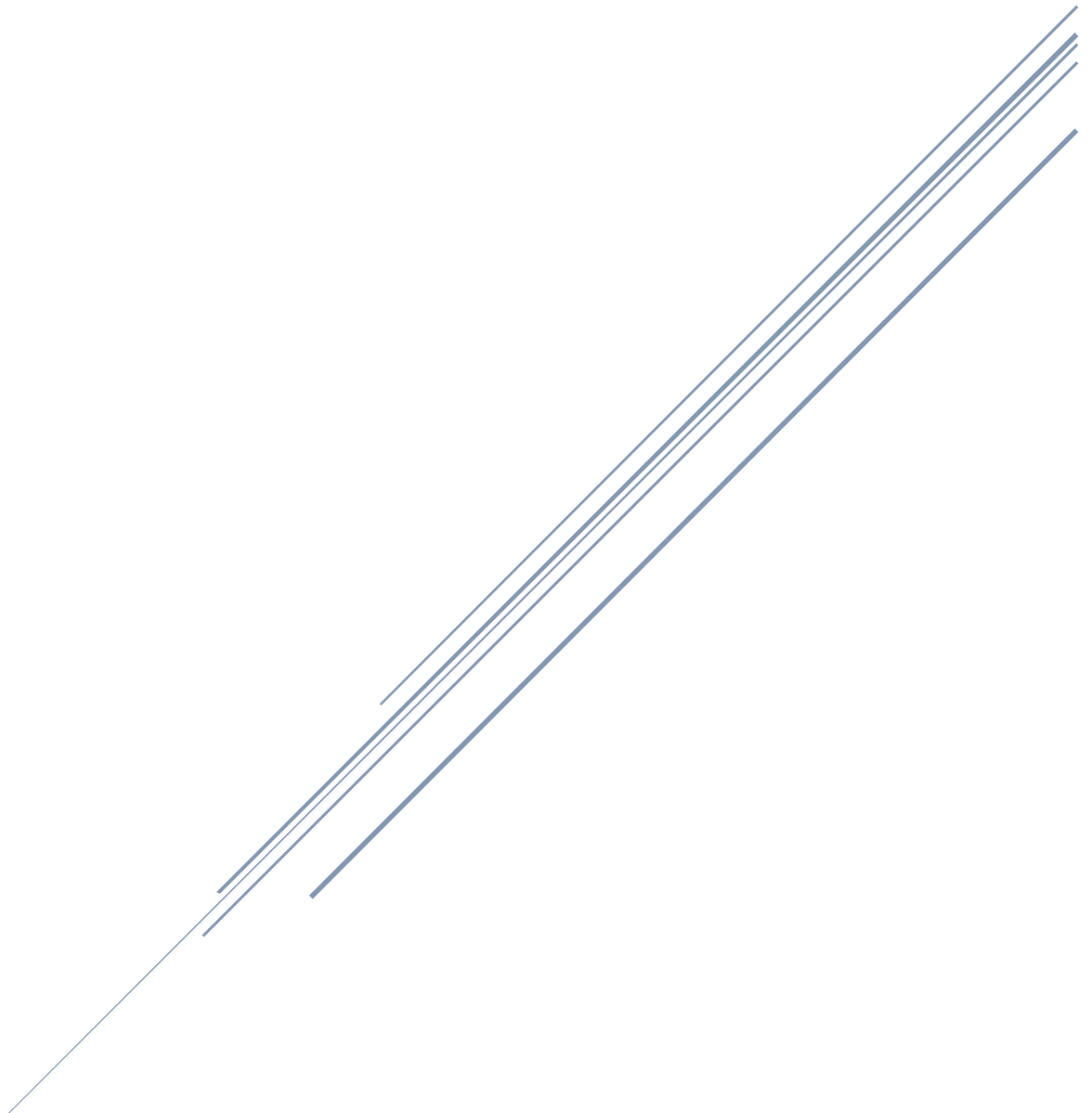




# FUSE MEDICAL, INC

Financial Statements as of December 31, 2023



**FUSE MEDICAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in dollars, except share data)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 238,167	\$ 147,854
Accounts receivable, net of allowance of \$173,763 and \$290,500, respectively	3,066,123	3,996,860
Inventories, net of allowance of \$1,925,231 and \$1,778,173, respectively	9,119,863	9,494,506
Prepaid expenses and other current assets	163,321	126,022
<b>Total current assets</b>	<u>12,587,474</u>	<u>13,765,242</u>
Property and equipment, net	-	709
Long term accounts receivable, net of allowance of \$4,955,714 and \$4,330,883, respectively	2,611,582	2,832,764
Intangible assets, net	1,060,119	1,190,980
Goodwill	-	1,972,886
<b>Total assets</b>	<u>\$ 16,259,175</u>	<u>\$ 19,762,581</u>
<b>Liabilities and Stockholders' Equity (Accumulated Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 2,309,965	\$ 5,700,236
Accrued expenses	6,613,549	4,540,366
Senior secured revolving credit facility	1,643,662	1,997,135
Convertible notes payable - related parties	150,000	150,000
<b>Total current liabilities</b>	<u>10,717,176</u>	<u>12,387,737</u>
Notes payable - related parties	200,000	200,000
Earn-out liability	4,192,889	7,485,698
<b>Total liabilities</b>	<u>15,110,065</u>	<u>20,073,435</u>
Commitments and contingencies	-	-
Stockholders' equity (accumulated deficit):		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized; 73,895,794 and 72,895,793 shares issued and outstanding as of December 31, 2022 and 2021	738,958	738,958
Additional paid-in capital	1,468,274	1,468,274
Accumulated deficit	(1,058,122)	(2,518,086)
<b>Total stockholders' equity (accumulated deficit)</b>	<u>1,149,110</u>	<u>(310,854)</u>
<b>Total liabilities and stockholders' equity (accumulated deficit)</b>	<u>\$ 16,259,175</u>	<u>\$ 19,762,581</u>

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

**FUSE MEDICAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in dollars, except share data)

	<b>For the Year Ended December 31, 2023</b>	<b>For the Year Ended December 31, 2022</b>
Net revenues	\$ 16,115,483	\$ 18,644,784
Cost of revenues	5,250,075	7,103,033
Gross profit	<u>10,865,408</u>	<u>11,541,751</u>
Operating expenses		
Selling, general, administrative and other	5,604,020	6,537,382
Commissions	4,745,995	5,682,038
Depreciation and amortization	131,570	137,403
Total operating expenses	<u>10,481,585</u>	<u>12,356,823</u>
Operating income (loss)	<u>383,823</u>	<u>(815,072)</u>
Other income (expense):		
Change in fair value of contingent purchase consideration	3,292,809	4,108,134
Goodwill impairment	(1,972,886)	-
Interest expense	(220,582)	(171,295)
Total other income (expense)	<u>1,099,341</u>	<u>3,936,839</u>
Operating loss before income tax	1,483,164	3,121,767)
Income tax expense	23,200	23,655
Net income (loss)	<u>\$ 1,459,964</u>	<u>\$ 3,098,112)</u>
