

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2021

OR

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

Commission File Number: 001-37899

**SCWORX CORP.**  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

47-5412331  
(I.R.S. Employer  
Identification No.)

590 Madison Avenue, 21st Floor  
New York, New York 10022  
(212) 739-7825

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.001 per share	The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	<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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

As of June 30, 2021, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$16.3 million, based on the last reported trading price of the Common Stock on that date, as reported on the Nasdaq Capital Market.

The number of shares outstanding of the registrant's common stock as of March 31, 2022 was 11,383,454.

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**SCWORX CORP.**  
**ANNUAL**  
**REPORT ON FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
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## Cautionary Statement Regarding Forward-Looking Statements

Certain statements that we make from time to time, including statements contained in this Annual Report on Form 10-K constitute “forward-looking statements” within the meaning Private Securities Litigation Reform Act of 1995, and of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in this Annual Report on Form 10-K are forward-looking statements. These statements, among other things, relate to our business strategy, goals and expectations concerning our services, future operations, prospects, plans and objectives of management. The words “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, and similar terms and phrases are used to identify forward-looking statements in this presentation.

Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. Forward-looking statements in this Annual Report on Form 10-K include, without limitation, statements reflecting management’s expectations for future financial performance and operating expenditures (including our ability to continue as a going concern, to raise additional capital and to succeed in our future operations), expected growth, profitability and business outlook, and operating expenses.

Forward-looking statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from those anticipated by such statements. These factors include, among other things, the unknown risks and uncertainties that we believe could cause actual results to differ from these forward looking statements as set forth under the heading, “Risk Factors” and elsewhere in this Annual Report on Form 10-K. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all of the risks and uncertainties that could have an impact on the forward-looking statements, including without limitation, risks and uncertainties relating to our ability to:

- reverse the recent decline in our revenue and resume growing our revenue;
- resolve the various litigation proceedings and investigations pending against us on favorable terms or at all;
- obtain additional financing in sufficient amounts or on acceptable terms so that we can fund our business plan;
- reduce our dependence on third-party subcontractors to perform some of the work on our contracts;
- mitigate the impact of new or changed laws, regulations or other industry standards that could adversely affect our ability to conduct our business;
- mitigate the impact of the COVID-19 pandemic on our revenues;
- adopt and master new technologies and adjust certain fixed costs and expenses to adapt to our industry’s and customers’ evolving demands; and
- mitigate the impact of changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural or man-made disasters.

Although we believe that the expectations reflected in the forward-looking statements contained in this Annual Report on Form 10-K are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. In light of inherent risks, uncertainties and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Except as required by law, we are under no duty to update or revise any of such forward-looking statements, whether as a result of new information, future events, or otherwise, after the date of this Annual Report on Form 10-K.

You should read this Annual Report on Form 10-K with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

All references to “SCWorx,” “we,” “us,” “our” or the “Company” mean SCWorx Corp., a Delaware corporation, and where appropriate, its wholly owned subsidiaries

## PART I

### Item 1. Business

#### Corporate Information

SCWorx, LLC (n/k/a SCW FL Corp.) (“SCW LLC”) was a privately held limited liability company which was organized in Florida on November 17, 2016. On December 31, 2017, SCW LLC acquired Primrose Solutions, LLC (“Primrose”), a Delaware limited liability company, which became its wholly-owned subsidiary and focused on developing functionality for the software now used and sold by SCWorx Corp. (the “Company” or “SCWorx”). The majority interest holders of Primrose were interest holders of SCW LLC and based upon Staff Accounting Bulletin Topic 5G, the technology acquired has been accounted for at predecessor cost of \$0. To facilitate the planned acquisition by Alliance MMA, Inc., a Delaware corporation (“Alliance”), on June 27, 2018, SCW LLC merged with and into a newly-formed entity, SCWorx Acquisition Corp., a Delaware corporation (“SCW Acquisition”), with SCW Acquisition being the surviving entity. Subsequently, on August 17, 2018, SCW Acquisition changed its name to SCWorx Corp. On November 30, 2018, the Company and certain of its stockholders agreed to cancel 6,510 shares of common stock. In June 2018, the Company began to collect subscriptions for common stock. From June to November 2018, the Company collected \$1,250,000 in subscriptions and issued 3,125 shares of common stock to new third-party investors. In addition, on February 1, 2019, (i) SCWorx Corp. (f/k/a SCWorx Acquisition Corp.) changed its name to SCW FL Corp. (to allow Alliance to change its name to SCWorx Corp.) and (ii) Alliance acquired SCWorx Corp. (n/k/a SCW FL Corp.) in a stock-for-stock exchange transaction and changed Alliance’s name to SCWorx Corp., which is the Company’s current name, with SCW FL Corp. becoming the Company’s subsidiary. On March 16, 2020, in response to the COVID-19 pandemic, SCWorx established a wholly-owned subsidiary, Direct-Worx, LLC.

Our principal executive offices are located at 590 Madison Avenue, 21<sup>st</sup> Floor, New York, New York, 10022. Our telephone number is (844) 472-9679.

In this Annual Report, the terms “SCWorx”, “Alliance,” “Alliance MMA,” the “Company,” “we,” “us” and “our” refer to SCWorx, Corp. (f/k/a Alliance MMA, Inc.). Unless specified otherwise, the historical financial results in this Annual Report are those of SCWorx and its subsidiaries on a consolidated basis.

#### Our Business

SCWorx is a provider of data content and services related to the repair, normalization and interoperability of information for healthcare providers, as well as big data analytics for the healthcare industry.

SCWorx has developed and markets health care information technology solutions and associated services that improve healthcare processes and information flow within hospitals and other healthcare facilities. SCWorx’s software enables a healthcare provider to simplify and organize its data (“data normalization”), allows the data to be utilized across multiple internal software applications (“interoperability”) and provides the basis for sophisticated data analytics (“big data”). Customers use our software to achieve multiple operational benefits, such as supply chain cost reductions, decreased accounts receivables aging, accelerated and completed patient billing in less than 72 hours, contract optimization, increased supply chain management and total cost visibility via dynamic AI connections that automatically structures, repairs, synchronizes and maintains purchasing (“MMIS”), Clinical (“EMR”) and finance (“CDM”) systems. SCWorx’s customers include some of the most prestigious healthcare organizations in the United States. SCWorx offers an advanced software solution for the management of health care providers’ foundational business applications, empowering its customers to significantly reduce costs, drive better clinical outcomes and enhance their revenue. SCWorx supports the interrelationship between the three core healthcare provider systems: Supply Chain, Financial and Clinical. This solution integrates common keys within distinct and variable databases that allows the repaired foundational data to move seamlessly from one application to another enabling our Customers to drive supply chain cost reductions, optimize contracts, increase supply chain management (“SCM”), cost visibility, control rebates and contract administration fees.

Currently, the business systems of hospitals are frequently deficient and often unconnected from each other. These deficiencies in part result from the vast amount of unstructured, manually created and managed data that proliferates within the hospital's supply chain, clinical and billing systems. SCWorx's solutions are designed to improve the flow of information quickly and accurately between the buy-side (supply chain purchasing systems), the consumption-side (clinical documentation systems like the electronic medical records ("EMR")) and billing and collection systems (patient billing systems). The currently poor state of interoperability limits the potential value of each independent system and requires significant expense and extensive human resource commitments from senior personnel to stay ahead of problems and complete basic administrative tasks. SCWorx provides an information service that ultimately leads to safer, more cost effective and financially efficient patient care.

SCWorx has demonstrated that in order for the core hospital systems to function properly there must be a Single Source of Truth ("SSOT") for all products utilized and ultimately billed for. The Item Master File ("IMF"), which is a database of all known products used in hospital and health care settings, must be accurate at all times and expanded upon to hold both clinical and financial attributes. An accurate and expanded Item Master File supports interoperability between the supply chain, clinical and financial systems by delivering, on demand, reports detailing the purchasing, utilization and revenue associated with each and every item used, allowing hospitals to better manage their business. The Single Source of Truth establishes a common vernacular and syntax, while assigning a consistent meaning across the healthcare provider's core systems and accurately migrating data from one application to another and removing disconnects between critical business systems.

#### *SCWorx's Software Solutions/Services*

SCWorx empowers healthcare providers to maintain comprehensive access and visibility to an advanced business intelligence that enables better decision-making and reductions in product costs and utilization, ultimately leading to accelerated and accurate patient billing. SCWorx's software modules perform separate functions as follows:

- Virtualized Item Master File repair, expansion and automation — The process begins with data normalization — data is put into a simplified and normalized structure and location for use throughout the enterprise. The SCWorx software normalizes, automates and builds interoperability via advanced attribution, vendor and contract mapping, product categorization, repairing the unit of measure and establishing revenue codes and flags. SCWorx improves the healthcare providers' business processes through the establishment of a clean and normalized Item Master File that improves efficiencies, eliminates cumbersome and error-prone manual processes, and provides an integrated cloud-based suite of services that enhances the productivity of operating room staff, supply chain margins and billing revenue through the seamless sharing and accuracy of critical business data.
- Electronic Medical Record Management — The Electronic Medical Record (EMR) module integrates the advanced data attributes created by SCWorx in the Item Master into the EMR. The EMR serves as the database that hospitals use to document all clinical procedures in terms of the products used and the costs that should be charged. What makes this module special is that prior to its creation there was no mechanism that tied product purchases to actual utilization. Hospitals, being mass consumption businesses, had no way to identify excess ordering that always accompanies mass consumption organizations. In addition, the automation and consistency of delivered attributes dramatically reduces the administrative burden as today these additional attributes are being created by expensive clinical resources manually — over and over again by each hospital. The SCWorx EMR management system creates one vernacular for each hospital so they see the data in a manner that suits them — and then creates a universal vernacular so they can see their performance against other like institutions.

- **Charge Description Master Management** — The Charge Description Master (CDM) Management module assists healthcare providers by integrating the CDM data into the workflow of the hospitals purchasing systems so that the latest costs can be automatically updated against the hospitals charging systems. The CDM data provided by SCWorx is made more accurate, and the resulting data is integrated to the Item Master for real-time delivery to the EMR — this data is the last remaining piece of information that is consumed by the EMR and passed ultimately to the patient billing systems. SCWorx provides real-time integration, automation and management of Item Master File, Clinical Information Systems and the Charge Description Master.
- **Contract Management** — SCWorx’s Contract Management Module assists healthcare providers to establish an efficient contract management system and to provide first class care to patients, while reducing operating costs, assuring adherence to compliance requirements, and mitigating risk. By linking the Item Master File to the healthcare providers contract management system and procedures, SCWorx simplifies the way contracts are managed from start to finish by streamlining the processes of creating, routing, reviewing and approving contracts. SCWorx delivers a data warehouse platform which integrates item master management, spend analysis, and contract management. These solutions enable financial staff across the healthcare provider to drill down quickly and deeply into actionable and real-time financial data and key performance indicators to improve revenue realization and staff efficiency. This suite of solutions includes the ability to automatically push price changes to a contract, compliance for standard and non-standard products, contract compliance and optimization reporting, reliable cost data for current and alternate products, cost performance metrics, matching purchase order price to contract and contract repository.
- **Request for Proposal (“RFP”) Automation** — With the reality of shrinking operating margins, increasing operating expenses and decreasing insurance reimbursements, hospitals must evaluate all major expenditures. In addition, requirements for provable quality of service supported by trackable metrics now frequently necessitate the search for better options available in the marketplace. Since hospital-based provider subsidies are often a major expense item and since there are often perceived opportunities for quality improvement, it is a reasonable practice for hospital leadership to carefully evaluate all of their current hospital-based services and associated financial support before each contract renegotiation. The proliferation of large regional and national providers, with their ability to derive benefits from economies of scale, have made RFPs much more of a competitive process. Hospital administrators, however, often rely on poor or conflicting data when creating an RFP. Through the integration and utilization of the SSOT SCWorx automates the RFP process and makes it more accurate. SCWorx automates the core sourcing processes with the intention to accelerate cycle times, surveys and confirms business preferred processes, designs and builds a flow chart for the current and desired workflows, cross references bid analysis, implements bid scoring, customizes software to support automation and customizes the report writer and output documents.
- **Integration of Acquired Businesses** — The agnostic design of the SCWorx solution enables rapid deployment of a virtual Item Master File to quickly and easily allow combining healthcare providers to share information and achieve cost synergies and interoperability without large and cumbersome upgrades or implementations. During the consolidation of healthcare providers, SCWorx cleans the data and makes the data available to the disparate systems. In addition, M&A activity requires in-depth reporting for comparison of Group Purchasing Organization (“GPO”) contract overlap. When healthcare providers that use different GPOs merge, or are acquired, there is a lack of information to compare contracts. SCWorx provides information for comparative purposes to solve these issues rapidly.
- **Rebate Management** — Frequently, vendors use rebates and incentives as a key part of their pricing strategy and structure when selling to hospitals. This tactic makes pricing more attractive to healthcare providers. When tracked through Accounts Payable, and issued correctly, rebates can help healthcare organizations save money. At any large healthcare provider, vendor rebates can be difficult to manage since they require a multi-step process to track dollars earned, credits issued, and monies paid. Rebates frequently cause tracking challenges for Accounts Payable departments. Inconsistent tracking is the primary problem for loss of savings with vendor rebate programs. SCWorx’s Rebate Management Module enables healthcare providers to correctly calculate and track rebates provided by healthcare provider vendors. Purchasing or Contracting departments monitor rebates by creating and maintaining a Rebates Master List which is provided to the Accounts Payable department. To assist in this cumbersome process, SCWorx provides information from the SSOT, such as historical data, frequent updates, advanced administrative fee reporting, purchase rebate tracking, early payment/discount management and Vendor Master Data alignment.

- **Big Data Analytics Model** — SCWorx provides an in-depth, easy-to-use web portal for display, reporting and analysis of the information contained within the SCWorx data warehouse. SCWorx’s analytics solution enables healthcare providers to view benchmarking information, quickly add new items to the SSOT and identify cost savings through this real-time and on-demand solution. In addition to simplifying the item add process, SCWorx provides peer comparison reporting against similar healthcare providers and a list of informative reports for business measurement, such as spend trend analysis, contract gap analysis, market price comparison, etc. The SCWorx product line is a simplified user experience and visual display for the hospital employee which does not require access to the SCWorx application.
- **Data Integration and Warehousing** — Healthcare providers maintain a significant amount of data. In many cases the data is not useful for analytics since the data is held within an individual “silo.” SCWorx establishes an expandable, data warehouse of items that have been normalized, repaired and enriched as the SSOT for useful benchmarking, interoperability and analytics. SCWorx’s data warehouse allows healthcare providers to effectively use the data contained in their environment and efficiently establish the supply chain as a leading driver of revenue cycle management. The data warehouse is updated as frequently as every five minutes without intervention.
- **ScanWorx** — Our mobile perioperative closed loop scanning solution is driven by the SCWorx foundational data structure, and utilizes interoperable data exchanges to push and secure the customer’s enriched item master, all built around the customer’s internal business rules and chart of account requirements offering the following:
  - Cloud hosted mobile scanning solution, which automates the consumption of known and unknown implant device utilization during surgical procedures via intuitive Scanning or smart searching features.
  - All scanned device utilization will capture all available attributes, such as Global Trade Item Number, Lot, Serial numbers, expiration dates.
  - ScanWorx will establish the following connections with existing Enterprise Resource Planning (“ERP”) and Electronic Medical Record (“EMR”) enterprise systems for the following:
    - EMR — Daily scheduling feeds with case information
    - ERP — Bill-Only electronic purchase orders
    - EMR — Case closure with device utilization integration
  - ScanWorx has the ability to consume additional product utilization per case when provided by the EMR for surgical preference cards, central sterile processing products, and anesthesia gas.
  - ScanWorx will identify and automate the Item-Add process for unknown items introduced during surgical procedures based on customer’s existing business rules.



SCWorx continues to provide transformational data-driven solutions to some of the finest, most well-respected healthcare providers in the United States. Clients are geographically dispersed throughout the country. The Company's focus is to assist healthcare providers with issues they have pertaining to data interoperability. SCWorx provides these solutions through a combination of direct sales and relationships with strategic partners.

SCWorx's software solutions are delivered to clients within a fixed term period, typically a three-to-five-year contracted term, where such software is hosted in SCWorx data centers (Amazon Web Service's "AWS" or RackSpace) and accessed by the client through a secure connection in a software as a service ("SaaS") delivery method.

SCWorx currently sells its solutions and services in the United States to hospitals and health systems through its direct sales force and its distribution and reseller partnerships.

SCWorx, as part of the acquisition of Alliance MMA, acquired an online event ticketing platform focused on serving regional MMA ("mixed martial arts") promotions. Due to the Covid restrictions which were put in place for large gatherings, SCWorx has paused this business activity.

### **Impact of the COVID-19 Pandemic**

The Company's operations and business have experienced disruption due to the unprecedented conditions surrounding the COVID-19 pandemic which spread throughout the United States and the world. The outbreak adversely impacted new customer acquisition. The Company has followed the recommendations of local health authorities to minimize exposure risk for its team members since the outbreak.

In addition, the Company's customers (hospitals) also experienced extraordinary disruptions to their businesses and supply chains, while experiencing unprecedented demand for health care services related to COVID-19. As a result of these extraordinary disruptions to the Company's customers' business, the Company's customers were focused on meeting the nation's health care needs in response to the COVID-19 pandemic. As a result, the Company believes that its customers were not able to focus resources on expanding the utilization of the Company's services, which has adversely impacted the Company's growth prospects, at least until the adverse effects of the pandemic subside. In addition, the financial impact of COVID-19 on the Company's hospital customers could cause the hospitals to delay payments due to the Company for services, which could negatively impact the Company's cash flows.

The Company sought to mitigate these impacts to revenue through the sale of personal protective equipment ("PPE") and COVID-19 rapid test kits to the health care industry, including many of the Company's hospital customers. On March 16, 2020, in response to the COVID-19 pandemic, SCWorx established a wholly-owned subsidiary, Direct-Worx, LLC to endeavor to source and provide critical, difficult-to-find items for the healthcare industry. Items had become difficult to source due to unexpected disruptions within the supply chain due to the COVID-19 pandemic. The products the Company sought to source included:

- Test Kits — the Company currently has no contracted supply of Rapid Test Kits.
- PPE — Personal Protective Equipment (PPE) includes items such as masks, gloves, gowns, shields, etc. Currently the Company has no contracted supply of PPE.

Regarding PPE and Test Kits, the Company's Board of Directors determined during the second quarter of 2020 to limit the Company's role to acting as an intermediary between buyers and sellers with commission based compensation. We are endeavoring to sell our existing inventory of PPE products primarily through use of our internal and external sales personnel.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and was subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. Since the inception of this business, the Company completed only minimal sales of COVID-19 rapid test kits and PPE. The Company does not expect to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

## *Clients and Strategic Partners*

SCWorx continues to provide transformational data-driven solutions to some of the finest, most well-respected healthcare providers in the United States. Clients are geographically dispersed throughout the country and the continued focus is to assist healthcare providers with issues they have pertaining to data interoperability. SCWorx provides these solutions through a combination of direct sales and relationships with strategic partners.

## *Competition*

SCWorx competes against a variety of vendors and smaller companies which provide solutions in the specific markets we address. Our principal competitors include:

- purchasing departments that have limited budgets and may be attempting to manually repair the item master file;
- large companies with a long list of products and services and small companies which may provide item master normalization and data cleanse services;
- software companies or service providers, as well as small, specialized vendors, that provide complementary or competitive solutions in benchmarking or data analytics and data warehousing that may compete with our offerings; and

Some of our actual and perceived competitors have advantages over us, such as longer operating histories, greater financial, technical, marketing or other resources, stronger brand and business user recognition, larger intellectual property portfolios, broader distribution and presence, and competitive pricing. In addition, our industry is evolving rapidly and is becoming increasingly competitive.

Barriers to entry to the data management market include technological and application sophistication, the ability to offer a proven product, creating and utilizing a well-established client base and distribution channels, brand recognition, the ability to provide agnostic interoperability and to operate on a variety of MMIS, EMR and financial platforms, the ability to integrate with pre-existing systems and capital for sustained development and marketing activities. There are few barriers to entry to the PPE/test kit distribution business.

SCWorx believes that these obstacles taken together represent a moderate to high-level barrier to entry on the data management side of our business. The principal competitive factors in our markets are product features, functionality and support, product depth and breadth (number of items in the central data warehouse), flexibility, ease of deployment and use, total cost of ownership and time to value. We believe that we generally compete favorably on the basis of these factors. For example, besides our agnostic interoperability, additional key strengths include the SCWorx data warehouse, which exceeds 12 million items, SCWorx Big Data analytics and benchmarking.

#### Contracts, License and Service Fees

SCWorx enters into agreements with its clients that specify the scope of the solution to be installed and/or services to be provided by SCWorx, as well as the agreed-upon aggregate price, applicable duration and the timetable for the associated licenses and services.

For clients purchasing software to be installed locally or provided on a SaaS model, these are multi-element arrangements that include a term license granting the right to access the applicable software functionality (whether installed locally at the client site or the right to use our company's solutions as a part of SaaS services), terms regarding maintenance and support services, terms for any third-party components such as infrastructure and software, and professional services for implementation, integration, process engineering, optimization and training, as well as fees and payment terms for each of the foregoing. If the client purchases solutions on a long-term license model, the client may be billed the license fee up front or on a monthly or quarterly basis. Maintenance and support are provided on a term basis for separate fees, with an initial term of typically three to five years. The license, maintenance and support fee is charged annually in advance, commencing either upon contract execution or deployment of the solution in live production. If the client purchases solutions on a term-based model, the client is billed periodically a combined access fee for a specified term, typically three to five years in length.

SCWorx also generally provides software and SaaS client's professional services for implementation, integration, process engineering, and optimization and training. These services and the associated fees are separate from the license, maintenance and access fees. Professional services are provided on either a fixed-fee or hourly arrangements billable to clients based on agreed-to payment milestones (fixed fee) or monthly payment structure on hours incurred (hourly). These services can either be included at the time the related SaaS solution is licensed as part of the initial purchase agreement or added on afterward as an addendum to the existing agreement for services required after the initial implementation.

For one-time data normalization services clients, these normalization services are provided either through a stand-alone services agreement or services addendum to an existing master agreement with the client. These normalization services are available as either a one-time service or recurring monthly, quarterly or annual review structure. These services are typically provided on a per item basis. Payment typically occurs upon completion of the applicable normalization project. The commencement of revenue recognition varies depending on the size and complexity of the system and/or services involved, the implementation or performance schedule requested by the client and usage by clients of SaaS for software-based components. SCWorx's agreements are generally non-cancelable but provide that the client may terminate its agreement upon a material breach by SCWorx and/or may delay certain aspects of the installation or associated payments in such events. SCWorx does allow for termination for convenience in certain situations. SCWorx also includes trial or evaluation periods for certain clients, especially for new or modified solutions. Therefore, it is difficult for SCWorx to accurately predict the revenue it expects to achieve in any particular period, and a termination or installation delay of one or more phases of an agreement, or the failure of SCWorx to procure additional agreements, could have a material adverse effect on SCWorx's business, financial condition, and results of operations. Historically, SCWorx has not experienced a material amount of contract cancellations; however, SCWorx sometimes experiences delays during contract implementation, and SCWorx accounts for them accordingly.

