

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended **September 30, 2019**

OR

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

For the transition period from _____ to _____.

Commission File Number: **001-35141**

RENOVA HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

68-0370244

(IRS Employer
Identification No.)

**931 Village Boulevard, Suite 905
West Palm Beach, FL**

(Address of principal executive offices)

33409

(Zip Code)

(561) 855-1626

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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
Non-accelerated filer

Accelerated filer
Smaller reporting company

Emerging growth company

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

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

As of December 26, 2019 the registrant had 9,648,936,775 shares of its Common Stock, \$0.0001 par value, outstanding

RENNOVA HEALTH, INC.
FORM 10-Q
September 30, 2019

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

RENOVA HEALTH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	\$ 107,472	\$ 6,870
Accounts receivable, net	5,108,462	3,811,749
Inventory	688,819	453,402
Prepaid expenses and other current assets	77,646	78,820
Income tax refunds receivable	631,077	631,077
Current assets of AMMSG and HTS classified as held for sale	362,146	140,352
Total current assets	6,975,622	5,122,270
Property and equipment, net	8,467,887	8,526,904
Right-of-use operating lease assets	328,615	-
Intangibles, net	509,443	259,443
Deposits	281,523	278,864
Non-current assets of AMMSG and HTS classified as held for sale	10,975	11,819
Total assets	\$ 16,574,065	\$ 14,199,300
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable (includes related parties amount of \$0.5 million and \$0.4 million, respectively)	\$ 13,076,160	\$ 8,155,955
Checks issued in excess of bank account balance	121,947	109,695
Accrued expenses (includes related parties amount of \$1.8 million and \$0.4 million, respectively)	10,542,219	10,711,281
Income taxes payable	1,355,651	1,400,651
Current portion of notes payable	3,605,532	7,083,505
Current portion of notes payable, related party	14,968,104	800,000
Current portion of right-of-use operating lease obligations	141,830	-
Current portion of finance lease obligations	589,457	730,665
Current portion of debentures	28,690,240	12,776,316
Derivative liabilities	455,336	350,260
Current liabilities of AMMSG and HTS classified as held for sale	2,701,459	2,297,846
Total current liabilities	76,247,935	44,416,174
Other liabilities:		
Right-of-use operating lease obligations, net of current portion	186,785	-
Finance lease obligations, net of current portion	28,821	31,543
Total liabilities	76,463,541	44,447,717
Commitments and contingencies		
Redeemable Preferred Stock - Series I-1	5,835,294	5,835,294
Redeemable Preferred Stock - Series I-2	1,940,179	3,084,153
Stockholders' deficit:		
Series G preferred stock, \$0.01 par value, 14,000 shares authorized, 215 shares issued and outstanding	2	2
Series H preferred stock, \$0.01 par value, 14,202 shares authorized, 10 and 60 shares issued and outstanding	-	-
Series F preferred stock, \$0.01 par value, 1,750,000 shares authorized, 1,750,000 shares issued and outstanding	17,500	17,500
Series J preferred stock, \$0.01 par value, 250,000 shares authorized, 250,000 shares issued and outstanding	2,500	2,500
Common stock, \$0.0001 par value, 10,000,000,000 shares authorized, 8,398,936,775 and 128,567,273 shares issued and outstanding	839,894	12,857
Additional paid-in-capital	509,515,347	375,845,883
Accumulated deficit	(578,040,192)	(415,046,606)
Total stockholders' deficit	(67,664,949)	(39,167,864)
Total liabilities and stockholders' deficit	\$ 16,574,065	\$ 14,199,300

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

RENNOVA HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenues	\$ 3,885,977	\$ 5,039,112	\$ 13,137,816	\$ 9,932,989
Operating expenses:				
Direct costs of revenue	3,227,709	3,350,286	12,072,442	7,809,465
General and administrative	3,163,624	4,351,576	12,730,695	10,240,434
Depreciation and amortization	199,996	152,825	609,818	804,074
Total operating expenses	<u>6,591,329</u>	<u>7,854,687</u>	<u>25,412,955</u>	<u>18,853,973</u>
Loss from continuing operations before other income (expense) and income taxes	(2,705,352)	(2,815,575)	(12,275,139)	(8,920,984)
Other (expense) income:				
Other (expense) income	(5,784,873)	188,658	(6,980,616)	609,719
Gain on bargain purchase	-	-	250,000	7,732,302
Change in fair value of derivative instruments	-	109,305,331	(105,076)	13,688,678
Interest expense	(3,637,467)	(9,322,333)	(19,229,232)	(17,075,437)
Total other (expense) income, net	<u>(9,422,340)</u>	<u>100,171,656</u>	<u>(26,064,924)</u>	<u>4,955,262</u>
Net (loss) income from continuing operations before income taxes	(12,127,692)	97,356,081	(38,340,063)	(3,965,722)
Provision for income taxes	-	-	-	76
Net (loss) income from continuing operations	<u>(12,127,692)</u>	<u>97,356,081</u>	<u>(38,340,063)</u>	<u>(3,965,798)</u>
Net (loss) income from discontinued operations	(138,076)	(159,430)	(791,936)	115,787
Net (loss) income	(12,265,768)	97,196,651	(39,131,999)	(3,850,011)
Deemed dividend from trigger of down round provision feature	-	(17,942,578)	(123,861,587)	(17,942,578)
Net (loss) income to common shareholders	<u>\$ (12,265,768)</u>	<u>\$ 79,254,073</u>	<u>\$ (162,993,586)</u>	<u>\$ (21,792,589)</u>
Net (loss) income per common share:				
Basic continuing operations	\$ (0.00)	\$ 17.60	\$ (0.01)	\$ (1.55)
Diluted continuing operations	\$ (0.00)	\$ (0.08)	\$ (0.01)	\$ (1.55)
Basic discontinued operations	\$ (0.00)	\$ (0.03)	\$ (0.00)	\$ 0.05
Diluted discontinued operations	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.05
Basic net (loss) income	\$ (0.00)	\$ 14.33	\$ (0.04)	\$ (8.54)
Diluted net loss	\$ (0.00)	\$ (0.08)	\$ (0.04)	\$ (8.54)
Weighted average number of common shares outstanding during the period:				
Basic	<u>6,634,045,471</u>	<u>5,531,767</u>	<u>4,461,922,587</u>	<u>2,550,632</u>
Diluted	<u>6,634,045,471</u>	<u>254,654,217</u>	<u>4,461,922,587</u>	<u>2,550,632</u>

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

RENNOVA HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR EACH OF THE QUARTERS IN THE PERIOD ENDED SEPTEMBER 30, 2019
(unaudited)

	Preferred Stock		Common Stock		Additional paid-in capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance at December 31, 2018	2,000,225	\$ 20,002	128,567,273	\$ 12,857	\$ 375,845,883	\$ (415,046,606)	\$ (39,167,864)
Conversion of Series I-2 Preferred Stock into common stock	-	-	3,255,700,000	325,570	318,310	-	643,880
Common stock issued in cashless exercise of warrants	-	-	119,615,384	11,961	(11,961)	-	-
Stock-based compensation	-	-	-	-	8,650	-	8,650
Deemed dividend from trigger of down round provision feature	-	-	-	-	123,861,587	(123,861,587)	-
Modification of warrants	-	-	-	-	4,056,425	-	4,056,425
Net loss	-	-	-	-	-	(13,441,404)	(13,441,404)
Balance at March 31, 2019	2,000,225	20,002	3,503,882,657	350,388	504,078,894	(552,349,597)	(47,900,313)
Conversion of Series I-2 Preferred Stock into common stock	-	-	2,505,054,118	250,506	10,587	-	261,093
Stock-based compensation	-	-	-	-	8,650	-	8,650
Modification of warrants	-	-	-	-	5,408,566	-	5,408,566
Net loss	-	-	-	-	-	(13,424,827)	(13,424,827)
Balance at June 30, 2019	2,000,225	20,002	6,008,936,775	600,894	509,506,697	(565,774,424)	(55,646,831)
Conversion of Series I-2 Preferred Stock into common stock	-	-	2,390,000,000	239,000	-	-	239,000
Stock-based compensation	-	-	-	-	8,650	-	8,650
Net loss	-	-	-	-	-	(12,265,768)	(12,265,768)
Balance at September 30, 2019	2,000,225	\$ 20,002	8,398,936,775	\$ 839,894	\$ 509,515,347	\$ (578,040,192)	\$ (67,664,949)

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

RENNOVA HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR EACH OF THE QUARTERS IN THE PERIOD ENDED SEPTEMBER 30, 2018
(unaudited)

	Preferred Stock		Common Stock		Additional paid-in capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance at December 31, 2017	1,750,275	\$ 17,502	39,502	\$ 4	\$ 128,549,458	\$ (169,180,425)	\$ (40,613,461)
Common stock issued in cashless exercise of warrants	-	-	151,200	15	(15)	-	-
Conversion of debentures into common stock	-	-	666,621	67	3,056,607	-	3,056,674
Stock-based compensation	-	-	-	-	24,196	-	24,196
Restricted stock issued to employees	-	-	142,667	14	641,096	-	641,110
Shares returned to treasury	-	-	(5)	-	-	-	-
Beneficial conversion feature of preferred stock	-	-	-	-	(651,562)	-	(651,562)
Net loss	-	-	-	-	-	(146,364,582)	(146,364,582)
Balance at March 31, 2018	1,750,275	17,502	999,985	100	131,619,780	(315,545,007)	(183,907,625)
Conversion of Series H Preferred Stock into common stock	(50)	-	40,000	4	(4)	-	-
Common stock issued in cashless exercise of warrants	-	-	572,480	57	3,957,710	-	3,957,767
Conversion of debentures into common stock	-	-	1,571,000	157	4,036,932	-	4,037,089
Exchange of debentures into Series I-2 Preferred Stock	-	-	-	-	1,331	-	1,331
Stock-based compensation	-	-	-	-	24,197	-	24,197
Shares returned to treasury	-	-	(116)	-	(28,217)	-	(28,217)
Beneficial conversion feature of preferred stock	-	-	-	-	651,562	-	651,562
Net income	-	-	-	-	-	45,317,921	45,317,921
Balance at June 30, 2018	1,750,225	17,502	3,183,349	318	140,263,291	(270,227,086)	(129,945,975)
Exchange of note payable and accrued expenses for Series J Preferred Stock	250,000	2,500	-	-	247,500	-	250,000
Common stock issued in cashless exercise of warrants	-	-	768,548	77	661,304	-	661,381
Common stock issued for conversion of Series I-2 Preferred Stock	-	-	1,764,927	177	632,924	-	633,101
Conversion of debentures into common stock	-	-	1,649,059	165	991,413	-	991,578
Exchange of debentures into Series I-2 Preferred Stock	-	-	-	-	89	-	89
Stock-based compensation	-	-	-	-	78,444	-	78,444
Adjust treasury shares	-	-	(2)	-	-	-	-
Deemed dividend from trigger of down round provision feature	-	-	-	-	17,942,578	(17,942,578)	-
Net income	-	-	-	-	-	97,196,651	97,196,651
Balance at September 30, 2018	<u>2,000,225</u>	<u>\$ 20,002</u>	<u>7,365,881</u>	<u>\$ 737</u>	<u>\$ 160,817,543</u>	<u>\$ (190,973,013)</u>	<u>\$ (30,134,731)</u>

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

RENNOVA HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net loss from continuing operations	\$ (38,340,063)	\$ (3,965,798)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation and amortization	609,818	804,074
Stock-based compensation	25,950	739,729
Amortization of debt discount	6,386,305	16,080,270
Modification of warrants	9,464,991	-
Penalty for non-payment of debentures	5,710,440	-
Change in fair value of derivative instruments	105,076	(13,688,678)
Loss on sale of receivables to factor	1,361,053	-
Gain on disposal of equipment under finance leases	-	(549,524)
Bargain purchase gain for hospitals and medical center	(250,000)	(7,732,302)
(Loss) income from discontinued operations	(791,936)	115,787
Changes in operating assets and liabilities:		
Accounts receivable	(3,525,152)	(5,648,343)
Inventory	82,010	25,066
Prepaid expenses and other current assets	(1,485)	113,042
Accounts payable and checks issued in excess of bank balance	4,932,457	3,497,210
Accrued expenses	(327,953)	3,728,038
Income tax assets and liabilities	(45,000)	(12,243)
Net cash used in operating activities of continuing operations	(14,603,489)	(6,493,672)
Net cash provided by (used in) operating activities of discontinued operations	182,663	(628,154)
Net cash used in operating activities	(14,420,826)	(7,121,826)
Cash flows from investing activities:		
Purchase of hospitals and medical center	(658,537)	(668,983)
Proceeds from the sale of equipment under finance leases	-	433,612
Purchase of property and equipment	(50,801)	(103,387)
Net cash used in investing activities of continuing operations	(709,338)	(338,758)
Net cash provided by investing activities of discontinued operations	-	800,000
Net cash (used in) provided by investing activities	(709,338)	461,242
Cash flows from financing activities:		
Proceeds from issuance of related party note payable and advances	16,478,104	3,582,500
Payments on related party note payable and advances	(2,310,000)	(4,011,000)
Proceeds from issuance of debentures	3,845,000	8,000,000
Payments on notes payable	(5,005,794)	(256,481)
Proceeds from issuance of note payable	1,500,000	-
Proceeds from receivables sold to factors	2,650,000	-
Receivables paid to factors	(1,782,614)	-
Payments on finance lease obligations	(143,930)	(654,435)
Net cash provided by financing activities of continuing operations	15,230,766	6,660,584
Net cash used in financing activities of discontinued operations	-	-
Net cash provided by financing activities	15,230,766	6,660,584
Net increase in cash	100,602	-
Cash at beginning of period	6,870	-
Cash at end of period	\$ 107,472	\$ -

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

RENOVA HEALTH, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies

Description of Business

Renova Health, Inc. (“Renova”), together with its subsidiaries (the “Company”, “we”, “us” or “our”), is a vertically integrated provider of healthcare related products and services. The Company’s principal lines of business are (i) Hospital Operations; and (ii) Clinical Laboratory Operations. The Company presents its financial results based upon these two business segments, which are more fully discussed in Note 16.

Reverse Stock Split

On November 5, 2018, the Company’s Board of Directors approved an amendment to the Company’s Certificate of Incorporation to effect a 1-for-500 reverse stock split effective November 12, 2018 (the “Reverse Stock Split”). The stockholders of the Company had approved the amendment to the Company’s Certificate of Incorporation on August 22, 2018 for the Reverse Stock Split. The Company’s stockholders had granted authorization to the Board of Directors to determine in its discretion the specific ratio, subject to limitations, and the timing of the reverse split within certain specified effective dates.

As a result of the Reverse Stock Split, every 500 shares of the Company’s then outstanding common stock was combined and automatically converted into one share of the Company’s common stock on November 12, 2018. In addition, the conversion and exercise prices of all of the Company’s outstanding preferred stock, common stock purchase warrants, stock options, restricted stock, equity incentive plans and convertible notes payable were proportionately adjusted at the applicable reverse split ratio in accordance with the terms of such instruments. In addition, proportionate voting rights and other rights of common stockholders were not affected by the Reverse Stock Split, other than as a result of cash paid in lieu of fractional shares as no fractional shares were issued in connection with the Reverse Stock Split.

All share, per share and capital stock amounts as of and for the three and nine months ended September 30, 2018 have been restated to give effect to the Reverse Stock Split.

In addition, on September 18, 2018, the Company amended its Certificate of Incorporation to have the authority to issue 10,000,000,000 shares of common stock and the par value of the Company’s common stock was decreased from \$0.01 per share to \$0.0001 per share. No additional change was made to the terms of the Company’s common stock as a result of the November 12, 2018 reverse stock split and no change was made to the authorized preferred stock, which remains at 5,000,000 shares of preferred stock, par value \$0.01 per share.

The Reverse Stock Split provided sufficient authorized and unissued shares to allow for the Company’s outstanding and otherwise equity classified instruments to be classified in equity. As a result, the fair value of these instruments was evaluated for reclassification and, as a result, during the third quarter of 2018, the Company reclassified its derivative liabilities previously reported as a current liability to derivative income. On October 4, 2019, the Board of Directors authorized the issuance and sale of certain shares of its Series K Convertible Preferred Stock (“Series K Preferred Stock”) to Alcimed LLC (“Alcimed”), a related party, as more fully discussed in Note 19. The Board considered all options to secure additional financing required to continue operations and determined this authorization to be necessary to secure needed financing in the required time frame. As a result of this authorization, as of the date of filing this report, the Company believes that it has the ability to have sufficient authorized shares of its common stock to cover all potentially dilutive common shares outstanding.

Jamestown Regional Medical Center Medicare Agreement

Following an inspection at Jamestown Regional Medical Center on February 5, 2019, the hospital was informed on February 15 that several conditions of participation in its Medicare agreement were deficient. The hospital was informed that if the deficiencies were not corrected by May 16 the Medicare agreement would terminate. A follow-up inspection on May 15 resulted in the determination that the hospital had failed to adequately correct the deficiencies highlighted and a notice of involuntary termination was issued that was effective on June 12, 2019. A significant percentage of patients at Jamestown Regional Medical Center are covered by Medicare and without any ability to get paid for these services the Company suspended operations at the hospital. The hospital received initial approval of its application to reactivate the Medicare agreement in August of 2019 and is currently planning the reopening of the hospital.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements as filed on the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on October 21, 2019. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments necessary to present fairly the Company's consolidated financial position as of September 30, 2019, and the results of its operations, changes in stockholders' deficit and cash flows for the three and nine months ended September 30, 2019 and 2018. Such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2019 may not be indicative of results for the year ending December 31, 2019.

Principles of Consolidation

The accompanying condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") include the accounts of Rennova and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the consolidation.

Reclassification

For the nine months ended September 30, 2018, the Company has presented the proceeds from related party notes payable and advances that were previously netted against payments on related party notes payable and advances as a separate line item on the Statement of Cash Flows. This reclassification did not have an effect on total cash flow from financing activities for the nine months ended September 30, 2018.

Comprehensive Loss

During the three and nine months ended September 30, 2019 and 2018, comprehensive loss was equal to the net loss amounts presented in the accompanying condensed consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include the estimates of fair values of assets acquired and liabilities assumed in business combinations, including hospital acquisitions, reserves, contractual allowances and write-downs related to receivables and inventories, the recoverability of long-lived assets, stock based compensation, the valuation allowance relating to the Company's deferred tax assets, valuation of equity and derivative instruments, including modifications thereof, deemed dividends and debt discounts, among others. Actual results could differ from those estimates and would impact future results of operations and cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. The Company had minimal cash equivalents at September 30, 2019 and December 31, 2018.

Revenue Recognition

Hospital Operations

Our revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period our obligations to provide health care services are satisfied. Our performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Our performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). There were no adjustments to estimated Medicare and Medicaid reimbursement amounts and disproportionate-share funds related primarily to cost reports filed during the three and nine months ended September 30, 2019 and 2018.

