rates.

Other Services Revenue

Mortgage Lending

We recognize revenue streams for our mortgage lending services business which are primarily comprised of loans sold, origination and other fees.

The gain on sale of mortgage loans represents the difference between the net sales proceeds and the carrying value of the mortgage loans sold and includes the servicing rights release premiums.

Servicing rights release premiums represent one-time fee revenues earned for transferring the risk and rewards of ownership of servicing rights to third parties.

Retail origination fees are principally revenues earned from loan originations and recorded in the statement of operations in other service revenue. Direct loan origination costs and expenses associated with the loans are charged to expenses when the loans are sold. Interest income is interest earned on originated loans prior to the sale of the asset.

Insurance Agency Service Revenues

The revenue streams for the Company's home and other insurance agency services business are primarily comprised of new and renewal commissions paid by insurance carriers. The transaction price is set as the estimated commissions to be received over the term of the policy based upon an estimate of premiums placed, policy changes and cancellations, net of restraint. The commissions are earned at the point in time upon effective date of the associated policies when control of the policy transfers to the client.

The Company is also eligible for certain contingent commissions from insurers based on the attainment of specific metrics (i.e., volume growth, loss ratios) related to underlying policies placed. Revenue for contingent commissions is estimated based on historical and current evidence of achievement towards each insurer's annual respective metrics and is recorded as the underlying policies that contribute to the achievement are placed. Due to the uncertainty of the amount of contingent consideration that will be received, the estimated revenue is constrained to an amount that is probable to not have a significant negative adjustment. Contingent consideration is generally received in the first quarter of the subsequent year.

Because we sold our subsidiary Dagley Insurance in May 2024, we expect limited insurance revenue in the second quarter of 2024 and none thereafter.

Title Service Revenues

Title services revenue includes fees charged for title search and examination, property settlement and title insurance services provided in association with property acquisitions and refinance transactions.

SaaS Revenues

The Company generates revenue from subscription and services related to the use of the LiveBy platform. The SaaS contracts are generally annual contracts paid monthly in advance of service and cancellable upon 30 days' notice after the first year. The Company's subscription arrangements do not provide customers with the right to take possession of the software supporting the platform. Subscription revenue, which includes support, is recognized on a straight-line basis over the non-cancellable contractual term of the arrangement, generally beginning on the date that the Company's service is made available to the customer and is recorded as other service revenue in the statement of operations.

Operating Expenses

Commission and other agent-related costs

Commission and other agent-related costs consists primarily of agent commissions, less fees paid to us by our agents, order fulfillment, share-based compensation for agents, title searches, and direct cost to fulfill the services provided. We expect commission and other agent-related costs to continue to rise over the longer term in proportion to the expected growth in our operations.

Operations and support

Operations and support consist primarily of direct cost to fulfill the services from our mortgage lending, title services, insurance services and other services provided. We expect operations and support to continue to rise over the longer term in proportion to the expected growth in our operations.

Technology and development

Technology and development expenses primarily include personnel costs, including base pay, bonuses, benefits, and share based compensation, related to ongoing development and maintenance of our proprietary software for use by our agents, customers, and support staff. Technology and development expenses also include amortization of capitalized software and development costs, data licenses, other software, and equipment costs, as well as infrastructure and operational expenses, such as, for data centers, communication, and hosted services.

General and administrative

General and administrative expenses consist primarily of personnel costs, including base pay, bonuses, benefits, and share based compensation, and fees for professional services. Professional services principally consist of external legal, audit, and tax services. We anticipate general and administrative expenses as a percentage of revenue to decrease over time, if and as we are able to increase revenue.

Marketing

Marketing expenses consist primarily of expenses for online and traditional advertising, as well as costs for marketing and promotional materials. Advertising costs are expensed as they are incurred. We expect marketing expenses to increase in absolute dollars as we continue to expand our advertising programs, including promotion of our recently acquired business lines and we anticipate marketing expenses as a percentage of revenue to decrease over time, if and as we are able to increase revenue.

Depreciation and amortization

Depreciation and amortization represent the depreciation charged on our fixed assets and intangible assets other than capitalized software. Depreciation expense is recorded on a straight-line method, based on estimated useful lives of five years for computer hardware, seven years for furniture and equipment and seven years for vehicles. Leasehold improvements are depreciated over the lesser of the life of the lease term or the useful life of the improvements. Amortization expense consists of amortization recorded on acquisition-related intangible assets, excluding purchased software. Customer relationships are amortized on an accelerated basis, which coincides with the period of economic benefit we expect to receive. All other finite-lived intangibles are amortized on a straight-line basis over the term of the expected benefit. Purchased software and capitalized software development costs are amortized on a straight-line basis over the term of the expected benefit and the respective amortization expense is included in technology and development expense. In accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), we do not amortize goodwill.