Net income (loss) per common share - basic	<u>\$ 0.02</u>	<u>\$ 0.04)</u>
Net income (loss) per common share - diluted	<u>\$ 0.02</u>	<u>\$ 0.04)</u>
Weighted average number of common shares outstanding - basic	<u>70,321,566</u>	<u>70,321,566</u>
Weighted average number of common shares outstanding - diluted	<u>77,860,418</u>	<u>70,321,566</u>

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

**FUSE MEDICAL, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (ACCUMULATED DEFICIT)**  
(in dollars, except share data)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	
Balance, December 31, 2021	<u>72,895,793</u>	<u>728,958</u>	<u>1,455,422</u>	<u>(5,616,198)</u>	<u>(3,431,818)</u>
Stock options granted	-	-	22,852	-	22,852
Board compensation	999,999	10,000	(10,000)		
Net income				3,098,112	3,098,112
Balance, December 31, 2022	<u>73,895,792</u>	<u>\$738,958</u>	<u>\$1,468,274</u>	<u>\$ (2,518,086)</u>	<u>\$ (310,854)</u>
Stock options granted	-	-	-	-	-
Board compensation	-	-	-		
Net income				1,459,964	1,459,964
Balance, December 31, 2023	<u>73,895,792</u>	<u>\$738,958</u>	<u>\$1,468,274</u>	<u>\$ (1,058,122)</u>	<u>\$ 1,149,110</u>

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

**FUSE MEDICAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended December 31, 2023</b>	<b>For the Year Ended December 31, 2022</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,459,964	\$ 3,098,112
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	131,570	137,403
Change in fair value of contingent purchase consideration	(3,292,809)	(4,108,134)
Stock based compensation	-	22,852
Provision for discounts on long term accounts receivable	624,832	975,489
Provision for bad debts and discounts	(76,111)	(207,761)
Provision for slow moving and obsolete inventory	147,059	713,010
Goodwill impairment	1,972,886	-
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	1,006,848	(260,107)
Inventories	227,584	(1,471,042)
Prepaid expenses and other current assets	(37,299)	(120,101)
Long term accounts receivable	(403,650)	(1,625,816)
Accounts payable	(3,390,271)	1,238,595
Accrued expenses	2,073,183	1,642,299
Net cash provided by/(used in) operating activities	<u>443,786</u>	<u>34,799</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	-	-
Net cash used in investing activities	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities:</b>		
Net payments/proceeds on Amegy senior secured revolving credit facility	-	-
Net payment/proceeds on senior secured revolving credit facility	(353,473)	(435,635)
Payments for senior secured revolving credit facility	-	(4,500)
Net cash provided by/(used in) financing activities	<u>(353,473)</u>	<u>(440,135)</u>
Net increase in cash and cash equivalents	90,313	(405,336)
Cash and cash equivalents - beginning of year	147,854	553,190
Cash and cash equivalents - end of year	<u>\$ 238,167</u>	<u>\$ 147,854</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 18,052</u>
Cash paid for interest	<u>\$ 187,303</u>	<u>\$ 160,447</u>