The Emergency Medical Treatment and Labor Act ("EMTALA") requires any hospital participating in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency room for treatment and, if the individual is suffering from an emergency medical condition, to either stabilize the condition or make an appropriate transfer of the individual to a facility able to handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of an individual's ability to pay for treatment. Federal and state laws and regulations require, and our commitment to providing quality patient care encourages, us to provide services to patients who are financially unable to pay for the health care services they receive. The federal poverty level is established by the federal government and is based on income and family size. The Company considers the poverty level in determining whether patients qualify for free or reduced cost of care. Because we do not pursue collection of amounts determined to qualify as charity care, they are not reported in revenues. We provide discounts to uninsured patients who do not qualify for Medicaid or charity care. In implementing the uninsured discount policy, we may first attempt to provide assistance to uninsured patients to help determine whether they may qualify for Medicaid, other federal or state assistance, or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payers and patients is our primary source of cash and is critical to our operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of our revenues and accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of our accounts receivable. We perform the hindsight analysis quarterly, utilizing rolling twelve-months accounts receivable collection and write-off data. We believe our quarterly updates to the estimated contractual allowance amounts at each of our hospital facilities provide reasonable estimates of our revenues and valuations of our accounts receivable.

Clinical Laboratory Operations

Laboratory testing services include chemical diagnostic tests such as blood analysis and urine analysis. Laboratory service revenues are recognized at the time the testing services are performed and billed and are reported at their estimated net realizable amounts. Net service revenues are determined utilizing gross service revenues net of contractual adjustments and discounts. Even though it is the responsibility of the patient to pay for laboratory service bills, most individuals in the U.S. have an agreement with a third-party payer such as a commercial insurance provider, Medicaid or Medicare to pay all or a portion of their healthcare expenses; most of the services provided by us are to patients covered under a third-party payer contract. In most cases, the Company is provided the third-party billing information and seeks payment from the third party in accordance with the terms and conditions of the third-party payer for health service providers like us. Each of these third-party payers may differ not only in terms of rates, but also with respect to terms and conditions of payment and providing coverage (reimbursement) for specific tests. Estimated revenues are established based on a series of procedures and judgments that require industry specific healthcare experience and an understanding of payer methods and trends. Despite follow up billing efforts, the Company does not currently anticipate collection of a significant portion of self-pay billings, including the patient responsibility portion of the billing for patients covered by third party payers. The Company currently does not have any capitated agreements.

We review our calculations for the realizability of gross service revenues monthly to make certain that we are properly allowing for the uncollectable portion of our gross billings and that our estimates remain sensitive to variances and changes within our payer groups. The contractual allowance calculation is made based on historical allowance rates for the various specific payer groups monthly with a greater weight being given to the most recent trends; this process is adjusted based on recent changes in underlying contract provisions. This calculation is routinely analyzed by us based on actual allowances issued by payers and the actual payments made to determine what adjustments, if any, are needed.

Bad Debt and Contractual Allowances

Total gross revenues for Hospital and Clinical Laboratory Operations were reduced in the aggregate by approximately \$0.9 million and \$1.8 million for bad debt for the three months ended September 30, 2019 and 2018, respectively. After bad debt and contractual and related allowance adjustments to revenues of \$21.9 million and \$25.1 million, for the three months ended September 30, 2019 and 2018, respectively, we reported net revenues of \$3.9 million and \$5.0 million, respectively.

Total gross revenues for Hospital and Clinical Operations were reduced in the aggregate by approximately \$4.8 million and \$3.1 million for bad debt for the nine months ended September 30, 2019 and 2018, respectively. After bad debt and contractual and related allowance adjustments to revenues of \$86.7 million and \$43.8 million, for the nine months ended September 30, 2019 and 2018, respectively, we reported net revenues of \$13.1 million and \$9.9 million, respectively. We continue to review the provision for bad debt and contractual and related allowances.

Leases, Including the Adoption of ASU No. 2016-02

We adopted ASU No. 2016-02, *Leases (Topic 842)*, which requires leases with durations greater than 12 months to be recognized on the balance sheet, effective January 1, 2019, using the modified retrospective approach. Prior period financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. We elected the package of transition provisions available which allowed us to carryforward our historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. We lease property and equipment under finance and operating leases. For leases with terms greater than 12 months, we record the related right-of-use assets and right-of-use obligations at the present value of lease payments over the term. We do not separate lease and non-lease components of contracts. Our operating and finance leases are more fully discussed in Note 10.

Derivative Financial Instruments and Fair Value, Including the Adoption of ASU 2017-11

We account for warrants issued in conjunction with the issuance of common stock and certain convertible debt instruments in accordance with the guidance contained in Accounting Standards Codification (“ASC”) Topic 815, Derivatives and Hedging (“ASC 815”) and ASC Topic 480, Distinguishing Liabilities from Equity (“ASC 480”). For warrant instruments and conversion options embedded in promissory notes that are not deemed to be indexed to the Company’s own stock, we classified such instruments as liabilities at their fair values at the time of issuance and adjusted the instruments to fair value at each reporting period. These liabilities were subject to re-measurement at each balance sheet date until extinguished either through conversion or exercise, and any change in fair value was recognized in our statement of operations. The fair values of these derivative and other financial instruments had been estimated using a Black-Scholes model and other valuation techniques.

In July 2017, the FASB issued ASU 2017-11 “Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815).” The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect.

When the down round feature is included in an equity-classified freestanding financial instrument, the value of the effect of the down round feature is treated as a dividend when it is triggered and as a numerator adjustment in the basic EPS calculation. This reflects the occurrence of an economic transfer of value to the holder of the instrument, while alleviating the complexity and income statement volatility associated with fair value measurement on an ongoing basis.

The Company has early adopted this accounting standard update. The cumulative effect of the adoption of ASU 2017-11 resulted in the reclassification of the derivative liability recorded of \$56 million and the reversal of \$41 million of interest expense recorded in the Company's first fiscal quarter of 2017. The remaining \$16 million was offset to additional paid-in-capital (discount on convertible debenture). Additionally, the Company recognized a deemed dividend from the trigger of the down round provision feature of \$53.3 million of which \$51 million of the deemed dividend was recorded retrospectively as of the beginning of the issuance of the debentures issued in March 2017 where the initial derivative liability was recorded as a result of the down round provision feature. A deemed dividend of \$231.8 million was recorded for the year ended December 31, 2018, a deemed dividend of \$123.9 million was recorded during the nine months ended September 30, 2019 and a deemed dividend of \$17.9 million and \$17.9 million was recorded for the three and nine months ended September 30, 2018, respectively, as a result of down round provision features. See Note 11 for an additional discussion of derivative financial instruments.

Earnings (Loss) Per Share

The Company reports earnings (loss) per share in accordance with ASC Topic 260, "Earnings Per Share", which establishes standards for computing and presenting earnings per share. Basic earnings (loss) per share of common stock is calculated by dividing net (loss) earnings allocable to common shareholders by the weighted-average shares of common stock outstanding during the period, without consideration of common stock equivalents. Diluted earnings (loss) per share is calculated by adjusting the weighted-average shares of common stock outstanding for the dilutive effect of common stock equivalents, including stock options and warrants outstanding for the period as determined using the treasury stock method. For purposes of the diluted net loss per share calculation, common stock equivalents are excluded from the calculation when their effect would be anti-dilutive. Therefore, basic and diluted net loss per share applicable to common shareholders is the same for periods with a net loss. See Note 3 for the computation of earnings (loss) per share for the three and nine months ended September 30, 2019 and 2018.

Note 2 – Liquidity and Financial Condition

Under ASU, 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)* ("ASC 205-40"), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required by ASC 205-40, this evaluation shall initially not take into consideration the potential mitigating effects of plans that have not been fully implemented as of the date the financial statements are issued. Management has assessed the Company's ability to continue as a going concern in accordance with the requirement of ASC 205-40.

The Company had a working capital deficit, an accumulated deficit and a stockholders' deficit of \$69.3 million, \$578.0 million and \$67.7 million, respectively, at September 30, 2019. In addition, the Company had a net loss of approximately \$39.1 million and cash used in operating activities of \$14.4 million for the nine months ended September 30, 2019. The continued losses and other related factors raise substantial doubt about the Company's ability to continue as a going concern for twelve months from the filing date of this report.

The Company's unaudited condensed consolidated financial statements are prepared assuming the Company can continue as a going concern, which contemplates continuity of operations through realization of assets, and the settling of liabilities in the normal course of business. Initial cost savings were realized by reducing the number of laboratory facilities to one for most of its toxicology diagnostics, thereby reducing the number of employees and associated operating expenses. The Company intends to spin off its Advanced Molecular Services Group ("AMSG") and Health Technology Solutions, Inc. ("HTS"), as independent publicly traded companies by way of tax-free distributions to its shareholders. While these spin offs have taken longer than anticipated, completion of these spin offs is now expected to occur during the first quarter of 2020. The spin offs are subject to numerous conditions, including effectiveness of Registration Statements on Form 10 to be filed with the Securities and Exchange Commission and consents, including under various funding agreements previously entered by the Company. The intent of the spin offs of AMSG and HTS is to create three public companies, each of which can focus on its own strengths and operational plans. In accordance with ASC 205-20 and having met the criteria for "held for sale", the Company has reflected amounts relating to AMSG and HTS as disposal groups classified as held for sale and included as part of discontinued operations. AMSG and HTS are no longer included in the segment reporting following the reclassification to discontinued operations. The discontinued operations of AMSG and HTS are described further in Note 17.

The Company's core business is now rural hospitals which is a specialized marketplace with a requirement for capable and knowledgeable management. The Company's current financial condition may make it difficult to attract and maintain adequate expertise in its management team to successfully operate the Company's hospitals.

There can be no assurance that the Company will be able to achieve its business plan, which is to acquire and operate clusters of rural hospitals, raise any additional capital or secure the additional financing necessary to implement its current operating plan. The ability of the Company to continue as a going concern is dependent upon its ability to significantly reduce its operating costs, increase its revenues, and eventually achieve profitable operations. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3 – Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share is computed by dividing (i) loss available to common shareholders, by (ii) the weighted-average number of shares of common stock outstanding during the period. Basic loss per share excludes dilution and is computed by dividing loss attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company. The loss per share for the three and nine months ended September 30, 2019 and the nine months ended September 30, 2018 excluded securities or other contracts to issue the Company's common stock because the results were anti-dilutive.

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share for each of the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net (loss) income from continuing operations	\$ (12,127,692)	\$ 97,356,081	\$ (38,340,063)	\$ (3,965,798)
Net (loss) income from discontinued operations	(138,076)	(159,430)	(791,936)	115,787
Deemed dividends	—	(17,942,578)	(123,861,587)	(17,942,578)
Net loss (income) to common shareholders -basic	\$ (12,265,768)	\$ 79,254,073	\$ (162,993,586)	\$ (21,792,589)
Adjustments for diluted calculations:				
Deduct change in fair value of derivative liabilities	—	(109,305,331)	—	—
Amortize discounts associated with conversion of dilutive convertible debentures	—	(7,303,912)	—	—
Remove change in warrant value for diluted	—	(11,376)	—	—
Add back deemed dividends	—	17,942,578	—	—
Net loss to common shareholders - diluted	\$ (12,265,768)	\$ (19,423,968)	\$ (162,993,586)	\$ (21,792,589)
Denominator:				
Weighted average number of common shares outstanding during the period:				
Basic	6,634,045,471	5,531,767	4,461,922,587	2,550,632
Common stock equivalents:				
Warrants	—	64,315,740	—	—
Convertible preferred stock	—	9,505,156	—	—
Convertible debentures	—	175,301,554	—	—
Diluted	6,634,045,471	254,654,217	4,461,922,587	2,550,632
Net (loss) income per common share- continuing operations:				
Basic	\$ (0.00)	\$ 17.60	\$ (0.01)	\$ (1.55)
Diluted	\$ (0.00)	\$ (0.08)	\$ (0.01)	\$ (1.55)
Net (loss) income per common share- discontinued operations:				
Basic	\$ (0.00)	\$ (0.03)	\$ (0.00)	\$ 0.05
Diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.05
Total per share net (loss) income to common shareholders:				
Basic	\$ (0.00)	\$ 14.33	\$ (0.04)	\$ (8.54)
Diluted	\$ (0.00)	\$ (0.08)	\$ (0.04)	\$ (8.54)

Diluted loss per share as reflected in the table above excludes all dilutive potential shares if their effect is anti-dilutive. For the nine months ended September 30, 2019 and 2018, the following table sets forth the computation of the following potential common stock equivalents excluded from the calculation of diluted loss per share as their effect was anti-dilutive:

	Nine Months Ended September 30,	
	2019	2018
Warrants	634,525,355,377	463,449,767
Convertible preferred stock	82,901,785,590	68,344,495
Convertible debentures	30,634,784,339	214,222,495
Stock options	77	77
	<u>748,061,925,383</u>	<u>746,016,834</u>

The terms of certain of the warrants, convertible preferred stock and convertible debentures issued by the Company provide for reductions in the per share exercise prices of the warrants and the per share conversion prices of the debentures and preferred stock (if applicable and subject to a floor in certain cases), in the event that the Company issues common stock or common stock equivalents (as that term is defined in the agreements) at an effective exercise/conversion price that is less than the then exercise/conversion prices of the outstanding warrants, preferred stock or debentures, as the case may be. In addition, many of these equity-based securities contain exercise or conversion prices that vary based upon the price of the Company's common stock on the date of exercise/conversion (see Notes 12 and 13). These provisions have resulted in significant dilution of the Company's common stock and have given rise to reverse splits of the Company's common stock. As a result of these down round provisions, the outstanding common stock and potential common stock equivalents totaled 753.9 billion at December 26, 2019. See Notes 13 and 19 regarding a discussion of the Company's common stock and potential common stock equivalents.

Note 4 – Accounts Receivable

Accounts receivable at September 30, 2019 (unaudited) and December 31, 2018 consisted of the following:

	September 30,	December 31,
	2019	2018
Accounts receivable - Clinical Laboratory Operations	\$ 41,750	\$ 622,009
Accounts receivable - Hospital Operations	45,804,056	31,607,644
Accounts receivable - Other	(52,296)	-
Total accounts receivable	45,793,510	32,229,653
Less:		
Amount purchased by factors	(1,572,000)	-
Allowance for discounts - Clinical Laboratory Operations	(26,182)	(573,584)
Allowance for discounts - Hospital Operations	(36,298,972)	(25,066,799)
Allowance for bad debts	(2,787,894)	(2,777,521)
Accounts receivable, net	<u>\$ 5,108,462</u>	<u>\$ 3,811,749</u>

Accounts Receivable Factoring Arrangements

During the nine months ended September 30, 2019, the Company entered into five accounts receivable factoring arrangements. Under the terms of the arrangements, the aggregate amount of accounts receivable sold on a non-recourse basis, was \$3.9 million. The aggregate purchase price paid to the Company was \$2.7 million, the total origination and other fees incurred by the Company were \$0.1 million and the Company recorded a loss on sale of the receivables of \$1.2 million. As of September 30, 2019, \$1.6 million of the outstanding accounts receivable were purchased but not yet paid to the factors.

Note 5 – Acquisitions

Purchase Agreement Re Jamestown Regional Medical Center

On June 1, 2018, the Company acquired a business engaging in acute hospital care located in Jamestown, Tennessee under an asset purchase agreement. The acquisition also included a separate physician practice referred to as Mountain View Physician Practice, Inc. This acquisition was made as part of the Company's business plan to acquire and operate clusters of rural hospitals.

Pursuant to the asset purchase agreement, by and among the Company and Jamestown TN Medical Center, Inc., and HMA Fentress County Hospital, LLC, Jamestown HMA Physician Management, LLC and CHS/Community Health Systems, Inc. (the "Sellers"), the purchase price paid for the transaction was an aggregate of \$635,096, which includes closing costs of \$35,735, legal costs of approximately \$115,000, and other diligence related costs, which were expensed in 2018.

The fair value of the purchase consideration paid to the Sellers was allocated to the net tangible and intangible assets acquired. The Company accounted for the acquisition as a business combination under U.S. GAAP. In accordance with the acquisition method of accounting under ASC Topic 805, "Business Combinations," ("ASC 805") the assets acquired, and liabilities assumed were recorded as of the acquisition date, at their respective fair values and consolidated with those of the Company.

The fair value of the assets acquired, net of the liabilities assumed, was approximately \$8.2 million. The excess of the aggregate fair value of the net tangible assets acquired over the purchase price was \$7.6 million and has been treated as a gain on bargain purchase in accordance with ASC 805.

The following table shows the allocation of the purchase price of Jamestown Regional Medical Center to the acquired identifiable assets acquired, and liabilities assumed:

Total purchase price	\$ 635,096
Tangible and intangible assets acquired, and liabilities assumed at fair value:	
Cash	375
Inventories	450,682
Prepays and deposits	310,385
Property and equipment	7,129,484
Intangible assets	504,806
Accrued expenses	(193,966)
Net tangible and intangible assets acquired	<u>\$ 8,201,766</u>
Gain on bargain purchase ⁽¹⁾	<u>\$ 7,566,670</u>

(1) Gain was adjusted in the fourth quarter of 2018 from \$7,732,302 to \$7,566,670 to reflect an adjustment of the value of the property and equipment acquired.

As reflected in the table above, the total value of intangible assets acquired in the Jamestown acquisition was \$504,806, which included a certificate of need valued at \$259,443 and a non-compete intangible asset valued at \$245,363. The certificate of need has an indefinite life. During the year ended December 31, 2018, the Company determined that the fair value of the non-compete intangible asset, which was being amortized over two years, was fully impaired and, accordingly, the Company recorded an impairment of approximately \$0.2 million in December 31, 2018.

Purchase Agreement re Jellico Community Hospital and CarePlus Center

Effective March 5, 2019, the Company acquired certain assets related to Jellico Community Hospital and CarePlus Center. Jellico Community Hospital is a fully operational 54-bed acute care facility that offers comprehensive services, including diagnostic imaging, radiology, surgery (general, gynecological and vascular), nuclear medicine, wound care and hyperbaric medicine, intensive care, emergency care and physical therapy. The CarePlus Center offers sophisticated testing capabilities and compassionate care, all in a modern, patient-friendly environment. Services include diagnostic imaging services, x-ray, mammography, bone densitometry, computed tomography (CT), ultrasound, physical therapy and laboratory services on a walk-in basis.

The purchase price was \$658,537. This purchase price was made available by Mr. Diamantis, a director of the Company. The total cost of the acquisition is estimated to be \$908,537, including \$250,000 of diligence, legal and other costs associated with the acquisition. The acquisition costs were fully expensed in 2019.

The preliminary fair value of the purchase consideration paid to the sellers was allocated to the net tangible and intangible assets acquired. The Company accounted for the acquisition as a business combination under U.S. GAAP. In accordance with the acquisition method of accounting under ASC 805 the assets acquired, and liabilities assumed were recorded as of the acquisition date, at their respective fair values and consolidated with those of the Company.