#### Third Party License Fees

SCWorx incorporates software licensed from various third-party vendors into its proprietary software. Stand-alone third-party software is also required to operate certain of SCWorx's proprietary software and/or SaaS services. SCWorx licenses these software products and pays the required license fees when such software is delivered to clients.

#### PPE and Rapid Test Kit Products

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

#### CageTix Ticketing Platform

In 2020, the majority of paid tickets for regional MMA events were sold by the fighters appearing on the event fight card. Referred to as "fighter consigned" tickets, sales are generally made in face-to-face cash transactions. The CageTix event ticketing platform allowed regional promoters to control the ticketing sales chain. The CageTix platform provided benefits to regional promotions, including the security of credit/debit card sales processing, immediate revenue recognition, and real time sales reporting. Due to the Covid restrictions which were put in place for large gatherings, SCWorx has paused business activity for Cagetix.



## Property

The company does not own any real property. The principal executive offices are located at an office complex in New York, New York, consisting of shared office space that we are leasing. The lease had an original one-year term that commenced on December 1, 2015, which was renewed until November 30, 2018 and now is under a month-to-month lease agreement. The lease allows for the limited use of private offices, conference rooms, mail handling, videoconferencing, and certain other business services.

The Company also had a lease in Greenwich, CT which expired in March 2020 and became a month to month. This tenancy was terminated in April 2021.

## Government Regulation

Management believes that governmental regulation is not material to our current core data management business.

## Intellectual Property

We protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We control access to our proprietary technology by entering into confidentiality agreements, invention assignment agreements and work for hire agreements with our employees and contractors, and confidentiality agreements with third parties. We further control the use of our proprietary technology and intellectual property through provisions in our websites' terms of use. Agreements between the Company and end-users includes a license agreement in which a non-transferable non-sublicensable, non-exclusive, limited use license to use the licensed products for the duration of the service order. Customers may not modify, copy, translate, decompile, disassemble, reverse engineer, loan, rent, lease, sublicense, or create derivative works of the licensed products, in whole or in part. Customer agrees to maintain software and data as Confidential Information.

The Company currently hosts our solution, serves our customers, and supports our operations in the United States through an agreement with a third-party hosting and infrastructure provider, Rackspace. The Company incorporates standard IT security measures, including but not limited to; firewalls, disaster recovery, backup, etc.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which we seek protection of our marks or our copyrighted works. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights may harm our business or our ability to compete.

## Seasonality

We do not believe that SCWorx's revenues are impacted by seasonality.

## Employees

As of December 31, 2021, we had 10 employees, of which 2 were management and finance and the rest in operations. We primarily utilize independent contractors and third-party vendors for software, maintenance of our database and customer software installation.

## Legal Proceedings

In conducting our business, we may become involved in legal proceedings. We will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred.

### *Settlement of Consolidated Securities Class Action*

As previously disclosed, on April 29, 2020, a securities class action case was filed in the United States District Court for the Southern District of New York against us and our former CEO. The action is captioned Daniel Yannes, individually and on behalf of all others similarly situated vs. SCWorx Corp. and Marc S. Schessel,. Subsequently, two additional class actions were filed in the same court (*Leeburn v. SCWorx, et ano. and Leonard v. SCWorx et ano.*) and thereafter, the three class actions were consolidated (the "Consolidated Class Action"). The Consolidated Class Action alleged that our company and our former CEO misled investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits. As previously disclosed, on February 11, 2022, the parties entered into a Stipulation of Settlement (subject to Court approval) to settle the Consolidated Class Action. The settlement resolves all claims asserted against SCWorx and the other named defendant without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. Under the terms of this agreement, (i) the insurers for the Company and Marc Schessel (former CEO) will make a cash payment to the class plaintiffs (ii) the former CEO will transfer 100,000 shares of company common stock to the class plaintiffs, and (iii) the Company will issue \$600,000 worth of common stock to the class plaintiffs, in

exchange for which all parties will be released from all claims related to the securities class action litigation. After giving effect to the share issuance by the Company, the Company believes that it will have satisfied the accrued retention liability of \$700,000.

### *Settlement of Consolidated Derivative Action*

As previously disclosed, on June 15, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Steven Wallitt (current director), and Marc S. Schessel, Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned *Lozano, derivatively on behalf of SCWorx Corp. v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant*. The Lozano lawsuit was consolidated with another shareholder derivative lawsuit, *Richter, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant*. (the “Consolidated Derivative Action”).

The Consolidated Derivative Action alleged that the Director Defendants breached their fiduciary duties to the Company, including by misleading investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits, failing to correct false and misleading statements and failing to implement proper disclosure and internal controls.

In addition, on October 29, 2020, Hemrita Zarins filed a shareholder derivative action in the Chancery Court in the State of Delaware against Steven Wallitt (current director) and Marc S. Schessel and Charles Miller (former directors). The action is captioned *Hemrita Zarins, v. Marc S. Schessel, Robert Christie, Steven Wallitt and SCWorx, Nominal Defendant*. The Zarins action contains substantially similar allegations as in the Consolidated Derivative Action.

On February 15, 2022, the Company and the Director Defendants (Marc Schessel, Steven Wallitt, Charles Miller and Robert Christie) entered into a stipulation of settlement (subject to Court approval) with the shareholder derivative plaintiffs to settle the Consolidated Derivative Action as well as the Zarins action. Under the terms of the settlement, (i) the insurers for the Director Defendants will make a cash payment to legal counsel for the shareholder derivative Plaintiffs to cover their legal fees and (ii) the Company will adopt certain corporate governance reforms within 60 days of court approval of the settlement, in exchange for which all parties will be released from all claims related to the derivative class action litigation. The settlement resolves all claims asserted against the defendants without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant.

### *Other Investigations*

In addition, as previously disclosed, following the April 13, 2020 press release and related disclosures (related to COVID-19 rapid test kits), the Securities and Exchange Commission made an inquiry regarding the disclosures we made in relation to the transaction involving COVID-19 test kits. The Company is continuing to cooperate with the SEC regarding its investigation arising out of the April 13, 2020 press release and the events thereafter. The Company received a Wells notice on December 8, 2021 and an amended Wells notice on December 10, 2021. The Wells Notice states that the staff of the Securities and Exchange Commission has made a preliminary determination to recommend that the Commission file an enforcement action against the Company which would allege violations of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 (the “Securities Act”), Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder. The Wells Notice also indicates that the staff would seek fines and disgorgement, including pre and post judgment interest in such enforcement proceeding. The Company did not make a Wells submission to the Commission in response to the Wells Notice. The Company has since been actively engaged in discussions with the Staff to settle the claims set forth in the Wells Notice.

In April 2020, we received related inquiries from The Nasdaq Stock Market and the Financial Industry Regulatory Authority (FINRA). We cooperated fully with these agencies, providing information and documents, as requested. We have not had any requests from these agencies since January 2021.

Also in April 2020, as previously disclosed, we were contacted by the U.S. Attorney's Office for the District of New Jersey, which was seeking information and documents from our officers and directors relating primarily to the April 13, 2020 press release concerning COVID-19 rapid test kits. We have cooperated fully with the U.S. Attorney's Office in its investigation.

In connection with these actions and investigations, the Company is obligated to indemnify its officers and directors for costs incurred in defending against these claims and investigations. Because the Company currently does not have the resources to pay for these costs, its directors and officers liability insurance carrier has agreed to indemnify these persons. Upon consummation of the settlement of the Consolidated Class Action, the Company believes it will have satisfied its accrued retention obligations with respect to the insurance coverage.

**David Klarman v. SCWorx Corp. f/k/a Alliance MMA, Inc., Index No. 619536/2019 (N.Y. State Sup. Ct., Suffolk County)**

On October 3, 2019, David Klarman, a former employee of Alliance, served a complaint against SCWorx seeking \$400,000.00 for a breach of his employment agreement with Alliance. Klarman claims that Alliance ceased paying him his salary in March 2018 as well as other alleged contractual benefits. This action was settled on or about December 16, 2021 by the parties without any admission of liability or wrongdoing. In exchange for a release, the Company agreed to settle with Mr. Klarman with \$100,000 of SCWorx shares calculated over a period of 4 months pursuant to an agreed upon schedule with respect to amounts, dates and a restriction on sales of SCWorx stock to no more than 4,000 shares per trading day. To date, all shares have been issued pursuant to this agreement.

**Available Information**

Our website address is [www.SCWorx.com](http://www.SCWorx.com). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are filed with the U.S. Securities and Exchange Commission (SEC). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. Such reports and other information filed by us with the SEC are available free of charge on our website at [www.SCWorx.com](http://www.SCWorx.com) when such reports become available on the SEC's website. The public may read and copy any materials filed by SCWorx Corp. with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549 on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The contents of the websites referred to above are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

**Item 1A. Risk Factors**

*Certain factors could have a material adverse effect on our business, financial condition, results of operations and prospects. You should carefully consider the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties of which we are unaware, or that we currently believe are not material, may also become important factors that adversely affect our business, financial condition, results of operations and prospects. If any of the following risks occurs, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.*



## **Risks Related to Our Financial Results and Financing Plans**

### ***The COVID-19 pandemic has disrupted our business and the business of our hospital customers.***

The Company's operations and business have experienced disruption due to the unprecedented conditions surrounding the COVID-19 pandemic which spread throughout the United States and the world. The outbreak adversely impacted new customer acquisition. The Company has followed the recommendations of local health authorities to minimize exposure risk for its team members since the outbreak.

In addition, the Company's customers (hospitals) also experienced extraordinary disruptions to their businesses and supply chains, while experiencing unprecedented demand for health care services related to COVID-19. As a result of these extraordinary disruptions to the Company's customers' business, the Company's customers were focused on meeting the nation's health care needs in response to the COVID-19 pandemic. As a result, the Company believes that its customers were not able to focus resources on expanding the utilization of the Company's services, which has adversely impacted the Company's growth prospects, at least until the adverse effects of the pandemic subside. In addition, the financial impact of COVID-19 on the Company's hospital customers could cause the hospitals to delay payments due to the Company for services, which could negatively impact the Company's cash flows.

The Company sought to mitigate these impacts to revenue through the sale of personal protective equipment ("PPE") and COVID-19 rapid test kits to the health care industry, including many of the Company's hospital customers. On March 16, 2020, in response to the COVID-19 pandemic, SCWorx established a wholly-owned subsidiary, Direct-Worx, LLC to endeavor to source and provide critical, difficult-to-find items for the healthcare industry. Items had become difficult to source due to unexpected disruptions within the supply chain due to the COVID-19 pandemic. The products the Company sought to source included:

- Test Kits — the Company currently has no contracted supply of Rapid Test Kits.
- PPE — Personal Protective Equipment (PPE) includes items such as masks, gloves, gowns, shields, etc. Currently the Company has no contracted supply of PPE.

Regarding PPE and Test Kits, the Company's Board of Directors determined during the second quarter of 2020 to limit the Company's role to acting as an intermediary between buyers and sellers with commission-based compensation. We are endeavoring to sell our existing inventory of PPE products primarily through use of our internal and external sales personnel.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and was subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. Since the inception of this business, the Company completed only minimal sales of COVID-19 rapid test kits and PPE. The Company does not expect to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

### ***We have a history of losses and may continue to incur losses in the future.***

We have a history of losses and may continue to incur losses in the future, which could negatively impact the trading value of our common stock. For the year ended December 31, 2021, our revenues were \$4,632,529, and we had a net loss of \$3,814,468. For the year ended December 31, 2020, our revenues were \$5,213,118, and we had a net loss of \$7,402,350. At December 31, 2021, we had an accumulated deficit of \$24,011,291.

We incurred losses from operations of \$3,814,468 for the year ended December 31, 2021 and \$6,045,011 for the year ended December 31, 2020. We may continue to incur operating and net losses in future periods. These losses may increase, and we may never achieve profitability for a variety of reasons, including increased competition, decreased growth in our target market and other factors described elsewhere in this “Risk Factors” section. If we cannot achieve sustained profitability, our stockholders may lose all or a portion of their investment in our company.

***If we are unable to grow our revenue, we may never achieve or sustain profitability.***

To become profitable, we must, among other things, increase our revenues. Our total revenues declined approximately \$580,000 (11%) to \$4,632,529 in the year ended December 31, 2021 as compared to \$5,213,118 in the year ended December 31, 2020. In order to become profitable and then maintain profitability, we must, among other things, increase our revenues while dealing with the ongoing impacts of the COVID-19 pandemic. This decline in revenue will be exacerbated if we are unable to develop and market new products, which could help us increase our sales to existing customers or develop new customers. Even if we are able to grow our revenues, they may not be sufficient to exceed increases in our operating expenses or to enable us to achieve or sustain profitability.

## **Risks Related to Our Business**

***There is substantial doubt about our ability to continue as a going concern.***

Our auditors have indicated in their report on our financial statements for the year ended December 31, 2021 that conditions exist that raise substantial doubt about our ability to continue as a going concern since we may not have sufficient capital resources from operations and existing financing arrangements to meet our operating expenses and working capital requirements.

As of December 31, 2021, we had only limited cash on hand, a working capital deficit of \$1,527,830 and accumulated deficit of \$24,011,291. During the year ended December 31, 2021, we had a net loss of \$3,814,468 and used \$1,069,945 of cash in operations. We have historically incurred operating losses and may continue to incur operating losses for the foreseeable future. We believe that these conditions raise substantial doubt about our ability to continue as a going concern. This may hinder our ability to obtain financing or may force us to obtain financing on less favorable terms than would otherwise be available. If we are unable to develop sufficient revenues and additional customers for our products and services, we may not generate enough revenue to sustain our business, and we may fail, in which case our stockholders would suffer a total loss of their investment. There can be no assurance that we will be able to continue as a going concern.

***We currently have an immediate need for additional capital. If we are unable to obtain additional capital, we will not be able to implement our business strategy or successfully operate our business; however, additional financings will subject our existing stockholders to dilution.***

To continue our growth path, we expect to finance our future expansion plans through public or private equity offerings or debt financings. Additional funds may not be available when we need them on terms that are acceptable to us, or at all. We have recently encountered some difficulty in raising funds from external sources. If adequate funds are not available, we may be required to further delay or reduce the scope of our business plans. To the extent that we raise additional funds by issuing equity securities, our stockholders will experience dilution. In addition, debt financing, if available, may involve restrictive covenants. We may seek to access the public or private capital markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. Our access to the financial markets and the pricing and terms we receive in the financial markets could be adversely impacted by various factors, including changes in financial markets and interest rates.

Our future funding requirements will depend on many factors, including, but not limited to, the costs and timing of our future acquisitions.

***A failure to successfully execute our growth strategy could adversely affect our business, financial condition, results of operations and prospects.***

Subject to the receipt of sufficient funding, which we currently do not have, we intend to pursue growth through expanding our [sales force], product offerings and project skill-sets and capabilities, as well as increasing critical mass to enable us to bid on larger contracts.

We may also consider potential acquisitions if conditions permit. However, we may be unable to find suitable acquisition candidates or to complete acquisitions on favorable terms, if at all. Moreover, any completed acquisition may not result in the intended benefits. For example, while the historical financial and operating performance of an acquisition target are among the criteria we evaluate in determining which acquisition targets we will pursue, there can be no assurance that any business or assets we acquire will continue to perform in accordance with past practices or will achieve financial or operating results that are consistent with or exceed past results. Any such failure could adversely affect our business, financial condition or results of operations. In addition, any completed acquisition may not result in the intended benefits for other reasons and our acquisitions will involve a number of other risks, including:

- We may have difficulty integrating the acquired companies;

- Our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;
- We may not realize the anticipated cost savings or other financial benefits we anticipated;

- We may have difficulty retaining or hiring key personnel, customers and suppliers to maintain expanded operations;
- Our internal resources may not be adequate to support our operations as we expand, particularly if we are awarded a significant number of contracts in a short time period;
- We may have difficulty retaining and obtaining any required regulatory approvals, licenses and permits;
- We may not be able to obtain additional equity or debt financing on terms acceptable to us or at all, and any such financing could result in dilution to our stockholders, impact our ability to service our debt within the scheduled repayment terms and include covenants or other restrictions that would impede our ability to manage our operations;
- We may have failed to, or be unable to, discover liabilities of the acquired companies during the course of performing our due diligence; and
- We may be required to record additional goodwill as a result of an acquisition, which will reduce our tangible net worth.

Any of these risks could prevent us from executing on any acquisition we might complete, which could adversely affect our business, financial condition, results of operations and prospects. At this time, we are not considering any acquisition.

***Our contracts may require us to perform extra or change order work, which can result in disputes and adversely affect our business, financial condition, results of operations and prospects.***

Our contracts generally require us to perform extra or change order work as directed by the customer, even if the customer has not agreed in advance on the scope or price of the extra work to be performed. This process may result in disputes over whether the work performed is beyond the scope of the work included in the original project plans and specifications or, if the customer agrees that the work performed qualifies as extra work, the price that the customer is willing to pay for the extra work. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of such work for a lengthy period of time until the change order is approved by the customer and we are paid by the customer.

To the extent that actual recoveries with respect to change orders or amounts subject to contract disputes or claims are less than the estimates used in our financial statements, the amount of any shortfall will reduce our future revenues and profits, and this could adversely affect our reported working capital and results of operations. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other project work and our ability to meet specified contract milestone dates.

***We derive a significant portion of our revenue from a few customers and the loss of one of these customers, or a reduction in their demand for our services, could adversely affect our business, financial condition, results of operations and prospects.***

Our customer base is highly concentrated. Due to the size and nature of our contracts, one or a few customers have during any given year, as well as over a period of consecutive years, represented a substantial portion of our consolidated revenues and gross profits. Two customers accounted for approximately 19% and 13%, respectively, of our revenue in the year ended December 31, 2021. Two customers accounted for approximately 22% and 17%, respectively, of our revenue in the year ended December 31, 2020. Revenues under our contracts with significant customers may continue to vary from period to period depending on the timing or volume of work that those customers contract from us. A limited number of customers may continue to comprise a substantial portion of our revenue for the foreseeable future.

A default or delay in payment on a significant scale could adversely affect our business, financial condition, results of operations and prospects. We could lose business from a significant customer for a variety of reasons, including:

- the consolidation, merger or acquisition of an existing customer, resulting in a change in procurement strategies employed by the surviving entity that could reduce the amount of work we receive;
- our performance on individual contracts or relationships with one or more significant customers could become impaired due to another reason, which may cause us to lose future business with such customers and, as a result, our ability to generate income would be adversely impacted;
- key customers could slow or stop spending on initiatives related to projects we are performing for them due to increased difficulty in the markets as a result of economic downturns or other reasons.

Since many of our customer contracts allow our customers to terminate the contract without cause, our customers may terminate their contracts with us at will, which could impair our business, financial condition, results of operations and prospects.

***Our failure to adequately expand our direct sales force will impede our growth.***

We will need to expand and optimize our sales infrastructure in order to grow our customer base and our business. We plan to expand our account management/sales force when and if we have sufficient capital to do so. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. If we are unable to hire, develop and retain talented account management/sales personnel or if the personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the intended benefits of this investment or increase our revenue.

***If we are unable to attract and retain qualified executive officers and managers and consultants, we will be unable to operate efficiently, which could adversely affect our business, financial condition, results of operations and prospects.***

We depend on the continued efforts and abilities of our management and consultants, to establish and maintain our customer relationships and identify strategic opportunities. The loss of any one of them could negatively affect our ability to execute our business strategy and adversely affect our business, financial condition, results of operations and prospects. Competition for managerial talent with significant industry experience is high, and we may lose access to executive officers/consultants for a variety of reasons, including more attractive compensation packages offered by our competitors. Although we have entered into employment agreements with certain of our senior level management, we cannot guarantee that any of them or other key management/consulting personnel will remain employed by us for any length of time.

***Fines, judgments and other consequences resulting from our failure to comply with regulations or adverse outcomes in litigation proceedings could adversely affect our business, financial condition, results of operations and prospects.***

From time to time, we may be involved in lawsuits and regulatory actions, including class action lawsuits that are brought or threatened against us in the ordinary course of business. These actions may seek, among other things, compensation for alleged personal injury, workers' compensation, violations of the Fair Labor Standards Act and state wage and hour laws, employment discrimination, breach of contract, property damage, punitive damages, civil penalties, and consequential damages or other losses, or injunctive or declaratory relief.

Please refer to Item 3. Legal Proceedings of this Annual Report on Form 10-K for a detailed description of the pending legal actions and investigations.

Any defects or errors, or failures to meet our customers' expectations could result in large damage claims against us. Claimants may seek large damage awards and, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such proceedings. Any failure to properly estimate or manage cost, or delay in the completion of projects, could subject us to penalties.

The ultimate resolution of these matters through settlement, mediation or court judgment could have a material adverse effect on our financial condition, results of operations and cash flows. Regardless of the outcome of any litigation, these proceedings could result in substantial cost and may require us to devote substantial resources to defend ourselves. When appropriate, we establish reserves for litigation and claims that we believe to be adequate in light of current information, legal advice and professional indemnity insurance coverage, and we adjust such reserves from time to time according to developments. If our reserves are inadequate or insurance coverage proves to be inadequate or unavailable, our business, financial condition, results of operations and prospects may suffer.

***If we are required to reclassify independent contractors as employees, we may incur additional costs and taxes which could adversely affect our business, financial condition, results of operations and prospects.***

We use a significant number of independent contractors in our operations for whom we do not pay or withhold any federal or state employment tax. There are a number of different tests used in determining whether an individual is an employee or an independent contractor and such tests generally take into account multiple factors. There can be no assurance that legislative, judicial or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change, or at least challenge, the classification of our independent contractors. Although we believe we have properly classified our independent contractors, the U.S. Internal Revenue Service or other U.S. federal or state authorities or similar authorities of a foreign government may determine that we have misclassified our independent contractors for employment tax or other purposes and, as a result, seek additional taxes from us or attempt to impose fines and penalties. If we are required to pay employer taxes or pay backup withholding with respect to prior periods with respect to or on behalf of our independent contractors, our operating costs will increase, which could adversely impact our business, financial condition, results of operations and prospects.