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

## **Note 1. Nature of Operations**

### **Overview**

The Company was initially incorporated in 1968 as American Metals Service, Inc., a Florida corporation. In July 1999, American Metals Service, Inc. changed its name to GolfRounds.com, Inc. and was redomiciled to Delaware through a merger. Effective May 28, 2014, GolfRounds.com, Inc. amended its certificate of incorporation to change its name to Fuse Medical, Inc., and Fuse Medical, LLC, an unrelated entity, merged with and into a wholly-owned subsidiary of Fuse Medical, Inc., with Fuse Medical, LLC surviving as a wholly-owned subsidiary of Fuse Medical, Inc. The transaction was accounted for as a reverse merger. The Company was the legal acquirer, and Fuse Medical, LLC was deemed the accounting acquirer. During 2015, certificates of termination were filed for Fuse Medical, LLC and its two subsidiaries.

On December 19, 2016, the Change-in-Control Date, the Company entered into a Stock Purchase Agreement by and between the Company, NC 143 which is controlled by Mr. Brooks, the Company's Chairman of the Board and President; and RMI, which is owned and controlled by Mr. Reeg, the Company's Chief Executive Officer and Secretary. The closing of the Stock Purchase Agreement resulted in a change-in-control of the Company whereby Mr. Brooks and Mr. Reeg beneficially acquired approximately 61.4% of the Company's issued and outstanding shares of Common Stock, immediately after the Change-in-Control Date.

On December 31, 2017, the Company completed the acquisition of CPM pursuant to the CPM Acquisition Agreement. Subsequent to the Change-in-Control Date, CPM and Company operations are consolidated. On August 1, 2018, the Company completed the acquisition of Maxim Surgical, pursuant to the Maxim Purchase Agreement. As of the Maxim Closing Date, Maxim and Company operations are consolidated.

### **Nature of Business**

The Company is a manufacturer, distributor, and wholesaler of medical device implants, offering a broad portfolio of orthopedic implants and biologics including: (i) internal and external fixation products; (ii) upper and lower extremity plating and total joint reconstruction implants; (iii) soft tissue fixation and augmentation for sports medicine procedures; (iv) full spinal implants for trauma, degenerative disc disease and deformity indications; and (v) a wide array of osteo-biologics, regenerative tissues and amniotic tissue, which include human allografts, substitute bone materials, and tendons and regenerative tissues. All of the Company's medical devices are approved by the FDA for sale in the United States, and all of the Company's Biologics suppliers are licensed tissue banks accredited by the American Association of Tissue Banks.

The Company's broad portfolio of Orthopedic Implants and Biologics provide high-quality products to assist surgeons with positive patient outcomes and cost-effective solutions for its customers, which include hospitals, medical facilities, and sub-distributors. The Company operates under exclusive and non-exclusive agreements with certain vendors and supply partners in the geographic territories the Company serves.

The Company continuously reviews and expands its product lines to ensure that they offer a comprehensive, high-quality and cost-effective selection of Orthopedic Implants and Biologics so that the Company can be more relevant to its customer needs while continuing to grow its existing customer base. Additionally, the Company continues to grow its manufacturing operations, both by internal product development as well as the acquisition of existing FDA cleared devices.

## **Note 2. Significant Accounting Policies**

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CPM and Maxim. Intercompany transactions have been eliminated in consolidation.

### **Use of Estimates**

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), requires the Company's management to make estimates and assumptions that affect the Company's reported amounts in the consolidated financial statements.

Actual results could differ from those estimates. Significant estimates on the accompanying consolidated financial statements include the allowances for doubtful accounts, valuation of inventories, the Company's effective income tax rate and the fair value calculations of stock-based compensation, goodwill, finite lived intangibles and the earn-out liability.

## Segment Reporting

In accordance with Accounting Standards Update (“ASU”) No. 280, “Segment Reporting,” the Company uses the management approach for determining its reportable segments. The management approach is based upon the way that management reviews performance and allocates resources. The Company’s Chief Executive Officer serves as the Company’s chief operating decision maker, and his management team reviews operating results on a consolidated basis for purposes of allocating resources and evaluating the financial performance of the Company. The Company has integrated the operations of both CPM and Maxim. Accordingly, the Company has determined that it has one operating segment and, therefore, one reporting segment.