The Company is currently undertaking a valuation study to determine the fair value of the assets acquired. The preliminary estimated fair value of the assets acquired, net of the liabilities assumed, was approximately \$0.9 million. The excess of the aggregate fair value of the net tangible assets acquired over the purchase price is currently estimated to be \$0.3 million and has been treated as a gain on bargain purchase in accordance with ASC 805. The gain is primarily due to the value of the intangible assets acquired. In addition, the provisional amounts used for the purchase price allocation are subject to adjustments for a period not to exceed one year from the acquisition date. As a result, upon completion of a valuation study, the gain on bargain purchase presented below may be increased or decreased. The preliminary purchase price allocation was based, in part, on management's knowledge of hospital operations.

The following table shows the preliminary allocation of the purchase price of Jellico Community Hospital and CarePlus Center to the acquired identifiable assets acquired, and liabilities assumed:

Total purchase price	\$ 658,537
Tangible and intangible assets acquired, and liabilities assumed at estimated fair value:	
Inventories	\$ 317,427
Property and equipment	500,000
Intangible asset- certificate of need	250,000
Accrued expenses	(158,890)
Net tangible and intangible assets acquired	\$ 908,537
Gain on bargain purchase	\$ 250,000

The following presents the unaudited pro-forma combined results of operations of the Company and Jamestown Regional Medical Center and Jellico Community Hospital and CarePlus Center as if the acquisitions had occurred on January 1, 2018. The unaudited pro-forma results of operations are presented for information purposes only. The unaudited pro-forma results of operations are not intended to present actual results that would have been attained had the acquisitions been completed as of January 1, 2018 or to project potential operating results as of any future date or for any future periods.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net revenue	\$ 8,276,112	\$ 14,855,436	\$ 25,499,677
Net income (loss) from continuing operations	96,879,012	(38,537,422)	(8,151,239)
Deemed dividend from trigger of down round provision feature	(17,942,578)	(123,861,587)	(17,942,578)
Net (loss) income from discontinued operations	(159,430)	(791,936)	115,787
Net income (loss) to common shareholders - basic	78,777,004	(163,190,945)	(25,978,030)
Adjustments for diluted loss to common shareholders	(98,678,041)	—	—
Net loss to common shareholders - diluted	<u>\$ (19,901,037)</u>	<u>\$ (163,190,945)</u>	<u>\$ (25,978,030)</u>
Net income (loss) per common share:			
Basic continuing operations	\$ 17.51	\$ (0.01)	\$ (3.20)
Diluted continuing operations	\$ (0.02)	\$ (0.01)	\$ (3.20)
Basic net income (loss) to common shareholders	\$ 14.24	\$ (0.04)	\$ (10.18)
Diluted net loss to common shareholders	\$ (0.24)	\$ (0.04)	\$ (10.18)

Note 6 – Accrued Expenses

Accrued expenses at September 30, 2019 (unaudited) and December 31, 2018 consisted of the following:

	September 30, 2019	December 31, 2018
Commissions payable	\$ 19,113	\$ 19,113
Sales tax payable	8,009	8,016
Accrued payroll and related liabilities	6,761,173	3,400,052
Accrued property tax	41,784	47,396
Accrued interest	2,586,652	5,464,837
Other accrued expenses	1,125,488	1,771,867
Accrued expenses	<u>\$ 10,542,219</u>	<u>\$ 10,711,281</u>

Accrued expenses at December 31, 2018 included \$4.9 million of interest due under the terms of a settlement agreement for a prepaid forward purchase contract related to an accounts receivable financing, which was paid by Mr. Diamantis on behalf of the Company during the nine months ended September 30, 2019, as more fully discussed in Note 7. Accrued expenses at September 30, 2019 and December 31, 2018 included \$1.8 million and \$0.3 million, respectively, of accrued interest due to Mr. Diamantis related to loans made by Mr. Diamantis to the Company as more fully discussed in Note 7.

Note 7 – Notes Payable

The Company and its subsidiaries are party to a number of loans with affiliates and unrelated parties. At September 30, 2019 (unaudited) and December 31, 2018, notes payable consisted of the following:

Notes Payable – Third Parties

	September 30, 2019	December 31, 2018
Loan payable under prepaid forward purchase contract (1)	\$ -	\$ 5,000,000
Loan payable to TCA Global Master Fund, LP (“TCA”) in the original principal amount of \$3 million at 16% interest (the “TCA Debenture”). Principal and interest payments due in various installments through December 31, 2017	1,741,893	1,741,893
Notes payable to CommerceNet and Jay Tenenbaum in the original principal amount of \$500,000, bearing interest at 6% per annum (the “Tegal Notes”). Principal and interest payments due annually from July 12, 2015 through July 12, 2017	335,818	341,612
Note payable to Anthony O’Killough dated September 27, 2019 in the original principal amount of \$1.9 million. Interest is due only upon event of default. Issued net of \$0.3 million of debt discount and \$0.1 million of financing fees with \$1.0 million of principal due on November 8, 2019 and \$0.9 million of principal due December 26, 2019	1,527,821	-
	3,605,532	7,083,505
Less current portion	(3,605,532)	(7,083,505)
Notes payable - third parties, net of current portion	<u>\$ -</u>	<u>\$ -</u>

(1) The loan payable under prepaid forward purchase contract has been fully settled during the nine months ended September 2019 as more fully discussed below under the heading “Notes Payable – Related Party”.

The Company did not make the required monthly principal and interest payments due under the TCA Debenture for the period from October 2016 through March 2017. On February 2, 2017, the Company made a payment to TCA in the amount of \$0.4 million, which was applied to accrued and unpaid interest and fees, including default interest, as of the date of payment. On March 21, 2017, the Company made a payment to TCA in the amount of \$0.75 million, of which approximately \$0.1 million was applied to accrued and unpaid interest and fees in accordance with the terms of the TCA Debenture. Also on March 21, 2017, the Company entered into a letter agreement with TCA, which (i) waived any payment defaults through March 21, 2017; (ii) provided for the \$0.75 million payment discussed above; (iii) set forth a revised repayment schedule whereby the remaining principal plus interest aggregating to approximately \$2.6 million was to be repaid in various monthly installments from April of 2017 through September of 2017; and (iv) provided for payment of an additional service fee in the amount of \$150,000, which was due on June 27, 2017, the day after the effective date of the registration statement filed by the Company; which amount is reflected in accrued expenses at December 31, 2018. In addition, TCA entered into an inter-creditor agreement with the purchasers of the convertible debentures (see Note 8) which sets forth rights, preferences and priorities with respect to the security interests in the Company's assets. On September 19, 2017, the Company entered into a new agreement with TCA, which extended the repayment schedule through December 31, 2017. The remaining debt to TCA remains outstanding and TCA has made a demand for payment. The parties are currently working to amend the TCA Debenture to extend the maturity although there can be no assurance that the parties will agree to any such extension.

The Company did not make the principal payments under the Tegal Notes that were due on July 12, 2016. On November 3, 2016, the Company received a default notice from the holders of the Tegal Notes demanding immediate repayment of the outstanding principal of \$341,612 and accrued interest of \$43,000. On December 7, 2016, the Company received a breach of contract complaint with a request for the entry of a default judgment (see Note 15). On April 23, 2018, the holders of the Tegal Notes received a judgment against the Company. To date, the Company has yet to repay this amount.

On September 27, 2019, the Company issued a promissory note to a lender in the principal amount of \$1.9 million and received proceeds of \$1.5 million, which is net of a \$0.3 million original issue discount and \$0.1 million in financing fees. The first principal payment of \$1.0 million was due on November 8, 2019 and has not yet been made and the remaining \$0.9 million is due on December 26, 2019. The note does not bear interest except upon the occurrence of an event of default (as defined in the note). The note is unsecured and is guaranteed by Mr. Diamantis.

Notes Payable – Related Party

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Loan payable to Christopher Diamantis	\$ 14,968,104	\$ 800,000
Total notes payable, related party	14,968,104	800,000
Less current portion of notes payable, related party	(14,968,104)	(800,000)
Total notes payable, related party, net of current portion	<u>\$ -</u>	<u>\$ -</u>

On March 31, 2016, the Company entered into an agreement to pledge certain of its accounts receivable as collateral against a prepaid forward purchase contract whereby the Company received consideration in the amount of \$5.0 million. The receivables had an estimated collectable value of \$8.7 million which had been adjusted down to \$0 as of December 31, 2017. In exchange for the consideration received, the counterparty received the right to: (i) a 20% per annum investment return from the Company on the consideration, with a minimum repayment term of six months and minimum return of \$0.5 million, (ii) all payments recovered from the accounts receivable up to \$5.25 million, if paid in full within six months, or \$5.5 million, if not paid in full within six months, and (iii) 20% of all payments of the accounts receivable in excess of amounts received in (i) and (ii). On March 31, 2017, to the extent that the counterparty had not been paid \$6.0 million, the Company was required to pay the difference. Christopher Diamantis, a director of the Company, guaranteed the Company's obligation. On March 24, 2017, the Company, the counterparty and Mr. Diamantis, as guarantor, entered into an amendment to extend the Company's obligation to March 31, 2018. Also, what the counterparty was to receive was amended to equal (a) the \$5,000,000 purchase price plus a 20% per annum investment return thereon, plus (b) \$500,000, plus (c) the product of (i) the proceeds received from the accounts receivable, minus the amount set forth in clauses (a) and (b), multiplied by (ii) 40%. In connection with the extension, the counterparty received a fee of \$1,000,000. On April 2, 2018, the Company, the counterparty and Mr. Diamantis, as guarantor, entered into a second amendment to extend further the Company's obligation to May 30, 2018. In connection with this further extension, the counterparty received a fee of \$100,000. The counterparty instituted an arbitration proceeding under the agreement with regard to the outstanding balance. In December 2018, the Company, Mr. Diamantis and the counterparty entered into a preliminary settlement agreement in connection with the arbitration, with the terms of the settlement agreement revised on March 31, 2019. The Company and Mr. Diamantis agreed to pay the counterparty \$2,000,000 on or before April 5, 2019 and an additional \$7,694,685 plus interest at 10% per annum on or before May 20, 2019, which date was subsequently amended. On April 5, 2019 and May 31, 2019, Mr. Diamantis made payments totaling \$5.0 million on behalf of the Company. The final payment of \$4,937,105 was due on or before July 28, 2019. Mr. Diamantis made that payment on behalf of the Company on July 26, 2019. The Company and Mr. Diamantis have now complied with all of their obligations under the settlement agreement. As a result, the Company is obligated to repay Mr. Diamantis a total of \$9,937,105.

During the nine months ended September 30, 2019, in addition to the \$9,937,105 that Mr. Diamantis loaned the Company in connection with the settlement of the prepaid forward purchase contract discussed above, Mr. Diamantis advanced the Company: (i) \$0.7 million for the purchase of Jellico Community Hospital as more fully discussed in Note 5; \$1.9 million for fees and expenses incurred in connection with the settlement of the prepaid forward purchase contract; and \$4.7 million for working capital purposes. During the three and nine months ended September 30, 2019, we accrued interest of \$0.7 million and \$1.5 million, respectively, on the advances from Mr. Diamantis. During the nine months ended September 30, 2019, we repaid \$2.3 million of principal to Mr. Diamantis. Interest accrues on advances from Mr. Diamantis at a flat rate of 10%. Therefore, the total amount of loans and accrued interest payable to Mr. Diamantis at September 30, 2019 and December 31, 2018, were \$16.7 million and \$1.1 million, respectively. See Note 19 for the discussion of additional advances made by Mr. Diamantis to the Company subsequent to September 30, 2019.

Note 8 – Debentures

The carrying amount of all outstanding debentures as of September 30, 2019 (unaudited), and December 31, 2018 is as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Debentures	\$ 28,690,240	\$ 19,034,800
Discount on Debentures	-	(6,247,469)
Deferred financing fees	-	(11,015)
	<u>28,690,240</u>	<u>12,776,316</u>
Less current portion	(28,690,240)	(12,776,316)
Debentures, long-term	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

As of September 30, 2019, \$2.0 million of outstanding debentures issued in March 2017 were not paid as of March 21, 2019, the maturity date and \$17.1 million of outstanding debentures issued during 2017 and 2018 were not paid as of September 19, 2019, the maturity date. The Company has accrued penalties in connection with these non-payments in the amount of \$5.7 million as of September 30, 2019. These debentures have still not been paid and remain outstanding, and the Company has been accruing interest on these debentures at the default rate of 18% per annum since the dates of the payment defaults.

Debentures Issued in the Nine Months Ended September 30, 2019

The Company issued debentures on February 24, 2019 in the aggregate principal amount of \$300,000 and on March 27, 2019 in the aggregate principal amount of \$300,000. Both of these debentures were guaranteed by Mr. Diamantis and were originally due on June 3, 2019. The maturity dates of these debentures were extended to December 31, 2019 and the terms were changed so that commencing on August 17, 2019 the debentures bear interest on the outstanding principal amount at a rate of 2.5% per month (increasing to 5% per month on October 12, 2019), payable quarterly beginning on October 1, 2019. All overdue accrued and unpaid interest shall entail a late fee equal to the lesser of 24% per annum or the maximum rate permitted by applicable law.

The Company issued debentures on May 12, 2019 in the aggregate principal amount of \$500,000. These debentures were guaranteed by Mr. Diamantis and were due on June 3, 2019. In addition, the Company issued debentures on June 5, 2019 in the aggregate principal amount of \$125,000 and on June 7, 2019 in the aggregate principal amount of \$200,000. These debentures were also guaranteed by Mr. Diamantis and were due on July 20, 2019. The maturity dates of these debentures were extended to December 31, 2019 and the terms were changed so that commencing on August 17, 2019 the debentures bear interest on the outstanding principal amount at a rate of 2.5% per month (increasing to 5% per month on October 12, 2019), payable quarterly beginning on October 1, 2019. All overdue accrued and unpaid interest shall entail a late fee equal to the lesser of 24% per annum or the maximum rate permitted by applicable law.

On June 13, 2019, the Company closed an offering of \$1,250,000 aggregate principal amount of debentures with certain existing institutional investors pursuant to the terms of a Bridge Debenture Agreement, dated as of June 13, 2019 (the "June 13 Agreement") and received proceeds of \$1,250,000. The June 13 Agreement provided that on or prior to June 30, 2019, at the mutual election of the Company and the investors, the investors could purchase an additional \$1,250,000 principal amount on the same terms and conditions as provided in the June 13 Agreement. Under the June 13 Agreement, the maturity date of the debentures issued on February 24, 2019, March 27, 2019, May 12, 2019, June 5, 2019 and June 7, 2019 were extended to December 31, 2019 and the terms were changed such that they have the same interest terms as contained in the June 13, 2019 debentures, as more fully discussed below.

On June 21, 2019, the Company and the investors agreed that the Company would issue, and the investors would purchase, \$250,000 principal amount of debentures and on June 24, 2019 the Company and the investors agreed that the Company would issue, and the investors would purchase, an additional \$1,020,000 aggregate principal amount of debentures. In connection with the issuances of the June 21, 2019 and June 24, 2019 debentures, the Company received total proceeds of \$1,270,000.

The June 13, 2019, June 21, 2019 and June 24, 2019 debentures (collectively, the "June 2019 Debentures") are secured and guaranteed by the Company's subsidiaries on the same terms as provided in the Purchase Agreement, dated as of August 31, 2017, which is more fully described in Note 9 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2018. At the Company's option, the June 2019 Debentures may also be exchanged for shares of the Company's Series I-2 Convertible Preferred Stock under the terms of the previously-announced Exchange Agreement, dated as of October 30, 2017. Commencing on August 17, 2019, the June 2019 Debentures bear interest on the outstanding principal amount at a rate of 2.5% per month (increasing to 5% per month on October 12, 2019), payable quarterly beginning on October 1, 2019. All overdue accrued and unpaid interest entail a late fee equal to the lesser of 24% per annum or the maximum rate permitted by applicable law. Christopher Diamantis is a guarantor of the June 2019 Debentures.

In addition to the debentures issued in the nine months ended September 30, 2019, during the years ending December 31, 2017 and 2018, the Company issued convertible debentures, which are more fully described in Note 9 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2018. Certain of these convertible debentures were issued with warrants to purchase shares of the Company's common stock. Outstanding warrants are more fully discussed in Note 13.

The debentures issued during the nine months ended September 30, 2019 and 2018, were issued at discounts of \$0.1 million and \$2.9 million, respectively, and accordingly, the Company realized a total of \$3.8 million and \$8.0 million, respectively, in proceeds from the issuances of the debentures. At September 30, 2019, these discounts have been fully amortized. These discounts represented original issue discounts, the relative fair value of the warrants issued with the debentures and the relative fair value of the beneficial conversion features of the debentures. During the three months ended September 30, 2019 and 2018, the Company recorded approximately \$1.4 million and approximately \$9.0 million, respectively, of non-cash interest and amortization of debt discount expense in connection with the debentures and warrants. During the nine months ended September 30, 2019 and 2018, the Company recorded approximately \$15.8 million and approximately \$16.1 million, respectively, of non-cash interest and amortization of debt discount expense primarily in connection with the debentures and warrants. These amounts include non-cash interest expense and debt discount amortization, which resulted from the modification of warrants as more fully discussed in Notes 11 and 13.

See Note 13 for summarized information related to warrants issued and the activity during the nine months ended September 30, 2019.

See Notes 3, 13 and 19 for a discussion of the dilutive effect of the outstanding convertible debentures, warrants and convertible preferred stock as of September 30, 2019.

Note 9 – Related Party Transactions

Alcimedede billed \$0.1 million and \$0.1 million for consulting fees for the three months ended September 30, 2019 and 2018, respectively, and \$0.3 million and \$0.3 million for the nine months ended September 30, 2019 and 2018, respectively. Seamus Lagan, the Company's President and Chief Executive Officer, is the sole manager of Alcimedede (see Note 13).

See Notes 5, 7 and 19 for a discussion of amounts advanced to the Company by Mr. Diamantis.

The terms of the foregoing transactions, including those discussed in Notes 5, 7, 12 and 19, are not necessarily indicative of those that would have been agreed to with unrelated parties for similar transactions.

Note 10 – Finance and Operating Lease Obligations

As more fully discussed in Note 1, we adopted ASU No. 2016-02, *Leases (Topic 842)*, which requires leases with durations greater than 12 months to be recognized on the balance sheet, effective January 1, 2019, using the modified retrospective approach.

Generally, we use our estimated weighted average cost of capital at lease commencement as our interest rate, as most of our operating leases do not provide a readily determinable implicit interest rate.

The following table presents our lease-related assets and liabilities at September 30, 2019:

	Balance Sheet Classification	September 30, 2019
Assets:		
Operating leases	Right-of-use operating lease assets	\$ 328,615
Finance leases	Property and equipment, net	618,278
Total lease assets		\$ 946,893
Liabilities:		
Current:		
Operating leases	Right-of-use operating lease assets	\$ 141,830
Finance leases	Current liabilities	589,457
Noncurrent:		
Operating leases	Right-of-use operating lease obligations	186,785
Finance leases	Long-term debt	28,821
Total lease liabilities		\$ 946,893
Weighted-average remaining term:		
Operating leases		1.98 years
Finance leases		0.19 years
Weighted-average discount rate:		
Operating leases (1)		13.0%
Finance leases		5.122%

(1) Upon adoption of the new lease standard, discount rates used for existing operating leases were established at January 1, 2019.