***Our dependence on subcontractors and suppliers could increase our cost and impair our ability to complete contracts on a timely basis or at all.***

We rely on third-party subcontractors to perform some of the work on our contracts. We also rely on third-party suppliers to provide materials needed to perform our obligations under those contracts. We generally do not bid on contracts unless we have the necessary subcontractors and suppliers committed for the anticipated scope of the contract and at prices that we have included in our bid. Therefore, to the extent that we cannot engage subcontractors or suppliers, our ability to bid for contracts may be impaired. In addition, if a subcontractor or third-party supplier is unable to deliver its goods or services according to the negotiated terms for any reason, we may suffer delays and be required to purchase the services from another source at a higher price. We sometimes pay our subcontractors and suppliers before our customers pay us for the related services. If customers fail to pay us and we choose, or are required, to pay our subcontractors for work performed or pay our suppliers for goods received, we could suffer an adverse effect on our business, financial condition, results of operations and prospects.

***Our insurance coverage may be inadequate to cover all significant risk exposures.***

We will be exposed to liabilities that are unique to the services we provide. While we intend to maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs resulting from risks and uncertainties of our business. It is also not possible to obtain insurance to protect against all operational risks and liabilities. The failure to obtain adequate insurance coverage on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition, results of operations and prospects.

## **Risks Related to Our Industry**

***Our industry is highly competitive, with a variety of larger companies with greater resources competing with us, and our failure to compete effectively could reduce the number of new contracts awarded to us or adversely affect our market share and harm our financial performance.***

The contracts on which we bid are generally awarded through a competitive bid process, with awards generally being made to the lowest bidder, but sometimes based on other factors, such as shorter contract schedules, larger scale to complete projects or prior experience with the customer. Within our markets, we compete with many other service providers. Price is often the principal factor in determining which service provider is selected by our customers, especially on smaller, less complex projects. As a result, any organization with adequate financial resources and access to technical expertise may become a competitor. Smaller competitors are sometimes able to win bids for these projects based on price alone because of their lower costs and financial return requirements. Additionally, our competitors may develop the expertise, experience and resources to provide services that are equal or superior in price to our services, and we may not be able to maintain or enhance our competitive position.

Some of our competitors have already achieved greater market penetration than we have in the markets in which we compete, and some have greater financial and other resources than we do. A number of national companies in our industry are larger than we are and, if they so desire, could establish a presence in our markets and compete with us for contracts. As a result of this competition, we may need to accept lower contract margins in order to compete against competitors that have the ability to accept awards at lower prices or have a pre-existing relationship with a customer. If we are unable to compete successfully in our markets, our business, financial condition, results of operations and prospects could be adversely affected.

***Many of the customers we serve are subject to consolidation and rapid technological and regulatory change, and our inability or failure to adjust to our customers' changing needs could reduce demand for our services.***

We derive, and anticipate that we will continue to derive, a substantial portion of our revenue from customers in the medical industry. This industry is subject to rapid changes in technology and governmental regulation. Changes in technology may reduce the demand for the services we provide. Additionally, the medical industry has been characterized by a high level of consolidation that may result in the loss of one or more of our customers. Our failure to rapidly adopt and master new technologies as they are developed in any of the industries we serve or the consolidation of one or more of our significant customers could adversely affect our business, financial condition, results of operations and prospects.

Further, our customers are regulated by the Department of Health and Human Services and other regulators. These regulators may interpret the application of their regulations in a manner that is different than the way such regulations are currently interpreted and may impose additional regulations, either of which could reduce demand for our services and adversely affect our business and results of operations.

***Economic downturns could cause capital expenditures in the industries we serve to decrease, which may adversely affect our business, financial condition, results of operations and prospects.***

The demand for our services has been and may be vulnerable to general downturns in the United States economy. Our customers are affected by economic changes that decrease the need for or the profitability of their services. This can result in a decrease in the demand for our services and potentially result in the delay or cancellation of projects by our customers. As a result, some of our customers may opt to defer or cancel pending projects. A downturn in overall economic conditions also affects the priorities placed on various projects funded by governmental entities and federal, state and local spending levels.

In general, economic uncertainty makes it difficult to estimate our customers' requirements for our services. Subject to receipt of sufficient funding, which we currently do not have, we plan to expand our sales force to enable us to grow our revenues. If economic factors in any of the regions in which we plan to expand are not favorable to the growth and development of the medical industry, we may not be able to carry out our growth strategy, which could adversely affect our business, financial condition, results of operations and prospects.

#### **Other Risks Relating to Our Company and Results of Operations**

***Our operating results may fluctuate due to factors that are difficult to forecast and not within our control.***

Our past operating results may not be accurate indicators of future performance, and you should not rely on such results to predict our future performance.

Our operating results have fluctuated and could fluctuate in the future. Factors that may contribute to fluctuations include:

- our ability to effectively manage our working capital;
- our ability to satisfy customer demands in a timely and cost-effective manner; and
- pricing and availability of labor.

***Actual results could differ from the estimates and assumptions that we use to prepare our financial statements.***

To prepare financial statements in conformity with GAAP, management is required to make estimates and assumptions as of the date of the financial statements that affect the reported values of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Areas requiring significant estimates by our management include:

- contract costs and profits and revenue recognition of contract change order claims;
- provisions for uncollectible receivables and customer claims;
- recoveries of costs from subcontractors, suppliers and others;
- valuation of assets acquired and liabilities assumed in connection with business combinations;
- accruals for estimated liabilities, including litigation and insurance reserves; and
- goodwill and intangible asset impairment assessment.

At the time the estimates and assumptions are made, we believe they are accurate based on the information available. However, our actual results could differ from, and could require adjustments to, those estimates.

***We exercise judgment in determining our provision for taxes in the United States that are subject to tax authority audit review that could result in additional tax liability and potential penalties that would negatively affect our net income.***

The amounts we record in intercompany transactions for services, licenses, funding and other items affects our potential tax liabilities. Our tax filings are subject to review or audit by the U.S. Internal Revenue Service and state, local and foreign taxing authorities. We exercise judgment in determining our worldwide provision for income and other taxes and, in the ordinary course of our business, there may be transactions and calculations where the ultimate tax determination is uncertain. Examinations of our tax returns could result in significant proposed adjustments and assessment of additional taxes that could adversely affect our tax provision and net income in the period or periods for which that determination is made.



## Risks Related to our Common Stock

***We may not be able to maintain the minimum \$1.00 bid price per share of our Common Stock, as required by the Nasdaq Stock Market, which could force us to implement a reverse stock split of our Common Stock.***

From February 17, 2022 through March 21, 2022 (22 trading days), our common stock traded below \$1.00 per share, the minimum bid price per share required for continued inclusion on the Nasdaq Stock Market. There is a risk that the price per share of our Common Stock trades below \$1.00 for thirty consecutive days, in which case we will not be in compliance with the Nasdaq Stock Market's requirements for continued inclusion, as a result of which our common stock could be subject to delisting from Nasdaq. In such an event, we would, subject to shareholder approval, implement a reverse stock split so as to increase the price per share of our common stock on a post-split adjusted basis. In such a case, there is a risk that the price of our common stock could decline on a split-adjusted basis. For example, if our common stock were trading at \$.80 per share and we implemented a 5/1 reverse stock split, there is a risk that our common stock could trade below \$4.00 per share on a split-adjusted basis.

***Our common stock price has fluctuated substantially, and the trading price of our common stock is likely to continue to be volatile, which could result in losses to investors and litigation.***

In addition to changes to market prices based on our results of operations and the factors discussed elsewhere in this "Risk Factors" section, the market price of and trading volume for our common stock may change for a variety of other reasons, not necessarily related to our actual operating performance. The capital markets have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In addition, the average daily trading volume of the securities of small companies can be very low, which may contribute to future volatility. Recently, the average daily trading volume of our common stock has decreased. Factors that could cause the market price of our common stock to fluctuate significantly include:

- the results of operating and financial performance and prospects of other companies in our industry;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- announcements of innovations, increased service capabilities, new or terminated customers or new, amended or terminated contracts by our competitors;
- the public's reaction to our press releases, media coverage and other public announcements, and filings with the SEC;
- market conditions for providers of services to the medical industry;
- lack of securities analyst coverage or speculation in the press or investment community about us or opportunities in the markets in which we compete;
- changes in government policies in the United States;
- changes in earnings estimates or recommendations by any securities or research analysts who track our common stock or failure of our actual results of operations to meet any such expectations;
- dilution caused by the conversion into common stock of convertible securities or by the exercise of outstanding warrants or options;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- changes in accounting standards, policies, guidance, interpretations or principles;
- any lawsuit involving us, our services or our products;
- arrival and departure of key personnel;
- government investigations of our business activities;
- sales of common stock by us, our investors or members of our management team; and
- changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural or man-made disasters.

Any of these factors, as well as broader market and industry factors, may result in large and sudden changes in the trading volume of our common stock and could seriously harm the market price of our common stock, regardless of our operating performance. This may prevent stockholders from being able to sell their shares at or above the price they paid for shares of our common stock, if at all. In addition, following periods of volatility in the market price of a company's securities, stockholders often institute securities class action litigation against that company. Our involvement in any class action suit or other legal proceeding, , could divert our senior management's attention and could adversely affect our business, financial condition, results of operations and prospects.

***The sale or availability for sale of substantial amounts of our common stock could adversely affect the market price of our common stock.***

Sales of substantial amounts of shares of our common stock, or the perception that these sales could occur, would likely adversely affect the market price of our common stock and could impair our future ability to raise capital through common stock offerings. As of December 31, 2021 we had 11,293,030 shares of common stock issued and outstanding, of which 1,706,652 shares were restricted securities and eligible for sale pursuant to Rule 144 promulgated by the SEC. The sale of these shares into the open market may adversely affect the market price of our common stock.

As of December 31, 2021, there were outstanding warrants to purchase an aggregate of 1,043,525 shares of our common stock at a weighted-average exercise price of \$2.57 per share, all of which were exercisable as of such date. As of December 31, 2021, there were outstanding options to purchase an aggregate of 118,388 shares of our common stock at a weighted-average exercise price of \$3.25 per share, all of which were exercisable as of such date. The market price of our common stock also may be adversely affected by our issuance of shares of our capital stock or convertible securities in connection with future acquisitions, or in connection with our financing efforts.

***We have never paid cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock.***

We have never paid cash dividends and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain any earnings to finance our operations and growth. As a result, any short-term return on your investment will depend on the market price of our common stock, and only appreciation of the price of our common stock, which may never occur, will provide a return to stockholders. The decision whether to pay dividends will be made by our board of directors in light of conditions then existing, including, but not limited to, factors such as our financial condition, results of operations, capital requirements, business conditions, and covenants under any applicable contractual arrangements. Investors seeking cash dividends should not invest in our common stock.

***If equity research analysts do not publish research or reports about our business, or if they issue unfavorable commentary or downgrade our common stock, the market price of our common stock will likely decline.***

The trading market for our common stock will rely in part on the research and reports that equity research analysts, over whom we have no control, publish about us and our business. We may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the market price for price of our common stock could decline . In the event we obtain securities or industry analyst coverage, the market analysts issue unfavorable commentary, even if it is inaccurate, or cease publishing reports about us or our business.

***A failure by us to establish and maintain effective internal control over financial reporting could have a material adverse effect on our business and operating results.***

Maintaining effective internal control over financial reporting is necessary for us to produce accurate and complete financial reports and to help prevent financial fraud. In addition, such control is required in order to maintain the listing of our common stock on the Nasdaq Capital Market. While we have undertaken remedial steps to improve our financial reporting process, including the implementation of a firm-wide accounting information system that collects, stores and processes financial and accounting data on a consolidated basis for use in meeting our reporting obligations, our internal control over financial reporting has not been effective . For the year ended December 31, 2021, we did not have effective controls over financial reporting. Our management has identified material weaknesses in our internal controls related to deficiency in our ability to have proper segregation of duties.

If we are unable to maintain adequate internal controls or fail to correct material weaknesses in such controls noted by our management or our independent registered public accounting firm, our business and operating results could be adversely affected, we could again fail to meet our obligations to report our operating results accurately and completely and our continued listing on the Nasdaq Capital Market could be jeopardized. We have implemented a policy whereby any external communications need to be reviewed and approved by a member of our Board of Directors, as well as our outside legal counsel.

***Complying with the laws and regulations affecting public companies will increase our costs and the demands on management and could harm our operating results.***

As a public company and particularly after we cease to be an “emerging growth company,” we will incur significant additional legal, accounting, and other expenses. In addition, the Sarbanes-Oxley Act and rules subsequently implemented by the SEC and the Nasdaq Capital Market impose various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and will continue to increase our legal, accounting, and financial compliance costs and have made and will continue to make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or board committees or as executive officers.

***If we do not manage our planned growth effectively, our revenue, business and operating results may be harmed.***

Our future expansion strategy could include possible acquisitions of other SaaS companies. We may not be able to identify, secure and manage future acquisitions successfully. The acquisition of any future businesses may require a greater than anticipated investment of operational and financial resources as we seek to institute uniform standards and controls across acquired businesses. Acquisitions may also result in the diversion of management and resources, increases in administrative costs, including those relating to the assimilation of new employees, and costs associated with any financings undertaken in connection with such acquisitions. We cannot assure you that any acquisition we undertake, including those we have already made, will be successful. Future growth will also place additional demands on our management, sales, and marketing resources, and may require us to hire and train additional employees. We will need to expand and upgrade our systems and infrastructure to accommodate our growth, and we may not have the resources to do so in the time frames required. The failure to manage any future growth effectively will materially and adversely affect our business, financial condition and results of operations.

***We may explore acquiring additional companies and such acquisitions may subject us to additional unknown risks.***

We may make future acquisitions of SaaS or other companies in markets that we do not serve now. We may not be able to reach agreements with such companies on favorable terms or at all. In completing acquisitions, we will rely upon the representations and warranties and indemnities made by the sellers with respect to each acquisition as well as our own due diligence investigation. We cannot assure you that such representations and warranties will be true and correct or that our due diligence will uncover all materially adverse facts relating to the operations and financial condition of the acquired companies or their businesses. To the extent that we are required to pay for undisclosed obligations of an acquired company, or if material misrepresentations exist, we may not realize the expected economic benefit from such acquisition and our ability to seek legal recourse from the seller may be limited.

***The value of our goodwill and other intangible assets may decline.***

As of December 31, 2021, there was goodwill of \$8,366,467. We evaluate goodwill at least annually, and will do so more frequently if events or circumstances indicate that impairment may have occurred. Many of the assumptions and estimates that we make in order to estimate the fair value of our intangible assets directly impact the results of impairment testing, including an estimate of future expected revenues, earnings and cash flows, and the discount rates applied to expected cash flows. We are able to influence the outcome and ultimate results based on the assumptions and estimates we choose for testing. To avoid undue influence, we have set criteria that are followed in making assumptions and estimates. The determination of whether goodwill or acquired intangible assets have become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of our reporting unit. Changes in our strategy or market conditions could significantly impact these judgments and require adjustments to recorded amounts of intangible assets.

***Any future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of indebtedness and increased amortization expense.***

Any future acquisitions are likely to result in issuances of equity securities, which will be dilutive to the equity interests of existing stockholders, and may involve the incurrence of debt, which will require us to maintain cash flows sufficient to make payments of principal and interest, the assumption of known and unknown liabilities, and the amortization of expenses related to intangible assets, all of which could have an adverse effect on our business, financial condition and results of operations. For example, the acquisition of SCWorx resulted in a change of control of our company involving the issuance of 5,263,158 shares of common stock and 190,000 shares of Series A Preferred Stock, convertible into 500,000 shares of common stock (subject to adjustment), and the issuance of warrants to purchase an additional 250,000 shares of common stock, at an exercise price of \$5.70 per share.

***We may become involved in litigation which could harm the value of our business.***

Because of the nature of our business and the exit from lines of business, there is a risk of litigation. Any litigation could cause us to incur substantial expenses whether or not we prevail, which would reduce the capital available for our operations.

Please refer to Item 3. Legal Proceedings of this Annual Report on Form 10-K for a detailed description of the pending legal actions and investigations.

***Economic uncertainty impacts our business and financial results, and a renewed recession could materially affect us in the future.***

Periods of economic slowdown or recession could lead to a reduction in demand for our software and services, which in turn would reduce our revenues and adversely affect our results of operations and our financial position. Our business will be dependent upon business discretionary spending and therefore is affected by business confidence as well as the future performance of the United States and global economies. As a result, our results of operations are susceptible to economic slowdowns and recessions.

***We depend on the services of key executives and consultants, and the loss of these persons could materially harm our business and our strategic direction if we were unable to replace them with persons of equal experience and capabilities.***

Our future success significantly depends on the continued service and performance of our key management and other personnel. We cannot prevent members of senior management/consultants from terminating their employment with us even if we have an employment or consulting agreement with them. Losing the services of members of senior management/consultants could materially harm our business until a suitable replacement is found, and such replacement may not have equal experience and capabilities. We have not purchased life insurance covering any members of our senior management.

***The markets in which we operate are highly competitive, rapidly changing and increasingly fragmented, and we may not be able to compete effectively, especially against competitors with greater financial resources or marketplace presence.***

We face competition from other SaaS companies. Many of the companies with which we will compete have greater financial and technical resources than are available to us. Our failure to compete effectively could result in a significant loss of customers, which would adversely affect our operating results.

***We need additional capital to support our operations and the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.***

In order for us to grow and execute our business plan successfully, we require additional financing which may not be available on acceptable terms or at all. If such financing is available, it may be dilutive to the equity interests of existing stockholders. Failure to obtain financing will have a material adverse effect on our financial position. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation or growth of our business could be significantly impaired and our operating results may be harmed.

***If we fail to meet the continued listing standards and corporate governance requirements for Nasdaq Capital Market companies, we may be subject to de-listing.***

Our common stock is currently listed on the Nasdaq Capital Market. In order to maintain this listing, we are required to comply with various continued listing standards, including corporate governance requirements, set forth in the Nasdaq Listing Rules. These standards and requirements include, but are not limited to, maintaining a minimum bid price for our common stock, as well as having a majority of our Board members qualify as independent. If we fail to meet any one of these requirements for an extended period of time, we will be subject to possible de-listing.

***Our common stock may be affected by limited trading volume and price fluctuations, which could adversely impact the value of our common stock and our ability to grow our business.***

There has been limited trading in our common stock, and there can be no assurance that an active trading market in our common stock will either develop or be maintained. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to enter the market periodically in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our common stock will be stable or that our share price will appreciate over time.

***Our stock price has been volatile.***

The market price of our common stock has been highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- our ability to obtain working capital financing;
- additions or departures of key personnel;
- sales of our common stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- regulatory developments; and
- economic and other external factors.

In addition, the securities markets from time to time experience significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

The periodic availability of shares for sale upon the expiration of any statutory holding period or lockup agreements, could create a circumstance commonly referred to as an “overhang”, in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

***We may be unable to establish, protect or enforce our intellectual property rights adequately.***

Our success will depend in part on our ability to establish, protect and enforce our intellectual property and other proprietary rights. Our inability to protect our tradenames, service marks and other intellectual property rights from infringement, piracy, counterfeiting or other unauthorized use could negatively affect our business. If we fail to establish, protect or enforce our intellectual property rights, we may lose an important advantage in the market in which we compete. Our intellectual property rights may not be sufficient to help us maintain our position in the market and our competitive advantages. Monitoring unauthorized uses of and enforcing our intellectual property rights can be difficult and costly. Legal intellectual property actions are inherently uncertain and may not be successful, and may require a substantial resources and management attention.

We currently host our solution, serve our customers, and support our operations in the United States through an agreement with a third party hosting and infrastructure provider, Rackspace. We incorporate standard IT security measures, including but not limited to; firewalls, disaster recovery, backup, etc.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which we seek protection of our marks or our copyrighted works. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights may harm our business or our ability to compete.

***Changes in laws, regulations and other requirements could adversely affect our business, results of operations or financial condition.***

We are subject to the laws, regulations and other requirements of the jurisdictions in which we operate. Changes to these laws could have a material adverse impact on the revenue, profit or the operation of our business.

***Disruptions in our information technology systems or security breaches of confidential customer information or personal employee information could have an adverse impact on our operations.***

Our operations are dependent upon the integrity, security and consistent operation of various information technology systems and data centers that process transactions, communication systems and various other software applications used throughout our operations. Disruptions in these systems could have an adverse impact on our operations. We could encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties could lead to significant expenses or to losses due to disruption in our business operations.

In addition, our information technology systems are subject to the risk of infiltration or data theft. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage information technology systems change frequently and may be difficult to detect or prevent over long periods of time. Moreover, the hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of our information systems. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud or deception aimed at our employees, contractors or temporary staff. In the event that the security of our information systems is compromised, confidential information could be misappropriated, and system disruptions could occur. Any such misappropriation or disruption could cause significant harm to our reputation, lead to a loss of sales or profits or cause us to incur significant costs to reimburse third parties for damages.

***Our current insurance policies may not provide adequate levels of coverage against all claims, and we may incur losses that are not covered by our insurance.***

We believe we maintain insurance coverage that is customary for businesses of our size and type; however, we may be unable to insure against certain types of losses or claims, or the cost of such insurance may be prohibitive. For example, although we carry insurance for breaches of our computer network security, there can be no assurance that such insurance will cover all potential losses or claims or that the dollar limits of such insurance will be sufficient to provide full coverage against all losses or claims. Uninsured losses or claims, if they occur, could have a material adverse effect on our financial condition, business and results of operations. Our Insurance policies may also be subject to substantial deductibles/retentions.

***We may be required to pay for the defense of our clients, officers, or directors in accordance with certain indemnification provisions.***

Our company provides indemnification of varying scope to certain customers against claims of intellectual property infringement made by third parties arising from the use of our services. In accordance with authoritative guidance for accounting for guarantees, we evaluate estimated losses for such indemnification. Management considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, no such claims have been filed against our company and, as a result, no liability has been recorded in our financial statements.

As permitted under Delaware law, our company has agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our company's request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have directors' and officers' liability insurance coverage that is intended to reduce our financial exposure and may enable us to recover a portion of any such payments.

Please refer to Item 3. Legal Proceedings of this Annual Report on Form 10-K for a detailed description of the various actions and investigations for which we are obligated to indemnify our officers and directors.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our company does not own any real property. The Company's principal executive office in New York City is under a month-to-month arrangement. The Company also had a lease in Greenwich, CT which expired in March 2020 and became a month to month. This tenancy was terminated in April 2021.

We believe that our facilities are adequate for our current needs.

#### **Item 3. Legal Proceedings**

In conducting our business, we may become involved in legal proceedings. We will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred.