Income Taxes

Income tax expense primarily consists of deferred tax liabilities in excess of the Company's deferred tax assets and also includes current state income tax expense not offset by state net operating loss carryforwards.

Results of Operations*Comparison of the Three Months Ended March 31, 2024 and 2023 (dollar amounts in thousands)**Revenue*

| | Three Months Ended March 31, | | Change | |
|-------------------------|------------------------------|-----------|------------|------------|
| | 2024 | 2023 | Dollars | Percentage |
| Gross commission income | \$ 65,385 | \$ 73,170 | \$ (7,785) | (11) % |
| Other service revenue | 5,118 | 4,371 | 747 | 17 % |
| Total revenue | \$ 70,503 | \$ 77,541 | \$ (7,038) | (9) % |

For the three months ended March 31, 2024, gross commission income decreased by approximately \$7.8 million, or 11%, as compared with the three months ended March 31, 2023. This decrease was primarily attributable to a 9.7% decrease in transaction volume; 7,703 real estate transactions during the three months ended March 31, 2024 compared to 8,532 transactions during the three months ended March 31, 2023. Our transaction volume decreased primarily due to higher interest rates. However, the negative impact of rising interest rates on transaction volume was lessened due to the 12.8% expansion in our agent base. During the three months ended March 31, 2024, average revenue per transaction was \$8,488, a 1.0% decrease compared to \$8,576 during the three months ended March 31, 2023 primarily attributable to a small decrease in commission percentages.

For the three months ended March 31, 2024, other service revenue increased by approximately \$0.7 million or 17%, as compared with the three months ended March 31, 2023. This increase was primarily attributable to an increase in activity of our mortgage business segment during the first quarter of 2024 as interest rates began to dip.

Operating Expenses

| | Three Months Ended March 31, | | Change | |
|--|------------------------------|-----------|------------|------------|
| | 2024 | 2023 | Dollars | Percentage |
| Commission and other agent-related costs | \$ 61,167 | \$ 69,172 | \$ (8,005) | (12) % |
| Operations and support | 2,109 | 1,614 | 495 | 31 % |
| Technology and development | 1,950 | 1,579 | 371 | 23 % |
| General and administrative | 9,602 | 9,312 | 290 | 3 % |
| Marketing | 600 | 715 | (115) | (16) % |
| Depreciation and amortization | 728 | 695 | 33 | 5 % |
| Total operating expenses | \$ 76,156 | \$ 83,087 | \$ (6,931) | (8) % |

For the three months ended March 31, 2024, commission and other agent-related costs decreased by approximately \$8.0 million, or 12%, as compared with the three months ended March 31, 2023. Commission and other agent-related costs primarily includes costs related to agent commissions, net of fees paid to us by our agents. These costs generally correlate with recognized revenues. As such, the decrease in commission and other agent-related costs compared to the same period in 2023 was primarily attributable to a decrease in agent commissions paid due to lower transaction volume mainly due to rising interest rates. We also received a lift from our new fee structure that started in 2024, which added a "High-Value Property Fee" to certain properties which augmented the decrease in commission and other agent related costs.

For the three months ended March 31, 2024, operations and support expenses were \$2.1 million, an increase of approximately \$0.5 million, or 31%, as compared with the three months ended March 31, 2023. This increase was primarily the result of increased activity in the Company's mortgage business.

For the three months ended March 31, 2024, technology and development expenses increased by approximately \$0.4 million, or 23%, as compared with the three months ending March 31, 2023. The increase was attributable to our ongoing investment in the IntelliAgent platform and our LiveBy business, and to higher amortization related to capitalized technology development costs.

For the three months ended March 31, 2024, general and administrative expenses increased by approximately \$0.3 million, or 3%, as compared with the three months ended March 31, 2023. The increase was primarily due to increases in costs incurred as we build out our offshore services team and regional leadership partially offset by a reduction in insurance costs.

For the three months ended March 31, 2024, marketing expenses decreased by approximately \$0.1 million, or 16%, as compared with the three months ended March 31, 2023. The decrease in marketing expenses is primarily related to leveraging internal resources and optimizing advertising expenditure.