The following table presents certain information related to lease expense for finance and operating leases for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Finance lease expense:		
Depreciation/amortization of leased assets (1)	\$ 15,004	\$ (30,055)
Interest on lease liabilities	704	5,804
Operating leases:		
Short-term lease expense (2)	76,312	263,713
Total lease expense	\$ 92,020	\$ 239,462

(1) The depreciation for the nine months ended September 30, 2019 has been adjusted for depreciation recorded in the prior year.

(2) Expenses are included in general and administrative expenses in our condensed consolidated statements of operations.

Other Information

The following table presents supplemental cash flow information for the nine months ended September 30, 2019:

	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 214,357
Operating cash flows for finance leases	\$ 5,800
Financing cash flows for finance leases payments	\$ 143,930

Aggregate future minimum rentals under right-to-use operating and finance leases are as follows:

	Right-to-Use	
	Operating Leases	Finance Leases
October 1, 2019 to September 30, 2020	\$ 107,457	\$ 604,080
October 1, 2020 to September 30, 2021	134,776	32,611
October 1, 2021 to September 30, 2022	110,062	—
October 1, 2022 to September 30, 2023	29,247	—
October 1, 2023 to September 30, 2024	2,437	—
Total	<u>383,979</u>	<u>636,691</u>
Less interest	(55,364)	(18,413)
Present value of minimum lease payments	<u>328,615</u>	<u>618,278</u>
Less current portion of lease obligations	(141,830)	(589,457)
Lease obligations, net of current portion	<u>\$ 186,785</u>	<u>\$ 28,821</u>

As of September 30, 2019, the Company is in default of substantially all its finance lease obligations, therefore the aggregate future minimum rentals and accrued interest under finance leases in the amount of \$0.6 million are deemed to be immediately due.

Note 11 – Derivative Financial Instruments and Fair Value

The following table sets forth the financial assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2019 and December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2018:				
Embedded conversion options	\$ -	\$ -	\$ 350,260	\$ 350,260
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 350,260</u>	<u>\$ 350,260</u>
As of September 30, 2019:				
Embedded conversion options	\$ -	\$ -	\$ 455,336	\$ 455,336
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 455,336</u>	<u>\$ 455,336</u>

The Company utilized the following methods to value its derivative liabilities as of September 30, 2019 and December 31, 2018, for embedded conversion options valued at \$455,336 and \$350,260, respectively. The Company determined the fair value by comparing the discounted conversion price per share (85% of market price, subject to a floor in certain cases) multiplied by the number of shares issuable at the balance sheet date to the actual price per share of the Company's common stock multiplied by the number of shares issuable at that date with the difference in value recorded as a liability. All inputs for the derivative liabilities are observable and, therefore, there is no sensitivity in the valuation to unobservable inputs.

The following table reconciles the changes in the liabilities categorized within Level 3 of the fair value hierarchy for the nine months ended September 30, 2019:

Balance at December 31, 2018	\$ 350,260
Change in fair value of debentures	105,076
Balance at September 30, 2019	<u>\$ 455,336</u>

During the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018, the conversions of preferred stock triggered a further reduction in the exercise prices of any debentures and warrants containing ratchet features that had not already ratcheted down to their floor. In accordance with U.S. GAAP, the incremental fair value of the debentures and warrants was measured, ignoring the down round provision, using Black Scholes. The following assumptions were utilized in the Black Scholes valuation models in the nine months ended September 30, 2019: risk free rates ranging from 2.4% to 2.6% and volatility ranging from 189.5% to 273.1% and weighted average life of 0.3 to 3.2 years. The following assumptions were utilized in the Black Scholes valuation models in the three and nine months ended September 30, 2018: risk free rates ranging from 2.36% to 2.88% and volatility ranging from 163.8% to 234.7% and weighted average life of .73 to 3.5 years. The incremental value of \$123.9 million was recorded as a deemed dividend for the nine months ended September 30, 2019 and the incremental value of \$17.9 million and \$17.9 million was recorded as a deemed dividend in the three and nine months ended September 30, 2018, respectively. Deemed dividends are also discussed in Notes 1 and 3.

During the nine months ended September 30, 2019, the Company recorded interest expense of \$9.5 million, which represented the fair value of the modification of warrants during the period as more fully discussed in Note 13. The Company used the Black Scholes model to calculate the fair value of the warrants as of the modification dates. Using the pre-modification terms and related assumptions of risk free rates ranging from 2.44% to 2.46%, volatility ranging from 182.9% to 204.4% and weighted average remaining lives of .24 years to .36 years, and the post-modification terms and related assumptions of risk free rates ranging from 2.23% to 2.49%, volatility ranging from 198.3% to 259.4% and weighted average remaining lives of .48 years to 2.89 years, the changes in the fair value of the warrant instruments as a result of the modifications were estimated.

During the three and nine months ended September 30, 2018, the Company extended the exercise period of outstanding warrants twice, once to March 21, 2019 and the second time to June 21, 2019 and recorded an additional discount on the debenture issued in connection with the warrants of approximately \$8.3 million and \$0.3 million as a result of the extensions. The Company amortized approximately \$6.4 million of the discount as non-cash interest expense in the nine months ended September 30, 2018. This amount was included in the cash flow statement for the nine months ended September 30, 2018 in amortization of debt discount. The Company used the Black Scholes model to calculate the fair value of the warrants as of the modification dates. Using the pre-modification term and related assumptions of risk free rates ranging from 1.91-2.32%, volatility ranging from 184.0-296.3% and weighted average remaining life of .33 years, and the post-modification term and related assumptions of risk free rates ranging from 2.09-2.56%, volatility ranging from 208.2-249.1% and weighted average remaining life of .65 years, the change in the fair value of the warrant instruments as a result of the modifications was estimated on each date.

For the three and nine months ended September 30, 2018, the Company realized income of \$109.3 million and \$13.7 million, respectively, on instruments valued using Level 3 valuations. On September 23, 2018, the Company's board of directors approved a reverse split of its common stock, which would provide sufficient authorized and unissued shares to allow for otherwise equity classified instruments to be classified in equity. As of September 23, 2018, the fair value of these instruments was evaluated for reclassification. As a result of the evaluation, the Company reclassified the derivative liability previously reported as a current liability to derivative income.

All inputs for the derivative liabilities are observable and, therefore, there is no sensitivity in the valuation to unobservable inputs.

On October 4, 2019, the Board of Directors authorized the issuance and sale of certain shares of Series K Preferred Stock to Alcimed LLC pursuant to the terms of an Exchange Agreement. The Board considered all options to secure additional financing required to continue operations and determined this authorization to be necessary to secure needed financing in the required time frame. As a result of this authorization, as of the date of filing this report, the Company believes that it has the ability to have sufficient authorized shares of its common stock to cover all potentially dilutive common shares outstanding. The Series K Preferred Stock is more fully described in Note 19.

Note 12 – Redeemable Preferred Stock

The Company has 5,000,000 authorized shares of Preferred Stock at a par value of \$0.01. Issuances of the Company's Preferred Stock included as part of stockholders' deficit are discussed in Note 13. The following is a summary of the issuances of the Company's Redeemable Preferred Stock.

Series I-1 Convertible Preferred Stock

On October 30, 2017, the Company closed an offering of \$4,960,000 stated value of 4,960 shares of a newly-authorized Series I-1 Convertible Preferred Stock (the “Series I-1 Preferred Stock”). Each share of Series I-1 Preferred Stock has a stated value of \$1,000. The offering was pursuant to the terms of the Securities Purchase Agreement, dated as of October 30, 2017 (the “Purchase Agreement”), between the Company and certain existing institutional investors of the Company. The Company received proceeds of \$4.0 million from the offering. The Purchase Agreement gives the investors the right to participate in up to 50% of any offering of common stock or common stock equivalents by the Company. In the event of any such offering, the investors may also exchange all or some of their Series I-1 Preferred Stock for such new securities on an \$0.80 stated value of Series I-1 Preferred Stock for \$1.00 of new subscription amount basis. Each share of Series I-1 Preferred Stock is convertible into shares of the Company’s common stock at any time at the option of the holder at a conversion price equal to the lesser of (i) \$1.00, subject to adjustment, and (ii) 85% of the lesser of the volume weighted average market price of the common stock on the day prior to conversion or on the day of conversion. The conversion price is subject to “full ratchet” and other customary anti-dilution protections as more fully described in the Certificate of Designation of the Series I-1 Preferred Stock. Upon the occurrence of certain Triggering Events, as defined in the Certificate of Designation of the Series I-1 Preferred Stock, the holder shall, in addition to any other right it may have, have the right, at its option, to require the Company to either redeem the Series I-1 Preferred Stock in cash or in certain circumstances in shares of common stock at the redemption prices set forth in the Certificate of Designation.

Series I-2 Convertible Preferred Stock

On October 30, 2017, the Company entered into Exchange Agreements with the holders of the September Debentures to provide that the holders may, from time to time, exchange their September Debentures for shares of a newly-authorized Series I-2 Preferred Stock. The Exchange Agreements permitted the holders of the September Debentures to exchange specified principal amounts of the September Debentures on various closing dates starting on December 2, 2017 (debentures are more fully discussed in Note 9 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K). At the holder’s option each holder could reduce the principal amount of September Debentures exchanged on any particular closing date, or elect not to exchange any September Debentures at all on a closing date. If a holder chose to exchange less principal amount of September Debentures, or no September Debentures at all, it could carry forward such lesser amount to a future closing date and then exchange more than the originally specified principal amount for that later closing date. For each \$0.80 of principal amount of September Debenture surrendered to the Company at any closing date, the Company will issue the holder a share of Series I-2 Preferred Stock with a stated value of \$1.00. Each share of Series I-2 Preferred Stock is convertible into shares of the Company’s common stock at any time at the option of the holder at a conversion price equal to the lesser of (i) \$1.00, subject to adjustment, and (ii) 85% of the lesser of the volume weighted average market price of the common stock on the day prior to conversion or on the day of conversion. The conversion price is subject to “full ratchet” and other customary anti-dilution protections as more fully described in the Certificate of Designation of the Series I-2 Preferred Stock. From December 2, 2017 through March 1, 2018, any exchange under the Exchange Agreements was at the option of the holder. Subsequent to March 2018, any exchange is at the option of the Company.

The Company’s board of directors has designated up to 21,346 shares of the 5,000,000 authorized shares of preferred stock as the Series I-2 Preferred Stock. Each share of Series I-2 Preferred Stock has a stated value of \$1,000. Upon the occurrence of certain Triggering Events (as defined in the Certificate of Designation of the Series I-2 Preferred Stock), the holder shall, in addition to any other right it may have, have the right, at its option, to require the Company to either redeem the Series I-2 Preferred Stock in cash or in certain circumstances in shares of common stock at the redemption prices set forth in the Certificate of Designation.

On February 9, 2018, the holders exercised their right to exchange a portion of the September Debentures for shares of the Series I-2 Preferred Stock for the first time. On that date, the holders exchanged an aggregate of \$1,384,556 principal amount of September Debentures and the Company issued an aggregate 1,730.7 shares of its Series I-2 Preferred Stock. On July 16, 2018, under the Exchange Agreements with the holders of the September Debentures, the holders exchanged a portion of the September Debentures for shares of the Company’s Series I-2 Preferred Stock. On that date, the holders exchanged an aggregate of \$1,741,580 principal amount of the September Debentures and the Company issued an aggregate of 2,176.975 shares of its Series I-2 Preferred Stock. During the nine months ended September 30, 2018, the Company recorded a loss on these exchanges of convertible debentures into shares of its Series I-2 Preferred Stock in the aggregate amount of \$1.5 million. In 2018, the holder converted 1,286.141 shares of Series I-2 Preferred Stock into 106,335,991 shares of the Company’s common stock and during the nine months ended September 30, 2019, the holder converted 982.101 shares of Series I-2 Preferred Stock into 8,150,754,118 shares of the Company’s common stock.

See Notes 3 and 19 for a discussion of the dilutive effect of the Series I-1 Preferred Stock and the Series I-2 Preferred Stock as of September 30, 2019 and December 26, 2019, respectively.

Note 13 – Stockholders’ Deficit

Authorized Capital

The Company has 10,000,000,000 authorized shares of Common Stock at \$0.0001 par value and 5,000,000 authorized shares of Preferred Stock at a par value of \$0.01.

Preferred Stock

The Company has 5,000,000 shares, par value \$0.01, of preferred stock authorized. As of September 30, 2019, the Company had outstanding shares of preferred stock consisting of shares of its Series I-1 Preferred Stock and shares of Series I-2 Preferred Stock (both of which are more fully discussed in Note 12), 215 shares of its Series G Preferred Stock, 10 shares of its Series H Preferred Stock, 1,750,000 shares of its Series F Convertible Preferred Stock and 250,000 shares of its Series J Convertible Preferred Stock.

The 215 shares of the Series G Preferred Stock have a stated value of \$1,000 per share and are convertible into shares of the Company's common stock at a price equal to 85% of the volume weighted average price of the Company's common stock at the time of conversion. See Note 19 regarding the redemption of these shares.

The Series H Preferred Stock has a stated value of \$1,000 per share and is convertible into shares of the Company's common stock at a conversion price of 85% of the volume weighted average price of the Company's common stock at the time of conversion.

In September 2017, the Company issued 1,750,000 shares of its Series F Preferred Stock valued at \$174,097 in connection with the acquisition of Genomas Inc. Genomas Inc. is included in the Company's discontinued operations, which are discussed in Note 17. Each share of the Series F Preferred Stock is convertible into shares of our common stock (subject to adjustment as provided in the related certificate of designation) at any time after the first anniversary of the issuance date at the option of the holder at a conversion price equal to the greater of \$14,625 or the average closing price of the Company's common stock for the 10 trading days immediately preceding the conversion. The maximum number of shares of common stock issuable upon the conversion of the Series F Preferred Stock is 120. Any shares of Series F Preferred Stock outstanding on the fifth anniversary of the issuance date will be mandatorily converted into common stock at the applicable conversion price on such date. At any time, from time to time after the first anniversary of the issuance date, the Company has the right to redeem all or any portion of the outstanding Series F Preferred Stock at a price per share equal to \$1.95 plus any accrued but unpaid dividends. The Series F Preferred Stock has voting rights. Each share of Series F Preferred Stock has one vote, and the holders of the Series F Preferred Stock shall vote together with the holders of the Company's common stock as a single class.

On July 20, 2018, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware to authorize the issuance of up to 250,000 shares of its Series J Convertible Preferred Stock (the "Series J Preferred Stock"). On July 23, 2018, the Company entered into an Exchange Agreement (the "Agreement") with Alcimed, of which Seamus Lagan, our Chief Executive Officer, is the sole manager. Pursuant to the Agreement, the Company issued to Alcimed 250,000 shares of the Series J Preferred Stock in exchange for the cancellation of the outstanding principal and interest owed by the Company to Alcimed under the Note, dated February 5, 2015, and the cancellation of certain amounts owed by the Company to Alcimed under a consulting agreement between the parties. The total amount of consideration paid by Alcimed to the Company equaled \$250,000. Each share of the Series J Preferred Stock has a stated value of \$1.00. The conversion price is equal to the average closing price of the Company's common stock on the 10 trading days immediately prior to the conversion date. Each holder of the Series J Preferred Stock is entitled to vote on all matters submitted to a vote of the holders of the Company's common stock. From and after October 1, 2018, each share of the Series J Preferred Stock is entitled to the whole number of votes equal to the number of common shares into which it is then convertible. The full terms of the Series J Preferred Stock are listed in the Certificate of Designations filed as Exhibit 3.16 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2018. The Series J Preferred Stock is entitled to 8% per annum cumulative dividends at the discretion of the Company's board of directors. No dividends have been declared by the board as of September 30, 2019.

On October 4, 2019, the Board of Directors authorized the issuance and sale of certain shares of Series K Preferred Stock to Alcimed LLC pursuant to the terms of an Exchange Agreement, as more fully described in Note 19.

Common Stock

The Company has authorized 10,000,000,000 shares of Common Stock, par value \$0.0001 per share.

The Company had 8,398,936,775 and 128,567,273 shares of common stock issued and outstanding at September 30, 2019 and December 31, 2018, respectively. During the nine months ended September 30, 2019, the Company:

- Issued 119,615,384 shares of common stock upon exercise of 755,000,000 warrants, on a cashless basis; and
- Issued 8,150,754,118 shares of common stock upon the conversion of 982.101 shares of its Series I-2 Preferred Stock;

Restricted Stock

On August 14, 2017, the Board of Directors, based on the recommendation of the Compensation Committee of the Board and in accordance with the provisions of the 2007 Equity Plan, approved grants to employees and directors of the Company of an aggregate of 364 shares of restricted common stock of the Company. The grants fully vested on the first anniversary of the date of grant, subject to the grantee's continued status as an employee or director on the vesting date. During the nine months ended September 30, 2019, 123 shares of the restricted stock were forfeited by their terms and returned to treasury.

During the nine months ended September 30, 2018, the Company issued an aggregate of 142,667 shares of restricted stock to employees and directors, based upon the recommendation of the Compensation Committee of the Board of Directors. The grants fully vested immediately. During the nine months ended September 30, 2018, the Company recognized stock-based compensation in the amount of \$477,933 for the grant of such restricted stock based on a valuation of \$3.35 per share. The value of the common stock issued was based on the fair value of the stock at the time of issuance.

Common Stock and Common Stock Equivalents

The Company has outstanding options, warrants, convertible preferred stock and convertible debentures. Exercise of the options and warrants, and conversions of the convertible preferred stock and debentures could result in substantial dilution of our common stock and a decline in its market price. In addition, the terms of certain of the warrants, convertible preferred stock and convertible debentures issued by us provide for reductions in the per share exercise prices of the warrants and the per share conversion prices of the debentures and preferred stock (if applicable and subject to a floor in certain cases), in the event that we issue common stock or common stock equivalents (as that term is defined in the agreements) at an effective exercise/conversion price that is less than the then exercise/conversion prices of the outstanding warrants, preferred stock or debentures, as the case may be. These provisions, as well as the issuances of debentures and preferred stock with conversion prices that vary based upon the price of our common stock on the date of conversion, have resulted in significant dilution of our common stock and have given rise to reverse splits of our common stock.

On October 4, 2019, the Board of Directors authorized the issuance and sale of certain shares of Series K Preferred Stock to Alcimed LLC pursuant to the terms of an Exchange Agreement. The Series K Preferred Stock is more fully described in Note 19. The Board considered all options to secure additional financing required to continue operations and determined this authorization to be necessary to secure needed financing in the required time frame. As a result of this authorization, as of the date of filing this report, the Company believes that it has the ability to have sufficient authorized shares of its common stock to cover all potentially dilutive common shares. These potentially dilutive shares are presented in Note 19.

The Company maintained and sponsored the Tegal Corporation 2007 Incentive Award Plan (the "2007 Equity Plan"). Tegal Corporation is the prior name of the Company. The 2007 Equity Plan, as amended, provided for the issuance of stock options and other equity awards to the Company's officers, directors, employees and consultants. The 2007 Equity Plan terminated pursuant to its terms in September 2017. The following table summarizes the stock option activity for the nine months ended September 30, 2019:

Stock Options

	<u>Number of options</u>	<u>Weighted-average exercise price</u>	<u>Weighted-average contractual term</u>
Outstanding at December 31, 2018	77	\$ 1,036,375	7.33
Granted	-		
Expired	-		
Forfeit	-		
Outstanding at September 30, 2019	<u>77</u>	\$ 1,036,375	6.50
Exercisable at September 30, 2019	<u>68</u>	\$ 1,152,616	

The Company recognized stock option expense of approximately \$25,950 and \$72,590 for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, the weighted average remaining contractual life was 6.50 years for options outstanding and exercisable. The intrinsic value of options exercisable at September 30, 2019 was \$0. As of September 30, 2019, the remaining compensation expense of approximately \$8,650 will be amortized over the remaining vesting period, which is approximately three months.

Warrants

The Company, as part of various debt and equity financing transactions, has issued warrants to purchase shares of the Company's common stock.

During the nine months ended September 30, 2019, the number of shares issuable pursuant to outstanding warrants increased by 582.2 billion as a result of the anti-dilution provisions of outstanding warrants that were issued in connection with the issuances of debentures as more fully discussed in Note 9 to the Company's consolidated financial statements included in its Annual Report on Form 10-K. The number of shares issued and issuable as well as the exercise prices of the warrants reflected in the table below have been adjusted to reflect the full ratchet and other dilutive and down round provisions pursuant to the warrant agreements. As a result of the current exercise prices for the majority of the outstanding warrants (subject to a floor in some cases), as well as the full ratchet provisions of the majority of the outstanding warrants (again, subject to a floor in some cases), subsequent decreases in the price of the Company's common stock and subsequent issuances of the Company's common stock or common stock equivalents at prices below the current exercise prices of the warrants will result in increases in the number of shares issuable pursuant to the warrants and decreases in the exercise prices.

The following summarizes the information related to warrants issued and the activity during the nine months ended September 30, 2019:

	Number of shares issuable pursuant to warrants	Weighted average exercise price
Balance at December 31, 2018	53,130,510,439	\$ 0.00172
Increase during the period as a result of down round provisions	582,209,844,938	
Shares issued pursuant to Warrants exercised during the period	<u>(755,000,000)</u>	\$ 0.00034
Balance at September 30, 2019	<u>634,585,355,377</u>	\$ 0.00014

On March 27, 2019, the expiration dates of certain warrants issued in March 2017 and September 2017 with convertible debentures, referred to as the March 2017 Series B Warrants and the September 2017 Series B Warrants, were extended from June 2019 to September 2019. On May 12, 2019, the expiration date of these warrants was further extended to March 31, 2022. The Company used the Black Scholes model to calculate the fair value of the warrants as of the modification date. Using the pre-modification terms and related assumptions, and the post-modification terms and related assumptions, the Company determined that the change in fair value of the warrants as a result of the March 27th modification was \$4.1 million and the May 12th modification was \$5.4 million. Accordingly, the Company recorded the modification value of \$5.4 and \$9.5 million as interest expense in the three and nine months ended September 30, 2019, respectively. See Note 11 for the assumptions used in the Black Scholes valuation models.

During the three and nine months ended September 30, 2018, the Company extended the exercise period of outstanding warrants twice, once to March 21, 2019 and the second time to June 21, 2019 and recorded an additional discount on the debenture issued in connection with the warrants of approximately \$8.3 million and \$0.3 million as a result of the extensions. The Company amortized approximately \$6.4 million of the discount as non-cash interest expense in the nine months ended September 30, 2018. This amount was included in the cash flow statement for the nine months ended September 30, 2018 in amortization of debt discount. See Note 11 for the assumptions used in the Black Scholes valuation models.

See Note 19 for a discussion of the dilutive effect of the outstanding warrants as of December 26, 2019.

Note 14 – Supplemental Disclosure of Cash Flow Information

	Nine Months Ended September 30,	
	2019	2018
Cash paid for interest	\$ -	\$ 303,208
Cash paid for income taxes	45,000	20,000
Acquisitions of Hospitals and Medical Center:		
Cash	\$ -	\$ 375
Inventory	317,427	450,682
Prepaid expenses and other current assets	-	310,385
Property and equipment	500,000	7,129,484
Intangible assets	250,000	504,806
Accrued expenses	158,890	193,966
Non-cash investing and financing activities:		
Exchange of Series I-2 Preferred Stock for common stock	\$ 1,143,974	\$ 633,101
Cashless exercise of warrants	11,961	4,619,150
Debentures converted into common stock	-	8,085,342
Common stock issued in cashless exercise of warrants	11,961	-
Exchange of debentures into Series I-2 Preferred Stock	-	1,420
Conversions of Series H Preferred Stock into common stock	-	50,000
Original issue discount of debentures and notes payable	400,000	1,920,000
Deemed dividend for trigger of down round provision features	123,861,587	17,942,578
Issuance of Series J Preferred Stock in settlement of note payable to related party	-	250,000

Note 15 – Commitments and Contingencies**Concentration of Credit Risk**

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients comprising the client base. The Company does have significant receivable balances with government payers and various insurance carriers. Generally, the Company does not require collateral or other security to support customer receivables. However, the Company continually monitors and evaluates its client acceptance and collection procedures to minimize potential credit risks associated with its accounts receivable and establishes an allowance for uncollectible accounts and as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is not material to the financial statements.

A number of proposals for legislation continue to be under discussion which could substantially reduce Medicare and Medicaid (CMS) reimbursements to hospitals and clinical laboratories. Depending upon the nature of regulatory action, and the content of legislation, the Company could experience a significant decrease in revenues from Medicare and Medicaid (CMS), which could have a material adverse effect on the Company. The Company is unable to predict, however, the extent to which such actions will be taken.

The Company maintains its cash balances in high credit quality financial institutions. The Company's cash balances may, at times, exceed the deposit insurance limits provided by the Federal Deposit Insurance Corporation.

Legal Matters

From time-to-time, the Company may be involved in a variety of claims, lawsuits, investigations and proceedings related to contractual disputes, employment matters, regulatory and compliance matters, intellectual property rights and other litigation arising in the ordinary course of business. The Company operates in a highly regulated industry which may inherently lend itself to legal matters. Management is aware that litigation has associated costs and that results of adverse litigation verdicts could have a material effect on the Company's financial position or results of operations. The Company's policy is to expense legal fees and expenses incurred in connection with the legal proceedings in the period in which the expense is incurred. Management, in consultation with legal counsel, has addressed known assertions and predicted unasserted claims below.

Biohealth Medical Laboratory, Inc. and PB Laboratories, LLC (the "Companies") filed suit against CIGNA Health in 2015 alleging that CIGNA failed to pay claims for laboratory services the Companies provided to patients pursuant to CIGNA - issued and CIGNA - administered plans. In 2016, the U.S. District Court dismissed part of the Companies' claims for lack of standing. The Companies appealed that decision to the Eleventh Circuit Court of Appeals, which in late 2017 reversed the District Court's decision and found that the Companies have standing to raise claims arising out of traditional insurance plans as well as self-funded plans. In July 2019, the Companies and EPIC Reference Labs, Inc. filed suit against Cigna Health for failure to pay claims for laboratory services provided. Cigna Health, in turn, sued for improper billing practices. Both cases are in the early stages.

The Company's Epinex Diagnostics Laboratories, Inc. subsidiary was sued in a California state court by two former employees who alleged that they were wrongfully terminated, as well as for a variety of unpaid wage claims. The parties entered into a settlement agreement of this matter on July 29, 2016 for approximately \$0.2 million, and the settlement was consummated on August 25, 2016. In October of 2016, the plaintiffs in this matter filed a motion with the court seeking payment for attorneys' fees in the approximate amount of \$0.7 million. On March 24, 2017, the court granted plaintiffs' motion for payment of attorneys' fees in the amount of \$0.3 million, and the Company accrued this amount in its consolidated financial statements. Additionally, the Company is seeking indemnification for these amounts from Epinex Diagnostics, Inc., the seller of Epinex Diagnostic Laboratories, Inc., pursuant to a Stock Purchase Agreement entered into by and among the parties.

In February 2016, the Company received notice that the Internal Revenue Service (the "IRS") placed a lien against Medytox Solutions, Inc. and its subsidiaries relating to unpaid 2014 taxes due, plus penalties and interest, in the amount of \$5.0 million. The Company paid \$0.1 million toward its 2014 tax liability in March 2016. The Company filed its 2015 Federal tax return on March 15, 2016 and the accompanying election to carryback the reported net operating losses was filed in April 2016. On August 24, 2016, the lien was released, and in September of 2016 the Company received a refund from the IRS in the amount of \$1.9 million. In November of 2016, the IRS commenced an audit of the Company's 2015 Federal tax return. Based upon the audit results, the Company has made provisions of approximately \$1.0 million as a liability in its financial statements as well as an estimated \$0.6 million of receivables for an additional refund that it believes is due.

On September 27, 2016, a tax warrant was issued against the Company by the Florida Department of Revenue (the "DOR") for unpaid 2014 state income taxes in the approximate amount of \$0.9 million, including penalties and interest. The Company entered into a Stipulation Agreement with the DOR allowing the Company to make monthly installments until July 2019. The Company has made payments to reduce the amount owed to approximately \$0.4 million as of September 30, 2019. The Company intends to renegotiate another Stipulation agreement. However, there can be no assurance the Company will be successful. The remaining balance accrued of approximately \$0.4 million remained outstanding to the DOR at September 30, 2019.

In December of 2016, TCS-Florida, L.P. ("Tetra"), filed suit against the Company for failure to make the required payments under an equipment leasing contract that the Company had with Tetra (see Note 10). On January 3, 2017, Tetra received a Default Judgment against the Company in the amount of \$2.6 million, representing the balance owed on the leases, as well as additional interest, penalties and fees. In January and February of 2017, the Company made payments to Tetra relating to this judgment aggregating \$0.7 million, and on February 15, 2017, the Company entered into a forbearance agreement with Tetra whereby the remaining \$1.9 million due would be paid in 24 equal monthly installments. The Company has not maintained the payment schedule to Tetra. As a result of this default, in May 2018, Tetra and the Company agreed to dispose of certain equipment and the proceeds from the sale have been applied to the outstanding balance. The balance owed to Tetra at September 30, 2019 was \$0.3 million and the Company remains in default.

In December of 2016, DeLage Landen Financial Services, Inc. ("DeLage"), filed suit against the Company for failure to make the required payments under an equipment leasing contract that the Company had with DeLage (see Note 10). On January 24, 2017, DeLage received a default judgment against the Company in the approximate amount of \$1.0 million, representing the balance owed on the lease, as well as additional interest, penalties and fees. The Company recognized this amount in its consolidated financial statements as of December 31, 2016. On February 8, 2017, a Stay of Execution was filed and under its terms the balance due was to be paid in variable monthly installments through January of 2019, with an implicit interest rate of 4.97%. The Company and DeLage have now disposed of certain equipment and reduced the balance owed to DeLage. A balance of \$0.2 million remained outstanding at September 30, 2019.

On December 7, 2016, the holders of the Tegal Notes (see Note 7) filed suit against the Company seeking payment for the amounts due under the notes in the aggregate of their principal of \$341,612, and accrued interest of \$43,000. A request for entry of default judgment was filed on January 24, 2017. On April 23, 2018, the holders of the Tegal Notes received a judgment against the Company. To date, the Company has repaid \$5,513 of this amount.

In November 2017, a former shareholder of Genomas, Inc., Phenomas, LLC, filed suit against the Company for payment of a \$200,000 note payable by the Company's subsidiary, Genomas. This note is recorded in the financial statements of the subsidiary and is not payable directly from the Company. The Company has made payments totaling \$120,000 against this note and agreed to a payment schedule in order to dismiss the legal action. On November 12, 2018, Phenomas, LLC filed a motion to voluntarily dismiss the suit without prejudice.

The counterparty to the prepaid forward purchase agreement entered into by the Company on March 31, 2016, as amended, filed an arbitration proceeding under the agreement with regard to the outstanding balance. During the nine months ended September 30, 2019, Mr. Diamantis advanced the Company \$9.9 million, which was used to repay all obligations under the prepaid forward purchase agreement, as more fully discussed in Note 7.

Two former employees of the Company's CollabRx, Inc. subsidiary have filed suits in a California state court in connection with amounts claimed to be owed under their respective employment agreements with the subsidiary. One former employee received a judgment in October 2018 for approximately \$253,000. The other former employee's claim is for approximately \$110,000. The Company is considering its options to refute these matters and believes the claims against the Company to be frivolous and outside of entitlement and contractual agreements.

The Company, as well as many of our subsidiaries, are defendants in a case filed in Broward County Circuit Court by TCA Global Credit Master Fund, L.P. The plaintiff alleges a breach by Medytox Solutions, Inc. of its obligations under a debenture and claims damages of approximately \$2,030,000 plus interest, costs and fees. The Company and the other subsidiaries are sued as alleged guarantors of the debenture. The complaint was filed on August 1, 2018. The Company has recorded the principal balance and interest owed under the debenture agreement for the period ended September 30, 2019. The Company and all defendants have filed a motion to dismiss the complaint, but have not recorded any potential liability related to any further damages.

On September 13, 2018, Laboratory Corporation of America sued EPIC Reference Labs, Inc., a subsidiary of the Company, in Palm Beach County Circuit Court for amounts claimed to be owed of approximately \$148,000. The Company has recorded the amount owed in accrued expenses at September 30, 2019. The court awarded a judgment against EPIC Reference Labs, Inc. in May 2019 for approximately \$155,000.

In July 2019, Roche Diagnostics Corporation sued EPIC Reference Labs, Inc. in the Circuit Court for Palm Beach County claiming approximately \$240,000 under an agreement to purchase laboratory supplies. This suit is in the early stages.

In August 2019, EPIC Reference Labs, Inc. and Medytox Diagnostics, Inc. were sued by Beckman Coulter, Inc. in the same court under an agreement to purchase laboratory supplies. The plaintiff claims damages of approximately \$106,000. This case is in the early stages.

In July 2019, the landlord of Medytox Solutions, Inc. received a judgment in the amount of approximately \$413,000 in connection with failure to pay under an office lease in West Palm Beach, Florida.

In February 2018, Techlogix, Inc. received a judgment of approximately \$72,000 against the Company and HTS in the Superior Court of Middlesex County Massachusetts.

Following the Company's decision to suspend operations at Jamestown Regional Medical Center in June 2019 a number of vendors remain unpaid. A number have initiated or threatened legal actions. The Company believes it will come to satisfactory arrangements with these parties as it works towards reopening the hospital. On June 10, 2019, the Company hired a new CEO to oversee the reopening of the hospital and took steps to re-enter the Medicare program. The hospital received initial approval of its application to reactivate the Medicare agreement in August and is currently planning the reopening of the hospital. Negotiations with vendors are ongoing.

Note 16– Segment Reporting

Operating segments are defined under U.S. GAAP as components of an enterprise for which discrete financial information is available and are evaluated regularly by the enterprise’s chief operating decision maker in determining how to allocate resources and assess performance. The Company operates in two reportable business segments:

- **Hospital Operations**, which reflects the operations of Jamestown Regional Medical Center, Big South Fork Medical Center and Jellico Community Hospital and CarePlus Center.
- **Clinical Laboratory Operations**, which specializes in providing urine and blood toxicology and pain medication testing to physicians, clinics and rehabilitation facilities in the United States.

The Company’s Corporate expenses reflect consolidated company-wide support services such as finance, legal counsel, human resources, and payroll.

The Company’s Decision Support and Informatics segment and its Supportive Software Solutions segment are now included in discontinued operations as they have been classified as held for sale as of September 30, 2019. The accounting policies of the reportable segments are the same as those described in Note 1.

Selected financial information for the Company’s operating segments is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenues - External				
Hospital Operations	\$ 3,920,608	\$ 5,021,543	\$ 13,081,647	\$ 9,755,099
Clinical Laboratory Operations	(34,631)	17,569	56,169	177,890
	<u>\$ 3,885,977</u>	<u>\$ 5,039,112</u>	<u>\$ 13,137,816</u>	<u>\$ 9,932,989</u>
(Loss) income from continuing operations before income taxes:				
Hospital Operations	\$ (1,769,400)	\$ (1,294,581)	\$ (8,946,720)	\$ (3,998,943)
Clinical Laboratory Operations	(295,908)	(547,041)	(701,466)	(1,765,395)
Corporate	(640,044)	(973,953)	(2,626,953)	(3,156,646)
Other income (expense), net	(9,422,340)	100,171,656	(26,064,924)	4,955,262
	<u>\$ (12,127,692)</u>	<u>\$ 97,356,081</u>	<u>\$ (38,340,063)</u>	<u>\$ (3,965,722)</u>
Depreciation and amortization				
Hospital Operations	182,832	\$ 39,669	\$ 532,979	\$ 177,386
Clinical Laboratory Operations	10,036	112,908	69,381	625,877
Corporate	7,128	248	7,458	811
	<u>\$ 199,996</u>	<u>\$ 152,825</u>	<u>\$ 609,818</u>	<u>\$ 804,074</u>
Capital expenditures				
Hospital Operations	\$ 7,086	\$ 103,387	\$ 50,801	\$ 103,387
Clinical Laboratory Operations	-	-	-	-
	<u>\$ 7,086</u>	<u>\$ 103,387</u>	<u>\$ 50,801</u>	<u>\$ 103,387</u>

	As of	
	September 30, 2019	December 31, 2018
Total assets		
Hospital Operations	\$ 16,831,443	\$ 13,568,933
Clinical Laboratory Operations	356,854	271,426
Corporate	1,821,952	2,707,416
Assets of AMSG and HTS classified as held for sale	373,121	152,171
Eliminations	(2,809,305)	(2,500,646)
	<u>\$ 16,574,065</u>	<u>\$ 14,199,300</u>

Note 17 – Discontinued Operations

On July 12, 2017, the Company announced plans to spin off AMGS and in the third quarter of 2017, the Company's Board of Directors voted unanimously to spin off HTS as independent publicly traded companies by way of tax-free distributions to the Company's stockholders. While the spin offs have taken longer than anticipated, completion of these spin offs is now expected to occur in the first quarter of 2020. The spin offs are subject to numerous conditions, including effectiveness of Registration Statements on Form 10 to be filed with the Securities and Exchange Commission, and consents, including under various funding agreements previously entered into by the Company. A record date to determine those stockholders entitled to receive shares in the spin offs should be approximately 30 to 60 days prior to the dates of the spin offs. The strategic goal of the spin offs is to create three public companies, each of which can focus on its own strengths and operational plans.