### *Settlement of Consolidated Securities Class Action*

As previously disclosed, on April 29, 2020, a securities class action case was filed in the United States District Court for the Southern District of New York against us and our former CEO. The action is captioned Daniel Yannes, individually and on behalf of all others similarly situated vs. SCWorx Corp. and Marc S. Schessel,. Subsequently, two additional class actions were filed in the same court (*Leeburn v. SCWorx, et ano. and Leonard v. SCWorx et ano.*) and thereafter, the three class actions were consolidated (the “Consolidated Class Action”). The Consolidated Class Action alleged that our company and our former CEO misled investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits.

As previously disclosed, on February 11, 2022, the parties entered into a Stipulation of Settlement (subject to Court approval) to settle the Consolidated Class Action. The settlement resolves all claims asserted against SCWorx and the other named defendant without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. Under the terms of this agreement, (i) the insurers for the Company and Marc Schessel (former CEO) will make a cash payment to the class plaintiffs (ii) the former CEO will transfer 100,000 shares of company common stock to the class plaintiffs, and (iii) the Company will issue \$600,000 worth of common stock to the class plaintiffs, in exchange for which all parties will be released from all claims related to the securities class action litigation. After giving effect to the share issuance by the Company, the Company believes that it will have satisfied the accrued retention liability of \$700,000.

### *Settlement of Consolidated Derivative Action*

As previously disclosed, on June 15, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Steven Wallitt (current director), Marc S. Schessel, Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned Lozano, derivatively on behalf of SCWorx Corp. v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. The Lozano lawsuit was consolidated with another shareholder derivative lawsuit, Richter, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. (the “Consolidated Derivative Action”).

The Consolidated Derivative Action alleged that the Director Defendants breached their fiduciary duties to the Company, including by misleading investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits, failing to correct false and misleading statements and failing to implement proper disclosure and internal controls.

In addition, on October 29, 2020, Hemrita Zarins filed a shareholder derivative action in the Chancery Court in the State of Delaware against Steven Wallitt (current director) and Marc S. Schessel and Charles Miller (former directors). The action is captioned Hemrita Zarins, v. Marc S. Schessel, Robert Christie, Steven Wallitt and SCWorx, Nominal Defendant. The Zarins action contains substantially similar allegations as in the Consolidated Derivative Action.

On February 15, 2022, the Company and the Director Defendants (Marc Schessel, Steven Wallitt, Charles Miller and Robert Christie) entered into a stipulation of settlement (subject to Court approval) with the shareholder derivative plaintiffs to settle the Consolidated Derivative Action as well as the Zarins action. Under the terms of the settlement, (i) the insurers for the Director Defendants will make a cash payment to legal counsel for the shareholder derivative Plaintiffs to cover their legal fees and (ii) the Company will adopt certain corporate governance reforms within 60 days of court approval of the settlement, in exchange for which all parties will be released from all claims related to the derivative class action litigation. The settlement resolves all claims asserted against the defendants without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant.

### *Other Investigations*

In addition, as previously disclosed, following the April 13, 2020 press release and related disclosures (related to COVID-19 rapid test kits), the Securities and Exchange Commission made an inquiry regarding the disclosures we made in relation to the transaction involving COVID-19 test kits. The Company is continuing to cooperate with the SEC regarding its investigation arising out of the April 13, 2020 press release and the events thereafter. The Company received a Wells notice on December 8, 2021 and an amended Wells notice on December 10, 2021. The Wells Notice states that the staff of the Securities and Exchange Commission has made a preliminary determination to recommend that the Commission file an enforcement action against the Company which would allege violations of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 (the “Securities Act”), Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder. The Wells Notice also indicates that the staff would seek fines and disgorgement, including pre and post judgment interest in such enforcement proceeding. The Company did not make a Wells submission to the Commission in response to the Wells Notice. The Company has since been actively engaged in discussions with the Staff to settle the claims set forth in the Wells Notice.

In April 2020, we received related inquiries from The Nasdaq Stock Market and the Financial Industry Regulatory Authority (FINRA). We cooperated fully with these agencies, providing information and documents, as requested. We have not had any requests from these agencies since January 2021.



Also in April 2020, as previously disclosed, we were contacted by the U.S. Attorney's Office for the District of New Jersey, which was seeking information and documents from our officers and directors relating primarily to the April 13, 2020 press release concerning COVID-19 rapid test kits. We have cooperated fully with the U.S. Attorney's Office in its investigation.

In connection with these actions and investigations, the Company is obligated to indemnify its officers and directors for costs incurred in defending against these claims and investigations. Because the Company currently does not have the resources to pay for these costs, its directors and officers liability insurance carrier has agreed to indemnify these persons. Upon consummation of the settlement of the Consolidated Class Action, the Company believes it will have satisfied its accrued retention obligations with respect to the insurance coverage.

**David Klarman v. SCWorx Corp. f/k/a Alliance MMA, Inc., Index No. 619536/2019 (N.Y. State Sup. Ct., Suffolk County)**

On October 3, 2019, David Klarman, a former employee of Alliance, served a complaint against SCWorx seeking \$400,000.00 for a breach of his employment agreement with Alliance. Klarman claims that Alliance ceased paying him his salary in March 2018 as well as other alleged contractual benefits. This action was settled on or about December 16, 2021 by the parties without any admission of liability or wrongdoing. In exchange for a release, the Company agreed to settle with Mr. Klarman with \$100,000 of SCWorx shares calculated over a period of 4 months pursuant to an agreed upon schedule with respect to amounts, dates and a restriction on sales of SCWorx stock to no more than 4,000 shares per trading day. To date, all shares have been issued pursuant to this agreement.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information for Common Stock

Our common stock was listed on the Nasdaq Capital Market under the symbol "AMMA" from October 6, 2016 through February 3, 2019. Our symbol was changed to "WORX" on February 4, 2019 in connection with the closing of the SCWorx acquisition. The following table sets forth for the indicated periods the high and low closing prices for SCWorx's common stock as reported on the NASDAQ Capital Market.

	2021		2020	
	High	Low	High	Low
First Quarter	\$ 3.08	\$ 1.28	\$ 3.14	\$ 1.55
Second Quarter	\$ 2.49	\$ 1.28	\$ 12.02	\$ 2.09
Third Quarter	\$ 5.00	\$ 1.45	\$ 5.75	\$ 1.29
Fourth Quarter	\$ 2.28	\$ 1.16	\$ 2.22	\$ 1.03

#### Holders of Record

As of March 31, 2021, there were 11,383,454 outstanding shares of common stock held by 79 stockholders of record.

#### Dividends

We have never declared or paid any cash dividends on our shares of common stock, and we do not expect to pay cash dividends in the foreseeable future. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant. Furthermore, our ability to pay dividends is limited by the Delaware General Corporation Law, which provides that a corporation may pay dividends only out of existing "surplus," which is defined as the amount by which a corporation's net assets exceeds its stated capital.

Refer to Note 9, Stockholders' Equity, in the accompanying consolidated financial statements, for a non-cash dividend related to the decrease in the exercise price of certain warrants.

#### Item 6. [Reserved]

Not required under Regulation S-K for "smaller reporting companies."

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. Those statements include statements regarding the intent, belief or current expectations of us and members of our management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.*

*Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission. Important factors known to us could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. We believe that its assumptions are based upon reasonable data derived from and known about our business and operations and the business and operations of our company. No assurances are made that actual results of operations or the results of our future activities will not differ materially from its assumptions. Factors that could cause differences include, but are not limited to, expected market demand for our services, fluctuations in pricing for materials, and competition.*

## **Our Business**

SCWorx is a provider of data content and services related to the repair, normalization and interoperability of information for healthcare providers and big data analytics for the healthcare industry.

SCWorx has developed and markets health information technology solutions and associated services that improve healthcare processes and information flow within hospitals. SCWorx's software platform enables healthcare providers to simplify, repair, and organize its data ("data normalization"), allows the data to be utilized across multiple internal software applications ("interoperability") and provides the basis for sophisticated data analytics ("big data"). SCWorx's solutions are designed to improve the flow of information quickly and accurately between the existing supply chain, electronic medical records, clinical systems, and patient billing functions. The software is designed to achieve multiple operational benefits such as supply chain cost reductions, decreased accounts receivables aging, accelerated and more accurate billing, contract optimization, increased supply chain management and cost visibility, synchronous Charge Description Master ("CDM") and control of vendor rebates and contract administration fees.

SCWorx empowers healthcare providers to maintain comprehensive access and visibility to an advanced business intelligence that enables better decision-making and reductions in product costs and utilization, ultimately leading to accelerated and accurate patient billing. SCWorx's software modules perform separate functions as follows:

- virtualized Item Master File repair, expansion and automation;
- CDM management;
- contract management;
- request for proposal automation;
- rebate management;
- big data analytics modeling; and
- data integration and warehousing.

SCWorx continues to provide transformational data-driven solutions to many healthcare providers in the United States. The Company's clients are geographically dispersed throughout the country. The Company's focus is to assist healthcare providers with issues that they have pertaining to data interoperability. SCWorx provides these solutions through a combination of direct sales and relationships with strategic partners.

SCWorx's software solutions are delivered to its clients within a fixed term period, typically a three-to-five-year contracted term, where such software is hosted in SCWorx data centers (Amazon Web Service's "AWS" or RackSpace) and accessed by such clients through a secure connection in a software as a service ("SaaS") delivery method.

SCWorx currently sells its solutions and services in the United States to hospitals and health systems through its direct sales force and its distribution and reseller partnerships.

SCWorx, as part of the acquisition of Alliance MMA, operates an online event ticketing platform focused on serving regional MMA ("mixed martial arts") promotions which it has paused due to COVID-19.

We currently host our solutions, serve our customers, and support our operations in the United States through an agreement with a third party hosting and infrastructure provider, RackSpace. We incorporate standard IT security measures, including but not limited to; firewalls, disaster recovery, backup, etc. Our operations are dependent upon the integrity, security and consistent operation of various information technology systems and data centers that process transactions, communication systems and various other software applications used throughout our operations. Disruptions in these systems could have an adverse impact on our operations. We could encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties could lead to significant expenses or to losses due to disruption in our business operations.

In addition, our information technology systems are subject to the risk of infiltration or data theft. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage information technology systems change frequently and may be difficult to detect or prevent over long periods of time. Moreover, the hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of our information systems. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud or deception aimed at our employees, contractors or temporary staff. In the event that the security of our information systems is compromised, confidential information could be misappropriated, and system disruptions could occur. Any such misappropriation or disruption could cause significant harm to our reputation, lead to a loss of sales or profits or cause us to incur significant costs to reimburse third parties for damages.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our consolidated financial condition and results of operations are based upon our consolidated financial statements. These consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. We evaluate our estimates based on our historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates relate to revenue recognition, the assessment of recoverability of goodwill and intangible assets, the assessment of useful lives and the recoverability of property, plant and equipment, the valuation and recognition of stock-based compensation expense, recognition and measurement of deferred income tax assets and liabilities, the assessment of unrecognized tax benefits, and others. Actual results could differ from those estimates, and material effects on our consolidated operating results and consolidated financial position may result. Refer to Note 3, Summary of Significant Accounting Policies, in the accompanying consolidated financial statements, for a full description of our accounting policies.

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance to U.S. GAAP and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements include the accounts of SCWorx and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

### **Cash**

Cash is maintained with various financial institutions. Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

## **Fair Value of Financial Instruments**

Management applies fair value accounting for significant financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Management defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, management considers the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement: Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 - Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

## **Concentration of Credit and Other Risks**

Financial instruments that potentially subject our company to significant concentrations of credit risk consist principally of cash, accounts receivable and warrants. We believe that any concentration of credit risk in its accounts receivable is substantially mitigated by our evaluation process, relatively short collection terms and the high level of credit worthiness of its customers. We perform ongoing internal credit evaluations of its customers' financial condition, obtain deposits and limit the amount of credit extended when deemed necessary but generally require no collateral.

For the year ended December 31, 2021, we had two customers representing 19% and 13% of aggregate revenues. or the year ended December 31, 2020, we had two customers representing 22% and 17% of aggregate revenues. At December 31, 2021, we had three customers representing 17%, 16% and 14% of aggregate accounts receivable. At December 31, 2020, we had three customers representing 35%, 32% and 10% of aggregate accounts receivable.

## **Allowance for Doubtful Accounts**

Our company continually monitors customer payments and maintains a reserve for estimated losses resulting from our customers' inability to make required payments. In determining the reserve, we evaluate the collectability of our accounts receivable based upon a variety of factors. In cases where we become aware of circumstances that may impair a specific customer's ability to meet its financial obligations, we record a specific allowance against amounts due. For all other customers, we recognize allowances for doubtful accounts based on our historical write-off experience in conjunction with the length of time the receivables are past due, customer creditworthiness, geographic risk and the current business environment. Actual future losses from uncollectible accounts may differ from our estimates. The Company recorded an allowance for doubtful accounts as of December 31, 2021 and 2020 of \$421,736 and \$183,277, respectively.

## **Leases**

We determine if an arrangement is a lease at inception. The current portion of lease obligations are included in accounts payable and accrued liabilities on the consolidated balance sheets. Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include options to extend or terminate the lease, which are included in the lease ROU asset when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. We have lease agreements with lease components only, none with non-lease components, which are generally accounted for separately.

## **Business Combinations**

Our company includes the results of operations of a business we acquire in our consolidated results as of the date of acquisition. We allocate the fair value of the purchase consideration of our acquisition to the tangible assets, liabilities and intangible assets acquired, based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. The primary items that generate goodwill include the value of the synergies between the acquired businesses and our company. Intangible assets are amortized over their estimated useful lives. The fair value of contingent consideration (earn out) associated with acquisitions is remeasured each reporting period and adjusted accordingly. Acquisition and integration related costs are recognized separately from the business combination and are expensed as incurred. For additional information regarding our acquisitions, refer to Note 5, Business Combinations.

## **Goodwill and Identified Intangible Assets**

### *Goodwill*

Goodwill is recorded as the difference between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired under a business combination. Goodwill also includes acquired assembled workforce, which does not qualify as an identifiable intangible asset. Management reviews impairment of goodwill annually in the fourth quarter, or more frequently if events or circumstances indicate that the goodwill might be impaired. We first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the quantitative goodwill impairment test is unnecessary.

### *Identified intangible assets*

Identified finite-lived intangible assets consist of ticketing software and promoter relationships resulting from the February 1, 2019 business combination. Our identified intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 5 to 7 years. Management makes judgments about the recoverability of finite-lived intangible assets whenever facts and circumstances indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess recoverability by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life is shorter than originally estimated, we would accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life.

For further discussion of goodwill and identified intangible assets, refer to Note 5, Business Combinations.

## **Property and Equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the related assets' estimated useful lives. Equipment, furniture and fixtures are being amortized over a period of three years.

Expenditures that materially increase asset life are capitalized, while ordinary maintenance and repairs are expensed as incurred.

## Revenue Recognition

We recognize revenue in accordance with Topic 606 to depict the transfer of promised goods or services in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of Topic 606 we perform the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

We follow the accounting revenue guidance under Topic 606 to determine whether contracts contain more than one performance obligation. Performance obligations are the unit of accounting for revenue recognition and generally represent the distinct goods or services that are promised to the customer.

Management has identified the following performance obligations in our contracts with customers:

1. Data Normalization: which includes data preparation, product and vendor mapping, product categorization, data enrichment and other data related services,
2. Software-as-a-service (“SaaS”): which is generated from clients’ access of and usage of our hosted software solutions on a subscription basis for a specified contract term, which is usually annually. In SaaS arrangements, the client cannot take possession of the software during the term of the contract and generally has the right to access and use the software and receive any software upgrades published during the subscription period,
3. Maintenance: which includes ongoing data cleansing and normalization, content enrichment, and optimization, and
4. Professional Services: mainly related to specific customer projects to manage and/or analyze data and review for cost reduction opportunities.

A contract will typically include Data Normalization, SaaS and Maintenance, which are distinct performance obligations and are accounted for separately. The transaction price is allocated to each separate performance obligation on a relative stand-alone selling price basis. Significant judgement is required to determine the stand-alone selling price for each distinct performance obligation and is typically estimated based on observable transactions when these services are sold on a stand-alone basis. At contract inception, an assessment of the goods and services promised in the contracts with customers is performed and a performance obligation is identified for each distinct promise to transfer to the customer a good or service (or bundle of goods or services). To identify the performance obligations, management considers all the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. Revenue is recognized when the performance obligation has been met. We consider control to have transferred upon delivery because we have a present right to payment at that time, we have transferred use of the good or service, and the customer is able to direct the use of, and obtain substantially all the remaining benefits from, the good or service.

Our SaaS and Maintenance contracts typically have termination for convenience without penalty clauses and accordingly, are generally accounted for as month-to-month agreements. If it is determined that we have not satisfied a performance obligation, revenue recognition will be deferred until the performance obligation is deemed to be satisfied.

Revenue recognition for our performance obligations are as follows:

#### *Data Normalization and Professional Services*

Our Data Normalization and Professional Services are typically fixed fee. When these services are not combined with SaaS or Maintenance revenues as a single unit of accounting, these revenues are recognized as the services are rendered and when contractual milestones are achieved and accepted by the customer.

#### *SaaS and Maintenance*

SaaS and Maintenance revenues are recognized ratably over the contract terms beginning on the commencement date of each contract, which is the date on which our service is made available to customers.

We do have some contracts that have payment terms that differ from the timing of revenue recognition, which requires us to assess whether the transaction price for those contracts include a significant financing component. We have elected the practical expedient that permits an entity to not adjust for the effects of a significant financing component if it expects that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. We do not maintain contracts in which the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service exceeds the one-year threshold.

As of December 31, 2021, we had \$472,750 of remaining performance obligations recorded as deferred revenue. We expect to recognize sales relating to these existing performance obligations of during 2022.

#### *Costs to Fulfill a Contract*

Costs to fulfill a contract typically include costs related to satisfying performance obligations as well as general and administrative costs that are not explicitly chargeable to customer contracts. These expenses are recognized and expensed when incurred in accordance with ASC 340-40.

### **Cost of Revenue**

Cost of revenues primarily represent data center hosting costs, consulting services and maintenance of our large data array that were incurred in delivering professional services and maintenance of our large data array during the periods presented.

### **Contract Balances**

Contract assets arise when the revenue associated prior to our unconditional right to receive a payment under a contract with a customer (*i.e.*, unbilled revenue) and are derecognized when either it becomes a receivable or the cash is received. There were no contract assets as of December 31, 2021 and 2020.

Contract liabilities arise when customers remit contractual cash payments in advance of our company satisfying our performance obligations under the contract and are derecognized when the revenue associated with the contract is recognized when the performance obligation is satisfied. Deferred revenue for contract liabilities were \$472,750 and \$2,025,333 as of December 31, 2021 and 2020, respectively.

### **Income Taxes**

Our company converted to a corporation from a limited liability company during 2018.

We use the asset and liability method of accounting for income taxes in accordance with Accounting Standard Codification (“ASC”) Topic 740, “Income Taxes.” Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity’s financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date.



Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. During the year ended December 31, 2021, we evaluated available evidence and concluded that we may not realize all the benefits of our deferred tax assets; therefore, a valuation allowance was established for our deferred tax assets.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017, (the "Tax Act") was enacted. The Tax Act significantly revised the U.S. corporate income tax regime by, including but not limited to, lowering the U.S. corporate income tax rate from 34% to 21% effective January 1, 2018, implementing a territorial tax system, imposing a one-time transition tax on previously untaxed accumulated earnings and profits of foreign subsidiaries, and creating new taxes on foreign sourced earnings. During the years ended December 31, 2021 and 2020, we completed the accounting for tax effects of the Tax Act under ASC 740. There were no impacts to the years ended December 31, 2021 and 2020.

### **Stock-based Compensation Expense**

The Company accounts for stock-based compensation expense in accordance with the authoritative guidance on share-based payments. Under the provisions of the guidance, stock-based compensation expense is measured at the grant date based on the fair value of the option or warrant using a Black-Scholes option pricing model and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period.

The authoritative guidance also requires that the Company measure and recognize stock-based compensation expense upon modification of the term of stock award. The stock-based compensation expense for such modification is accounted for as a repurchase of the original award and the issuance of a new award.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, stock price volatility, and the pre-vesting option forfeiture rate. The Company estimates the expected life of options granted based on historical exercise patterns, which are believed to be representative of future behavior. The Company estimates the volatility of the Company's common stock on the date of grant based on historical volatility. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, its stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience of its stock-based awards that are granted, exercised and cancelled. If the actual forfeiture rate is materially different from the estimate, stock-based compensation expense could be significantly different from what was recorded in the current period. The Company also grants performance based restricted stock awards to employees and consultants. These awards will vest if certain employee/consultant-specific or company-designated performance targets are achieved. If minimum performance thresholds are achieved, each award will convert into a designated number of the Company's common stock. If minimum performance thresholds are not achieved, then no shares will be issued. Based upon the expected levels of achievement, stock-based compensation is recognized on a straight-line basis over the requisite service period. The expected levels of achievement are reassessed over the requisite service periods and, to the extent that the expected levels of achievement change, stock-based compensation is adjusted in the period of change and recorded on the statements of operations and the remaining unrecognized stock-based compensation is recorded over the remaining requisite service period. Refer to Note 9, Stockholders' Equity, for additional detail.

### **Loss Per Share**

We compute earnings (loss) per share in accordance with ASC 260, "Earnings per Share" which requires presentation of both basic and diluted earnings (loss) per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing the loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. As of December 31, 2021 and 2020, we had 1,161,913 and 790,847, respectively, common stock equivalents outstanding.

## **Indemnification**

We provide indemnification of varying scope to certain customers against claims of intellectual property infringement made by third parties arising from the use of our software. In accordance with authoritative guidance for accounting for guarantees, we evaluate estimated losses for such indemnification. We consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, no such claims have been filed against our company and no liability has been recorded in our financial statements.

As permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our company's request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. In addition, we have directors' and officers' liability insurance coverage that is intended to reduce our financial exposure and may enable us to recover any payments above the applicable policy retention.

In connection with the Class Action claims and investigations described in Item 3. Legal Proceedings of this Annual Report on Form 10-K, the Company is obligated to indemnify its officers and directors for costs incurred in defending against these claims and investigations.

## **Contingencies**

From time to time, we may be involved in legal and administrative proceedings and claims of various types. We record a liability in our consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. Management reviews these estimates in each accounting period as additional information becomes known and adjusts the loss provision when appropriate. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in the consolidated financial statements. If a loss is probable but the amount of loss cannot be reasonably estimated, we disclose the loss contingency and an estimate of possible loss or range of loss (unless such an estimate cannot be made). We do not recognize gain contingencies until they are realized. Legal costs incurred in connection with loss contingencies are expensed as incurred. Refer to Note 8, Commitments and Contingencies, for further information.