For the three months ended March 31, 2024, depreciation and amortization expenses remained relatively constant.

Income Taxes

The Company recorded income tax expense of approximately \$0.02 million and \$0.01 million for the three months ended March 31, 2024 and 2023, respectively. This tax expense is primarily the result of current state income tax liabilities and deferred tax expense related to deferred tax liabilities that cannot be fully offset by deferred tax assets.

Liquidity and Capital Resources (dollar amounts in thousands)

Capital Resources

| | March 31, 2024 | December 31, 2023 | Change | |
|---------------------|----------------|----------------------|------------|------------|
| | | | Dollars | Percentage |
| Current assets | \$ 22,290 | \$ 23,194 | \$ (904) | (4) % |
| Current liabilities | 17,811 | 16,352 | 1,459 | 9 % |
| Net working capital | \$ 4,479 | \$ 6,842 | \$ (2,363) | (35) % |

To date, our principal sources of liquidity have been the net proceeds we received through public offerings and private sales of our common stock, as well as proceeds from loans. As of March 31, 2024, our cash and cash equivalents totaled approximately \$5.7 million, which represented a decrease of approximately \$1.7 million compared to December 31, 2023. As of March 31, 2024, we had net working capital of approximately \$4.4 million, which represented a decrease of \$2.4 million compared to December 31, 2023. As noted above, in May 2024 we sold our subsidiary Dagley Insurance for \$15.0 million in cash, \$8.0 million of which we received at closing, bolstering our current cash position.

We anticipate that our existing balances of cash and cash equivalents and future expected cash flows generated from our operations will be sufficient to satisfy our operating requirements for at least the next twelve months from the date of the issuance of the unaudited interim consolidated financial statements.

Our future capital requirements depend on many factors, including any future acquisitions, our level of investment in technology, and our rate of growth into new markets. Our capital requirements might also be affected by factors which we cannot control such as the residential real estate market, litigation, interest rates, and other monetary and fiscal policy changes, any of which could adversely affect the manner in which we currently operate. Additionally, as the impact of national and other world events, such as the crisis in Ukraine and in the Middle East, on the economy and our operations evolves, we will continuously assess our liquidity needs. In the event of a sustained market deterioration, we may need or seek advantageously to obtain additional funding through equity or debt financing, which might not be available on favorable terms or at all and could hinder our business and dilute our existing shareholders.

Cash Flows**Comparison of the Three Months Ended March 30, 2024 and 2023 (dollar amounts in thousands)**

| | Three Months Ended March 31, | | Change | |
|---|------------------------------|------------|----------|------------|
| | 2024 | 2023 | Dollars | Percentage |
| Net cash used in operating activities | \$ (947) | \$ (1,570) | \$ 623 | 40 % |
| Net cash used in investing activities | \$ (535) | \$ (588) | \$ 53 | 9 % |
| Net cash (used in) provided by financing activities | \$ (96) | \$ 579 | \$ (675) | 117 % |

Cash Flows from Operating Activities

Net cash used in operating activities for the three months ended March 31, 2024 consisted of a net loss of \$5.9 million, non-cash charges of \$3.4 million, including \$2.7 million of stock-based compensation expense and \$1.5 million of depreciation and amortization, partially offset by \$1.2 million in gains on the sales of mortgages. Changes in assets and liabilities were primarily driven by \$49.6 million in mortgage loan originations and \$0.9 million in prepaid and other current assets; partially offset by \$50.7 million in proceeds from the sales and principal payments on mortgage loans held for sale, as well as, a \$1.1 million increase in accrued and other current liabilities.

Net cash used in operating activities for the three months ended March 31, 2023 consisted of a net loss of \$5.7 million, non-cash charges of \$3.7 million, including \$2.8 million of stock-based compensation expense and \$1.4 million of depreciation and amortization, offset by \$0.8 million in gains on the sales of mortgages. Changes in assets and liabilities were primarily driven by a \$1.1 million increase in accounts payable and accrued and other current liabilities, partially offset by a \$0.3 million increase in accounts receivable and a \$0.4 million decrease in operating lease liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended March 31, 2024 primarily consisted of \$0.5 million for purchases of intangible assets related to technology development.