In accordance with ASC 205-20 and having met the criteria for "held for sale", as the Company reached this decision prior to December 31, 2017, the Company has reflected amounts relating to AMGS and HTS as disposal groups classified as held for sale and included as part of discontinued operations. Prior to being classified as "held for sale," AMGS had been the Company's Decision Support and Informatics segment, except for the Company's subsidiary, Alethea Laboratories, Inc., which had been included in the Clinical Laboratory Operations segment and now is part of AMGS, and HTS had been the Company's Supportive Software Solutions segment. Segment disclosures in Note 16 no longer include amounts relating to AMGS and HTS following the reclassification to discontinued operations.

Carrying amounts of major classes of assets and liabilities classified as held for sale and included as part of discontinued operations in the condensed consolidated balance sheets consisted of the following:

AMSG Assets and Liabilities:

	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> (unaudited)
Cash	\$ 220	\$ 4,471
Accounts receivable, net	22,523	6,838
Prepaid expenses and other current assets	-	25,477
Current assets classified as held for sale	<u>\$ 22,743</u>	<u>\$ 36,786</u>
Accounts payable (includes related parties)	\$ 514,415	\$ 532,858
Accrued expenses	493,356	418,932
Income taxes payable	-	-
Current portion of notes payable	268,851	278,836
Current liabilities classified as held for sale	<u>\$ 1,276,622</u>	<u>\$ 1,230,626</u>
Non-current liabilities classified as held for sale	<u>\$ -</u>	<u>\$ -</u>

HTS Assets and Liabilities:

	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> (unaudited)
Cash	\$ 2,298	\$ 2,523
Accounts receivable, net	330,238	90,743
Prepaid expenses and other current assets	6,867	10,300
Current assets classified as held for sale	<u>\$ 339,403</u>	<u>\$ 103,566</u>
Property and equipment, net	\$ 4,946	\$ 5,790
Deposits	6,029	6,029
Non-current assets classified as held for sale	<u>\$ 10,975</u>	<u>\$ 11,819</u>
Accounts payable (includes related parties)	\$ 710,709	\$ 546,969
Accrued expenses	714,128	520,251
Current portion of notes payable	-	-
Current liabilities classified as held for sale	<u>\$ 1,424,837</u>	<u>\$ 1,067,220</u>

Total Discontinued Assets and Liabilities:

	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> (unaudited)
Cash	\$ 2,518	\$ 6,994
Accounts receivable, net	352,761	97,581
Prepaid expenses and other current assets	6,867	35,777
Current assets classified as held for sale	\$ 362,146	\$ 140,352
Property and equipment, net	\$ 4,946	\$ 5,790
Deposits	6,029	6,029
Non-current assets classified as held for sale	\$ 10,975	\$ 11,819
Accounts payable (includes related parties)	\$ 1,225,124	\$ 1,079,827
Accrued expenses	1,207,484	939,183
Current portion of notes payable	268,851	278,836
Current liabilities classified as held for sale	\$ 2,701,459	\$ 2,297,846

Major line items constituting loss from discontinued operations in the condensed consolidated statements of operations for the three months ended September 30, 2019 and 2018 consisted of the following:

AMSG Loss from Discontinued Operations:

	<u>Three Months Ended</u>	
	<u>September 30, 2019</u> (unaudited)	<u>September 30, 2018</u> (unaudited)
Revenue from services	\$ 11,350	\$ 13,249
Cost of services	5,878	15,559
Gross profit (loss)	5,472	(2,310)
Operating expenses	60,424	93,059
Other income (expenses)	2,912	(5,748)
Provision for income taxes	-	-
Loss from discontinued operations	\$ (57,864)	\$ (89,621)

HTS Loss from Discontinued Operations:

	<u>Three Months Ended</u>	
	<u>September 30, 2019</u> (unaudited)	<u>September 30, 2018</u> (unaudited)
Revenue from services	\$ 235,326	\$ 499,317
Cost of services	20,134	30,082
Gross profit	215,192	469,235
Operating expenses	295,404	532,892
Other income	-	6,152
Provision for income taxes	-	-
Loss from discontinued operations	\$ (80,212)	\$ (69,809)

Consolidated Loss from Discontinued Operations:

	Three Months Ended	
	September 30, 2019	September 30, 2018
	(unaudited)	(unaudited)
Revenue from services	\$ 246,676	\$ 512,566
Cost of services	26,012	45,641
Gross profit	220,664	466,925
Operating expenses	355,828	625,951
Other expense	2,912	404
Provision for income taxes	-	-
Loss from discontinued operations	\$ (138,076)	\$ (159,430)

Major line items constituting (loss) income from discontinued operations in the condensed consolidated statements of operations for the nine months ended September 30, 2019 and 2018 consisted of the following:

AMSG (Loss) Income from Discontinued Operations:

	Nine Months Ended	
	September 30, 2019	September 30, 2018
	(unaudited)	(unaudited)
Revenue from services	\$ 59,832	\$ 92,090
Cost of services	29,638	37,773
Gross profit	30,194	54,317
Operating expenses	237,042	363,944
Other (income) expense	31,874	(819,258)
Provision for income taxes	-	-
(Loss) income from discontinued operations	\$ (238,722)	\$ 509,631

HTS Loss from Discontinued Operations:

	Nine Months Ended	
	September 30, 2019	September 30, 2018
	(unaudited)	(unaudited)
Revenue from services	\$ 706,795	\$ 1,291,288
Cost of services	83,628	95,965
Gross profit	623,167	1,195,323
Operating expenses	1,176,381	1,577,046
Other income	-	12,121
Provision for income taxes	-	-
Loss from discontinued operations	\$ (553,214)	\$ (393,844)

Consolidated (Loss) Income from Discontinued Operations:

	Nine Months Ended	
	September 30, 2019 (unaudited)	September 30, 2018 (unaudited)
Revenue from services	\$ 766,627	\$ 1,383,378
Cost of services	113,266	133,738
Gross profit	653,361	1,249,640
Operating expenses	1,413,423	1,940,990
Other (income) expense	31,874	(807,137)
Provision for income taxes	-	-
(Loss) income from discontinued operations	\$ (791,936)	\$ 115,787

Note 18 – Recent Accounting Pronouncements*Accounting Pronouncements Adopted*

In addition to the adoption of pronouncements related to derivative liabilities discussed in Note 1, and ASU 2018-02 *Leases (Topic 842)* discussed in Notes 1 and 10, the Company adopted the following pronouncements:

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This standard provides companies with an option to reclassify stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act (“TCJA”) from accumulated other comprehensive income to retained earnings. Early adoption of this standard is permitted and may be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax rate as a result of TCJA is recognized. This ASU became effective for us for annual and interim periods beginning after December 15, 2018. The adoption of this ASU did not have a material impact on our results of operations, financial position and cash flows.

In February 2018, the FASB issued ASU 2018-03; *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. These technical corrections and improvements are intended to clarify certain aspects of the guidance on recognizing and measuring financial assets and liabilities in ASU 2016-01. This includes equity securities without a readily determinable fair value, forward contracts and purchased options, presentation requirements for certain fair value option liabilities, fair value option liabilities denominated in foreign currency and transition guidance for equity securities without a readily determinable fair value. We were required to adopt these standards starting in the first quarter of fiscal year 2019. The implementation did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05; *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)*, which amended ASC 740 to incorporate the requirements of Staff Accounting Bulletin (“SAB”) 118. Issued in December 2017 by the SEC, SAB 118 addresses the application of U.S. GAAP in situations in which a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA which was signed into law on December 22, 2017. The adoption did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 to expand the scope of *ASC Topic 718, Compensation - Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The adoption did not have a material impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This standard will require entities to disclose the amount of total gains or losses for the period recognized in other comprehensive income that is attributable to fair value changes in assets and liabilities held as of the balance sheet date and categorized within Level 3 of the fair value hierarchy. This ASU will be effective for us for annual and interim periods beginning after December 31, 2020. Early adoption of this standard is permitted. We have not yet determined the impact of the adoption of this ASU on our results of operations, financial position and cash flows.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. Under this standard customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The adoption of this new guidance prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and additional quantitative and qualitative disclosures. This ASU will be effective for us for annual and interim periods beginning after December 30, 2020. Early adoption of this standard is permitted and may be applied either prospectively to eligible costs incurred on or after the date of the new guidance or retrospectively. We have not yet determined the impact of the adoption of this ASU on our results of operations, financial position and cash flows.

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

Note 19 – Subsequent Events

Loans From Mr. Diamantis

Subsequent to September 30, 2019 and through November 30, 2019, Mr. Diamantis advanced the Company \$0.7 million for working capital purposes. The Company incurred interest of \$65,000 on the advance.

Issuance of Common Stock

Subsequent to September 30, 2019 and through December 26, 2019, the Company issued an aggregate of 1,250,000,000 shares of common stock for conversions of preferred stock. The following table presents the dilutive effect of our various potential common shares as of December 26, 2019.

	December 26, 2019
Common shares outstanding	9,648,936,775
Dilutive potential shares:	
Stock options	77
Warrants	634,525,355,377
Convertible debt	30,634,784,339
Convertible preferred stock	79,122,373,825
Total dilutive potential common shares, including outstanding common stock	753,931,450,393

On October 4, 2019, the Board of Directors authorized the issuance and sale of certain shares of Series K Preferred Stock to Alcimed LLC pursuant to the terms of an Exchange Agreement. The Board considered all options to secure additional financing required to continue operations and determined this authorization to be necessary to secure needed financing in the required time frame. As a result of this authorization, as of the date of filing this report, the Company believes that it has the ability to have sufficient authorized shares of its common stock to cover all potentially dilutive common shares outstanding. Following is a summary of certain terms of the Series K Preferred Stock:

General. The Company's Board of Directors has designated 250,000 shares of the 5,000,000 authorized shares of preferred stock as the Series K Preferred Stock. Each share of the Series K Preferred Stock has a stated value of \$1.00.

Voting Rights. Each holder of the Series K Preferred Stock shall be entitled to vote on all matters submitted to a vote of the holders of the Company's common stock. With respect to a vote of stockholders to approve either or both a reverse stock split of the Company's common stock (and any reduction in the authorized shares) and an increase in the authorized shares of common stock from 10 billion shares to up to 12.5 billion shares, no later than December 31, 2019 only, each share of the Series K Preferred Stock shall be entitled to the whole number of votes equal to 40,000 shares of common stock. With respect to all other matters, and from and after December 31, 2019, each share of the Series K Preferred Stock shall be entitled to the whole number of votes equal to the number of shares of common stock into which it is then convertible. The Series K Preferred Stock shall vote with the common stock as if they were a single class of securities.

Dividends. Holders of the Series K Preferred Stock shall be entitled to receive dividends on shares of the Series K Preferred Stock equal (on an as-converted to common stock basis) to and in the same form as dividends actually paid on shares of common stock when, as and if dividends are paid on shares of common stock.

Rank. The Series K Preferred Stock ranks with respect to dividends or a liquidation, (i) on parity with the common stock, the Company's Series G Convertible Preferred Stock and the Company's Series H Convertible Preferred Stock, (ii) senior to the Company's Series F Convertible Preferred Stock, and (iii) junior to the Company's Series I-1 Convertible Preferred Stock and the Company's Series 1-2 Convertible Preferred Stock.

Conversion. Each share of the Series K Preferred Stock is convertible into shares of the Company's common stock at any time at the option of the holder, into that number of shares of common stock determined by dividing the stated value of such share of Preferred Stock plus any accrued and unpaid dividends thereon, by the conversion price. The conversion price is equal to the average closing price of the common stock on the 10 trading days immediately prior to the conversion date.

Liquidation Preference. Upon any liquidation, dissolution or winding up of the Company, the holders of the Series K Preferred Stock shall be entitled to receive an amount equal to the stated value of the Series K Preferred Stock, plus any accrued and unpaid dividends thereon and any other fees or liquidated damages then due and owing thereon for each share of the Series K Preferred Stock before any distribution or payment shall be made on any junior securities.

Redemption. At any time the Company shall have the right to redeem all, or any part, of the Series K Preferred Stock then outstanding. The Series K Preferred Stock subject to redemption shall be redeemed by the Company in cash in an amount equal to the stated value of the shares of the Series K Preferred Stock being redeemed plus all accrued and unpaid dividends.

Exchange of Series J Preferred Stock for Series K Preferred Stock

On December 23, 2019, the Company entered into an Exchange Agreement (the "Agreement") with Alcimed. Pursuant to the Agreement, the Company issued to Alcimed 250,000 shares of its Series K Preferred Stock in exchange for the 250,000 shares of the Company's Series J Preferred Stock. The holder of the Series J Preferred Stock was entitled to receive, when and as declared by the Board of Directors of the Company, but only out of funds that were legally available therefore, cumulative cash dividends at the rate of 8% of the stated value per annum on each share of Series J Preferred Stock. The Series J Preferred Stock had been issued to Alcimed on July 23, 2018 and upon the issuance of the Series K Preferred Stock to Alcimed, the shares of Series J Preferred Stock were cancelled. Under the Agreement, Alcimed relinquished all rights to any cumulative dividends on the Series J Preferred Stock. The terms of the Series K Preferred Stock do not provide for cumulative dividends.

Redemption of Series G Preferred Stock

On December 9, 2019, the Company redeemed all 215 shares of its Series G Preferred Stock that were outstanding.

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made in this Form 10-Q are “forward-looking statements” (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. The Company’s plans and objectives are based, in part, on assumptions involving its continued business operations. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate and, therefore, there can be no assurance the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

The forward-looking statements included in this Form 10-Q and referred to elsewhere are related to future events or our strategies or future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “believe,” “anticipate,” “future,” “potential,” “estimate,” “expect,” “intend,” “plan,” or the negative of such terms or comparable terminology. All forward-looking statements included in this Form 10-Q are based on information available to us as of the filing date of this report, and the Company assumes no obligation to update any such forward-looking statements, except as required by law. Our actual results could differ materially from the forward-looking statements.

Important factors that might cause our actual results to differ materially from the results contemplated by the forward-looking statements are contained in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “2018 Form 10-K”) and in our subsequent filings with the Securities and Exchange Commission. The following discussion of our results of operations should be read in conjunction with the audited financial statements contained within the 2018 Form 10-K and with our unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this report.

COMPANY OVERVIEW

Our Services

We have operated in two business segments: Hospital Operations and Clinical Laboratory Operations.

Our Hospital Operations net revenues were \$3.9 million and \$13.1 million for the three and nine months ended September 30, 2019, respectively, as compared to \$5.0 million and \$9.8 million for the three and nine months ended September 30, 2018, respectively. Our hospital operations began with the opening of our Big South Fork Medical Center on August 8, 2017, following the receipt of the required licenses and regulatory approvals. Our clinical laboratory operations outside of our hospitals are now minimal and the Company is actively discussing the disposal of the laboratory operations outside of the hospital locations. There can be no guarantee that any discussions will lead to a successful sale.

On January 31, 2018, the Company entered into an asset purchase agreement to acquire from Community Health Systems, Inc. certain assets related to an acute care hospital located in Jamestown, Tennessee, referred to as Jamestown Regional Medical Center. The purchase was completed on June 1, 2018. The hospital was acquired by a newly formed subsidiary, Jamestown TN Medical Center, Inc., and is an 85-bed facility of approximately 90,000 square feet on over eight acres of land, which offers, when operating, a 24-hour Emergency Department with two spacious trauma bays and seven private exam rooms, inpatient and outpatient medical services and a Progressive Care Unit providing telemetry services. The Company suspended operations of the hospital in June 2019 but is currently planning the reopening of the hospital. The acquisition also included a separate physician practice which now operates under Rennova as Mountain View Physician Practice, Inc. Jamestown is located 38 miles west of Big South Fork Medical Center.

In addition, on March 5, 2019, we closed an asset purchase agreement (the "Purchase Agreement") whereby we acquired certain assets related to an acute care hospital located in Jellico, Tennessee and an outpatient clinic located in Williamsburg, Kentucky. The hospital is known as Jellico Community Hospital and the clinic is known as the CarePlus Center. The hospital and the clinic and their associated assets were acquired from Jellico Community Hospital, Inc. and CarePlus Rural Health Clinic, LLC, respectively. Jellico Community Hospital is a fully operational 54-bed acute care facility that offers comprehensive services, including diagnostic imaging, radiology, surgery (general, gynecological and vascular), nuclear medicine, wound care and hyperbaric medicine, intensive care, emergency care and physical therapy. Jellico is located 33 miles east of our Big South Fork Medical Center. The CarePlus Center offers sophisticated testing capabilities and compassionate care, all in a modern, patient-friendly environment. Services include diagnostic imaging services, x-ray, mammography, bone densitometry, computed tomography (CT), ultrasound, physical therapy and laboratory services on a walk-in basis. We refer to the Jellico Community Hospital and CarePlus Center collectively as Jellico Community Hospital. The purchase price was approximately \$0.7 million. This purchase price was made available by Mr. Diamantis, a director of the Company. Annual net revenues in recent years have been approximately \$12.0 million, with government payors, including Medicare and Medicaid, accounting for in excess of 70% of the payor mix. The Company does not expect that payor mix to change in the near future.

Going forward, we expect our Hospital Operations to provide us with a stable revenue base, as well as the potential for significant synergistic opportunities with our Clinical Laboratory Operations business segment.

Prior to our focus on our Hospital Operations, our principal line of business had been clinical laboratory blood and urine testing services, with a particular emphasis on the provision of urine drug toxicology testing to physicians, clinics and rehabilitation facilities in the United States. Our Clinical Laboratory Operations net revenues were \$(34,631) and \$56,169 for the three and nine months ended September 30, 2019, respectively as compared to \$17,569 and \$177,890 for the three and nine months ended September 30, 2018. Our clinical laboratory operations outside of our hospitals are now minimal and the Company is actively discussing the disposal of the laboratory operations outside of the hospital locations. There can be no guarantee that any discussions will lead to a successful sale.

Departure of Director

On December 11, 2019, Dr. Kamran Ajami resigned as a director of the Company. In submitting his resignation; Dr. Ajami did not express any disagreement with the Company on any matter relating to the Company's operations, policies or practices. Dr. Ajami had served as a director since April 9, 2017.

Discontinued Operations

On July 12, 2017, the Company announced plans to spin off its Advanced Molecular Services Group ("AMSG") and in the third quarter 2017 the Company's Board of Directors voted unanimously to spin off the Company's wholly-owned subsidiary, Health Technology Solutions, Inc. ("HTS"), as independent publicly traded companies by way of tax-free distributions to the Company's stockholders. While these spin offs have taken longer than anticipated, completion of these spin offs is now expected to occur in the first quarter of 2020. The spin offs are subject to numerous conditions, including effectiveness of Registration Statements on Form 10 to be filed with the Securities and Exchange Commission, and consents, including under various funding agreements previously entered into by the Company. A record date to determine those stockholders entitled to receive shares in the spin offs should be approximately 30 to 60 days prior to the dates of the spin offs. The strategic goal of the spin offs is to create three public companies, each of which can focus on its own strengths and operational plans. In addition, after the spin offs, each company will provide a distinct and targeted investment opportunity. The Company has reflected the amounts relating to AMSG and HTS as disposal groups classified as held for sale and included in discontinued operations in the Company's accompanying unaudited condensed consolidated financial statements.