## **Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. The Company regularly evaluates estimates and assumptions related to allowance for doubtful accounts, the estimated useful lives and recoverability of long-lived assets, equity component of convertible debt, stock-based compensation, and deferred income tax asset valuation allowances. 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 liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may 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.

## **Recently Issued Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. If not discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

## Results of Operations

### *The COVID-19 Pandemic has disrupted our business and the business of our hospital customers.*

Our operations and business have experienced disruption due to the unprecedented conditions surrounding the COVID-19 pandemic which spread throughout the United States and the world. The Company has followed the recommendations of local health authorities to minimize exposure risk for its team members since the outbreak.

In addition, the Company's customers (hospitals) also experienced extraordinary disruptions to their businesses and supply chains, while experiencing unprecedented demand for health care services related to COVID-19. As a result of these extraordinary disruptions to the Company's customers' business, the Company's customers were focused on meeting the nation's health care needs in response to the COVID-19 pandemic. As a result, the Company believes that its customers were not able to focus resources on expanding the utilization of the Company's services, which has adversely impacted the Company's growth prospects, at least until the adverse effects of the pandemic subside. In addition, the financial impact of COVID-19 on the Company's hospital customers could cause the hospitals to delay payments due to the Company for services, which could negatively impact the Company's cash flows.

The Company had sought to mitigate these impacts to revenue through the sale of personal protective equipment ("PPE") and COVID-19 rapid test kits to the health care industry, including many of the Company's hospital customers.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and was subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. Since the inception of this business, the Company completed only minimal sales of COVID-19 rapid test kits and PPE. The Company does not expect to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

### *Year Ended December 31, 2021 Compared to Year Ended December 31, 2020*

The following summary of our results of operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2021 and 2020.

Our operating results for the years ended December 31, 2021 and 2020 are summarized as follows:

	Years Ended		Difference
	December 31, 2021	December 31, 2020	
Revenue	\$ 4,632,529	\$ 5,213,118	\$ (580,589)
Cost of revenues	2,782,509	3,515,279	(732,770)
General and administrative	5,664,488	7,742,850	(2,078,362)
Other (expense) income	-	(1,357,339)	1,357,339
Provision for income taxes	-	-	-
Net loss	<u>(3,814,468)</u>	<u>(7,402,350)</u>	<u>3,587,882</u>

## *Revenues*

Revenue for the year ended December 31, 2021 was \$4,632,529, compared to \$5,213,188 in revenue for the year ended December 31, 2020. The decline in revenue is primarily related to decreases in revenues from PPE sales of approximately \$410,000 as we have pivoted away from direct PPE inventory sales and a decrease of approximately \$125,000 in ticket sales upon the suspension of our Cagetitx operations due to COVID-19.

## *Cost of Revenues*

Cost of revenues for the year ended December 31, 2021 was \$2,782,509, compared to \$3,515,279 for the year ended December 31, 2020. The \$732,770 decrease is primarily related to a decrease of approximately \$103,000 in costs related to ticket sales revenue which was suspended in 2021 and decrease of approximately \$127,000 in costs related to PPE inventory sales with the remaining decrease related to lowered salary costs of revenue in the current year.

## *Expenses*

General and administrative expenses decreased \$2,078,362 to \$5,664,488 for the year ended December 31, 2021, as compared to \$7,742,850 in the same period of 2020. This decrease was primarily due to a decrease in salary expense of approximately \$70,000, a decrease in stock-based compensation (non-cash) of approximately \$600,000, a decrease in legal and professional fees of \$1,080,000, a decrease in travel expense of \$170,000, a decrease in accounting fees of \$40,000, and a decrease in commission expense of \$170,000, partially offset by an increase in inventory expense of \$367,000. We expect general and administrative expenses to remain relatively flat during 2022, unless we complete a capital raise, in which case we would expect expenses to grow as we ramp our sales force.

We had other expense of \$1,357,339 during the year ended December 31, 2020. Other expense in 2020 related to net losses on the settlement of accounts payable due to the fair value of the shares issued in settlement being greater than the value of the accounts payable.

## **Liquidity and Capital Resources**

### **Going Concern**

Management has concluded on our consolidated financial statements for the year ended December 31, 2021 that conditions exist that raise substantial doubt about our ability to continue as a going concern since we may not have sufficient capital resources from operations and existing financing arrangements to meet our operating expenses and working capital requirements. As of December 31, 2021, we had a working capital deficit of \$1,527,830 and accumulated deficit of \$24,011,291. During the year ended December 31, 2021, we had a net loss of \$3,814,468 and used \$1,069,945 of cash in operations. We have historically incurred operating losses and may continue to incur operating losses for the foreseeable future. We believe that these conditions raise substantial doubt about our ability to continue as a going concern. This may hinder our future ability to obtain financing or may force us to obtain financing on less favorable terms than would otherwise be available. If we are unable to develop sufficient revenues and additional customers for our products and services, we may not generate enough revenue to sustain our business, and we may fail, in which case our stockholders would suffer a total loss of their investment. There can be no assurance that we will be able to continue as a going concern.

### **Recent Fundraising**

On May 5, 2020, the Company obtained a \$293,972 unsecured loan payable through the Paycheck Protection Program ("PPP"), which was enacted as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES ACT"). The funds were received from Bank of America through a loan agreement pursuant to the CARES Act. The CARES Act was established in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the CARES Act and used for payroll costs, rent, mortgage interest, and utility costs during the 24 week period after the date of loan disbursement is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. While the full loan amount may be forgiven, the amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels or less than 60% of the loan proceeds are used for payroll costs. Principal and interest payments on any unforgiven portion of the PPP Funds (the "PPP Loan") will be deferred to the date the SBA remits the borrower's loan forgiveness amount to the lender or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness period for six months and will accrue interest at a fixed annual rate of 1.0% and carry a two year maturity date. There is no prepayment penalty on the CARES Act Loan. The Company expects the loan to be fully forgiven.

On March 17, 2021, we received \$139,595 in financing from the U.S. government's Payroll Protection Program ("PPP"). We entered into a loan agreement with Bank of America. This loan agreement was pursuant to the CARES Act. The CARES Act was established in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the CARES Act is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels. Principal and interest payments on any unforgiven portion of the PPP Funds (the "PPP Loan") will be deferred for six months and will accrue interest at a fixed annual rate of 1.0% and carry a two year maturity date. There is no prepayment penalty on the CARES Act Loan. The Company expects the loan to be fully forgiven.

On September 17, 2021, The Company issued units at \$1.79 per unit comprised in the aggregate of 298,883 shares of common stock and 298,883 5 year warrants to purchase shares of common stock for aggregate gross proceeds of \$525,000.

During May 2020, we received \$515,000 from the sale of 135,527 shares of common stock (at a price of \$3.80 per share) and warrants to purchase 169,409 shares of common stock, at an exercise price of \$4.00 per share. Of the \$515,000 investment, \$125,000 is subject to execution of definitive documents.

### Liquidity

We are currently experiencing a working capital deficiency, have limited cash on hand, and we are experiencing negative cash flows from operations. Consequently, we have an immediate need for additional capital to fund our operations and the implementation of our business plan.

Based on our current business plan, if we had sufficient capital resources, we anticipate that our operating activities would use approximately \$400,000 in cash per month over the next twelve months, or approximately \$4.8 million. Currently we have only limited cash on hand, and consequently, we are unable to implement our current business plan. Accordingly, we have an immediate need for additional capital to fund our operating activities.

In order to remedy this liquidity deficiency, we have cut spending and are actively seeking to raise additional funds through the sale of equity and debt securities. Ultimately, we will need to generate substantial positive operating cash flows. Our internal sources of funds will consist of cash flows from operations, but not until we begin to realize substantial additional revenues from the sale of our products and services. As previously stated, our operations are generating negative cash flows, and thus adversely affecting our liquidity. If we are able to secure sufficient funding in the first half of 2022 to fully implement our business plan, we expect that our operations could begin to generate positive cash flows by the end of 2022, which should ameliorate our liquidity deficiency. If we are unable to raise additional funds in the near term, we will not be able to fully implement our business plan, in which case there could be a material adverse effect on our results of operations and financial condition.

In the event we do not generate sufficient funds from revenues or financing through the issuance of common stock or from debt financing, we will be unable to fully implement our business plan and pay our obligations as they become due, any of which circumstances would have a material adverse effect on our business prospects, financial condition, and results of operations. The accompanying financial statements do not include any adjustments that might be required should the Company be unable to recover the value of its assets or satisfy its liabilities (see Note 2 to the Financial Statements - Liquidity/Going Concern).

Based on our current limited availability of funds, we expect to spend minimal amounts on expansion of our sales organization, software development and capital expenditures. We expect to fund any future software development expenditures through a combination of cash flows from operations and proceeds from equity and/or debt financing. If we are unable to generate positive cash flows from operations, and/or raise additional funds (either through debt or equity), we will be unable to fund our software development expenditures, in which case, there could be an adverse effect on our business and results of operations.

### Cash Flows

	<b>Years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net cash used in operating activities	\$ (1,069,945)	\$ (959,070)
Net cash used in investing activities	-	-
Net cash provided by financing activities	764,595	847,542
Change in cash	<u>\$ (305,350)</u>	<u>\$ (111,528)</u>

Our operations through December 31, 2021 have resulted in negative cash flows from operations of \$1,069,945. If we are able to raise additional capital during first half of 2022 and generate additional revenue through the acquisition of new customers, and provided we realize a reduction in legal and accounting expenses, which we anticipate, we believe we may begin to generate positive operating cash flows by the end of 2022. However, there is no assurance we will be able to increase our revenue sufficiently so as to generate positive operating cash flows within this time frame.



## **Operating Activities**

Net cash used in operating activities was \$1,069,945 for the year ended December 31, 2021, mainly related to the net loss of \$3,814,46 and decreases of \$452,284 in accounts payable and accrued liabilities and \$690,083 in deferred revenue, partially offset by non-cash stock-based compensation of \$2,687,901 related to various equity awards to employees and non-employees, \$163,917 in bad debt expense, and a \$475,000 decrease in inventory.

Net cash used in operating activities was \$959,070 for the year ended December 31, 2020, mainly related to the net loss of \$7,402,350, a \$523,440 increase in inventory and a \$76,470 increase in prepaid expenses, partially offset by non-cash stock-based compensation of \$3,284,570 related to various equity awards to employees and non-employees, \$1,612,538 in non-cash losses related to the settlement of accounts payable, an \$848,473 increase in accounts payable and accrued liabilities.

## **Investing Activities**

The Company did not have any investing activities during the years ended December 31, 2021 and 2020.

## **Financing Activities**

Net cash provided by financing activities was \$764,595 for the year ended December 31, 2021. This consisted of \$139,595 in proceeds from a loan payable, \$100,000 advanced by the Company's former CEO (also a significant shareholder), and \$525,000 from a common stock placement.

Net cash provided by financing activities was \$847,542 for the year ended December 31, 2020, primarily related to \$515,000 in proceeds from equity financing and \$293,972 in proceeds from a note payable.

## **Contractual Cash Obligations**

Refer to Note 8, Commitments and Contingencies, in the accompanying consolidated financial statements for additional detail.

## **Off-Balance Sheet Arrangements**

As of December 31, 2021, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

## **Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements are included in Part IV, Item 15 (a) (1) of this Report.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On October 14, 2020, Withum Smith + Brown (“Withum”), SCWorx Corp.’s independent registered public accounting firm, notified SCWorx Corp. (the “Company” or “Registrant”) that it would no longer be able to provide audit and review services to the Company, effective October 14, 2020. The audit and review services were discontinued for reasons unrelated to the reviews or audited financials of the Company. Withum had audited the Company’s financial statements since 2019.

Withum’s report on the Company’s financial statements for the fiscal year ended December 31, 2019 did not contain an adverse opinion or disclaimer of opinion, nor was such report qualified or modified as to uncertainty, audit scope or accounting principle, except for an explanatory paragraph relating to a substantial doubt regarding the Company’s ability to continue as a going concern. During the fiscal year ended December 31, 2019, and through October 14, 2020, there were no disagreements with Withum on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Withum’s satisfaction, would have caused Withum to make reference to the subject matter of the disagreement in connection with its report.

During the fiscal year ended December 31, 2019, and through October 14, 2020, there were no “reportable events” as defined under Item 304(a)(1)(v) of Regulation S-K, except for material weaknesses in internal control over financial reporting.

On October 20, 2020, the Company appointed Sadler Gibb & Associates, LLC (“SG”) as its new independent registered public accounting firm, effective immediately, for the fiscal year ending December 31, 2020. This appointment was authorized and approved by the Audit Committee of the Company’s Board of Directors.

During the fiscal years ended December 31, 2019 and 2018 and through October 20, 2020, the Company did not consult with SG on the application of accounting principles to a specified transaction, either completed or proposed, or consult with SG for the type of audit opinion that might be rendered on the Company’s consolidated financial statements, where a written report or oral advice was provided that SG concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue. In addition, the Company did not consult with SG on the subject of any disagreement, as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions or on any “reportable events” as identified under Item 304(a)(1)(v) of Regulation S-K.

As previously disclosed in the Company’s Current Report on Form 8-K filed April 21, 2021, on April 15, 2021, Sadler Gibb & Associates, LLC notified the Company that it was (i) terminating its engagement to provide audit and review services to the Company, effective April 14, 2021, and (ii) withdrawing its consent and association with the Completed Interim Review of the consolidated financial statements performed by SG for the period ended September 30, 2020. SG’s Letter stated that, in reaching this conclusion, it believed that it cannot rely on the representations of management and that there are disagreements between the Company and SG on matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of SG, would have caused SG to make reference to the subject matter of the disagreement in their reports on the Company’s consolidated financial statements. The Company disagreed with SG’s belief regarding the representations of management and requested the opportunity to explain its position to SG, but SG declined such request. The Company and SG also disagreed about the number of reporting units the Company has for financial reporting purposes. The Company’s CFO discussed with SG the number of reporting units. In addition, the Company engaged an independent technical accounting expert who also discussed the Company’s position with SG.

On April 19, 2021, the Company appointed BF Borgers CPA PC (“BFB”) as its new independent registered public accounting firm, effective immediately, for the fiscal year ending December 31, 2020. This appointment was authorized and approved by the Audit Committee of the Company’s Board of Directors.



## **Item 9A. Controls and Procedures**

### **Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures**

Management conducted an evaluation of the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of December 31, 2021, the end of the period covered by this Annual Report on Form 10-K, as required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, based on the 2013 framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to deficiencies caused by a lack of segregation of duties, our Disclosure Controls were not effective as of December 31, 2021, such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure.

### **Management Report on Internal Controls over Financial Reporting**

Our management has identified material weaknesses in our internal controls related to a lack of segregation of duties. Management continues to work with the Audit Committee to discuss remediation efforts, which are expected to be resolved during 2022. Our management is actively looking for additional accounting and finance personnel to assist in the remediation efforts.

Notwithstanding the foregoing, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

We may in the future identify other material weaknesses or significant deficiencies in connection with our internal control over financial reporting. Material weaknesses and significant deficiencies that may be identified in the future will need to be addressed as part of our quarterly and annual evaluations of our internal controls over financial reporting under Sections 302 and 404 of the Sarbanes-Oxley Act. Any future disclosures of a material weakness, or errors as a result of a material weakness, could result in a negative reaction in the financial markets and a decrease in the price of our common stock.

### **Changes in Internal Control over Financial Reporting.**

None

## **Item 9B. Other Information**

None.

## **Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The following table presents information with respect to our officers, directors and significant employees as of the date of filing of this Report:

Name	Age	Position(s)
Timothy A. Hannibal	53	President & Chief Executive Officer
Chris Kohler	41	Chief Financial Officer
Alton Irby	81	Director
John Ferrara	70	Director
Steven Horowitz	51	Director
Steven Wallitt	60	Director

#### Background of Officers and Directors

The following is a brief account of the education and business experience during at least the past five years of our officers and directors, indicating each person's principal occupation during that period, and the name and principal business of the organization in which such occupation and employment were carried out.

##### *Timothy A. Hannibal*

Mr. Hannibal is a seasoned technology executive and entrepreneur, with nearly 30 years' experience in SaaS and cloud technology, driving revenue, go-to-market strategies, business development and mergers and acquisitions. Mr. Hannibal joined the Company in January 2019 and currently serves as its Chief Executive Officer. Prior to joining the Company, Mr. Hannibal was an employee at Primrose Solutions (the predecessor to SCWorx) which he joined in September of 2016. At Primrose, Mr. Hannibal was responsible for overseeing marketing, sales and operations, including executing the Company's business plan. Mr. Hannibal has a successful track record of growth and management at both startup and national companies.

Prior to joining Primrose, Mr. Hannibal was the President and CEO of VaultLogix for thirteen years, a company he founded. VaultLogix was a private equity sponsored leading SaaS company in the cloud backup industry before being acquired by J2 Global, a publicly traded technology company (\$3.2b market cap) focused on cloud services and digital media.

##### *Chris Kohler*

Mr. Kohler was appointed CFO on November 1, 2020, at which time Mr. Hannibal resigned as Interim CFO. Mr. Kohler has over 15 years of experience serving in a wide variety roles in the finance and accounting sectors. Mr. Kohler is the founder and CEO of Kohler Consulting, Inc., which he founded in 2012. The firm, through Mr. Kohler, provides outsourced CFO and advisory services to private and public companies, with a focus on small cap and start-up businesses.

##### *Alton Irby*

Mr. Irby was appointed to the Board of Directors on March 10, 2021. Alton Irby is a co-founder of London Bay Capital and has been Chairman of the firm Since 2006. London Bay Capital makes investments in private companies, and also provides business advisory services. Mr. Irby is a seasoned executive with a highly successful track record in the financial services and investment banking industries in both the UK and the US from 1982 to the present. Mr. Irby has served on the boards of several public and private companies including 17 years as a director of The McKesson Corporation chairing both the Compensation and Finance Committees.

### *John Ferrara*

Mr Ferrara was appointed to the Board of Directors in August 2021. Mr. Ferrara has been the CFO of several public, private and private equity portfolio companies primarily in media, technology, financial and information services. John is also an experienced Corporate Director, having served on the Boards and Audit Committees of several publicly traded companies and a Not-For-Profit.

Since 2017, John has been a partner at CFO Performance Partners, a professional services firm that provides CFO services, strategic and financial consulting and project management services. From 2019 to 2020, he was CFO of Wild Sky Media a PE owned digital media company. Prior to joining CFO Performance Partners, John was the CFO of Cartesian, Inc., a Nasdaq company, from 2015 to 2017. From 2013 to 2015, he was CFO of the Street, Inc., a Nasdaq Company.

John has an MBA in Finance from Columbia University and a BS in Accounting from the University of Maryland and began his career at a Big 4 public accounting firm before moving on to financial positions at two Fortune 500 companies. John is a member of Financial Executives Institute (FEI) and Executive Forum and a former member of the National Association of Corporate Directors (NACD) and the American Institute of Certified Public Accountants (AICPA).

### *Steven Horowitz*

Mr. Horowitz was appointed to the Board of Directors in August 2021. Since 2012, Mr. Horowitz has served as Chief Financial Officer of CareCentrix, a multi-billion dollar health care services company. As CFO, Mr. Horowitz directs all of CareCentrix's financial activities, including financial planning, accounting and financial reporting.

Prior to joining CareCentrix, Steve was the Vice President of business planning for Medco Health Solutions, a Fortune 50 pharmacy benefit manager. In this role, Steve was the CFO for three key U.S.-based divisions as well as all international markets, which together generated over \$2 billion in annual revenue. Previously, Steve held the position of controller at National Medical Health Card Systems, a pharmacy benefit manager, and at The Fantastic Corporation, a global broadband multimedia corporation. Earlier, Steve was CFO at the Mount Vernon Neighborhood Health Center.

Steve received his MBA from Adelphi University and earned his BS in business management from Cornell University. He is a licensed CPA and Chartered Global Management Accountant (CGMA). Steve is a member of the American Institute of Certified Public Accountants (AICPA), the National Association of Corporate Directors (NACD) and the Wall Street Journal CFO Network.

### *Steven Wallitt*

Mr. Wallitt, has worked as owner and director of a packaging materials company since 1981. He is responsible for decision making in all areas of the company, including sourcing the best and most efficient methods for achieving maximum profitability and the highest quality standards. He has extensive knowledge in evaluating sales and marketing proposals. Beginning in 2008, he has been an investor in both private and public companies, as well as early-stage public companies with personal investments of \$50,000 to more than \$3,000,000. He has consulted for many of these companies in areas ranging from public market strategies, growth strategies, evaluating contract proposals, cost control and evaluating employee responsibilities in order to achieve maximum efficiencies. Since 2014, Mr. Wallitt has been an advisory board member to Redtower Capital, a California-based investment firm where he advises on all aspects of client identification, sales and marketing strategies and profit maximization. Mr. Wallitt holds a BA degree in communications from Rider College, Lawrenceville, NJ.

## **Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions and also to other employees. Our Code of Business Conduct can be found on our website at [www.SCWorx.com](http://www.SCWorx.com).

## **Family Relationships**

There are no family relationships between any of our directors, executive officers or significant employees.

## **Involvement in Certain Legal Proceedings**

During the past ten years, none of our officers, directors, significant employees or control persons have been involved in any legal proceedings as described in Item 401(f) of Regulation S-K.

## **Board Composition**

The Board of Directors currently consists of five directors. Each director will serve in office until the next annual meeting of stockholders or until their successors have been duly elected and qualified, or until the earlier of their death, resignation or removal.

Our certificate of incorporation provides that the number of authorized directors will be determined in accordance with our bylaws. Our bylaws provide that the number of authorized directors shall be determined from time to time by a resolution of the Board of Directors, and any vacancies in our board and newly created directorships may be filled only by our Board of Directors.

## **Term of Office**

All of our directors are elected on an annual basis to serve until the next annual meeting of shareholders or until the earlier of their death, resignation or removal.

## **Committees of the Board of Directors**

Our Board of Directors has established an audit committee, a compensation committee and a nominating and governance committee. Each of these committees operates under a charter that has been approved by our Board of Directors.

### *Audit Committee*

We have a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee has authority to review our financial records, engage with our independent auditors, recommend policies with respect to financial reporting to the Board of Directors and investigate all aspects of our business. The members of the audit committee are Mr. Horowitz (chair), Mr. Wallitt and Mr. Ferrara. The audit committee consists exclusively of directors who are financially literate. In addition, each of Mr. Horowitz and Mr. Ferrara is considered an “audit committee financial expert” as defined by the SEC’s rules and regulations. All members of the Audit Committee currently satisfy the independence requirements and other established criteria of Nasdaq.

### *Compensation Committee*

The Compensation Committee oversees our executive compensation and recommends various incentives for key employees to encourage and reward increased corporate financial performance, productivity and innovation. The members of the compensation committee are Mr. Irby (chair), Mr. Horowitz and Mr. Ferrara.

