

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

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 201,003	\$ 238,167
Accounts receivable, net of allowance of \$173,763 and \$290,500, respectively	2,210,897	3,066,123
Inventories, net of allowance of \$1,925,231 and \$1,778,173, respectively	8,386,907	9,119,863
Prepaid expenses and other current assets	87,728	163,321
<b>Total current assets</b>	<u>10,886,535</u>	<u>12,587,474</u>
Property and equipment, net	70,827	-
Long term accounts receivable, net of allowance of \$4,330,883 and \$3,355,391, respectively	2,585,108	2,611,582
Intangible assets, net	935,952	1,060,119
Other Assets	28,893	
<b>Total assets</b>	<u>\$ 14,507,315</u>	<u>\$ 16,259,175</u>
<b>Liabilities and Stockholders' Equity (Accumulated Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,537,724	\$ 2,309,965
Credit Card	135,198	
Accrued expenses	4,158,674	6,613,549
Convertible notes payable - related parties	150,000	150,000
Senior secured revolving credit facility	1,701,580	1,643,662
<b>Total current liabilities</b>	<u>7,683,176</u>	<u>10,717,176</u>
Notes payable - related parties	200,000	200,000
Economic Injury Disaster Loan - long term portion	-	-
Lease Liability	28,893	
Earn-out liability	—	4,192,889
<b>Total liabilities</b>	<u>7,912,069</u>	<u>15,110,065</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 shares issued and outstanding as of December 31, 2023 and 2022	738,958	738,958
Additional paid-in capital	1,468,274	1,468,274
Retained earnings (Accumulated deficit)	4,388,014	(1,058,122)
<b>Total stockholders' equity (accumulated deficit)</b>	<u>6,595,246</u>	<u>1,149,110</u>
<b>Total liabilities and stockholders' equity (accumulated deficit)</b>	<u>\$ 14,507,315</u>	<u>\$ 16,259,175</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, 2024</b>	<b>For the Year Ended December 31, 2023</b>
Net revenues	\$ 10,726,177	\$ 16,115,483
Cost of revenues	3,700,773	5,250,075
Gross profit	7,025,404	10,865,408
Operating expenses		
Selling, general, administrative and other	3,128,601	5,604,020
Commissions	3,015,811	4,745,995
Depreciation and amortization	159,580	131,570
Total operating expenses	6,303,992	10,481,585
Operating loss	721,412	383,823
Other income (expense):		
Change in fair value of contingent purchase consideration	-	3,292,809
Goodwill Impairment	-	(1,972,886)
Interest expense	(191,874)	(220,582)
Total other income (expense)	(191,874)	1,099,341
Operating loss before income tax	529,538	1,483,164
Income tax expense	15,578	23,200
Net income (loss)	\$ 513,960	\$ 1,459,964
Net income (loss) per common share - basic	\$ 0.01	\$ 0.02
Net income (loss) per common share - diluted	\$ 0.01	\$ 0.02
Weighted average number of common shares outstanding - basic	70,321,566	70,321,566
Weighted average number of common shares outstanding - diluted	77,860,418	77,860,418