## Reclassification

Long term accounts receivable, net of allowance was previously reported as a component of current assets as accounts receivable, net of allowance, in the Company’s accompanying consolidated balance sheets. Long term accounts receivable reflects Cases where the patient has obtained a letter of protection, (“LOP”). A LOP is a contract that provides that the medical providers will be paid from any proceeds received from settlement of litigation of the underlying cause of action with respect to the event that necessitated medical goods and services. Once the medical provider receives payment, then the medical provider pays the Company’s invoice, which payment is generally greater than 365 days from date of service. The LOP provides medical providers with greater certainty of full payment. This reclassification had no effect on the previously reported total assets or net loss.

## Net Income (Loss) Per Common Share

Net income (loss) per common share, basic is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of Common Stock, outstanding during the period, without consideration of Common Stock equivalents. Shares of restricted stock are included in the basic weighted-average number of Common Stock outstanding from the time they vest.

Diluted net income (loss) per common share is computed by dividing net income/(loss) by the weighted-average number of Common Stock equivalents outstanding for the period determined using the treasury stock method. For the year ended December 31, 2023, the Company excluded the effects of outstanding stock options, convertible notes and, to the extent in the money, restricted stock as their effects were antidilutive due to the Company’s operating loss during these periods. (See Note 10, “Stockholders’ Equity (Accumulated Deficit)” for the terms and conditions of restricted stock).

## Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company classifies assets and liabilities recorded at fair value under the fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The fair value measurements are classified under the following hierarchy:

Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;

Level 2—Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and

Level 3—Unobservable inputs that are supported by little or no market activity that are significant to the fair value of assets or liabilities.

In connection with the CPM Acquisition, the Company initially recorded a \$19,244,543 liability related to the Earn-Out portion of the purchase consideration. The Company has classified the Earn-Out liability as a Level 3 liability and the fair value of the Earn-Out liability will be evaluated each reporting period and changes in its fair value will be included in the Company’s earnings. The Earn-Out payments are based on the financial performance of the Company between the period of January 1, 2018, and December 31, 2034. The base amount of the Earn-Out is \$16,000,000 with an additional bonus payment of \$10,000,000. The payments of the base and bonus Earn-Out amounts are subject to the Company meeting certain earnings thresholds as detailed in the CPM Acquisition Agreement. The Earn-Out payments during the Earn-Out period specified above, ranges from \$0 to \$26,000,000.

The fair value of the Earn-Out liability was calculated using the Monte Carlo simulation, which was then applied to estimated Earn-Out payments with a discount rate of three percent (3%). To determine the fair value of the Earn-Out liability, the Company’s management evaluates assumptions that require significant judgement. Significant assumptions used for estimating the Earn-Out liability included: (i) Earnings before interest, taxes, depreciation, and amortization (“EBITDA”) margins increasing from one percent (1%) to ten percent (5%) over the next four years; and (ii) revenue growth of between approximately one percent (1%) to two percent (2%) over the next five years, and between approximately two percent (2%) and four percent (4%) thereafter.

The Earn-Out liability, which represented contingent consideration associated with the CPM Acquisition, is recorded as a liability. This liability is subject to re-measurement to fair value at each reporting date until the contingency is resolved and the changes in fair value are recognized in the consolidated statements of operations at each reporting period.

For the year ended December 31, 2023 and 2022, the Company has determined the earnings threshold as detailed in the CPM Acquisition Agreement was not met and therefore no payments for either the base or bonus Earn-Out tranches would be achieved, based on the Company's 2023 and 2022 financial performance.

The Earn-Out was remeasured to fair value under the probability weighted income approach. As a result, the fair value of the Earn-Out liability decreased by \$3,292,809 in 2023 and decreased by \$4,108,134 in 2022 and reflected as "Change in fair value of contingent purchase consideration" on our Consolidated Financial Statements.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The recorded values of notes payable approximate their respective fair values based upon their effective interest rates.

### **Financial Instruments**

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The recorded values of notes payable approximate their respective fair values based upon their effective interest rates.

### **Cash and Cash Equivalents**

The Company considers highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. There were \$238,167 cash equivalents as of December 31, 2023. The Company's cash is concentrated in one large financial institution. The amount of cash held at that financial institution may at times exceed federally insured limits of \$250,000 per financial institution. The Company has not experienced any financial institution losses from inception through December 31, 2023.

### **Accounts Receivable, net**

Accounts receivable are non-interest bearing and are stated at gross invoice amounts less an allowance for doubtful accounts receivable and an allowance for contractual discount pricing. Credit is extended to customers based on an evaluation of their financial condition, industry reputation, and other judgmental factors considered by the Company's management. The Company generally does not require collateral or other security interest to support accounts receivable. Based on trends and specific factors, the customer's credit terms may be modified, including required payment upon delivery.