Net cash used in investing activities for the three months ended March 31, 2023 primarily consisted of \$0.6 million for purchases of intangible assets related to technology development and to \$0.09 million for purchases of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended March 31, 2024 consisted primarily of approximately \$0.2 million in principal payments on debt and \$0.1 million in deferred acquisition payments, partially offset by \$0.2 million in net activity on our warehouse lines of credit.

Net cash provided by financing activities for the three months ended March 31, 2023 consisted primarily of the change of \$0.9 million on our warehouse lines of credit, net of the effect of \$0.3 million in principal payments on notes payable.

NON-GAAP FINANCIAL MEASURE

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use Adjusted EBITDA, a non-GAAP financial measure, to understand and evaluate our core operating performance. This non-GAAP financial measure, which may be different than similarly titled measures used by other companies, is presented to enhance investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We define the non-GAAP financial measure of Adjusted EBITDA as net income (loss), excluding other expense, income tax benefit, depreciation and amortization, stock-based compensation expense, other non-cash items and transaction costs.

We believe that Adjusted EBITDA provides useful information about our financial performance, enhances the overall understanding of our past performance and future prospects, and allows for greater transparency with respect to a key

metric used by our management for financial and operational decision-making. We believe that Adjusted EBITDA helps identify underlying trends in our business that otherwise could be masked by the effect of the expenses that we exclude in Adjusted EBITDA. In particular, we believe the exclusion of share-based compensation expense and transaction-related costs associated with our acquisition activity provides a useful supplemental measure in evaluating the performance of our operations and provides better transparency into our results of operations. Adjusted EBITDA also excludes other income and expense, net which primarily includes typically nonrecurring expense items, such as, legal fees associated with the NAR case, minor legal settlement claims, severance costs, professional fees related to investigating potential financing opportunities, if applicable, and other non-cash items representing reserves on certain agent fee collections.

We are presenting the non-GAAP measure of Adjusted EBITDA to assist investors in seeing our financial performance through the eyes of management, and because we believe this measure provides an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA compared to net income (loss), the closest comparable GAAP measure. Some of these limitations are that:

- Adjusted EBITDA excludes stock-based compensation expense related to restricted stock awards, restricted stock units, and stock options, which have been, and will continue to be for the foreseeable future, significant recurring expenses in our business and an important part of our compensation strategy;
- Adjusted EBITDA excludes transaction-related costs primarily consisting of professional fees and any other costs incurred directly related to acquisition activity, which is an ongoing part of our growth strategy and therefore likely to occur; and
- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation and amortization of property and equipment and capitalized software costs, however, the assets being depreciated and amortized may have to be replaced in the future.

The following table presents a reconciliation of Adjusted EBITDA to net income (loss), the most comparable GAAP financial measure, for each of the periods presented (amount in thousands):

| | Three Months Ended March 31, | |
|-------------------------------|------------------------------|-------------------|
| | 2024 | 2023 |
| Net loss | \$ (5,927) | \$ (5,701) |
| Stock based compensation | 2,652 | 2,820 |
| Depreciation and amortization | 1,480 | 1,357 |
| Other expense (income), net | 257 | 143 |
| Income tax expense | 17 | 12 |
| Adjusted EBITDA | <u>\$ (1,521)</u> | <u>\$ (1,369)</u> |

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported. Our Annual Report on Form 10-K for the year ended December 31, 2023 contains a discussion of our critical accounting estimates in the Management's Discussion and Analysis of Financial Condition and Results of Operations section. There have been no material changes to these estimates during the three months ended March 31, 2024.

Recent Accounting Standards

For information on recent accounting standards, see Note 3 to our consolidated financial statements above.

JOBS Act Transition Period

In April 2012, the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”) was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 (the “Securities Act”) for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Subject to certain conditions, as an emerging growth company, we may rely on certain other exemptions and reduced reporting requirements under the JOBS Act. Certain of these exemptions are, including without limitation, from the requirements of (i) providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act; and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier to occur of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our IPO in 2020, (b) in which we have total annual gross revenues of at least \$1.07 billion, or (c) in which we are deemed to be a “large accelerated filer” under the rules of the U.S. Securities and Exchange Commission, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

As part of being an emerging growth company, the Company is also considered a small reporting company (“SRC”) as of March 31, 2024. Under the terms of the JOBS Act, a SRC has public float of less than \$250 million or has less than \$100 million in annual revenue and no public float or public float less than \$700 million. Being a SRC allows the Company to include less extensive narrative disclosure than required of other reporting companies, particularly concerning executive compensation. It also provides audited financial statements for two fiscal years, in contrast to non-SRCs, which must provide audited financial statements for three fiscal years.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer, who is also our President and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on the evaluation of our Chief Executive Officer, who is also our Chief Financial Officer, it was concluded that, as of March 31, 2024, our disclosure controls and procedures were effective at the reasonable assurance level in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

(b) Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our Chief Executive Officer, who is also our President and Chief Financial Officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter.