### *Nominating and Governance Committee*

The Nominating and Corporate Governance Committee identifies and nominates candidates for membership on the Board of Directors, oversees Board of Directors’ committees, advises the Board of Directors on corporate governance matters and any related matters required by the federal securities laws. The members of the Nominating Committee are Mr. Ferrara (chair), Mr. Irby, Mr. Horowitz and Mr. Hannibal, and all except for Mr. Hannibal currently satisfy the independence requirements and other established criteria of Nasdaq.

The Nominating and Governance Committee will consider stockholder recommendations for candidates for the Board of Directors.

Our bylaws provide that, in order for a stockholder's nomination of a candidate for the board to be properly brought before an annual meeting of the stockholders, the stockholder's nomination must be delivered to the Secretary of our company no later than 120 days prior to the one-year anniversary date of the prior year's annual meeting.

Charters for all three committees are available on our website at [www.SCWorx.com](http://www.SCWorx.com).

## Changes in Nominating Procedures

None.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who beneficially own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, statements of changes in beneficial ownership and annual statements of changes in beneficial ownership with respect to their ownership of our securities, on Forms 3, 4 and 5, respectively. Executive officers, directors and greater than 10% shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such reports received by us, and on written representations by our officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, and without conducting an independent investigation of our own, we believe that with respect to the fiscal year ended December 31, 2021, our officers and directors, and all of the persons known to us to beneficially own more than 10% of our common stock filed all required reports on a timely basis except for initial Form 4 filings by our newly appointed directors Alton Irby, Steven Horowitz and John Ferrara due to their needing to apply for Edgar codes.

## Item 11. Executive Compensation

The following summary compensation table sets forth information concerning compensation for services rendered in all capacities during 2021 and 2020 awarded to, earned by or paid to our executive officers. The value attributable to any option awards and stock awards reflects the grant date fair values of stock awards calculated in accordance with FASB Accounting Standards Codification Topic 718. As described further in Note 9, Stockholders' Equity, to our consolidated year-end financial statements, the assumptions made in the valuation of these option awards and stock awards is set forth therein.

Name and Principal Position	Fiscal Year	Salary \$	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Timothy Hannibal (2) President, Chief Executive Officer and Director	2021	225,000	-	319,350	-	-	6,663	551,013
	2020	244,000	-	1,881,101	-	-	37,394	2,162,495
Chris Kohler (3) Chief Financial Officer	2021	90,000	-	185,828	-	-	-	275,828
	2020	12,000	-	-	-	-	-	12,000
Marc Schessel (1) Former Chairman and Chief Executive Officer	2021	-	-	-	-	-	-	-
	2020	373,750	-	240,000	-	-	29,805	643,555

- (1) Mr. Schessel was appointed Chairman and Chief Executive Officer of SCWorx Corp (f/k/a Alliance MMA, Inc.) on February 1, 2019. On January 19, 2020 Mr. Schessel resigned as Chief Executive Officer.
- (2) Mr. Hannibal was hired as Chief Revenue Officer on February 1, 2019 and was appointed Interim Chief Financial Officer on June 10, 2020. On August 10, 2020 Mr. Hannibal was appointed President and Chief Operating Officer. On May 28, 2021 Mr. Hannibal was appointed President and Chief Executive Officer.
- (3) Mr. Kohler was hired as Chief Financial Officer on November 1, 2020.

## Directors' Compensation

The following summary compensation table sets forth information concerning compensation for services rendered in all capacities during 2021 and 2020 awarded to, earned by or paid to our directors. The value attributable to any stock option awards reflects the grant date fair values of stock awards calculated in accordance with ASC Topic 718.

Name and Principal Position	Fiscal Year	Fees Earned or Paid in		Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
		Cash (\$)	Bonus (\$)					
Alton Irby (3)	2021	-	-	157,000	-	-	-	157,000
Chairman and Director	2020	-	-	-	-	-	-	-
John Ferrara (5)	2021	-	-	124,584	-	-	-	124,584
Director	2020	-	-	-	-	-	-	-
Steven Horowitz (6)	2021	-	-	124,584	-	-	-	124,584
Director	2020	-	-	-	-	-	-	-
Steven Wallitt (2)	2021	-	-	157,000	-	-	-	157,000
Director	2020	-	-	240,000	-	-	-	240,000
Mark Shefts (1)	2021	-	-	-	-	-	-	-
Former Director	2020	-	-	240,000	-	-	-	240,000
Charles K. Miller (4)	2021	-	-	-	-	-	-	-
Former Director	2020	-	-	240,000	-	-	-	240,000

- (1) Mark Shefts was appointed as a Director on May 15, 2020 and resigned on June 25, 2021
- (2) Steven Wallitt was appointed as a Director on October 4, 2019.
- (3) Alton Irby was appointed as a Director on March 16, 2021.
- (4) Charles K Miller was appointed as a Director on October 24, 2018 and resigned September 25, 2020.
- (5) John Ferrara was appointed as a Director on August 11, 2021.
- (6) Steven Horowitz was appointed as a Director on August 11, 2021.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 31, 2022: (i) by each of our directors, (ii) by each of the named executive officers, (iii) by all of our executive officers and directors as a group, and (iv) by each person or entity known by us to beneficially own more than five percent (5%) of any class of our outstanding shares. As of March 31, 2022, there were 11,383,454 shares of our common stock outstanding.

### Amount and Nature of Beneficial Ownership as of March 31, 2022 (1)

Named Executive Officers and Directors	Common Stock	Preferred Stock	Options/ Warrants	Total	Percentage Ownership
<i>Current</i>					
Timothy Hannibal	805,141	-	-	805,141	6.6%
Chris Kohler	58,500	-	-	58,500	*
Alton Irby	100,000	-	-	100,000	*
John Ferrara	41,667	-	-	41,667	*
Steven Horowitz	41,667	-	-	41,667	*
Steven Wallitt	201,120	-	-	201,120	1.8%
Directors and Executive Officers as a Group (6 persons)	1,248,095	-	-	1,248,095	10.0%
<i>Former</i>					
Marc Schesse1	1,106,606	-	9-	1,106,606	.3%
Charles K. Miller	3,289	-	-	3,289	*
Mark Shefts	-	-	2,340	2,340	*

\* Represents beneficial ownership of less than 1% of our outstanding stock.

- (1) In determining beneficial ownership of our common stock as of a given date, the number of shares shown includes shares of common stock that may be acquired upon the exercise of stock options within 60 days of March 31, 2022. In determining the percent of common stock owned by a person or entity on March 31, 2022, (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which may be acquired within 60 days of March 31, 2022 upon the exercise of stock options, and (b) the denominator is the sum of (i) the total shares of common stock outstanding on March 31, 2022 and (ii) the total number of shares that the beneficial owner may acquire upon exercise of stock options within 60 days of March 31, 2022. Unless otherwise indicated, the address of each of the individuals and entities named below is c/o SCWorx Corp., 590 Madison Avenue, 21st Floor, New York, New York 10022.

### Employee Grants of Plan Based Awards and Outstanding Equity Awards at Fiscal Year-End

Prior to the completion of our initial public offering, our Board of Directors adopted the Alliance MMA 2016 Equity Incentive Plan (the “2016 Plan”) pursuant to which we may grant shares of our common stock to our directors, officers, employees or consultants. Our stockholders approved the 2016 Plan at our annual meeting of stockholders held September 1, 2017, and on March 25, 2021 approved the Amended and Restated 2016 Plan, which permits the issuance of up to 5,000,000 shares. Unless earlier terminated by the Board of Directors, the 2016 plan will terminate, and no further awards may be granted, after July 30, 2026.

The following sets forth the stock option awards to our officers and directors as of December 31, 2021.

### Outstanding Equity Awards at December 31, 2021

Name	Stock Awards			
	Number of shares or units of stock that have not vested	Market value of shares or units of stock that have not vested	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested
<i>Current Officers</i>				

Timothy Hannibal	-	\$	-	33,333	\$	90,417
Chris Kohler						
First Award	-	\$	-	31,250	\$	57,375
Second Award	-	\$	-	24,000	\$	53,760



## Item 13. Certain Relationships and Related Transactions, and Director Independence

### Certain Relationships and Related Transactions

At December 31, 2021 and 2020 Company had amounts due to officers in the amount of \$153,838.

During April, 2020, a company affiliated with a shareholder advanced \$475,000 in cash, on our behalf, to the supplier of test kits for their purchase. In May 2021, the company returned the test kits pursuant to its sales contract in full satisfaction of the \$475,000 previously advanced.

During September 2021, the Company's former CEO (also a significant shareholder) advanced \$100,000 in cash to the Company for short term capital requirements. This amount is non-interest bearing and payable upon demand and included in Shareholder advance on the Company's consolidated balance sheet as of December 31, 2021.

On January 19, 2021, Marc. S. Schessel's employment as CEO of SCWorx, Corp., a Delaware corporation, ceased by mutual agreement, and the Company and Mr. Schessel concurrently entered into a consulting agreement under which Mr. Schessel will provide consulting services to the Company. The Consulting Agreement provides for annual consulting fees of \$295,000. In addition, such agreement provides for cash and equity bonuses based on revenue generation. The Consulting Agreement is for a term of two years, but may be terminated by the Company for "cause" (as defined) or by either party for any reason or no reason upon sixty days prior notice. The Consulting Agreement also contains non-competition and non-solicitation provisions which are applicable during the term of the Consulting Agreement and for a period of two years thereafter.

### Director Independence

The rules of the Nasdaq Capital Market, or the Nasdaq Rules, require a majority of a listed company's board of directors to be composed of independent directors within one year of listing. In addition, the Nasdaq Rules require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating and governance committees be independent. Under the Nasdaq Rules, a director will qualify as an independent director only if, in the opinion of our Board of Directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Nasdaq Rules also require that audit committee members satisfy independence criteria set forth in Rule 10A-3 under the Exchange Act, as amended. In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee, accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries or otherwise be an affiliated person of the listed company or any of its subsidiaries. In considering the independence of compensation committee members, the Nasdaq Rules require that our Board of Directors must consider additional factors relevant to the duties of a compensation committee member, including the source of any compensation we pay to the director and any affiliations with our company.

Our Board of Directors undertook a review of the composition of our Board of Directors and its committees and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment and affiliations, including family relationships, our Board of Directors has determined that each of our directors other than Tim Hannibal, is independent based on the definition of independence in the Nasdaq listing standards.

## Item 14. Principal Accountant Fees and Services

The Audit Committee of the Board of Directors has selected BF Borgers CPA PC, an independent registered public accounting firm, to audit our financial statements for the year ending December 31, 2021. BF Borgers CPA PC has served as our independent registered public accounting firm since April 2021. Prior to April 2021, the Company's independent registered public accounting firm was Sadler Gibb & Associates, LLC, and for the year ending December 31, 2019, Withum served as the Company's independent registered public accounting firm.

### Principal Accountant Fees and Services

During 2021 and 2020, fees for services provided by BF Borgers CPA PC were as follows:

	For the year ended December 31,	
	2021	2020
Audit Fees	\$ 164,800	\$ -
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	\$ 164,800	\$ -



During 2021 and 2020, fees for services provided by Sadler Gibb were as follows:

	For the year ended December 31,	
	2021	2020
Audit Fees	\$ 40,000	\$ 10,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	<u>\$ 40,000</u>	<u>\$ 10,000-</u>

During 2021 and 2020, fees for services provided by Withum were as follows:

	For the year ended December 31,	
	2021	2020
Audit Fees	\$ -	\$ 131,637
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	7,650	-
Total	<u>\$ 7,650</u>	<u>\$ 131,637</u>

#### *Audit Fees*

Audit fees for 2021 and 2020 include amounts related to the audit of our annual consolidated financial statements and quarterly review of the consolidated financial statements included in our Quarterly Reports on Form 10-Q.

#### *Audit Related Fees*

Audit Related Fees include amounts related to accounting consultations and services.

#### *Tax Fees*

Tax Fees include fees billed for tax compliance, tax advice and tax planning services.

#### *All Other Fees*

Other Fees include fees billed for consents to file prior period reports as part of our 2020 Form 10-K

The Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report:

- (1) *Financial Statements*. See Index to Consolidated Financial Statements, which appears on page F-1 hereof. The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are filed herewith in response to this Item.
- (2) *Financial Statement Schedules*. Schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is given in the consolidated financial statements or the notes thereto.
- (3) *Exhibits*. The information required by this Item 15 is incorporated by reference to the Index to Exhibits accompanying this Annual Report on Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### SCWorx Corp.

By: /s/ Timothy Hannibal  
Timothy Hannibal  
President, Chief Executive Officer  
March 31, 2022

By: /s/ Chris Kohler  
Chris Kohler  
Chief Financial Officer  
March 31, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

/s/ Timothy Hannibal  
Timothy Hannibal  
President, Chief Executive Officer  
March 31, 2022

/s/ Chris Kohler  
Chris Kohler  
Chief Financial Officer  
March 31, 2022

/s/ Alton Irby  
Alton Irby,  
Chairman  
March 31, 2022

/s/ Steven Wallitt  
Steven Wallitt,  
Director  
March 31, 2022

/s/ John Ferrara  
John Ferrara  
Director  
March 31, 2022

/s/ Steven Horowitz  
Steven Horowitz  
Director  
March 31, 2022

## Index to Consolidated Financial Statements

### SCWorx Corp. Consolidated Financial Statements

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<a href="#"><u>Consolidated balance sheets as of December 31, 2021 and 2020</u></a>	F-3
<a href="#"><u>Consolidated statements of operations for the years ended December 31, 2021 and 2020</u></a>	F-4
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of SCWorx Corp.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SCWorx Corp. (the “Company”) as of December 31, 2021 and 2020, the related statement of operations, stockholders’ equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

### Substantial Doubt about the Company’s Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company’s significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ BF Borgers CPA PC

### BF Borgers CPA PC

We have served as the Company’s auditor since 2021  
Lakewood, CO

March 31, 2022

**SCWorx Corp.**  
**Consolidated Balance Sheets**

ASSETS	December 31, 2021	December 31, 2020
Current assets:		
Cash	\$ 71,075	\$ 376,425
Accounts receivable - net	464,851	722,156
Inventory	156,600	998,440
Prepaid expenses and other assets	63,942	87,630
Total current assets	<u>756,468</u>	<u>2,184,651</u>
Fixed assets - net	-	76,156
Goodwill	8,366,467	8,366,467
Total assets	<u>\$ 9,122,935</u>	<u>\$ 10,627,274</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,432,710	\$ 1,570,115
Accounts payable and accrued liabilities - related party	153,838	153,838
Shareholder advance	100,000	475,000
Deferred revenue	472,750	2,025,333
Equity financing	125,000	375,000
Total current liabilities	<u>2,284,298</u>	<u>4,599,286</u>
Long-term liabilities:		
Loans payable	433,567	293,972
Total long-term liabilities	<u>433,567</u>	<u>293,972</u>
Total liabilities	<u>2,717,865</u>	<u>4,893,258</u>
Commitments and contingencies		
Stockholders' equity:		
Series A Convertible Preferred stock, \$0.001 par value; 900,000 shares authorized; 39,810 and 84,872 shares issued and outstanding, respectively	40	85
Common stock, \$0.001 par value; 45,000,000 shares authorized; 11,293,030 and 9,895,600 shares issued and outstanding, respectively	11,293	9,896
Additional paid-in capital	29,805,028	25,920,858
Subscriptions payable	600,000	-
Accumulated deficit	(24,011,291)	(20,196,823)
Total stockholders' equity	<u>6,405,070</u>	<u>5,734,016</u>
Total liabilities and stockholders' equity	<u>\$ 9,122,935</u>	<u>\$ 10,627,274</u>

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



**SCWorx Corp.**  
**Consolidated Statements of Operations**

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 4,632,529	\$ 5,213,118
Operating expenses:		
Cost of revenues	2,782,509	3,515,279
General and administrative	5,664,488	7,742,850
Total operating expenses	<u>8,446,997</u>	<u>11,258,129</u>
Loss from operations	(3,814,468)	(6,045,011)
Other income (expense)		
Loss on settlement of accounts payable	<u>-</u>	<u>(1,357,339)</u>
Net loss before income taxes	(3,814,468)	(7,402,350)
Provision for (benefit from) income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (3,814,468)</u>	<u>\$ (7,402,350)</u>
Net loss per share, basic and diluted	<u>\$ (0.36)</u>	<u>\$ (0.82)</u>
Weighted average common shares outstanding, basic and diluted	<u>10,508,458</u>	<u>9,057,127</u>

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

**SCWorx Corp.**  
**Consolidated Statements of Changes in Stockholders' Equity**

<b>Year ended December 31, 2021</b>	<b>Preferred Stock</b>		<b>Common stock</b>		<b>Additional paid-in capital</b>	<b>Subscriptions payable</b>	<b>Accumulated deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>\$</b>	<b>Shares</b>	<b>\$</b>				
Balances, December 31, 2020	84,872	\$ 85	9,895,600	\$ 9,896	\$25,920,858	\$ -	\$ (20,196,823)	\$ 5,734,016
Conversion of Series A Convertible Preferred Stock into common stock	(45,062)	(45)	138,322	119	(74)	-	-	-
Shares issued as settlement of accounts payable	-	-	238,467	238	422,383	-	-	422,621
Shares issued for common stock placement	-	-	298,883	299	524,701	-	-	525,000
Shares issued for vested restricted stock units	-	-	662,547	662	(662)	-	-	-
Shares issued for cashless exercise of options	-	-	6,579	7	(7)	-	-	-
Shares issued for equity financing	-	-	52,632	72	249,928	-	-	250,000
Shares issuable for settlement of legal obligations	-	-	-	-	-	600,000	-	600,000
Stock based compensation	-	-	-	-	2,687,901	-	-	2,687,901
Net Loss	-	-	-	-	-	-	(3,814,468)	(3,814,468)
Ending balance, December 31, 2021	<u>39,810</u>	<u>\$ 40</u>	<u>11,293,030</u>	<u>\$ 11,293</u>	<u>\$29,805,028</u>	<u>\$ 600,000</u>	<u>\$ (24,011,291)</u>	<u>\$ 6,405,070</u>

<b>Year ended December 31, 2020</b>	<b>Preferred Stock</b>		<b>Common stock</b>		<b>Additional paid-in capital</b>	<b>Subscriptions payable</b>	<b>Accumulated deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>\$</b>	<b>Shares</b>	<b>\$</b>				
Balances, December 31, 2019	578,567	\$ 579	7,390,261	\$ 7,391	\$19,712,115	\$ -	\$ (12,794,473)	\$ 6,925,612
Conversion of Series A Convertible Preferred Stock into common stock	(493,695)	(494)	1,299,200	1,299	(805)	-	-	-
Shares issued as settlement of accounts payable	-	-	441,567	441	2,747,086	-	-	2,747,527
Shares issued in cashless exercise of warrants	-	-	415,904	416	(416)	-	-	-
Shares issued in cashless exercise of options	-	-	86,424	86	(86)	-	-	-
Warrants exercised for cash	-	-	7,000	7	38,563	-	-	38,570
Shares issued to current and former employees and directors	-	-	218,402	218	146,007	-	-	146,225
Shares issued for equity financing	-	-	36,842	38	139,962	-	-	140,000
Stock based compensation	-	-	-	-	3,138,432	-	-	3,138,432
Net loss	-	-	-	-	-	-	(7,402,350)	(7,402,350)
Ending balance, December 31, 2020	<u>84,872</u>	<u>\$ 85</u>	<u>9,895,600</u>	<u>\$ 9,896</u>	<u>\$25,920,858</u>	<u>\$ -</u>	<u>\$ (20,196,823)</u>	<u>\$ 5,734,016</u>

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

**SCWorx Corp.**  
**Consolidated Statements of Cash Flows**

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Net loss	\$ (3,814,468)	\$ (7,402,350)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	76,156	29,043
Amortization of intangibles	-	205,219
Change in inventory value	366,840	-
Stock-based compensation	2,687,901	3,284,570
Loss on settlement of accounts payable	-	1,612,538
Bad debt expense	163,917	73,993
Changes in operating assets and liabilities:		
Accounts receivable	93,388	3,097
Prepaid expenses and other assets	23,688	(76,470)
Inventory	475,000	(523,440)
Other assets	-	17,561
Accounts payable and accrued liabilities	(452,284)	848,473
Deferred revenue	(690,083)	968,696
Net cash used in operating activities	<u>(1,069,945)</u>	<u>(959,070)</u>
Net cash used in investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from notes payable	139,595	293,972
Proceeds from shareholder advance	100,000	-
Proceeds from common stock placement	525,000	-
Proceeds from equity financing	-	515,000
Proceeds from exercise of warrants	-	38,570
Net cash provided by financing activities	<u>764,595</u>	<u>847,542</u>
Net (decrease) increase in cash	(305,350)	(111,528)
Cash, beginning of period	<u>376,425</u>	<u>487,953</u>
Cash, end of period	<u>\$ 71,075</u>	<u>\$ 376,425</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities:		
Shares issued for equity financing	\$ 250,000	\$ -
Shares issued for vested restricted stock units	<u>\$ 662</u>	<u>\$ -</u>
Cashless exercise of warrant	<u>\$ -</u>	<u>\$ 416</u>
Cashless exercise of options	<u>\$ -</u>	<u>\$ 86</u>
Settlement of accounts payable with issuance of common stock	<u>\$ -</u>	<u>\$ 2,747,615</u>
Shareholder advances for purchase of inventory	<u>\$ -</u>	<u>\$ 475,000</u>

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

**SCWorx Corp.**  
**Notes to Consolidated Financial Statements**

**Note 1. Description of Business**

***Nature of Business***

SCWorx, LLC (n/k/a SCW FL Corp.) (“SCW LLC”) was a privately held limited liability company which was organized in Florida on November 17, 2016. On December 31, 2017, SCW LLC acquired Primrose Solutions, LLC (“Primrose”), a Delaware limited liability company, which became its wholly-owned subsidiary and focused on developing functionality for the software now used and sold by SCWorx Corp. (the “Company” or “SCWorx”). The majority interest holders of Primrose were interest holders of SCW LLC and based upon Staff Accounting Bulletin Topic 5G, the technology acquired has been accounted for at predecessor cost of \$0. To facilitate the planned acquisition by Alliance MMA, Inc., a Delaware corporation (“Alliance”), on June 27, 2018, SCW LLC merged with and into a newly-formed entity, SCWorx Acquisition Corp., a Delaware corporation (“SCW Acquisition”), with SCW Acquisition being the surviving entity. Subsequently, on August 17, 2018, SCW Acquisition changed its name to SCWorx Corp. On November 30, 2018, the Company and certain of its stockholders agreed to cancel 6,510 shares of common stock. In June 2018, the Company began to collect subscriptions for common stock. From June to November 2018, the Company collected \$1,250,000 in subscriptions and issued 3,125 shares of common stock to new third-party investors. In addition, on February 1, 2019, (i) SCWorx Corp. (f/k/a SCWorx Acquisition Corp.) changed its name to SCW FL Corp. (to allow Alliance to change its name to SCWorx Corp.) and (ii) Alliance acquired SCWorx Corp. (n/k/a SCW FL Corp.) in a stock-for-stock exchange transaction and changed Alliance’s name to SCWorx Corp., which is the Company’s current name, with SCW FL Corp. becoming the Company’s subsidiary. On March 16, 2020, in response to the COVID-19 pandemic, SCWorx established a wholly-owned subsidiary, Direct-Worx, LLC.