The Company performs regular on-going credit evaluations of its customers as deemed relevant. As events, trends, and circumstance warrant, the Company's management estimates the amounts that are more likely than not to be uncollectible. These amounts are recognized as bad debt expense and are reflected within selling, general, administrative and other expenses on the Company's accompanying consolidated statement of operations.

When accounts are deemed uncollectible, they are often referred to the Company's outside legal firm for litigation. Accounts deemed uncollectible are written-off in the period when the Company has exhausted its efforts to collect overdue and unpaid receivables or otherwise has evaluated other circumstances that indicate that the Company should abandon such efforts. Accounts deemed uncollectible are removed from the Company's accounts receivable portfolio, with a corresponding offset to the allowance for doubtful accounts receivable. The Company may record additional allowances for doubtful accounts based on known trends and expectations to ensure the Company's accounts receivable portfolio is recorded at net realizable value. Specific allowances are re-evaluated and adjusted as additional facts and information become available. Previously written-off accounts receivable subsequently collected are recognized as a reduction of bad debt expense when funds are received.

The Company's management estimates its allowance for contractual discount pricing, by evaluating specific accounts where information indicates the customer is offered contractual pricing and discount allowances. In these arrangements, the Company's management uses assumptions and judgement, based on the best available facts and circumstances to record a specific allowance for the amounts due from those customers. The allowance is offset by a corresponding reduction to revenue. These specific allowances are re-evaluated, analyzed, and adjusted as additional information becomes available to determine the total amount of the allowance. The Company may record additional allowances based on trends and expectations to ensure the Company's accounts receivable portfolio is recorded at net realizable value.

### **Long Term Accounts Receivable, net**

Long term accounts receivable reflects Cases where the patient has obtained a letter of protection, ("LOP"). A LOP is a contract that provides that the medical providers will be paid from any proceeds received from settlement of litigation of the underlying cause of

action with respect to the event that necessitated medical goods and services. Once the medical provider receives payment, then the medical provider pays the Company's invoice, which payment is generally greater than 365 days from date of service. The LOP provides medical providers with greater certainty of full payment.

## Inventories

Inventories are stated at the lower of cost or net realizable value (first-in, first-out) which includes an allowance for slow-moving inventory, expired inventory, and inventory obsolescence. Inventories consist entirely of finished goods and include internal and external fixation products; upper and lower extremity plating and total joint reconstruction; soft tissue fixation and augmentation for sports medicine procedures; spinal implants for trauma, degenerative disc disease, and deformity indications (collectively, "Orthopedic Implants") and osteo-biologics and regenerative tissue which include human allografts, substitute bone materials, tendons, as well as amniotic tissues (collectively, "Biologics"). The Company reviews the market value of inventories whenever events and circumstances indicate that the carrying value of inventories may not be recoverable from the estimated future sales price less cost of disposal and normal gross profit. In cases where the market values are less than the carrying value, a write-down is recognized equal to an amount by which the carrying value exceeds the market value of inventories.

The Company's management increased the inventory reserve in 2023 for slow moving and obsolescence by \$147,059 to a balance of \$1,925,231. In 2022 the Company decreased the reserve by \$713,010 to a balance of \$1,778,173, due to items previously reserved for being either disposed of or sold, which is reflected in inventory and cost of revenues on the Company's consolidated balance sheets and statements of operations, respectively.

## Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets per the following table. Expenditures for additions and improvements are capitalized, while repairs and maintenance are expensed as incurred. The Company reviews long-lived assets for impairment annually or whenever changes in circumstances indicate that the carrying amount of an asset might not be recoverable.

Category	Amortization Period
Computer equipment	3 years
Furniture and fixtures	3 years
Office equipment	3 years
Software	3 years

Upon the retirement or disposition of property and equipment, the related cost and accumulated depreciation is removed. A gain is recorded when consideration received is more than the disposed asset's cost, net of depreciation, and a loss is recorded when consideration received is less than the disposed asset's cost, net of depreciation.

## Long-Lived Assets

The Company reviews other long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows, which is at the individual asset level or the asset group level. The undiscounted cash flows expected to be generated by the related assets are estimated over their useful life based on updated projections. If the evaluation indicates that the carrying amount of the assets may not be recoverable, any potential impairment is measured based upon the fair value of the related assets or asset group as determined by an appropriate market appraisal or other valuation technique. Assets classified as held for sale, if any, are recorded at the lower of carrying amount or fair value less costs to sell.

## Goodwill and Other Intangible Assets

Goodwill is determined based on an acquisition purchase price in excess of the fair value of identified net assets acquired. Intangible assets with lives restricted by contractual, legal, or other means are amortized over their useful lives.

Goodwill is not amortized but is tested in the fourth quarter each year for impairment, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The Company performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying value of a reporting unit exceeds its fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. For the year ended December 31, 2023 an impairment charge of \$1,972,886 was recognized and no impairment charge was recognized in 2022.

**Accounting Standards Codification (“ASC”)** 350-30-35-18, intangibles assets not subject to amortization, indicates that an intangible asset that is not subject to amortization shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. The Company’s 510(k) intangible asset has an indefinite life. The Company does not believe that triggering event has occurred as of December 31, 2022.

The Company’s intangible assets subject to amortization consist primarily of acquired non-compete agreements, funds to secure the Company’s Credit and Security Agreement (the “Credit Agreement”) with eCaptial Healthcare Corp. f/k/a CNH Finance Fund I, L.P., and customer relationships. Amortization expense is calculated using the straight-line method over the asset’s expected useful life.

### **Revenue Recognition**

The Company’s revenues are generated from the sales of Orthopedic Implants and Biologics to support orthopedic surgeries. The Company obtains purchase orders from its customers for the sale of its products which set forth the general terms and conditions including line-item pricing and payment terms (generally due upon receipt). The Company recognizes revenue when its customers obtain control over the assets (generally when the title passes upon shipment or when a product is utilized in a surgery), and it is probable that the Company will collect substantially all the amounts due. Individual promised goods are the Company’s only performance obligation.

Due to the nature of its products, the Company’s product returns have been historically immaterial.

The Company includes shipping and handling fees in net revenues. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold on the Company’s accompanying consolidated statements of operations.

### **Cost of Revenues**

Cost of revenues consists of (i) cost of goods sold, (ii) freight and shipping costs for items sold to customers, (iii) cost of storage, (iv) investment in medical instruments, which are expensed when acquired, (v) inventory shrink, and (vi) an estimate for slow-moving inventory, expired inventory, and inventory obsolescence.

### **Income Taxes**

As a result of the CPM Acquisition, the Company became the sole managing member of CPM and as a result, began consolidating the financial results of CPM. CPM is treated as a disregarded entity for U.S. federal and most applicable state and local income tax purposes. As a disregarded entity, CPM is not subject to U.S. federal and most applicable state and local income tax purposes. Any taxable income or loss generated by CPM is included in the taxable income or loss of the Company. As a result of the Maxim Acquisition, the Company and Maxim will elect to file a consolidated tax return for the period after acquisition.

The Company uses the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. The Company has deferred tax assets and liabilities that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are subject to periodic recoverability assessments. Realization of the deferred tax assets, net of deferred tax liabilities, is principally dependent upon achievement of projected future taxable income.

The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. As of December 31, 2023 and 2022, the Company had no liabilities for uncertain tax positions. The Company’s policy is to recognize interest and penalties related to income tax matters as a component of income tax expense. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

### **Recent Accounting Pronouncements**

The Company considers the applicability and impact of all Accounting Standard Updates (“ASU”) issued, both effective and not yet effective.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the SEC did not or are not believed by the Company’s management to have a material impact on the Company’s present or future consolidated financial statements.

### Note 3. Goodwill and Intangible Assets

The following table summarizes the Company's goodwill and other intangible assets:

	December 31, 2023	December 31, 2022	Amortization period (years)
Intangible assets:			
510k product technology	\$ 704,380	\$ 704,380	Indefinite
Customer relationships	555,819	555,819	11
CNH Credit Agreement	240,858	240,858	3
Total intangible assets	1,501,057	1,501,057	
Less: accumulated amortization	(440,939)	(310,077)	
Intangible assets, net	1,060,118	1,190,980	
Goodwill	\$ 0	\$ 1,972,886	Indefinite

Amortization expense for the years ended December 31, 2023 and 2022 was \$130,861.

The Company's intangible assets subject to amortization consist primarily of acquired non-compete agreements, customer relationships, and costs associated with the preparation of the Credit Agreement.

The following is a schedule by year of the Company's future amortization expense related to the finite-life intangible assets as of December 31, 2023:

Year Ended December 31,	
2024	\$ 130,861
2025	124,166
2026	50,530
2027	50,520
Beyond	79,990
	<u>\$ 436,067</u>

The Company performed its annual goodwill impairment test by comparing the fair value of the reporting units with its carrying amount. The fair value of the reporting units was determined utilizing both a discounted cash flow and merger and acquisitions methodology in the conclusion of value. The carrying value was less than its fair value and goodwill impairment charge was recognized for 2023.