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

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Deficit</b>	
Balance, December 31, 2022	<u>73,895,794</u>	<u>738,958</u>	<u>1,468,274</u>	<u>(2,518,086)</u>	<u>(310,854)</u>
Stock options granted	-	-	-	-	-
Stock options exercised	-	-	-	-	-
Board compensation	-	-	-	-	-
Restricted stock forfeiture	-	-	-	-	-
Rounding shares	-	-	-	-	-
Net income	-	-	-	1,459,964	1,459,964
Balance, December 31, 2023	<u>73,895,794</u>	<u>738,958</u>	<u>1,468,274</u>	<u>(1,058,122)</u>	<u>1,149,110</u>
Stock options granted	-	-	-	-	-
Board compensation	-	-	-	-	-
Additional paid-in capital (forgiveness of debt)	-	-	-	4,932,176	4,932,176
Net income	-	-	-	513,960	513,960
Balance, December 31, 2024	<u>73,895,794</u>	<u>\$ 738,958</u>	<u>\$ 1,468,274</u>	<u>\$ 4,388,014</u>	<u>\$ 6,595,246</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, 2024</b>	<b>For the Year Ended December 31, 2023</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 513,960	\$ 1,459,964
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	159,580	131,570
Change in fair value of contingent purchase consideration	-	(3,292,809)
Goodwill Impairment	-	1,972,886
Provision for discounts on long term accounts receivable	-	624,832
Provision for bad debts and discounts	-	(76,111)
Provision for slow moving and obsolete inventory	-	147,059
Changes in operating assets and liabilities:		
Accounts receivable	855,226	1,006,848
Inventories	732,956	227,584
Prepaid expenses and other current assets	75,593	(37,299)
Long term accounts receivable	26,474	(403,650)
Accounts payable	(637,043)	(3,390,271)
Accrued expenses	(1,875,168)	2,073,183
Net cash provided by/(used in) operating activities	(148,422)	443,786
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(70,827)	-
Other Assets	95,274	-
Net cash used in investing activities	24,447	-
<b>Cash flows from financing activities:</b>		
Net payment/proceeds on senior secured revolving credit facility	57,918	(353,473)
Right-to-use liability	28,893	-
Payments for senior secured revolving credit facility	-	-
Net cash provided by/(used in) financing activities	86,811	(353,473)
Net increase in cash and cash equivalents	(37,164)	90,313
Cash and cash equivalents - beginning of year	238,167	147,854
Cash and cash equivalents - end of year	\$ 201,003	\$ 238,167
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 191,874	\$ 187,303

*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.

On September 27, 2023, the Company filed Form 15 with the Securities and Exchange Commission (SEC) to voluntarily deregister its common stock under Section 12(g) of the Securities Exchange Act of 1934. This decision was made following a review of the Company's shareholder base and the confirmation that the Company met the eligibility requirements for deregistration, including having fewer than 300 record holders of its common equity securities. Upon filing, the Company's obligation to file periodic reports with the SEC, including Forms 10-K, 10-Q, and 8-K was suspended. The deregistration aligns with the Company's ongoing efforts to reduce costs and regulatory burdens while maintaining a focus on long-term value creation for shareholders. The company is committed to providing annual financial statements to the OTC (PINK) in order to maintain its trading symbol, FZMD. Operational updates will be disseminated through the company's website. Additionally, the company will continue to uphold its rigorous standards of corporate governance and financial controls.

### **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 and connective tissues, 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.

## **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 \$201,003 cash equivalents as of December 31, 2024. 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 connective 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 decreased the inventory reserve in 2024 for slow moving and obsolescence by \$862,846 to a balance of \$1,062,386. In 2023 the Company increased the reserve by \$147,048 to a balance of \$1,925,231, 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.

<b>Category</b>	<b>Amortization Period</b>
Computer equipment	3 years
Furniture and fixtures	3 years
Office equipment	3 years
Software	3 years
FPS Instrument Sets	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.

**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 Action Capital Corporation 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, 2024 and 2023, 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. Property and Equipment

Property and equipment consisted of the following as of December 31, 2024 and 2023:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Computer equipment and software	\$ 20,249	\$ 20,249
Fixed Assets - FPS Sets	\$ 106,241	\$ -
Office equipment	-	-
Property and equipment costs	126,490	20,249
Less: accumulated depreciation	(55,662)	(20,249)
Property and equipment, net	<u>\$ 70,828</u>	<u>\$ -</u>

Depreciation expense for the year ended December 31, 2024 and 2023 was \$34,413 and \$6,452 respectively.

## Note 4. Intangible Assets

The following table summarizes the Company’s intangible assets:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>	<u>Amortization period (years)</u>
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	<u>1,501,057</u>	<u>1,501,057</u>	
Less: accumulated amortization	(565,105)	(440,939)	
Intangible assets, net	<u>935,952</u>	<u>1,060,118</u>	

Amortization expense for the years ended December 31, 2024 and 2023 was \$124,167 and \$130,861 respectively.