We are in the process of implementing new accounting systems. We have updated and continue to update our processes related to internal control over financial reporting, as necessary, to accommodate applicable changes in our business processes resulting from the implementation of the new accounting systems.

There were no changes, other than described above, in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

As previously reported by us in a Current Report on Form 8-K filed on November 28, 2023, we have been named as a defendant in a purported class action complaint in the United States District Court for the Eastern District of Texas Sherman Division, filed on November 13, 2023, by plaintiffs QJ Team, LLC and Five Points Holdings, LLC, individually and on behalf of all other persons similarly situated. A second purported class action complaint was filed on December 14, 2023, by plaintiffs Julie Martin, Mark Adams and Adelaida Matta in the same court, naming us as a defendant along with others, many of whom are also named in the first lawsuit. These lawsuits are purportedly brought on behalf of a class consisting of all persons who listed properties on a Multiple Listing Service in Texas (the "MLS") using a listing agent or broker affiliated with one of the defendants named in the lawsuits and paid a buyer broker commission beginning on November 13, 2019. The lawsuits allege unlawful conspiracy in violation of federal antitrust law and, against certain defendants (but not us) deceptive trade practices under the Texas Deceptive Trade Practices Act.

A third purported class action complaint was filed on April 11, 2024, by plaintiffs Shauntell Burton, Benny D. Cheatham, Robert Douglass, Douglas Fender, and Dana Fender in the United States District Court for the District of South Carolina. Like the Texas lawsuits, the South Carolina lawsuit alleges unlawful conspiracy in violation of federal antitrust law and is purportedly brought on behalf of a class consisting of all persons who used a listing broker in the sale of a home listed on an MLS in the District of South Carolina beginning on November 6, 2019. Given the breadth of the residential real estate industry and the volume of participants in the residential real estate industry throughout the United States, we expect additional lawsuits to be filed, although no additional cases filed to date have named us as a defendant. We expect additional lawsuits to be filed, given the breadth of the residential real estate industry and the volume of participants in the residential real estate industry in Texas and the rest of the United States.

Though we intend to vigorously defend ourselves as we believe the lawsuits are particularly without merit with respect to us because of our flat fee business model, we cannot predict with certainty the cost of our defense, the cost of prosecution, insurance coverage, or the ultimate outcome of the lawsuits and any others that might be filed in the future, including remedies or damage awards. Adverse results in such litigation might harm our business and financial condition.

Item 1A. Risk Factors.

There have been no material changes to the risk factors that we have previously disclosed in our most recent Annual Report on Form 10-K, as filed with the SEC on March 19, 2024. The risks described in our Annual Report are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or future results of operations and the trading price of our common stock.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Repurchases of Equity Securities.

Sales of Unregistered Sales

None.

Issuer Repurchases of Equity Securities

There were no equity repurchases for the three months ended March 31, 2024. The approximate dollar value of shares that may yet be purchased pursuant to the repurchase program is \$4.0 million. Management has no plans to repurchase additional shares at this time.

Item 6. Exhibits.

| Exhibit Number | Description |
|-----------------------|---|
| 31.1+ | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1+† | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101** | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023; (ii) Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2024 and 2023; (iii) Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2024 and 2023; (iv) Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three Months Ended March 31, 2024 and 2023; and (v) Notes to Unaudited Financial Statements |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

+ Filed herewith.

† This certification is being furnished solely to accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

** In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10 Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FATHOM HOLDINGS INC.

Date: May 13, 2024

By: /s/ Marco Fregenal

Marco Fregenal

Chief Executive Officer, President and Chief Financial Officer (Principal
Financial and Accounting Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Marco Fregenal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fathom Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 13, 2024

By: /s/ Marco Fregenal
Marco Fregenal
President and Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER AND THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Fathom Holdings Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Marco Fregenal, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: May 13, 2024

By: /s/ Marco Fregenal

Marco Fregenal
President and Chief Executive Officer
(Principal Executive Officer and Principal
Financial Officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Fathom Holdings Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.