### Note 4. Senior Secured Revolving Credit Facility

On December 14, 2021, the Company entered into the Credit Agreement with eCapital Healthcare Corp. f/k/a CNH Finance Fund I, L.P., a Delaware limited partnership (the "Lender"). The Credit Agreement provides for a secured revolving credit facility maturing on January 1, 2025 (the "Facility") with an initial maximum principal in the amount of \$5,000,000. Borrowings under the Facility are subject to a borrowing base as set forth in the Credit Agreement.

The Company used borrowings under the Facility to repay in full (i) the Amended and Restated Business Loan Agreement, dated December 31, 2017, among ZB, N.A. (d/b/a Amegy Bank) and the Borrowers as amended, and (ii) the U.S. Small Business Administration Loan Authorization and Agreement, dated May 12, 2020, between the Company and the U.S. Small Business Association, as amended. Borrowings under the Credit Agreement may be used for payment of fees, costs and expenses incurred in connection with the Credit Agreement and working capital for the Borrowers and their subsidiaries.

Borrowings under the Credit Agreement bear interest at a floating rate, which will be at the Prime Rate plus 1.75%. Under the Credit Agreement, certain fees are payable by the Borrowers as set forth in the Credit Agreement.

The obligations of the Borrowers with respect to the Credit Agreement are secured by a pledge of substantially all of the personal property assets of the Borrowers, including accounts receivables, deposit accounts, intellectual property, investment property, inventory, equipment and equity interests in their respective subsidiaries.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on the Company's and its subsidiaries' ability to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions, pay subordinated indebtedness and enter into affiliate transactions. In addition, the Credit Agreement contains financial covenants requiring the Company on a consolidated basis to maintain, as of the last day of each calendar month (i) a current ratio of not less than 1.0 to 1.0, (ii) a fixed charge coverage ratio of not less than 1.0 to 1.0, (iii) a loan turnover rate of not greater than 60, and (iv) minimum liquidity of not less than \$175,000, provided that if the Borrowers comply with the fixed charge coverage ratio for twelve consecutive months, the minimum liquidity covenant shall cease to be effective. The

Credit Agreement also includes events of default customary for facilities of this type and upon the occurrence of any such event of default, all outstanding loans under the Facility may be accelerated and/or the lenders' commitments terminated.

The Credit Agreement contains customary representations and warranties of the Borrowers. These representations and warranties have been made solely for the benefit of the lender and such representations and warranties should not be relied on by any other person, including investors. In addition, such representations and warranties (i) have been qualified by disclosures made to the lenders in connection with the agreement, (ii) are subject to the materiality standards contained in the agreement which may differ from what may be viewed as material by investors and (iii) were made only as of the date of the agreement or such other date as is specified in the Credit Agreement.

On March 22, 2023, we executed the First Amendment to the RLOC with eCapital Healthcare Corp. f/k/a CNH (the "First Amendment"). The First Amendment (i) waived the fixed charge coverage ratio (FCCR) under the RLOC for the testing period then ending February 28, 2023, and (ii) amended the FCCR test from a trailing twelve month test to a trailing three month test (iii) waive the minimum liquidity covenant defaults for November 30, 2022 and December 31, 2022.

The foregoing description does not constitute a complete summary of the terms of the Credit Agreement and is qualified in its entirety by reference to the full text of the Credit Agreement, which is filed as Exhibit 10.45 to this Form 10-K and incorporated herein by reference.

Pursuant to the Credit Agreement, the Company had an outstanding balance of \$1,643,662 as of December 31, 2023. In preparation of the Credit Agreement, the company incurred \$236,358 of costs that have been allocated to intangible assets and will be amortized over the life of the Credit Agreement. Interest expense incurred on the RLOC was \$188,553 for the year ended December 31, 2023 and is reflected in interest expense on the Company's accompanying consolidated statements of operations. Accrued interest on the RLOC as of December 31, 2023 was \$20,732, and is reflected in accrued expenses on the Company's accompanying consolidated balance sheets.

#### **Note 5. Notes Payable – Related Parties**

During July 2016 through October 2016, the Company obtained three working capital loans from NC 143 and RMI in the aggregate amount of \$150,000 in exchange for Notes bearing ten percent (10%) interest per annum until December 31, 2016 ("Maturity Date") and eighteen percent (18%) interest per annum for periods subsequent to the Maturity Date. The Notes remain outstanding, and principal and interest are due and payable upon demand of the payee and at the holder's sole discretion. The Notes' holders have the right to convert all or any portion of the then unpaid principal and interest balance into shares of the Company's Common Stock at a conversion price of \$0.08 per share. On May 6, 2020, the Company borrowed \$180,000 from NC 143 and \$20,000 from RMI, in exchange for two promissory notes which are unsecured and bear interest at 0.25% per annum until May 6, 2022, the maturity date, and 10.0% per annum after the maturity date, if not paid in full. Principal and interest are due and payable on the maturity date, provided, however, any payment of principal and interest on the loans is subordinated to payment of all indebtedness under the Credit Agreement. On March 25, 2022, the two promissory notes were amended to extend the maturity date from May 6, 2022, to May 6, 2024.

During the years ended December 31, 2023 and 2022, interest expense of \$27,000 and \$27,500, respectively, is reflected in interest expense on the Company's accompanying consolidated statements of operations. As of December 31, 2023, and 2022, accrued interest was \$194,170 and \$167,170, respectively, which is reflected in accrued expenses on the Company's accompanying consolidated balance sheets.

#### **Note 6. Income Taxes**

The Company began consolidating the financial results of CPM effective January 1, 2016, when the Company became the sole managing member of CPM. CPM is treated as a disregarded entity for U.S. federal and most applicable state and local income taxes. As a disregarded entity, CPM is not subject to U.S. federal and certain state and local income taxes. Beginning January 1, 2019, taxable income or loss generated by CPM is included in its taxable income or loss of the Company.

The Company is subject to U.S. federal income taxes, in addition to state and local income taxes.

The components of income tax expense (benefit) are as follows:

	<b>For the Year Ended December 31, 2023</b>	<b>For the Year Ended December 31, 2022</b>
<b>Current:</b>		
Federal	\$ -	\$ -
State	23,200	23,655
	<u>23,200</u>	<u>23,655</u>
<b>Deferred:</b>		
Federal	-	-
State	-	-
	<u>-</u>	<u>-</u>
<b>Total Income tax expense</b>	<b>\$ 23,200</b>	<b>\$ 23,655</b>

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Deferred tax assets:</b>		
Net operating loss carryforward	\$ 1,814,626	\$ 1,632,301
Accounts receivable	36,490	61,005
Compensation	560,735	560,735
Inventory	171,146	369,456
Other	34,297	26,465
<b>Total deferred tax assets</b>	<b><u>2,617,295</u></b>	<b><u>2,649,962</u></b>
<b>Deferred tax liabilities:</b>		
Intangibles	(187,707)	(190,817)
Property and equipment	-	(149)
<b>Total deferred tax liabilities</b>	<b><u>(187,708)</u></b>	<b><u>(190,966)</u></b>
<b>Deferred tax assets, net</b>	<b><u>2,429,587</u></b>	<b><u>2,458,996</u></b>
<b>Valuation allowance:</b>		
Beginning of year	(2,458,996)	(2,246,892)
Increase during year	29,409	(212,104)
Ending balance	<u>(2,429,587)</u>	<u>(2,458,996)</u>
<b>Net deferred tax asset</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. The Company recorded a valuation allowance totaling \$29,409 for the twelve months ended December 31, 2023 due to the uncertainty of realization. Management believes that based upon the history of losses that the Company has incurred to date and its projection of future taxable operating income for the foreseeable future, it is more likely than not that the Company will not be able to realize the tax benefit associated with deferred tax assets. The valuation allowance established as of December 31, 2023 was \$2,429,587.

At December 31, 2023, the Company estimates it has approximately \$8,641,075 of net operating loss carryforwards which \$3,529,600 will expire during 2023 through 2038. Under Section 382 of the Internal Revenue Code of 1986, as amended ("IRC Section 382"), a corporation that undergoes an "ownership change", as defined therein, is subject to limitation on its use of pre-change tax attributes carryforward to offset future taxable income. The Company completed a 382 study and determined that there were changes in ownership in prior years which limited the NOL from 2013 and earlier, and 2014 through 2016. The 382 limitation mathematically precludes the use of approximately \$333,699 of net operating loss carryforwards, therefore, the deferred net operating loss carryover asset excludes the portion of net operating loss that are mathematically excluded from future use by the Company.

The Company's management believes its tax positions will more likely than not be upheld upon examination. As such, the Company has not recorded a liability for unrecognized tax positions. As of December 31, 2023, all the tax years remained open to examination for three years from the tax year in which net operating losses are utilized. The Company was not subject to examination by any income taxing authority as of December 31, 2023.

A reconciliation of income tax computed at the U.S. statutory rate to the effective income tax rate is as follows:

	<b>For the Year Ended December 31, 2023</b>	<b>For the Year Ended December 31, 2022</b>
Statutory U.S. federal income tax rate	21.0%	21.0%
Gain on Payroll Protection Program Loan	0.0%	0.0%
Permanent differences	0.0%	-27.6%
State income taxes, net of federal tax benefit	11.2%	0.6%
Change in deferred tax asset valuation allowance	-18.0%	6.8%
Effective income tax rate	<u>14.2%</u>	<u>0.8%</u>

Our effective income tax rates for the years ended December 31, 2023 and 2022 were 14.2% and 0.8%, respectively. The increase between years is driven by the valuation allowance allocated to the deferred tax asset for the current period.