**Operations of the Business**

SCWorx is a provider of data content and services related to the repair, normalization and interoperability of information for healthcare providers and big data analytics for the healthcare industry.

SCWorx has developed and markets health information technology solutions and associated services that improve healthcare processes and information flow within hospitals. SCWorx’s software platform enables healthcare providers to simplify, repair, and organize its data (“data normalization”), allows the data to be utilized across multiple internal software applications (“interoperability”) and provides the basis for sophisticated data analytics (“big data”). SCWorx’s solutions are designed to improve the flow of information quickly and accurately between the existing supply chain, electronic medical records, clinical systems, and patient billing functions. The software is designed to achieve multiple operational benefits such as supply chain cost reductions, decreased accounts receivables aging, accelerated and more accurate billing, contract optimization, increased supply chain management and cost visibility, synchronous Charge Description Master (“CDM”) and control of vendor rebates and contract administration fees.

SCWorx empowers healthcare providers to maintain comprehensive access and visibility to an advanced business intelligence that enables better decision-making and reductions in product costs and utilization, ultimately leading to accelerated and accurate patient billing. SCWorx's software modules perform separate functions as follows:

- virtualized Item Master File repair, expansion and automation;
- CDM management;
- contract management;
- request for proposal automation;
- rebate management;
- big data analytics modeling; and
- data integration and warehousing.

SCWorx continues to provide transformational data-driven solutions to some of the finest, most well-respected healthcare providers in the United States. Clients are geographically dispersed throughout the country. The Company's focus is to assist healthcare providers with issues they have pertaining to data interoperability. SCWorx provides these solutions through a combination of direct sales and relationships with strategic partners.

SCWorx's software solutions are delivered to clients within a fixed term period, typically a three-to-five-year contracted term, where such software is hosted in SCWorx data centers (Amazon Web Service's "AWS" or RackSpace) and accessed by the client through a secure connection in a software as a service ("SaaS") delivery method.

SCWorx currently sells its solutions and services in the United States to hospitals and health systems through its direct sales force and its distribution and reseller partnerships.

SCWorx, as part of the acquisition of Alliance MMA, acquired an online event ticketing platform focused on serving regional MMA ("mixed martial arts") promotions. Due to the Covid restrictions which were put in place for large gatherings, SCWorx has paused this business activity.

### **Impact of the COVID-19 Pandemic**

The Company's operations and business have experienced disruption due to the unprecedented conditions surrounding the COVID-19 pandemic which spread throughout the United States and the world. The outbreak adversely impacted new customer acquisition. The Company has followed the recommendations of local health authorities to minimize exposure risk for its team members since the outbreak.

In addition, the Company's customers (hospitals) also experienced extraordinary disruptions to their businesses and supply chains, while experiencing unprecedented demand for health care services related to COVID-19. As a result of these extraordinary disruptions to the Company's customers' business, the Company's customers were focused on meeting the nation's health care needs in response to the COVID-19 pandemic. As a result, the Company believes that its customers were not able to focus resources on expanding the utilization of the Company's services, which has adversely impacted the Company's growth prospects, at least until the adverse effects of the pandemic subside. In addition, the financial impact of COVID-19 on the Company's hospital customers could cause the hospitals to delay payments due to the Company for services, which could negatively impact the Company's cash flows.

The Company sought to mitigate these impacts to revenue through the sale of personal protective equipment (“PPE”) and COVID-19 rapid test kits to the health care industry, including many of the Company’s hospital customers. On March 16, 2020, in response to the COVID-19 pandemic, SCWorx established a wholly-owned subsidiary, Direct-Worx, LLC to endeavor to source and provide critical, difficult-to-find items for the healthcare industry. Items had become difficult to source due to unexpected disruptions within the supply chain due to the COVID-19 pandemic. The products the Company sought to source included:

- Test Kits — the Company currently has no contracted supply of Rapid Test Kits.
- PPE — Personal Protective Equipment (PPE) includes items such as masks, gloves, gowns, shields, etc. Currently the Company has no contracted supply of PPE.

Regarding PPE and Test Kits, the Company’s Board of Directors determined in during the second quarter of 2020 to limit the Company’s role to acting as an intermediary between buyers and sellers with commission based compensation. We are endeavoring to sell our existing inventory of PPE products primarily through use of our internal and external sales personnel.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and was subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. Since the inception of this business, the Company completed only minimal sales of COVID-19 rapid test kits and PPE. The Company does not expect to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

## **Note 2. Liquidity and Going Concern**

### ***Liquidity and Going Concern***

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), which contemplates continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustment that might become necessary should the Company be unable to continue as a going concern.

The Company has suffered recurring losses from operations and incurred a net loss of \$3,814,468 for the year ended December 31, 2021 and \$7,402,350 for the year ended December 31, 2020. The accumulated deficit as of December 31, 2021 was \$24,011,291. The Company has not yet achieved profitability and expects to continue to incur cash outflows from operations. It is expected that its operating losses will continue and, as a result, the Company will eventually need to generate significant increases in product revenues to achieve profitability. These conditions indicate that there is substantial doubt about the Company’s ability to continue as a going concern within one year after the financial statement issuance date.

As of the filing date of this Report, the Company has only limited cash on hand, and management believes that there may not be sufficient capital resources from operations and existing financing arrangements in order to meet operating expenses and working capital requirements for the next twelve months.

Accordingly, we are evaluating various alternatives, including reducing operating expenses, securing additional financing through debt or equity securities to fund future business activities and other strategic alternatives. There can be no assurance that the Company will be able to generate the level of operating revenues in its business plan, or if additional sources of financing will be available on acceptable terms, if at all. If no additional sources of financing are available, our future operating prospects may be adversely affected. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Note 3. Summary of Significant Accounting Policies**

#### ***Basis of Presentation and Principles of Consolidation***

The accompanying consolidated financial statements have been prepared in accordance to U.S. GAAP and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

The accompanying consolidated financial statements include the accounts of SCWorx and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

#### ***Cash***

Cash is maintained with various financial institutions. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Amounts in excess of the FDIC insured limit for the years ended December 31, 2021 and 2020 were zero and \$113,361, respectively.

#### ***Fair Value of Financial Instruments***

Management applies fair value accounting for significant financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Management defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, management considers the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement: Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 - Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

#### ***Concentration of Credit and Other Risks***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, accounts receivable, due from shareholder, convertible notes receivable and warrants. The Company believes that any concentration of credit risk in its accounts receivable is substantially mitigated by the Company's evaluation process, relatively short collection terms and the high level of credit worthiness of its customers. The Company performs ongoing internal credit evaluations of its customers' financial condition, obtains deposits and limits the amount of credit extended when deemed necessary but generally requires no collateral.

For the year ended December 31, 2021, we had two customers representing 19% and 13% of aggregate revenues. or the year ended December 31, 2020, we had two customers representing 22% and 17% of aggregate revenues. At December 31, 2021, we had three customers representing 17%, 16% and 14% of aggregate accounts receivable. At December 31, 2020, we had three customers representing 35%, 32% and 10% of aggregate accounts receivable.

#### ***Allowance for Doubtful Accounts***

The Company continually monitors customer payments and maintains a reserve for estimated losses resulting from its customers' inability to make required payments. In determining the reserve, the Company evaluates the collectability of its accounts receivable based upon a variety of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations, the Company records a specific allowance against amounts due. For all other customers, the Company recognizes allowances for doubtful accounts based on its historical write-off experience in conjunction with the length of time the receivables are past due, customer creditworthiness, geographic risk and the current business environment. Actual future losses from uncollectible accounts may differ from the Company's estimates. The Company recorded an allowance for doubtful accounts as of December 31, 2021 and 2020 of \$421,736 and \$183,277, respectively.

## ***Inventory***

The inventory balance at December 31, 2021 is related to the Company's Direct-Worx, LLC subsidiary and consisted of approximately 87,000 gowns. These items are tracked based on average cost and carried on the consolidated balance sheet at the lower of cost or market.

During the year ended December 31, 2021, the Company recorded a write down on the fair value of its inventory of \$366,840. Inventory assets as of December 31, 2021 and 2020 consisted of the following:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Inventory	\$ 523,440	\$ 998,440
Allowance for obsolescence	(366,840)	-
Net inventory value	<u>\$ 156,600</u>	<u>\$ 998,440</u>

## ***Leases***

The Company determines if an arrangement is a lease at inception. The current portion of lease obligations are included in accounts payable and accrued liabilities on the consolidated balance sheets. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company's lease terms may include options to extend or terminate the lease, which are included in the lease ROU asset when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease components only, none with non-lease components, which are generally accounted for separately (refer to Note 7, Leases, for additional detail).

## ***Goodwill and Purchased Identified Intangible Assets***

### ***Goodwill***

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired under a business combination. Goodwill also includes acquired assembled workforce, which does not qualify as an identifiable intangible asset. The Company reviews impairment of goodwill annually in the fourth quarter, or more frequently if events or circumstances indicate that the goodwill might be impaired. The Company first assesses qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. If, after assessing the totality of events or circumstances, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the quantitative goodwill impairment test is unnecessary.

### ***Identified intangible assets***

Identified finite-lived intangible assets consist of ticketing software and promoter relationships resulting from the February 1, 2019 business combination. The Company's identified intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 5 to 7 years. The Company makes judgments about the recoverability of finite-lived intangible assets whenever facts and circumstances indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, the Company assesses recoverability by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life is shorter than originally estimated, the Company would accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life.



For further discussion of goodwill and identified intangible assets, refer to Note 5, Business Combinations.

### ***Property and Equipment***

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the related assets' estimated useful lives. Equipment, furniture and fixtures are being amortized over a period of three years.

Expenditures that materially increase asset life are capitalized, while ordinary maintenance and repairs are expensed as incurred.

Depreciation expense for the years ended December 31, 2021 and 2020 was \$76,156 and \$29,043, respectively.

### ***Revenue Recognition***

The Company recognizes revenue in accordance with Topic 606 to depict the transfer of promised goods or services in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of Topic 606 the Company performs the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Company follows the accounting revenue guidance under Topic 606 to determine whether contracts contain more than one performance obligation. Performance obligations are the unit of accounting for revenue recognition and generally represent the distinct goods or services that are promised to the customer.

The Company has identified the following performance obligations in its SaaS contracts with customers:

- 1) Data Normalization: which includes data preparation, product and vendor mapping, product categorization, data enrichment and other data related services,
- 2) Software-as-a-service ("SaaS"): which is generated from clients' access of and usage of the Company's hosted software solutions on a subscription basis for a specified contract term, which is usually annually. In SaaS arrangements, the client cannot take possession of the software during the term of the contract and generally has the right to access and use the software and receive any software upgrades published during the subscription period,
- 3) Maintenance: which includes ongoing data cleansing and normalization, content enrichment, and optimization, and
- 4) Professional Services: mainly related to specific customer projects to manage and/or analyze data and review for cost reduction opportunities.

A contract will typically include Data Normalization, SaaS and Maintenance, which are distinct performance obligations and are accounted for separately. The transaction price is allocated to each separate performance obligation on a relative stand-alone selling price basis. Significant judgement is required to determine the stand-alone selling price for each distinct performance obligation and is typically estimated based on observable transactions when these services are sold on a stand-alone basis. At contract inception, an assessment of the goods and services promised in the contracts with customers is performed and a performance obligation is identified for each distinct promise to transfer to the customer a good or service (or bundle of goods or services). To identify the performance obligations, the Company considers all the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. Revenue is recognized when the performance obligation has been met. The Company considers control to have transferred upon delivery because the Company has a present right to payment at that time, the Company has transferred use of the good or service, and the customer is able to direct the use of, and obtain substantially all the remaining benefits from, the good or service.

The Company's SaaS and Maintenance contracts typically have termination for convenience without penalty clauses and accordingly, are generally accounted for as month-to-month agreements. If it is determined that the Company has not satisfied a performance obligation, revenue recognition will be deferred until the performance obligation is deemed to be satisfied.

Revenue recognition for the Company's performance obligations are as follows:

#### *Data Normalization and Professional Services*

The Company's Data Normalization and Professional Services are typically fixed fee. When these services are not combined with SaaS or Maintenance revenues as a single unit of accounting, these revenues are recognized as the services are rendered and when contractual milestones are achieved and accepted by the customer.

#### *SaaS and Maintenance*

SaaS and Maintenance revenues are recognized ratably over the contract terms beginning on the commencement date of each contract, which is the date on which the Company's service is made available to customers.

The Company does have some contracts that have payment terms that differ from the timing of revenue recognition, which requires the Company to assess whether the transaction price for those contracts include a significant financing component. The Company has elected the practical expedient that permits an entity to not adjust for the effects of a significant financing component if it expects that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Company does not maintain contracts in which the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service exceeds the one-year threshold.

In periods prior to the adoption of ASC 606, the Company recognized revenues when persuasive evidence of an arrangement existed, delivery had occurred, the sales price was fixed or determinable, and the collectability of the resulting receivable was reasonably assured. The adoption of Topic 606 did not result in a cumulative effect adjustment to the Company's opening retained earnings since there was no significant impact upon adoption of Topic 606. There was also no material impact to revenues, or any other financial statement line items for the year ended December 31, 2018 as a result of applying ASC 606.

The Company has one revenue stream, from the SaaS business, and believes it has presented all varying factors that affect the nature, timing and uncertainty of revenues and cash flows.

#### *PPE Inventory sales*

Revenues from the sale of inventory are typically recognized upon shipment to a customer as long as the Company has met all performance obligations related to the sale in accordance to Topic 606.

### *Brokered PPE sales*

PPE revenues are recognized once the customer obtains physical possession of the product(s). Because the Company acts as an agent in arranging the relationship between the customer and the supplier, PPE revenues are presented net of related costs, including product procurement, warehouse and shipping fees, etc.

### *Remaining Performance Obligations*

As of December 31, 2021, we had \$472,750 of remaining performance obligations recorded as deferred revenue. We expect to recognize sales relating to these existing performance obligations of during 2022.

### *Costs to Fulfill a Contract*

Costs to fulfill a contract typically include costs related to satisfying performance obligations as well as general and administrative costs that are not explicitly chargeable to customer contracts. These expenses are recognized and expensed when incurred in accordance with ASC 340-40.

### *Cost of Revenue*

Cost of revenues primarily represent data center hosting costs, consulting services and maintenance of the Company's large data array that were incurred in delivering professional services and maintenance of the Company's large data array during the periods presented.

### *Contract Balances*

Contract assets arise when the revenue associated prior to the Company's unconditional right to receive a payment under a contract with a customer (i.e., unbilled revenue) and are derecognized when either it becomes a receivable or the cash is received. There were no contract assets as of December 31, 2021 and 2020.

Contract liabilities arise when customers remit contractual cash payments in advance of our company satisfying our performance obligations under the contract and are derecognized when the revenue associated with the contract is recognized when the performance obligation is satisfied. Contract liabilities were \$472,750 and \$2,025,333 as of December 31, 2021 and 2020, respectively.

### *Income Taxes*

The Company uses the asset and liability method of accounting for income taxes in accordance with Accounting Standard Codification ("ASC") Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date.

Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2021 and 2020, the Company has evaluated available evidence and concluded that the Company may not realize all the benefits of its deferred tax assets; therefore, a valuation allowance has been established for its deferred tax assets.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company has no material uncertain tax positions for any of the reporting periods presented.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017, (the “Tax Act”) was enacted. The Tax Act significantly revised the U.S. corporate income tax regime by, including but not limited to, lowering the U.S. corporate income tax rate from 34% to 21% effective January 1, 2018, implementing a territorial tax system, imposing a one-time transition tax on previously untaxed accumulated earnings and profits of foreign subsidiaries, and creating new taxes on foreign sourced earnings. The Company completed the accounting for tax effects of the Tax Act under ASC 740. There were no impacts to the years ended December 31, 2021 and 2020.

### ***Stock-Based Compensation***

The Company accounts for stock-based compensation expense in accordance with the authoritative guidance on share-based payments. Under the provisions of the guidance, stock-based compensation expense is measured at the grant date based on the fair value of the option or warrant using a Black-Scholes option pricing model and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period.

The authoritative guidance also requires that the Company measures and recognizes stock-based compensation expense upon modification of the term of stock award. The stock-based compensation expense for such modification is accounted for as a repurchase of the original award and the issuance of a new award.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, stock price volatility, and the pre-vesting option forfeiture rate. The Company estimates the expected life of options granted based on historical exercise patterns, which are believed to be representative of future behavior. The Company estimates the volatility of the Company’s common stock on the date of grant based on historical volatility. The assumptions used in calculating the fair value of stock-based awards represent the Company’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment. As a result, if factors change and the Company uses different assumptions, its stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience of its stock-based awards that are granted, exercised and cancelled. If the actual forfeiture rate is materially different from the estimate, stock-based compensation expense could be significantly different from what was recorded in the current period. The Company also grants performance based restricted stock awards to employees and consultants. These awards will vest if certain employee/consultant-specific or company-designated performance targets are achieved. If minimum performance thresholds are achieved, each award will convert into a designated number of the Company’s common stock. If minimum performance thresholds are not achieved, then no shares will be issued. Based upon the expected levels of achievement, stock-based compensation is recognized on a straight-line basis over the requisite service period. The expected levels of achievement are reassessed over the requisite service periods and, to the extent that the expected levels of achievement change, stock-based compensation is adjusted in the period of change and recorded on the statements of operations and the remaining unrecognized stock-based compensation is recorded over the remaining requisite service period. Refer to Note 9, Stockholders’ Equity, for additional detail.

### ***Loss Per Share***

The Company computes earnings (loss) per share in accordance with ASC 260, “Earnings per Share” which requires presentation of both basic and diluted earnings (loss) per share (“EPS”) on the face of the income statement. Basic EPS is computed by dividing the loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. As of December 31, 2021 and 2020, the Company had 1,161,913 and 790,847, respectively, common stock equivalents outstanding.

## ***Indemnification***

The Company provides indemnification of varying scope to certain customers against claims of intellectual property infringement made by third parties arising from the use of the Company's software. In accordance with authoritative guidance for accounting for guarantees, the Company evaluates estimated losses for such indemnification. The Company considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, no such claims have been filed against the Company and no liability has been recorded in its financial statements.

As permitted under Delaware law, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. In addition, the Company has directors' and officers' liability insurance coverage that is intended to reduce its financial exposure and may enable it to recover any payments above the applicable policy retention.

In connection with the Class Action and derivative claims and investigations described in Note 8, Commitments and Contingencies, the Company is obligated to indemnify its officers and directors for costs incurred in defending against these claims and investigations.

## ***Contingencies***

The Company records a liability when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. If the Company determines that a loss is reasonably possible, and the loss or range of loss can be estimated, the Company discloses the possible loss in the notes to the consolidated financial statements. The Company reviews the developments in its contingencies that could affect the amount of the provisions that has been previously recorded, and the matters and related possible losses disclosed. The Company adjusts provisions and changes to its disclosures accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Significant judgment is required to determine both the probability and the estimated amount.

Legal costs associated with loss contingencies are accrued based upon legal expenses incurred by the end of the reporting period.

## ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. The Company regularly evaluates estimates and assumptions related to the allowance for doubtful accounts, the estimated useful lives and recoverability of long-lived assets, equity component of convertible debt, stock-based compensation, and deferred income tax asset valuation allowances. 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 liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may 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. Actual results could differ materially from those estimates.

## ***Recently Issued Accounting Pronouncements***

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. If not discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

#### Note 4. Related Party Transactions

At December 31, 2021 and 2020 Company had amounts due to officers in the amount of \$153,838.

During April, 2020, a company affiliated with a shareholder advanced \$475,000 in cash on the Company's behalf, to the supplier of test kits for their purchase. In May 2021, the company returned the test kits pursuant to its sales contract in full satisfaction of the \$475,000 previously advanced.

On January 19, 2021, Marc. S. Schessel's employment as CEO of SCWorx, Corp., a Delaware corporation, ceased by mutual agreement, and the Company and Mr. Schessel concurrently entered into a consulting agreement under which Mr. Schessel will provide consulting services to the Company. The Consulting Agreement provides for annual consulting fees of \$295,000. In addition, such agreement provides for cash and equity bonuses based on revenue generation. The Consulting Agreement is for a term of two years, but may be terminated by the Company for "cause" (as defined) or by either party for any reason or no reason upon sixty days prior notice. The Consulting Agreement also contains non-competition and non-solicitation provisions which are applicable during the term of the Consulting Agreement and for a period of two years thereafter.

During September 2021, the Company's former CEO (also a significant shareholder) advanced \$100,000 in cash to the Company for short term capital requirements. This amount is non-interest bearing and payable upon demand and included in Shareholder advance on the Company's consolidated balance sheet as of December 31, 2021

#### Note 5. Business Combinations

##### Purchase accounting

On February 1, 2019, the Company's shareholders exchanged all of its outstanding shares in exchange for 5,263,158 shares of Alliance common stock. Due to the Company's shareholders acquiring a controlling interest in Alliance after acquisition, the transaction was treated as a reverse merger for accounting purposes, with SCWorx being the reporting company. In accordance with purchase accounting rules under ASC 805, the purchase consideration was \$11,765,491.

The acquisition was accounted for under the acquisition method of accounting. The assets acquired, liabilities assumed and purchase allocation, which is based on valuations of management, are as follows:

	<b>Fair Value</b>
Cash	\$ 5,441,437
Goodwill	8,366,467
Identifiable intangible assets:	
Ticketing software	64,000
Promoter relationships	176,000
Total identifiable intangible assets	240,000
Account payable	(1,901,624)
Current liabilities - discontinued operations	(380,789)
Aggregate purchase price	<u>\$ 11,765,491</u>

Identified intangible assets consist of the following:

Intangible assets	Useful life	December 31, 2020		
		Gross assets	Accumulated amortization	Net
Ticketing software	2 years	\$ 64,000	\$ (64,000)	\$ -
Promoter relationships	2 years	176,000	(176,000)	-
Total intangible assets		<u>\$ 240,000</u>	<u>\$ (240,000)</u>	<u>\$ -</u>

During the year ended December 31, 2020, the Company determined that while its ticketing platform was still active, the negative impact that COVID 19 had on the overall MMA industry where it is currently being utilized had potentially lessened its useful life as currently deployed. Because of this potential impact, management has chosen to shorten the projected useful life of these assets and accelerate their amortization accordingly.