Outlook

We believe that the addition of our Hospital Operations to our business model offers a more predictable and stable revenue base, as well as the potential for significant synergistic opportunities with our Clinical Laboratory Operations business segment. To date, our focus is on rural hospitals, which provide a much-needed service to their local communities. These hospitals reduce our reliance on commission based sales employees to generate sales. Our hospitals, CarePlus center and a doctor's office practice are in the same general geographic location, which has created numerous efficiencies in purchasing, staffing and provision of needed services to the local communities. We are confident that this is a sustainable model we can continue to grow through acquisition and development and believe that we can benefit from the compliance and IT and software capabilities we already have in place. The Company is focusing on centralizing certain functions like ordering of supplies, revenue cycle management and financial management of the acquired facilities and is planning to share certain services that one facility alone could not sustain. Management believes that these actions when complete will enable the operations to be profitable and cash flow positive.

Our Clinical Laboratory Operations revenues have decreased significantly over the past number of years. This decline in revenues has had a material adverse impact on our liquidity, results of operations and financial condition, and is the result of lower third-party reimbursement and while we secured numerous in-network contracts with payers our status in many cases is as an "out of network" service provider. These trends have impacted our entire industry, and have been accompanied by allegations of irregularities in the practices of a number of our competitors and substance abuse facilities. In response, we have put in place a robust compliance program that we are implementing in all facets of our business.

We believe that our ability to grow our Clinical Laboratory Operations revenues inside our Hospital Operations and return this division to profitability is dependent on our ability to secure additional "in-network" contracts with insurance companies and other third-party payers, which will then ensure adequate and timely payment for the toxicology, clinical pharmacogenetics and other testing services we perform. These third-party payers are now generally unwilling to reimburse service providers who are not part of their network, a departure from prior industry practices and a trend that has accelerated during the past several years. However, we do anticipate that significant new opportunities to become credentialed with certain large third-party payers will arise in 2020 and 2021, which would have a significant positive impact on our future revenues. In addition, we have made a number of changes to our onboarding policies and procedures to ensure that, on a going forward basis, substantially all services that we perform will be reimbursable.

We believe that a successful spin off of AMGS and HTS as two independent publicly traded companies by way of tax-free distributions to the Company's stockholders would allow each to focus on its own strengths and operational plans. In addition, after the spin offs, each company will provide a distinct and targeted investment opportunity. The Company believes it will be able to recognize the expenditures to date with regard to AMGS and HTS, which are in excess of \$20 million, as an investment after the spinoff(s) are complete.

Our net loss from continuing operations for the three months ended September 30, 2019 was \$12.1 million compared to net income of \$97.4 million for the same period of a year ago. The change is primarily due to a gain of \$109.3 million from the change in fair value of derivative instruments in the three months ended September 30, 2018 versus no change in the fair value of derivative instruments during the three months ended September 30, 2019. Also contributing to the change was other expense of \$5.8 million in the three months ended September 30, 2019 compared to other income of \$0.2 million in the comparable 2018 period. Partially offsetting these items was an improvement in the loss from continuing operations before other income (expense) and income taxes, which was \$2.7 million in the three months ended September 30, 2019 compared to \$2.8 million in the three months ended September 30, 2018 and interest expense of \$3.6 million in the three months ended September 30, 2019 compared to \$9.3 million in the three months ended September 30, 2018.

Our net loss from continuing operations for the nine months ended September 30, 2019 was \$38.3 million compared to a net loss of \$4.0 million for the same period of a year ago. The increase in the loss is primarily due to a gain of \$13.7 million from the change in fair value of derivative instruments in the nine months ended September 30, 2018 compared to a loss of \$0.1 million from the change in fair value of derivative instruments during the nine months ended September 30, 2019, other expense of \$7.0 million in the nine months ended September 30, 2019 compared to other income of \$0.6 million in the comparable 2018 period, loss from continuing operations before other income (expense) and income taxes of \$12.3 million in the nine months ended September 30, 2019 compared to \$8.9 million in the nine months ended September 30, 2018 and interest expense of \$19.2 million in the nine months ended September 30, 2019 compared to \$17.1 million in the nine months ended September 30, 2018.

Comparison for the three months ended September 30, 2019 and September 30, 2018

The following table summarizes the results of our consolidated continuing operations for the three months ended September 30, 2019 and 2018 (unaudited):

	Three Months Ended September 30,			
	2019		2018	
		%		%
Net revenues	\$ 3,885,977	100.0%	\$ 5,039,112	100.0%
Operating expenses:				
Direct costs of revenue	3,227,709	83.1%	3,350,286	66.5%
General and administrative expenses	3,163,624	81.4%	4,351,576	86.4%
Depreciation and amortization	199,996	5.1%	152,825	3.0%
Loss from operations before other income (expense) and income taxes	(2,705,352)	-69.6%	(2,815,575)	-55.9%
Other income (expense), net	(5,874,873)	-151.2%	188,658	3.7%
Change in fair value of derivative instruments	-	0.0%	109,305,331	2169.1%
Interest expense	(3,637,467)	-93.6%	(9,322,333)	-185.0%
Provision for income taxes	-	0.0%	-	0.0%
Net (loss) income from continuing operations	<u>\$ (12,217,692)</u>	<u>-314.4%</u>	<u>\$ 97,356,081</u>	<u>1932.0%</u>

Net Revenues

Consolidated net revenues were \$3.9 million for the three months ended September 30, 2019 as compared to \$5.0 million for the three months ended September 30, 2018. Our Hospital Operations net revenues decreased by \$1.1 million, which reflect a decrease in net revenues from Jamestown Regional Medical Center of \$3.9 million, partially offset by \$1.8 million of net revenues from Jellico Community Hospital and CarePlus Center, which were acquired on March 5, 2019, and an increase in net revenues from Big South Fork Medical Center of \$1.0 million. Operations at Jamestown Regional Medical Center were temporarily suspended beginning in June 2019 pending reinstatement of the hospital's Medicare agreement, which the Company is hoping to get reinstated in the near future. Our Clinical Laboratory Operations net revenue decreased by \$52,200 for the 2019 period compared to the 2018 period. Net revenues for the three months ended September 30, 2019 and 2018, include bad debt expense elimination of \$0.9 million and \$1.8 million, respectively, for doubtful accounts and \$23.3 million and \$22.9 million, respectively, for contractual allowances. In a continued effort to refine our revenue recognition estimates, the Company practices the full retrospective approach, evaluating and analyzing the realizability of gross service revenues monthly, to make certain that we are properly allowing for bad debt and contractual adjustments.

Direct Costs of Revenue

Direct costs of revenue decreased by \$0.1 million compared to the three months ended September 30, 2018 due to a reduction in Clinical Laboratory Operations' direct costs. As a percentage of net revenues, direct costs increased to 83.1% in the three months ended September 30, 2019 as compared to 66.6% in the comparable period. We attribute the increase in the percentage of net revenues primarily to the Company's decision to suspend operations at Jamestown Regional Medical Center, which did not operate during the third quarter of 2019, following the termination of the Medicare program. Despite the suspension, we still incurred certain direct costs of revenue. On June 10, 2019, the Company hired a new CEO to oversee the reopening of the hospital and took steps to re-enter the Medicare program. Contributing to the increase in the direct costs as a percentage of net revenues for the three months ended September 30, 2019 compared to the comparable 2018 period was a decision to reassess our revenue rate at Big South Fork Medical Center to recognize revenue after contractual allowances at 10% based on the Company's historical data compared to using an industry standard rate of 20% in the comparable 2018 period.

General and Administrative Expenses

General and administrative expenses decreased by \$1.2 million, or 27%, in the three months ended September 30, 2019 compared to the same period a year ago. The decrease was primarily due to a \$0.8 million decrease in our Hospital Operations' general and administrative expenses as well as a \$0.2 million decrease in our Clinical Laboratory Operation's general and administrative expenses and a \$0.3 million decrease in our Corporate's general and administrative expense. We attribute the decrease in our Hospital Operations general and administrative expenses primarily to the suspension of operations at Jamestown Regional Medical Center during the 2019 period.

Depreciation and Amortization Expenses

Depreciation and amortization expense was \$0.2 million and \$0.2 million for the three months ended September 30, 2019 and 2018, respectively.

Loss from Continuing Operations Before Other Income (Expense) and Income Taxes

Loss from continuing operations before other income (expense) and income taxes decreased by \$0.1 million for the three months ended September 30, 2019 as compared to same period a year ago. The loss from our Clinical Laboratory Operations decreased by approximately \$0.3 million, and the loss from Corporate decreased by approximately \$0.3 million, which were partially offset by an increase in the loss from our Hospital Operations of \$0.5 million. Contributing to the increase in the loss from our Hospital Operations for the three months ended September 30, 2019 compared to the comparable 2018 period was a decision to reassess our revenue rate at Big South Fork Medical Center to recognize revenue after contractual allowances at 10% based on the Company's historical data compared to using an industry standard rate of 20% in the comparable 2018 period.

Other Income (Expense)

Other expense was \$5.8 million for the three months ended September 30, 2019, compared to other income of \$0.2 million for the same period a year ago. The expense in the three months ended September 30, 2019 was due to the loss on sale of receivables under a factoring arrangement of \$0.7 million and penalties for non-payment of debentures at maturity of \$5.1 million.

Change in Fair Value of Derivative Instruments

For the three months ended September 30, 2018, the Company realized income of \$109.3 million for the change in fair value of derivative instruments. On September 23, 2018, the Company's board of directors approved a reverse split of its common stock, which would provide sufficient authorized and unissued shares to allow for otherwise equity classified instruments to be classified in equity. As of September 23, 2018, the fair value of these instruments was evaluated for reclassification. As a result of the evaluation, the Company reclassified the derivative liability previously reported as a current liability to derivative income. We did not incur a change in fair value of derivative instruments in the 2019 period.

Interest Expense

Interest expense for the three months ended September 30, 2019 was \$3.6 million compared to \$9.3 million for the three months ended September 30, 2018. Interest expense for the three months ended September 30, 2019 includes \$1.8 million for interest on loans from a member of our board of directors, \$1.4 million for the amortization of debt discount and deferred financing costs related to debentures and note payable and approximately \$0.4 million of interest expense on debentures, notes payable and finance lease obligations. Interest expense for the three months ended September 30, 2018 included \$9.0 million for the amortization of debt discount and deferred financing costs related to convertible debentures and warrants and \$0.3 million for finance lease obligations.

Net Loss/Income From Continuing Operations

Our net loss from continuing operations for the three months ended September 30, 2019 was \$12.1 million compared to net income of \$97.4 million for the same period of a year ago. The change is primarily due to a gain of \$109.3 million from the change in fair value of derivative instruments in the three months ended September 30, 2018 versus no change in the fair value of derivative instruments during the three months ended September 30, 2019. Also contributing to the change was other expense of \$5.8 million in the three months ended September 30, 2019 compared to other income of \$0.2 million in the comparable 2018 period. Partially offsetting these items was an improvement in the loss from continuing operations before other income (expense) and income taxes, which was \$2.7 million in the three months ended September 30, 2019 compared to \$2.8 million the three months ended September 30, 2018 and interest expense of \$3.6 million in the three months ended September 30, 2019 compared to \$9.3 million in the three months ended September 30, 2018.

The following table presents key financial metrics for our Hospital Operations segment:

	Three Months Ended September 30,		Change	%
	2019	2018		
Hospital Operations				
Net revenues	\$ 3,920,608	\$ 5,021,543	\$ (1,100,935)	-21.9%
Operating expenses:				
Direct costs of revenue	3,226,509	3,156,461	70,048	2.2%
General and administrative expenses	2,280,667	3,119,994	(839,327)	-26.9%
Depreciation and amortization	182,832	39,669	143,163	360.9%
Loss from operations	<u>\$ (1,769,400)</u>	<u>\$ (1,294,581)</u>	<u>\$ (474,819)</u>	-36.7%
Number of Patients Served	9,607	3,044	6,563	
Key Operating Measures - Net revenues per patient served:	\$ 408.10	\$ 1,649.65	N/A	
Key Operating Measures - Direct cost of revenue per patient:	\$ 335.85	\$ 1,036.95	N/A	

In the three months ended September 30, 2019, we reassessed our revenue rate at Big South Fork Medical Center to recognize revenue after contractual allowances at 10% based on the Company's historical data compared to using an industry standard rate of 20% in the compared 2018 period.

The following table presents key financial and operating metrics for our Clinical Laboratory Operations segment:

	Three Months Ended September 30,		Change	%
	2019	2018		
Clinical Laboratory Operations				
Net revenues (1)	\$ (34,631)	\$ 17,569	\$ (52,200)	-297.1%
Operating expenses:				
Direct costs of revenue	1,200	193,825	(192,625)	-99.4%
General and administrative expenses	250,041	257,877	(7,836)	-3.0%
Depreciation and amortization	10,036	112,908	(102,872)	-91.1%
Loss from operations	<u>\$ (295,908)</u>	<u>\$ (547,041)</u>	<u>\$ 251,133</u>	45.9%
Key Operating Measures - Revenues: (1)				
Insured tests performed	-	1,895	(1,895)	-100.0%
Net revenue per insured test	\$ -	\$ 9.27	\$ (9.27)	-100.0%
Revenue recognition percent of gross billings		7.0%	-7.0%	
Key Operating Measures - Direct Costs:				
Total samples processed	-	1,259	(1,259)	-100.0%
Direct costs per sample	\$ -	\$ 153.95	\$ (153.95)	-100.0%

(1) No tests were performed in the three months ended September 30, 2019. The negative net revenue represents bad debt expense recorded in the period.

The following table presents key financial metrics for our Corporate group:

	Three Months Ended September 30,		Change	%
	2019	2018		
Corporate				
Operating expenses:				
General and administrative expenses	\$ 632,916	\$ 973,705	\$ (340,789)	-35.0%
Depreciation and amortization	7,128	248	6,880	2774.2%
Loss from operations	<u>\$ (640,044)</u>	<u>\$ (973,953)</u>	<u>\$ 333,909</u>	<u>34.3%</u>

Comparison for the nine months ended September 30, 2019 and September 30, 2018

The following table summarizes the results of our consolidated continuing operations for the nine months ended September 30, 2019 and 2018 (unaudited):

	Nine Months Ended September 30,			
	2019		2018	
	\$	%	\$	%
Net revenues	\$ 13,137,816	100.0%	\$ 9,932,989	100.0%
Operating expenses:				
Direct costs of revenue	12,072,442	91.9%	7,809,465	78.6%
General and administrative expenses	12,730,695	96.9%	10,240,434	103.1%
Depreciation and amortization	609,818	4.6%	804,074	8.1%
Loss from operations before other income (expense) and income taxes	(12,275,139)	-93.4%	(8,920,984)	-89.8%
Other income (expense)	(6,980,616)	-53.1%	609,719	6.1%
Gain on bargain purchase	250,000	1.9%	7,732,302	77.8%
Change in fair value of derivative instruments	(105,076)	-0.8%	13,688,678	137.8%
Interest expense	(19,229,232)	-146.4%	(17,075,437)	-171.9%
Provision for income taxes	-	0.0%	(76)	0.0%
Net loss from continuing operations	<u>\$ (38,340,063)</u>	<u>-291.8%</u>	<u>\$ (3,965,798)</u>	<u>-39.9%</u>

Net Revenues

Consolidated net revenues were \$13.1 million for the nine months ended September 30, 2019, as compared to \$9.9 million for the nine months ended September 30, 2018, an increase of \$3.2 million. The increase in net revenues was due to net revenue from Jellico Community Hospital and CarePlus Center of \$4.8 million, which were acquired on March 5, 2019. In addition, our Big South Fork Medical Center's net revenue increased by \$0.7 million in the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increases were partially offset by a decrease in net revenues from Jamestown Regional Medical Center of \$2.2 million for the nine months ended September 30, 2019 compared to the 2018 period. Operations at Jamestown Regional Medical Center were temporarily suspended beginning in June 2019 pending reinstatement of the hospital's Medicare agreement, which the Company is hoping to get reinstated in the near future. The increase in Hospital Operations net revenues was offset by an approximately \$0.1 million decrease in Clinical Laboratory Operations net revenues for the 2019 period compared to 2018 period. Net revenues for the nine months ended September 30, 2019 and 2018, include bad debt expense elimination of \$4.8 million and \$3.1 million, respectively, for doubtful accounts and \$81.9 million and \$40.7 million, respectively, for contractual allowances. In a continued effort to refine our revenue recognition estimates, the Company practices the full retrospective approach, evaluating and analyzing the realizability of gross service revenues monthly, to make certain that we are properly allowing for bad debt and contractual adjustments.

Direct Costs of Revenue

Direct costs of revenue increased by \$4.3 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. We attribute the increase to Jellico Community Hospital and CarePlus Center, which were acquired on March 5, 2019. As a percentage of net revenues, direct costs increased to 91.9% in the nine months ended September 30, 2019 as compared to 78.6% in the comparable period. We attribute the increase in the percentage of net revenues primarily to the Company's decision to suspend operations at Jamestown Regional Medical Center, which did not operate during the third quarter of 2019, following the termination of the Medicare program. Despite the suspension, we still incurred certain direct costs of revenue. On June 10, 2019, the Company hired a new CEO to oversee the reopening of the hospital and took steps to re-enter the Medicare program. Also contributing to the increase in the direct costs as a percentage of revenue for the nine months ended September 30, 2019, was our decision to reassess our revenue rate at Big South Fork Medical Center to recognize revenue after contractual allowances at 10% based on the Company's historical data compared to using an industry standard rate of 20% in the compared 2018 period.

General and Administrative Expenses

General and administrative increased by \$2.5 million, or 24.5%, in the nine months ended September 30, 2019 compared to the same period a year ago. The increase was primarily due to a \$3.4 million increase in our Hospital Operations' general and administrative expenses, partially offset by a decrease of \$0.4 million decrease in our Clinical Laboratory Operations and a \$0.5 million decrease in Corporate's general and administrative expense.

Depreciation and Amortization Expenses

Depreciation and amortization expense was \$0.6 million for the nine months ended September 30, 2019 as compared to \$0.8 million for the same period a year ago. The decrease is due to fully depreciating certain fixed assets in 2018. We expect our depreciation and amortization expense to increase going forward as a result of the fixed assets associated with our hospital acquisitions.

Loss from Continuing Operations Before Other Income (Expense) and Income Taxes

Our operating loss increased by \$3.4 million for the nine months ended September 30, 2019 as compared to same period a year ago due to additional losses for our Hospital Operations. The increase in the loss from operations was due to the suspension of operations at Jamestown Regional Medical Center, which did not operate during the third quarter of 2019, following the termination of the Medicare program. Despite the suspension, we still incurred certain direct costs of revenue as well as general and administrative expenses. We also attribute the increase in the loss to the reassessment of our revenue rate at Big South Fork Medical Center to recognize revenue after contractual allowances at 10% based on the Company's historical data compared to using an industry standard rate of 20% in the comparable 2018 period.

Other Income (Expense)

We incurred other loss of \$7.0 million in the nine months ended September 30, 2019 as compared to income of \$0.6 million in same period a year ago. The loss in the nine months ended September 30, 2019 was due to \$5.7 million in penalties for non-payment of debentures on the maturity dates and \$1.2 million of loss on sale under factoring arrangements.

Gain on Bargain Purchase

The gain on bargain purchase of \$0.3 million for the nine months ended September 30, 2019 resulted primarily from intangible assets of Jellico Community Hospital and CarePlus Center, which were acquired on March 5, 2019. The gain on bargain purchase of \$7.7 million for the nine months ended September 30, 2018 resulted primarily from real property of Jamestown Regional Medical Center, which was acquired on June 1, 2018.

Change in Fair Value of Derivative Instruments

For the nine months ended September 30, 2019, the Company realized a loss of \$0.1 million for the change in fair value of derivative instruments, which represented the increase in the fair value of a derivative debenture due to the increase in the spread between the price of our common stock and the conversion price of the derivative in the nine months ended September 30, 2019. For the nine months ended September 30, 2018, the Company realized income of \$13.7 million for the change in fair value of derivative instruments. On September 23, 2018, the Company's board of directors approved a reverse split of its common stock, which would provide sufficient authorized and unissued shares to allow for otherwise equity classified instruments to be classified in equity. As of September 23, 2018, the fair value of these instruments was evaluated for reclassification. As a result of the evaluation, the Company reclassified the derivative liability previously reported as a current liability to derivative income.

Interest Expense

Interest expense for the nine months ended September 30, 2019 was \$19.2 million compared to \$17.1 million for the nine months ended September 30, 2018. Interest expense for the nine months ended September 30, 2019 includes \$2.9 million for interest on loans from a member of our board of directors, \$6.4 million for the amortization of debt discount and deferred financing costs related to debentures and note payable, \$9.5 million for the modification of warrants and approximately \$0.4 million of interest expense on debentures, notes payable and finance lease obligations. Interest expense for the nine months ended September 30, 2018 includes \$16.1 million for the amortization of debt discount, including expense associated with the modification of warrants, and deferred financing costs related to convertible debentures and warrants and \$1.0 million for interest on notes payable and finance lease obligations.

Net Loss From Continuing Operations

Our net loss from continuing operations for the nine months ended September 30, 2019 was \$38.3 million compared to net loss of \$4.0 million for the same period of a year ago. The increase in the loss is primarily due to a gain of \$13.7 million from the change in fair value of derivative instruments in the nine months ended September 30, 2018 compared to a loss of \$0.1 million from the change in fair value of derivative instruments during the nine months ended September 30, 2019, other expense of \$7.0 million in the nine months ended September 30, 2019 compared to other income of \$0.6 million in the comparable 2018 period, loss from continuing operations before other income (expense) and income taxes of \$12.3 million in the nine months ended September 30, 2019 compared to \$8.9 million in the nine months ended September 30, 2018 and interest expense of \$19.2 million in the nine months ended September 30, 2019 compared to \$17.1 million in the nine months ended September 30, 2018.

The following table presents key financial metrics for our Hospital segment:

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	<u>%</u>
	<u>2019</u>	<u>2018</u>		
Hospital Operations				
Net revenues	\$ 13,081,647	\$ 9,755,099	\$ 3,326,548	34.1%
Operating expenses:				
Direct costs of revenue	12,068,460	7,574,619	4,493,841	59.3%
General and administrative expenses	9,426,928	6,002,037	3,424,891	57.1%
Depreciation and amortization	532,979	177,386	355,593	200.5%
Loss from operations	<u>\$ (8,946,720)</u>	<u>\$ (3,998,943)</u>	<u>\$ (4,947,777)</u>	-123.7%
Number of Patients Served	33,299	10,093	N/A	
Key Operating Measures - Revenue per patient served:	\$ 392.85	\$ 966.52	N/A	
Key Operating Measures - Direct costs of revenue per patient served:	\$ 362.43	\$ 750.48	N/A	

In the nine months ended September 30, 2019, we reassessed our revenue rate at Big South Fork Medical Center to recognize revenue after contractual allowances at 10% based on the Company's historical data compared to using an industry standard rate of 20% in the compared 2018 period.

The following table presents key financial and operating metrics for our Clinical Laboratory Operations segment

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	<u>%</u>
	<u>2019</u>	<u>2018</u>		
Clinical Laboratory Operations				
Net revenues	\$ 56,169	\$ 177,890	\$ (121,721)	-68.4%
Operating expenses:				
Direct costs of revenue	3,982	234,846	(230,864)	-98.3%
General and administrative expenses	684,272	1,082,562	(398,290)	-36.8%
Depreciation and amortization	69,381	625,877	(556,496)	-88.9%
Loss from operations	<u>\$ (701,466)</u>	<u>\$ (1,765,395)</u>	<u>\$ 1,063,929</u>	<u>60.3%</u>
Key Operating Measures - Revenues: (1)				
Insured tests performed	78	3,444	(3,366)	-97.7%
Net revenue per insured test	NM	\$ 51.65		
Revenue recognition percent of gross billings		11.0%	-11.0%	
Key Operating Measures - Direct Costs: (1)				
Total samples processed	19	4,499	(4,480)	-99.6%
Direct costs per sample	NM	\$ 52.20		

(1) Net revenue per insured test and direct costs of insured tests are not meaningful for the nine months ended September 30, 2019 due to the impact of the recovery of \$74,000 of bad debt in the nine months ended September 30, 2019, partially offset by additional bad debt expense recorded in the period.

The following table presents key financial metrics for our Corporate group:

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	<u>%</u>
	<u>2019</u>	<u>2018</u>		
Corporate				
Operating expenses:				
General and administrative expenses	\$ 2,619,495	\$ 3,155,835	\$ (536,340)	-17.0%
Depreciation and amortization	7,458	811	6,647	819.6%
Loss from operations	<u>\$ (2,626,953)</u>	<u>\$ (3,156,646)</u>	<u>\$ 529,693</u>	<u>16.8%</u>

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 2019 and the year ended December 31, 2018, we financed our operations primarily from the sale of our equity securities, the issuance of debentures and advances from related parties and in the nine months ended September 30, 2019 from the sale of accounts receivable to factors. Future cash needs for working capital, capital expenditures and potential acquisitions will require management to seek additional equity or obtain additional credit facilities. The sale of additional equity will result in additional dilution to our stockholders. A portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time-to-time, in the ordinary course of business, we evaluate potential acquisitions of such businesses, products or technologies.

Going Concern and Liquidity

Under Accounting Standards Update, or ASU, 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40) (“ASC 205-40”), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required by ASC 205-40, this evaluation shall initially not take into consideration the potential mitigating effects of plans that have not been fully implemented as of the date the financial statements are issued. Management has assessed the Company’s ability to continue as a going concern in accordance with the requirement of ASC 205-40.

As reflected in the accompanying unaudited condensed consolidated financial statements, at September 30, 2019, we had \$0.1 million cash on hand from continuing operations, a working capital deficit of \$69.3 million, an accumulated deficit of \$578.0 million and a stockholders’ deficit of \$67.7 million. In addition, we incurred a loss from continuing operations of \$39.1 million and cash used in operating activities of \$14.4 million for the nine months ended September 30, 2019. As of the date of this report, our cash position is deficient and payments are not being made in the ordinary course. In addition, we have not repaid approximately \$28.7 million of outstanding principal balance of debentures, including default penalties, which are past due. Our fixed operating expenses include payroll, rent, finance lease payments and other fixed expenses, as well as the costs required to operate our Hospital Operations. Our fixed operating expenses were approximately \$2.0 million per month for the nine months ended September 30, 2019.

We need to raise additional funds immediately and continue to do so until we begin to realize positive cash flow from operations. There can be no assurance that we will be able to achieve our business plan, which is to acquire and operate clusters of rural hospitals, raise any additional capital or secure the additional financing necessary to implement our current operating plan. Our ability to continue as a going concern is dependent upon our ability to significantly reduce our operating costs, increase our revenues and eventually achieve profitable operations. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We received approximately \$3.8 million in cash from issuances of debentures and \$1.5 million from the issuance of a note payable during the nine months ended September 30, 2019. In addition, during the nine months ended September 30, 2019, we entered into five accounts receivable factoring arrangements, as more fully discussed in Note 4 to the accompanying condensed consolidated financial statements, and Mr. Diamantis, a member of our board of directors, advanced the Company: (i) \$0.7 million for the purchase of Jellico Community Hospital; (ii) \$9.9 million, which was used to repay obligations under a prepaid forward purchase contract related to an accounts receivable financing; (iii) \$1.9 million for fees and expenses incurred in connection with the settlement of the prepaid forward purchase contract; and (iv) \$4.7 million for working capital purposes.

Subsequent to September 30, 2019 and through November 30, 2019, Mr. Diamantis advanced the Company \$0.7 million, which was used for working capital purposes.

As of September 30, 2019, we were party to legal proceedings, which are presented in Note 15 to the accompanying unaudited condensed consolidated financial statements.

The following table presents our capital resources as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018	Change
Cash	\$ 107,472	\$ 6,870	\$ 100,602
Working capital deficit	(69,272,314)	(39,293,904)	(29,978,410)
Total debt, excluding discounts and derivative liabilities	47,636,055	26,418,305	21,217,750
Finance lease obligations	618,278	762,208	(143,930)
Stockholders’ deficit	\$ (67,644,949)	\$ (39,167,864)	\$ (28,477,085)

The following table presents the major sources and uses of cash for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,		Change
	2019	2018	
Cash used in operations	\$ (14,420,826)	\$ (7,121,826)	\$ (7,299,000)
Cash (used in) provided by investing activities	(709,338)	461,242	(1,170,580)
Cash provided by financing activities	15,230,766	6,660,584	8,570,182
Net change in cash	100,602	-	100,602
Cash and cash equivalents, beginning of the year	6,870	-	6,870
Cash and cash equivalents, end of the period	<u>\$ 107,472</u>	<u>\$ -</u>	<u>\$ 107,472</u>

The components of cash used in operations for the nine months ended September 30, 2019 and 2018 are presented in the following table:

	Nine Months Ended September 30,		Change
	2019	2018	
Net loss from continuing operations	\$ (38,340,063)	\$ (3,965,798)	\$ (34,374,265)
Non-cash adjustments to net loss	23,413,633	(4,346,430)	27,760,063
Accounts receivable	(3,525,152)	(5,648,343)	2,123,191
Inventory	82,010	-	82,010
Accounts payable, checks issued in excess of bank balance and accrued expenses	4,604,504	7,225,248	(2,620,744)
(Loss) income from discontinued operations	(791,936)	115,787	(907,723)
Other	(46,485)	125,864	(172,349)
Net cash used in operating activities	(14,603,489)	(6,493,672)	(8,109,817)
Cash provided by (used in) discontinued operations	182,663	(628,154)	810,817
Cash used in operations	<u>\$ (14,420,826)</u>	<u>\$ (7,121,826)</u>	<u>\$ (7,299,000)</u>

Cash used in investing activities for the nine months ended September 30, 2019 was due primarily to \$0.7 million for the acquisition of Jellico Community Hospital and CarePlus Center as well as \$50,801 for purchases of property and equipment. Cash used in investing activities for the nine months ended September 30, 2018 was due to the acquisition of Jamestown Regional Medical Center for \$0.7 million and the purchases of property and equipment of \$0.1 million, partially offset by proceeds from the sale of equipment under finance leases of \$0.4 million. Cash provided by investing activities of discontinued operations for the nine months ended September 30, 2018 consist of the \$0.8 million received from the February 14, 2018 Common Stock Purchase Agreement with two investors pursuant to which the Company agreed to sell an aggregate of 200,000 shares of common stock of NanoVibronix, Inc. owned by the Company at a purchase price of \$4.00 per share. The Company had acquired the shares as a result of an investment originally made in 2011.

Cash provided by financing activities in the nine months ended September 30, 2019 consists of \$16.5 million for the issuance of related party notes payable and advances, \$2.7 million in proceeds from the sale of accounts receivable to factors, \$3.8 million from the issuances of debentures and \$1.5 million from the issuance of a promissory note. Cash used in financing activities in the nine months ended September 30, 2019 include \$1.8 million of payments to factors, \$5.0 million in payments on notes payable, \$2.3 million for payments of related party notes payable and advances and \$0.1 million for payments of finance lease obligations. Cash provided by financing activities for the nine months ended September 30, 2018 consists of the \$8.0 million received from the issuances of debentures, and \$3.6 million from related party notes and advances, partially offset by payments of related party notes and advances of \$4.0 million, \$0.3 million in payments of notes payable and \$0.7 million of payment of finance lease obligations.

We need to raise additional funds immediately and continue to do so until we begin to realize positive cash flow from operations.

The terms of certain of the warrants, convertible preferred stock and convertible debentures issued by the Company provide for reductions in the per share exercise prices of the warrants and the per share conversion prices of the debentures and preferred stock (if applicable and subject to a floor in certain cases), in the event that the Company issues common stock or common stock equivalents (as that term is defined in the agreements) at an effective exercise/conversion price that is less than the then exercise/conversion price of the outstanding warrants, preferred stock or debentures, as the case may be. In addition, the majority of these equity-based securities contain exercise/conversion prices that vary based upon the price of the Company's common stock on the date of exercise/conversion (see Notes 8, 11, 12 and 13 to the accompanying unaudited condensed consolidated financial statements). These provisions have resulted in significant dilution of the Company's common stock and have given rise to reverse splits of the Company's common stock. As a result of these down round provisions, the potential common stock equivalents, including outstanding common stock, totaled 753.9 billion at December 26, 2019.

OTHER MATTERS

Inflation

We do not believe inflation has a significant effect on the Company's operations at this time.

Off Balance Sheet Arrangements

Under SEC regulations, we are required to disclose the Company's off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources that are material to investors. Off-balance sheet arrangements consist of transactions, agreements or contractual arrangements to which any entity that is not consolidated with us is a party, under which we have:

- Any obligation under certain guarantee contracts.
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets.
- Any obligation under a contract that would be accounted for as a derivative instrument, except that it is both indexed to the Company's stock and classified in stockholder's equity in the Company's statement of financial position.
- Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

As of September 30, 2019, the Company had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures. Based on the foregoing evaluation, our management concluded that, as of September 30, 2019, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer (Principal Executive Officer) and Interim Chief Financial Officer (Principal Financial Officer), does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

In our Annual Report on Form 10-K for the year ended December 31, 2018, we identified material weaknesses in our internal control over financial reporting as a result of not properly performing an effective risk assessment or monitoring of our internal controls over financial reporting. With the acquisitions of Big South Fork, Jamestown and Jellico Hospitals, there are risks related to the timing and accuracy of the integration of information from various accounting systems whereby the Company has experienced delays in receiving information in a timely manner from its subsidiaries. As of September 30, 2019, we concluded that these material weaknesses continued to exist.

The Company expects to continue to make improvements on the integration of information issues in 2019 as we plan to move towards securing a prompt and accurate reporting system. The Company is continuing to further remediate the material weaknesses identified above as its resources permit. The Company is in the process of taking the following steps to remediate these material weaknesses: (i) increasing the staffing of its internal accounting department; (ii) beginning the process of converting to a new integrated accounting system to enhance controls and procedures for recording accounting transactions; and (iii) implementing enhanced documentation procedures to be followed by the internal accounting department, including independent review of material cash disbursements.

Notwithstanding such material weakness, management believes that the condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods and dates presented.

(b) Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2019, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time-to-time, the Company may be involved in a variety of claims, lawsuits, investigations and proceedings related to contractual disputes, employment matters, regulatory and compliance matters, intellectual property rights and other litigation arising in the ordinary course of business. The Company operates in a highly regulated industry which may inherently lend itself to legal matters. Management is aware that litigation has associated costs and that results of adverse litigation verdicts could have a material effect on the Company's financial position or results of operations. Management, in consultation with legal counsel, has addressed known assertions and predicted unasserted claims, which are presented in Note 15 to the accompanying unaudited condensed consolidated financial statements.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of the 2018 Form 10-K which could materially affect our business, financial condition, or future results. There have been no material changes to the risk factors previously disclosed in our 2018 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

The Company had \$1,984,000 principal amount of March Debentures issued March 21, 2017 and due on March 21, 2019 outstanding on the maturity date. These debentures have not been paid and remain outstanding, accruing interest at the default rate of 18% per annum. Per the terms of the debentures, the Company accrued a default penalty of approximately \$0.6 million as a result of the default.

The Company had \$17,050,000 principal amount of debentures due September 19, 2019 outstanding on the maturity date. These debentures have not been paid and remain outstanding, accruing interest at the default rate of 18% per annum. In addition, the Company will incur a default penalty of approximately \$5.1 million as a result of the payment default.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

- 3.21 [Certificate of Designation for Series K Convertible Preferred Stock \(incorporated by reference to Exhibit 3.21 to the Company's Current Report on Form 8-K filed with the SEC on October 30, 2019\)](#)
- 10.170 [Form of Promissory Note \(incorporated by reference to Exhibit 10.176 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2019\)](#)
- 10.171 [Exchange Agreement, dated as of December 23, 2019, between Renova Health, Inc. and Alcimed LLC \(incorporated by reference to Exhibit 10.177 to the Company's Current Report on Form 8-K filed with the SEC on December 27, 2019\)](#)
- 31.1 [Rule 13a-14\(a\) Certification by the Principal Executive Officer.](#)
- 31.2 [Rule 13a-14\(a\) Certification by the Principal Financial Officer.](#)
- 32.1 [Certification by the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)
- 32.2 [Certification by Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Link base Document
- 101.DEF XBRL Definition Link base Document
- 101.LAB XBRL Label Link base Document
- 101.PRE XBRL Presentation Link base Document

*Furnished herewith

SIGNATURES

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

RENNOVA HEALTH, INC.

Date: December 30, 2019

By: /s/ Seamus Lagan

Seamus Lagan
Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Seamus Lagan, certify that:

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

/s/ Seamus Lagan

Seamus Lagan
Chief Executive Officer
(Principal Executive Officer)

Dated: December 30, 2019

**CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Seamus Lagan, certify that:

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

/s/ Seamus Lagan

Seamus Lagan
Interim Chief Financial Officer
(Principal Financial Officer)

Dated: December 30, 2019

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Rennova Health, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Seamus Lagan, Chief Executive Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to the best of my knowledge:

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

/s/ Seamus Lagan

Seamus Lagan
Chief Executive Officer
Dated: December 30, 2019

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Rennova Health, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Seamus Lagan, Interim Chief Financial Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to the best of my knowledge:

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

/s/ Seamus Lagan

Seamus Lagan
Interim Chief Financial Officer
Dated: December 30, 2019