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-lived intangible assets as of December 31, 2023:

<u>Year Ended December 31,</u>	
2025	124,166
2026	50,532
2027	50,530
2028	50,520
Beyond	79,990
	<u>\$ 355,738</u>

## Note 5. Senior Secured Revolving Credit Facility

On April 9, 2024, the Company entered into the Financing and Security Agreement and the Inventory Line of Credit Agreement with Action Capital Corporation (the “Lender”). The Financing and Security Agreement provides for a secured revolving credit facility

maturing until terminated with written notice with an initial maximum principal in the amount of \$2,750,000. The Inventory Line of Credit Agreement provides a promissory note with an initial maximum principle in the amount of \$350,000. Borrowing under the Financing and Security Agreement is subject to a borrowing base as set forth in the Agreement. Pursuant to the both Agreements, the Company had an outstanding balance of \$1,701,580 as of December 31, 2024. Interest expense incurred on the RLOC was \$157,421.61 for the year ended December 31, 2024 and is reflected in interest expense on the Company’s accompanying consolidated statements of operations. Accrued interest on the RLOC as of December 31, 2024 was \$25,403, and is reflected in accrued expenses on the Company’s accompanying consolidated balance sheets.

**Note 6. 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, 2023.

During the years ended December 31, 2024 and 2023, interest expense of \$27,591 and \$27,503, respectively, is reflected in interest expense on the Company’s accompanying consolidated statements of operations. As of December 31, 2024, and 2023, accrued interest was \$221,788 and \$196,009, respectively, which is reflected in accrued expenses on the Company’s accompanying consolidated balance sheets.

**Note 7. Commitments and Contingencies**

**Operating Leases**

The Company entered into a sublease agreement on October 26, 2023 with RK Strategic Management Solutions, LLC. This lease terminated on February 28, 2025. The lease requires monthly payments of \$13,600. Annual rent expense was approximately \$156,400 and \$168,000 for the years ended December 31, 2024 and 2023, and is included in selling, general, administrative and other expenses on the Company’s accompanying consolidated statement of operations.

The Company entered into a commercial flex office/industrial lease agreement on September 23, 2024 with Robert Lynn Management Company, LTD., d/b/a/ NAI Robert Lynn to renew the office space directly with the property management of the building instead of subleasing from the previous tenant of the office space. The commencement date will be March 1, 2025 and expire on February 28, 2030. The new lease requires a monthly payment of \$11,500 for the first year and increases the following years by 3%. In addition to the lease payment, the Company will be responsible for payment of their percentage share of CAM expenses.

The Company leases office equipment under two noncancelable operating lease agreements of which one expired March 2021, and continued on a month to month basis, and one of which expires April 2028. In aggregate, these office equipment leases require monthly payments of approximately \$886. Rent expense for the equipment leases totaled approximately \$10,632 and \$10,632 for the years ended December 31, 2024 and 2023, respectively, and is included in selling, general, administrative and other expenses on the Company’s accompanying consolidated statement of operations.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2024:

<b><u>Year Ended December 31,</u></b>	
2025	\$ 152,618
2026	151,868
2027	156,104
2028	153,509
2029	154,503
Beyond	25,875

\$	794,477
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## Note 9. Concentrations

### Concentration of Revenues, Accounts Receivable and Suppliers

For the years ended December 31, 2024 and 2023, the following significant customer had an individual percentage of total revenue of approximately ten percent (10%) or greater:

	For the Year Ended December 31, 2024	For the Year Ended December 31, 2023
Customer 1	14.85%	12.10%
Customer 2	9.55%	4.72%
Totals	<u>24.40%</u>	<u>16.82%</u>

For the years ended December 31, 2024 and 2023, the following significant customers had a concentration of total accounts receivables of approximately ten percent (10%) or greater:

	For the Year Ended December 31, 2024	For the Year Ended December 31, 2023
Customer 1	10.21%	2.90%
Totals	<u>10.21%</u>	<u>2.90%</u>

For the years ended December 31, 2024 and 2023, the following significant suppliers represented ten percent (10%) or greater of goods purchased:

	For the Year Ended December 31, 2022	For the Year Ended December 31, 2021
Supplier 1	13.00%	9.52%
Supplier 2	12.21%	0.02%
Totals	<u>30.20%</u>	<u>9.54%</u>

## Management Discussion and Analysis

The Company is currently listed on the OTC Pink market, with less than 10% float. Company is closely held with 82% held by COB and CEO, and 10% total held by insiders. The business has been historically funded with operating cash flow and a limited revolving line of credit.

The company is a Texas-based medical device manufacturer, distributor and wholesaler of orthopedic implants and biologics. Both the Chairman and CEO are seasoned orthopedic market executives with combined experience of 26 years in the medical device business, and 60 years combined experience in ancillary healthcare services, from start up to multi state ventures with successful exit strategies.

The Company's product portfolio spans five product categories: orthopedic large joint reconstruction, internal fixation for upper and lower extremities, sports medicine, spine, osteo-biologics and regenerative products. Company has a diverse revenue stream which is not overly reliant on one product category. Company is well-positioned to provide full orthopedic surgical needs to the five main specialty categories.

Company product lines consist of private label products, internally developed manufactured devices, and license/acquisition of unique IP for disruptive technology. In 2018 the company began the transition from an orthopedic distributor to a full-scale FDA certified medical device manufacturer. Since then the Company has embarked on a strategy to provide branded products either by acquisition or through internal development.

The Company has 20 FTEs and 7 independent contractors, 40 plus independent distributors, and sales in over 20 states. The Company has internal staff for engineering, quality, regulatory and compliance. R&D is bolstered with key opinion leaders in spine, ortho, and extremities.

	<b>For the Year Ended December 31, 2024</b>	<b>% of Total Revenues 2024</b>	<b>For the Year Ended December 31, 2023</b>	<b>% of Total Revenues 2023</b>
Net revenues	\$ 10,726,177	100%	\$ 16,115,483	100.0%
Cost of revenues	3,700,773	35%	5,250,075	33%
Gross profit	7,025,404	65%	10,865,408	67%
Operating expenses				
Selling, general, administrative, and other	3,128,601	29%	5,604,020	35%
Commissions	3,015,811	28%	4,745,995	29%
Depreciation and amortization	159,580	1%	131,570	1%
Total operating expenses	6,303,992	59%	10,481,585	65%
Operating income	721,412	7%	383,823	2%

#### Analysis of Net Revenue Decline (2024 vs. 2023)

##### 1. Net Revenue Decline:

- **2024:** \$10.73M
- **2023:** \$16.12M
- **Decrease:** \$5.39M (-33.4%)

Net revenue for the period declined, primarily due to a change in our revenue mix and corresponding recognition methodology. As commission income increased relative to direct product sales, a larger portion of our revenue is now recognized on a net basis rather than gross.

##### 2. Cost of Revenues:

- **2024:** \$3.70M
- **2023:** \$5.25M
- **Decrease:** \$1.55M (-29.5%)

Cost of revenues decreased in line with the shift toward commission-based income, which carries lower direct costs compared to product sales.

##### 3. Gross Profit:

- **2024:** \$7.03M
- **2023:** \$10.87M
- **Decrease:** \$3.84M (-35.3%)

Gross margin as a percentage of revenue declined from 67.4% in 2023 to 65.5% in 2024, primarily due to the implementation of a new standard operating procedure (SOP) system and related improvements in inventory tracking. These transitional efforts temporarily impacted cost efficiencies as the company enhanced its operational infrastructure.

##### 4. Selling, General & Administrative (SG&A) Expenses:

- **2024:** \$3.13M
- **2023:** \$5.60M
- **Decrease:** \$2.48M (-44.2%)

A significant reduction in SG&A expenses suggests cost adjustments were made to align with the new sales model, through lower marketing, logistics, or sales force costs.

#### Key Takeaways:

- The shift to commission-based sales reduced revenue but also decreased costs.
- The gross margin percentage declined slightly, indicating potential pricing pressure or lower commission rates.
- SG&A cost reductions helped offset the impact on profitability.
- Implementing a refined sales strategy focused on a more direct model, targeting key channels including distributors, private label partnerships, and surgery centers to drive growth, enhance customer relationships, and improve margin performance.