Amortization expense for the year ended December 31, 2020 was \$205,219.

##### Goodwill

There were no changes to the carrying value of goodwill for the years ended December 31, 2021 and 2020.



## **Note 6. Loan Payable**

### *Receipt of CARES funding*

On May 5, 2020, the Company obtained a \$293,972 unsecured loan payable through the Paycheck Protection Program (“PPP”), which was enacted as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES ACT”). The funds were received from Bank of America through a loan agreement pursuant to the CARES Act. The CARES Act was established in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the CARES Act and used for payroll costs, rent, mortgage interest, and utility costs during the 24 week period after the date of loan disbursement is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. While the full loan amount may be forgiven, the amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels or less than 60% of the loan proceeds are used for payroll costs. Principal and interest payments on any unforgiven portion of the PPP Funds (the “PPP Loan”) will be deferred to the date the SBA remits the borrower’s loan forgiveness amount to the lender or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness period for six months and will accrue interest at a fixed annual rate of 1.0% and carry a two year maturity date. There is no prepayment penalty on the CARES Act Loan. The Company expects the loan to be fully forgiven.

On March 17, 2021, we received \$139,595 in financing from the U.S. government’s Payroll Protection Program (“PPP”). We entered into a loan agreement with Bank of America. This loan agreement was pursuant to the CARES Act. The CARES Act was established in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the CARES Act is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels. Principal and interest payments on any unforgiven portion of the PPP Funds (the “PPP Loan”) will be deferred for six months and will accrue interest at a fixed annual rate of 1.0% and carry a two year maturity date. There is no prepayment penalty on the CARES Act Loan. The Company expects the loan to be fully forgiven.

## **Note 7. Leases**

### *Operating Leases*

The Company’s principal executive office in New York City is under a month-to-month arrangement. The Company also had a lease in Greenwich, CT which expired in March 2020 and became a month to month. This tenancy was terminated in April 2021.

The Company has operating leases for corporate, business and technician offices. Leases with a probable term of 12 months or less, including month-to-month agreements, are not recorded on the condensed consolidated balance sheet, unless the arrangement includes an option to purchase the underlying asset, or an option to renew the arrangement, that the Company is reasonably certain to exercise (short-term leases). The Company recognizes lease expense for these leases on a straight-line bases over the lease term. The Company’s only remaining lease is month-to-month. As a practical expedient, the Company elected, for all office and facility leases, not to separate non-lease components (common-area maintenance costs) from lease components (fixed payments including rent) and instead to account for each separate lease component and its associated non-lease components as a single lease component. The Company uses its incremental borrowing rate for purposes of discounting lease payments.

As of December 31, 2021, assets recorded under operating leases were \$0. Operating lease right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The discount rate used to determine the commencement date present value of lease payment is the Company’s incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.



For the year ended December 31, 2021 and 2020, the components of lease expense were as follows:

	For the years ended December 31,	
	2021	2020
Operating lease cost	\$ 14,196	\$ 61,895
Total lease cost	\$ 14,196	\$ 61,895

Other information related to leases was as follows:

	For the years ended December 31,	
	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities:		
Operating cash flows for operating leases	\$ -	\$ 61,895
Weighted average remaining lease term (months) – operating leases	-	-
Weighted average discount rate– operating leases	N/A	N/A

As of December 31, 2021 and 2020, the Company has no additional operating leases, other than those noted above, and no financing leases.

## Note 8. Commitments and Contingencies

### *Settlement of Consolidated Securities Class Action*

As previously disclosed, on April 29, 2020, a securities class action case was filed in the United States District Court for the Southern District of New York against us and our former CEO. The action is captioned Daniel Yannes, individually and on behalf of all others similarly situated vs. SCWorx Corp. and Marc S. Schessel,. Subsequently, two additional class actions were filed in the same court (*Leeburn v. SCWorx, et ano. and Leonard v. SCWorx et ano.*) and thereafter, the three class actions were consolidated (the “Consolidated Class Action”). The Consolidated Class Action alleged that our company and our former CEO misled investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits.

As previously disclosed, on February 11, 2022, the parties entered into a Stipulation of Settlement (subject to Court approval) to settle the Consolidated Class Action. The settlement resolves all claims asserted against SCWorx and the other named defendant without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. Under the terms of this agreement, (i) the insurers for the Company and Marc Schessel (former CEO) will make a cash payment to the class plaintiffs (ii) the former CEO will transfer 100,000 shares of company common stock to the class plaintiffs, and (iii) the Company will issue \$600,000 worth of common stock to the class plaintiffs, in exchange for which all parties will be released from all claims related to the securities class action litigation. After giving effect to the share issuance by the Company, the Company believes that it will have satisfied the accrued retention liability of \$700,000.

### *Settlement of Consolidated Derivative Action*

As previously disclosed, on June 15, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Steven Wallitt (current director), and Marc S. Schessel, Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned Lozano, derivatively on behalf of SCWorx Corp. v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. The Lozano lawsuit was consolidated with another shareholder derivative lawsuit, Richter, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. (the “Consolidated Derivative Action”).

The Consolidated Derivative Action alleged that the Director Defendants breached their fiduciary duties to the Company, including by misleading investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits, failing to correct false and misleading statements and failing to implement proper disclosure and internal controls.

In addition, on October 29, 2020, Hemrita Zarins filed a shareholder derivative action in the Chancery Court in the State of Delaware against Steven Wallitt (current director) and Marc S. Schessel and Charles Miller (former directors). The action is captioned Hemrita Zarins, v. Marc S. Schessel, Robert Christie, Steven Wallitt and SCWorx, Nominal Defendant. The Zarins action contains substantially similar allegations as in the Consolidated Derivative Action.

On February 15, 2022, the Company and the Director Defendants (Marc Schessel, Steven Wallitt, Charles Miller and Robert Christie) entered into a stipulation of settlement (subject to Court approval) with the shareholder derivative plaintiffs to settle the Consolidated Derivative Action as well as the Zarins action. Under the terms of the settlement, (i) the insurers for the Director Defendants will make a cash payment to legal counsel for the shareholder derivative Plaintiffs to cover their legal fees and (ii) the Company will adopt certain corporate governance reforms within 60 days of court approval of the settlement, in exchange for which all parties will be released from all claims related to the derivative class action litigation. The settlement resolves all claims asserted against the defendants without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant.

#### *Other Investigations*

In addition, as previously disclosed, following the April 13, 2020 press release and related disclosures (related to COVID-19 rapid test kits), the Securities and Exchange Commission made an inquiry regarding the disclosures we made in relation to the transaction involving COVID-19 test kits. The Company is continuing to cooperate with the SEC regarding its investigation arising out of the April 13, 2020 press release and the events thereafter. The Company received a Wells notice on December 8, 2021 and an amended Wells notice on December 10, 2021. The Wells Notice states that the staff of the Securities and Exchange Commission has made a preliminary determination to recommend that the Commission file an enforcement action against the Company which would allege violations of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 (the “Securities Act”), Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder. The Wells Notice also indicates that the staff would seek fines and disgorgement, including pre and post judgment interest in such enforcement proceeding. The Company did not make a Wells submission to the Commission in response to the Wells Notice. The Company has since been actively engaged in discussions with the Staff to settle the claims set forth in the Wells Notice.

In April 2020, we received related inquiries from The Nasdaq Stock Market and the Financial Industry Regulatory Authority (FINRA). We cooperated fully with these agencies, providing information and documents, as requested. We have not had any requests from these agencies since January 2021.

Also in April 2020, as previously disclosed, we were contacted by the U.S. Attorney’s Office for the District of New Jersey, which was seeking information and documents from our officers and directors relating primarily to the April 13, 2020 press release concerning COVID-19 rapid test kits. We have cooperated fully with the U.S. Attorney’s Office in its investigation.

In connection with these actions and investigations, the Company is obligated to indemnify its officers and directors for costs incurred in defending against these claims and investigations. Because the Company currently does not have the resources to pay for these costs, its directors and officers liability insurance carrier has agreed to indemnify these persons. Upon consummation of the settlement of the Consolidated Class Action, the Company believes it will have satisfied its accrued retention obligations with respect to the insurance coverage.

#### **David Klarman v. SCWorx Corp. f/k/a Alliance MMA, Inc., Index No. 619536/2019 (N.Y. State Sup. Ct., Suffolk County)**

On October 3, 2019, David Klarman, a former employee of Alliance, served a complaint against SCWorx seeking \$400,000.00 for a breach of his employment agreement with Alliance. Klarman claims that Alliance ceased paying him his salary in March 2018 as well as other alleged contractual benefits. This action was settled on or about December 16, 2021 by the parties without any admission of liability or wrongdoing. In exchange for a release, the Company agreed to settle with Mr. Klarman with \$100,000 of SCWorx shares calculated over a period of 4 months pursuant to an agreed upon schedule with respect to amounts, dates and a restriction on sales of SCWorx stock to no more than 4,000 shares per trading day. To date, all shares have been issued pursuant to this agreement.

#### **Note 9. Stockholders’ Equity**

##### ***Common Stock***

##### ***Authorized Shares***

The Company has 45,000,000 common shares authorized with a par value of \$0.001 per share.

## **Common Stock**

### *Issuance of Shares Pursuant to Conversion of Series A Preferred Stock*

During February 2021, the Company issued 52,632 shares of common stock to a holder of its Series A Convertible Preferred Stock upon the conversion of 20,000 of such shares of Series A Convertible Preferred Stock.

During July 2021, the Company issued 65,953 shares of common stock to a holder of its Series A Convertible Preferred Stock upon the conversion of 25,062 of such shares of Series A Convertible Preferred Stock.

### *Issuance of Shares for Equity Financing*

On January 6, 2021, The Company issued 72,369 shares of common stock and 90,461 5-year warrants to purchase shares of common stock at \$4.00 per share pursuant to the prior receipt of \$275,000 in equity financing.

### *Issuance of Shares for Common Stock Placement*

On September 17, 2021, The Company issued 298,883 shares of common stock and 298,883 5 year warrants to purchase shares of common stock at \$1.79 for aggregate gross proceeds of \$525,000.

### *Issuance of Shares for Vested Restricted Stock Units*

Between January 25, 2021 and August 13, 2021, the company issued a total of 504,965 shares of common stock to holders of fully vested restricted stock units.

Between October 4, 2021 and October 14, 2021, the company issued a total of 157,582 shares of common stock to holders of fully vested restricted stock units.

### *Issuance of Shares Pursuant to Settlement of Accounts Payable*

On June 1, 2021, the Company issued 96,757 shares of common stock in full settlement of \$132,557 of accounts payable. The shares had a fair value of \$1.37 per share.

On July 14, 2021, the Company issued 29,025 shares of common stock in full settlement of \$85,622 of accounts payable. The shares had a fair value of \$2.95 per share.

On August 10, 2021, the Company issued 11,611 shares of common stock in full settlement of \$29,607 of accounts payable. The shares had a fair value of \$2.55 per share.

On August 10, 2021, the Company issued 5,458 shares of common stock in full settlement of \$13,919 of accounts payable. The shares had a fair value of \$2.55 per share.

On September 14, 2021, the Company issued 27,403 shares of common stock in full settlement of \$61,930 of accounts payable. The shares had a fair value of \$2.26 per share.

On November 1, 2021, the Company issued 15,988 shares of common stock in full settlement of \$27,178 of accounts payable. The shares had a fair value of \$1.70 per share.

On November 29, 2021, the Company issued 12,522 shares of common stock in full settlement of \$17,781 of accounts payable. The shares had a fair value of \$1.42 per share.

On December 28, 2021, the Company issued 23,037 shares of common stock in full settlement of \$29,027 of accounts payable. The shares had a fair value of \$1.26

### *Issuance of Shares Pursuant to Legal Settlement*

On December 12, 2021, the Company issued 16,666 shares of common stock in settlement of \$25,000 pursuant to a legal settlement.

### *Issuance of Shares for the Exercise of Options*

On October 4, 2021, the Company issued 6,579 shares of common stock in a cashless exercise of outstanding options.

## Equity Financing

During May 2020, the Company received \$515,000 of a committed \$565,000 from the sale of units (at a price of \$3.80 per unit) comprised in the aggregate of 135,527 shares of common stock and warrants to purchase 169,409 shares of common stock, at an exercise price of \$4.00 per share. As of December 31, 2021, the full amount had not been received and only \$415,000 worth of the shares and warrants have been issued. The remaining \$125,000 is included in equity financing within current liabilities on the consolidated balance sheet.

## Stock Incentive Plan

The number of shares of the Company's common stock that are issuable pursuant to warrant and stock option grants with time-based vesting as of and for the year ended December 31, 2021 are:

	Warrant Grants		Stock Option Grants		Restricted Stock Units
	Number of shares subject to warrants	Weighted-average exercise price per share	Number of shares subject to options	Weighted-average exercise price per share	Number of shares subject to restricted stock units
Balance at December 31, 2020	672,459	\$ 8.09	118,388	\$ 3.25	2,301,053
Granted	389,344	2.30	-	-	894,885
Exercised	(6,579)	1.96	-	-	(884,348)
Cancelled/Expired	(11,699)	-	-	-	(150,833)
Balance at December 31, 2021	1,043,525	\$ 2.57	118,388	\$ 3.25	2,160,757
Exercisable at December 31, 2021	1,043,525	\$ 2.57	118,388	\$ 3.25	1,631,924

The number of shares of the Company's common stock that are issuable pursuant to warrant and stock option grants with time-based vesting as of and for the year ended December 31, 2020 are:

	Warrant Grants		Stock Option Grants		Restricted Stock Units	
	Number of shares subject to warrants	Weighted-average exercise price per share	Number of shares subject to options	Weighted-average exercise price per share	Number of shares subject to restricted stock units	Weighted-average exercise price per share
Balance at December 31, 2019	1,311,916	\$ 9.35	338,595	\$ 5.26	630,303	\$ -
Granted	146,053	4.51	-	-	2,222,984	-
Exercised	(681,619)	5.57	(160,291)	4.78	(77,234)	-
Expired	(103,891)	35.54	(59,916)	10.55	-	-
Cancelled/Forfeited	-	-	-	-	(475,000)	-
Balance at December 31, 2020	672,459	\$ 8.09	118,388	\$ 3.25	2,301,053	\$ -
Exercisable at December 31, 2020	672,459	\$ 8.09	118,388	\$ 3.25	2,301,053	\$ -

The Company has classified the warrant as having Level 2 inputs, and has used the Black-Scholes option-pricing model to value the warrant. The fair value at the issuance dates for the above warrants issued during the years ended December 31, 2021 and 2020 were based upon the following management assumptions:

	Issuance date
Risk-free interest rate	0.49 - 0.88%
Expected dividend yield	-%
Expected volatility	100%
Term	5 years
Fair value of common stock	1.95 - 2.24

The Company's outstanding warrants and options at December 31, 2021 are as follows:

Warrants Outstanding				Warrants Exercisable		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$ 1.79 - \$20.90	1,043,525	2.98	\$ 2.57	1,043,525	\$ 2.57	-

  

Options Outstanding				Options Exercisable		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$ 2.64 - \$28.50	118,388	2.69	\$ 3.25	118,388	\$ 3.25	-

As of December 31, 2021 and 2020, the total unrecognized expense for unvested stock options and restricted stock awards was approximately \$1.0 million and \$2.5 million, respectively, to be recognized over a one to three-year period for restricted stock awards and one year for option grants from the date of grant.

Stock-based compensation expense for the years ended December 31, 2021 and 2020 was as follows:

	For the years ended December 31,	
	2021	2020
Stock-based compensation expense	\$ 2,687,901	\$ 3,284,570

Stock-based compensation expense categorized by the equity components for the years ended December 31, 2021 and 2020 is as follows:

	For the years ended December 31,	
	2021	2020
Common stock	\$ 2,687,901	\$ 3,169,470
Transfer of common stock by founders to contractors	-	115,100
Total	\$ 2,687,901	\$ 3,284,570

Stock compensation is included in general and administrative expenses on the consolidated statements of operations

#### Note 10. Net Loss Per Share

Basic net loss per share is computed by dividing net loss for the period by the weighted average shares of common stock outstanding during each period. Diluted net loss per share is computed by dividing net loss for the period by the weighted average shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The Company uses the treasury stock method to determine whether there is a dilutive effect of outstanding option grants.

The following securities were excluded from the computation of diluted net loss per share for the periods presented because including them would have been anti-dilutive:

	For the years ended December 31,	
	2021	2020
Stock options	118,388	118,388
Warrants	1,043,525	672,459
Total common stock equivalents	1,161,913	790,847

## Note 11. Income Taxes

By virtue of a merger of the limited liability company into a corporation, the Company became a corporation during 2018.

The significant items comprising the Company's net deferred taxes as of December 31, 2021 and 2020 are as follows:

	As of December 31,	
	2021	2020
Net operating loss	\$ 8,286,577	\$ 7,377,962
Stock options and compensation	2,100,042	1,491,232
Deferred revenue	107,078	-
Allowance for doubtful accounts	95,523	41,512
Valuation allowance	(10,589,220)	(8,893,457)
Total deferred tax asset	-	17,249
Basis difference fixed assets	-	(17,249)
Total deferred tax liability	-	(17,249)
Net deferred tax asset (liability)	\$ -	\$ -

The components of the provision for (benefit from) income taxes consist of the following:

	As of December 31,	
	2021	2020
Current tax:		
Federal	-	-
State	-	-
Total	-	-
Deferred tax:		
Federal	\$ (1,572,231)	\$ (1,673,758)
State	(123,532)	(131,510)
Less: change in valuation allowance	1,695,763	1,805,268
	-	-
Total	\$ -	\$ -

The provision for (benefit from) income taxes varies from the amount computed by applying the statutory rate for reasons summarized below:

	As of December 31,		As of December 31,	
	2021		2020	
Net loss before tax per financial statements	\$ (3,814,468)		\$ (7,402,350)	
Statutory rate	(801,038)	21.00%	(1,554,494)	21.00%
State tax rate	(62,939)	1.65%	(122,139)	1.65%
Permanent items	(831,786)	21.81%	(128,636)	1.74%
Rate change	-	0.00%	-	0.00%
Change in valuation allowance	1,695,763	(44.46)	1,805,268	(24.39)%
	\$ -	0.00%	\$ -	0.00%

As of December 31, 2021 and 2020, the Company had federal net operating loss carryforwards of approximately \$36.6 million and \$32.6 million, respectively, available to offset future taxable income. As of December 31, 2021 and 2020, the Company had state loss carry-forwards of approximately \$16 million and \$15.1, respectively. Future utilization of net operating losses may be limited due to potential ownership changes under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). The federal net operating loss carryforwards can be carried forward indefinitely and state loss carryforwards begin to expire in 2039.

The valuation allowance as of December 31, 2021 and 2020 was \$10,589,220 and \$8,893,457, respectively. The net change in valuation allowance for the years ended December 31, 2021 and 2020 was an increase of \$1,695,763 and \$1,805,268, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, management has determined that enough uncertainty exists relative to the realization of the deferred income tax asset balances to warrant the application of a full valuation allowance as of December 31, 2021 and 2020.

The Company had no unrecognized tax benefits during 2021 or 2020. By statute, all tax years are open to examination by the major taxing jurisdictions to which the Company is subject.

## **Note 12. Subsequent Events**

### *Issuance of Shares for Vested Restricted Stock Units*

Between January 20, 2022 and March 1, 2022, the company issued a total of 18,666 shares of common stock to holders of fully vested restricted stock units.

### *Issuance of Shares Pursuant to Legal Settlement*

Between January 18, 2022 and March 18, 2022, the Company issued 71,758 shares of common stock in settlement of an aggregate \$75,000 pursuant to a legal settlement.

### *Issuance of Shares Pursuant to Settlement of Accounts Payable*

On March 21, 2022, the Company issued 12,196 shares of common stock in full settlement of \$10,000 of accounts payable. The shares had a fair value of \$0.82 per share.

## EXHIBIT INDEX

Pursuant to the rules and regulations of the SEC, the Company has filed certain agreements as exhibits to this Annual Report on Form 10-K. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in the Company's public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe the Company's actual state of affairs at the date hereof and should not be relied upon.

<b>Exhibit</b>	<b>Exhibit Description</b>
3.1	<a href="#"><u>Certificate of Incorporation, as amended February 1, 2019 (incorporated by reference to Exhibit 3.1 to the Company's 10-K filed with the SEC on April 1, 2019)</u></a>
3.3	<a href="#"><u>Amended and Restated By-laws (Incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1 (File No. 333-213166) filed with the SEC on August 16, 2016)</u></a>
4.1	<a href="#"><u>Warrant dated September 17, 2021 (incorporated by reference to Exhibit #4.1 to the Company's 8-K filed with the SEC on September 23, 2021)</u></a>
10.1	<a href="#"><u>Securities Purchase Agreement dated September 17, 2021 (incorporated by reference to Exhibit #10.1 to the Company's 8-K filed with the SEC on September 23, 2021)</u></a>
10.2	<a href="#"><u>Registration Rights Agreement dated September 17, 2021 (incorporated by reference to Exhibit #10.2 to the Company's 8-K filed with the SEC on September 23, 2021)</u></a>
10.3	<a href="#"><u>Consulting Agreement dated January 19, 2021 with Marc Schessel (incorporated by reference to Exhibit 10.1 to the Company's 10-K filed with the SEC on May 19, 2021)</u></a>
10.4	<a href="#"><u>Equity Financing and warrant agreement dated January 6, 2021 (incorporated by reference to Exhibit 10.3 to the Company's 10-K filed with the SEC on May 19, 2021)</u></a>
10.5	<a href="#"><u>USA Procurement Purchase agreement dated May 26, 2020 (incorporated by reference to Exhibit 10.4 to the Company's 10-K filed with the SEC on May 19, 2021)</u></a>
10.6	<a href="#"><u>USA Procurement Settlement Agreement dated March 12, 2021 (incorporated by reference to Exhibit 10.5 to the Company's 10-K filed with the SEC on May 19, 2021)</u></a>
10.7	<a href="#"><u>Class Action Settlement Agreement dated December 20, 2021*</u></a>
10.8	<a href="#"><u>Derivative Action Settlement Agreement dated December 24, 2021*</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u></a>
32.1	<a href="#"><u>Section 1350 Certification of the Chief Executive Officer*</u></a>
32.2	<a href="#"><u>Section 1350 Certification of the Chief Financial Officer*</u></a>
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith