

**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 **June 30, 2023**

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.)

**400 S. Australian Avenue, Suite 800  
West Palm Beach, FL**

(Address of principal executive offices)

**33401**

(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

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

Common Stock, \$0.0001 Par Value

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 August 8, 2023, the registrant had 29,934,322,257 shares of its Common Stock, \$0.0001 par value, outstanding.

RENOVA HEALTH, INC. AND SUBSIDIARIES  
FORM 10-Q

June 30, 2023  
TABLE OF CONTENTS

	<u>Page No.</u>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	<b>3</b>
Item 1. <a href="#">Financial Statements</a>	3
<a href="#">Condensed Consolidated Balance Sheets as of June 30, 2023 (unaudited) and December 31, 2022</a>	3
<a href="#">Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2023 and 2022 (unaudited)</a>	4
<a href="#">Condensed Consolidated Statements of Changes in Stockholders' Deficit for each of the quarters in the six-month periods ended June 30, 2023 and 2022 (unaudited)</a>	5
<a href="#">Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2023 and 2022 (unaudited)</a>	7
<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	8
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	31
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	39
Item 4. <a href="#">Controls and Procedures</a>	39
<b><u>PART II – OTHER INFORMATION</u></b>	<b>40</b>
Item 1. <a href="#">Legal Proceedings</a>	40
Item 1A. <a href="#">Risk Factors</a>	40
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	40
Item 3. <a href="#">Defaults Upon Senior Securities</a>	40
Item 4. <a href="#">Mine Safety Disclosures</a>	40
Item 5. <a href="#">Other Information</a>	40
Item 6. <a href="#">Exhibits</a>	41
<b><u>SIGNATURES</u></b>	<b>42</b>

RENOVA HEALTH, INC.  
PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2023 (unaudited)	December 31, 2022
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 725,517	\$ 499,470
Accounts receivable, net	2,881,150	3,110,969
Note receivable / receivable from related party	2,334,251	1,457,253
Inventory	235,365	242,645
Prepaid expenses and other current assets	383,526	215,365
Income tax refunds receivable	837,460	837,460
<b>Total current assets</b>	<b>7,397,269</b>	<b>6,363,162</b>
Property and equipment, net	4,277,790	4,194,299
Intangible asset	259,443	259,443
Investment	9,016,072	9,016,072
Deposits	164,413	165,530
Right-of-use assets	440,310	574,256
<b>Total assets</b>	<b>\$ 21,555,297</b>	<b>\$ 20,572,762</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable (includes related party amounts of \$23,155 and \$47,636, respectively)	\$ 13,008,981	\$ 11,514,322
Accrued expenses	19,319,575	19,563,808
Income taxes payable	1,865,425	1,348,425
Current portion of notes payable	1,318,315	2,917,390
Current portion of loan payable, related party	2,253,000	2,995,000
Current portion of debentures	8,222,240	8,622,240
Current portion of right-of-use operating lease obligations	168,761	215,063
Current portion of finance lease obligation	220,461	220,461
Derivative liability	455,336	455,336
Current liabilities of discontinued operations	1,464,209	1,456,112
<b>Total current liabilities</b>	<b>48,296,303</b>	<b>49,308,157</b>
Right-of-use operating lease obligations, net of current portion	271,549	359,193
<b>Total liabilities</b>	<b>48,567,852</b>	<b>49,667,350</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' deficit:</b>		
Series H preferred stock, \$0.01 par value, \$1,000 stated value per share, 14,202 shares authorized, 10 shares issued and outstanding	-	-
Series L preferred stock, \$0.01 par value, \$1.00 stated value per share, 250,000 shares authorized, 250,000 shares issued and outstanding	2,500	2,500
Series M preferred stock, \$0.01 par value, \$1,000 stated value per share, 30,000 shares authorized, 20,810 shares issued and outstanding	208	208
Series N preferred stock, \$0.01 par value, \$1,000 stated value per share, 50,000 shares authorized, 2,864 and 2,900 shares issued and outstanding, respectively	29	29
Series O preferred stock, \$0.01 par value, \$1,000 stated value per share, 10,000 shares authorized, 8,645 and 8,685 shares issued and outstanding, respectively	86	87
Series P preferred stock, \$0.01 par value, \$1,000 stated value per share, 30,000 shares authorized, 10,195 shares issued and outstanding	102	102
Common stock, \$0.0001 par value, 250,000,000,000 shares authorized, 29,934,322,257 and 29,084,322,257 shares issued and outstanding, respectively	2,993,432	2,908,432
Additional paid-in-capital	1,671,486,835	1,671,571,834
Accumulated deficit	(1,701,494,387)	(1,703,577,780)
<b>Total Renova stockholders' deficit</b>	<b>(27,011,195)</b>	<b>(29,094,588)</b>
<b>Noncontrolling interest</b>	<b>(1,360)</b>	<b>-</b>
<b>Total stockholders' deficit</b>	<b>(27,012,555)</b>	<b>(29,094,588)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 21,555,297</b>	<b>\$ 20,572,762</b>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Net revenues</b>	<b>\$ 6,389,219</b>	<b>\$ 3,606,236</b>	<b>\$ 11,305,115</b>	<b>\$ 4,750,756</b>
<b>Operating expenses:</b>				
Direct costs of revenues	1,834,107	1,571,673	3,687,153	2,946,316
General and administrative expenses	2,358,758	1,880,167	4,575,428	3,452,503
Depreciation and amortization	99,357	117,216	193,492	234,040
<b>Total operating expenses</b>	<b>4,292,222</b>	<b>3,569,056</b>	<b>8,456,073</b>	<b>6,632,859</b>
<b>Income (loss) from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest</b>	<b>2,096,997</b>	<b>37,180</b>	<b>2,849,042</b>	<b>(1,882,103)</b>
<b>Other income (expense):</b>				
Other income (expense), net	212,368	(316,369)	255,114	(42,281)
Gain from forgiveness of debt	200,000	334,819	200,000	334,819
(Loss) gain from legal settlements, net	(276,313)	(76,218)	286,719	(76,218)
Interest expense	(431,484)	(479,253)	(983,747)	(1,100,190)
<b>Total other income (expense), net</b>	<b>(295,429)</b>	<b>(537,021)</b>	<b>(241,914)</b>	<b>(883,870)</b>
<b>Income (loss) from continuing operations before income taxes, including noncontrolling interest</b>	<b>1,801,568</b>	<b>(499,841)</b>	<b>2,607,128</b>	<b>(2,765,973)</b>
Provision for income taxes	(517,000)	-	(517,000)	-
<b>Net income (loss) from continuing operations, including noncontrolling interest</b>	<b>1,284,568</b>	<b>(499,841)</b>	<b>2,090,128</b>	<b>(2,765,973)</b>
Net loss from discontinued operations	(8,097)	(3,945)	(8,097)	(5,379)
<b>Net income (loss), including noncontrolling interest</b>	<b>1,276,471</b>	<b>(503,786)</b>	<b>2,082,031</b>	<b>(2,771,352)</b>
Net loss attributable to noncontrolling interest	1,362	-	1,362	-
<b>Net income (loss) attributable to Rennova</b>	<b>1,277,833</b>	<b>(503,786)</b>	<b>2,083,393</b>	<b>(2,771,352)</b>
Deemed dividends	-	(194,951,624)	-	(330,876,369)
<b>Net income (loss) available to common stockholders</b>	<b>\$ 1,277,833</b>	<b>\$ (195,455,410)</b>	<b>\$ 2,083,393</b>	<b>\$ (333,647,721)</b>
<b>Net income (loss) available to common stockholders per share - basic:</b>				
Continuing operations	\$ 0.00	\$ (0.11)	\$ 0.00	\$ (0.39)
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
<b>Total basic</b>	<b>\$ 0.00</b>	<b>\$ (0.11)</b>	<b>\$ 0.00</b>	<b>\$ (0.39)</b>
<b>Net income (loss) available to common stockholders per share - diluted:</b>				
Continuing operations	\$ 0.00	\$ (0.11)	\$ 0.00	\$ (0.39)
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
<b>Total diluted</b>	<b>\$ 0.00</b>	<b>\$ (0.11)</b>	<b>\$ 0.00</b>	<b>\$ (0.39)</b>
<b>Weighted average number of shares of common stock outstanding during the period:</b>				
Basic	29,934,322,257	1,702,149,425	29,845,095,738	858,169,865
Diluted	482,079,733,368	1,702,149,425	488,414,836,833	858,169,865

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

**RENOVA HEALTH, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT**  
For Each of the Quarters in the Six-Month Period Ended June 30, 2023  
(unaudited)

	Preferred Stock		Common Stock		Additional paid-in capital	Accumulated Deficit	Renova Stockholders' Deficit	Noncontrolling Interest	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
Balance at December 31, 2022	292,600	\$ 2,926	29,084,322,257	\$ 2,908,432	\$ 1,671,571,834	\$ (1,703,577,780)	\$ (29,094,588)	\$ -	\$ (29,094,588)
Conversion of Series N Preferred Stock into common stock	(36)	-	400,000,000	40,000	(40,000)	-	-	-	-
Conversion of Series O Preferred Stock into common stock	(40)	(1)	450,000,000	45,000	(44,999)	-	-	-	-
Net income					-	805,560	805,560	-	805,560
Balance at March 31, 2023	292,524	2,925	29,934,322,257	2,993,432	1,671,486,835	(1,702,772,220)	(28,289,028)	-	(28,289,028)
Sale of noncontrolling interest								2	2
Net income						1,277,833	1,277,833	(1,362)	1,276,471
Balance at June 30, 2023	292,524	\$ 2,925	29,934,322,257	\$ 2,993,432	\$ 1,671,486,835	\$ (1,701,494,387)	\$ (27,011,195)	\$ (1,360)	\$ (27,012,555)

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

**RENOVA HEALTH, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT**  
**For Each of the Quarters in the Six-Month Period Ended June 30, 2022**  
**(unaudited)**

	Preferred Stock		Common Stock		Additional paid-in-capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance at December 31, 2021	2,045,201	\$ 20,451	4,244,700	\$ 424	\$ 1,342,085,957	\$ (1,369,408,356)	\$ (27,301,524)
Conversions of Series N Preferred Stock into common stock	(593)	(6)	12,932,500	1,293	(1,287)	-	-
Issuances of Series P Preferred Stock	1,100	11	-	-	999,989	-	1,000,000
Deemed dividends from issuances of Series P Preferred Stock	-	-	-	-	222,222	(222,222)	-
Payment of cash in lieu of fractional shares	-	-	(10)	-	(9)	-	(9)
Deemed dividends from triggers of down round provisions	-	-	-	-	135,702,523	(135,702,523)	-
Net loss	-	-	-	-	-	(2,267,566)	(2,267,566)
Balance at March 31, 2022	2,045,708	\$ 20,456	17,177,190	\$ 1,717	\$ 1,479,009,395	\$ (1,507,600,667)	\$ (28,569,099)
Conversions of Series N Preferred Stock into common stock	(1,240)	(12)	2,627,145,066	262,715	(262,703)	-	-
Conversions of Series O Preferred Stock into common stock	(179)	(2)	1,581,000,000	158,100	(158,098)	-	-
Issuance of Series P Preferred Stock	550	6	-	-	499,994	-	500,000
Deemed dividends from issuance of Series P Preferred Stock	-	-	-	-	111,111	(111,111)	-
Deemed dividends from triggers of down round provisions	-	-	-	-	194,840,513	(194,840,513)	-
Net loss	-	-	-	-	-	(503,786)	(503,786)
Balance at June 30, 2022	2,044,838	\$ 20,448	4,225,322,256	\$ 422,532	\$ 1,674,040,212	\$ (1,703,056,077)	\$ (28,572,885)

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

RENOVA HEALTH, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net income (loss) from continuing operations, including noncontrolling interest	\$ 2,090,128	\$ (2,765,973)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization	193,492	234,040
Loss on disposition of property and equipment	-	858
Net (gain) loss from legal settlements	(286,719)	76,218
Gain on forgiveness of debt	(200,000)	(334,819)
Loss from discontinued operations	(8,097)	(5,379)
Changes in operating assets and liabilities:		
Accounts receivable	229,819	186,131
Inventory	7,280	36,890
Prepaid expenses and other current assets	(168,159)	21,304
Security deposits	1,117	(10,000)
Change in right-of-use assets	133,946	117,871
Accounts payable	1,494,659	484,458
Accrued expenses	(531,720)	867,828
Income taxes payable	517,000	-
Change in right-of-use operating lease obligations	(133,946)	(117,871)
<b>Net cash provided by (used in) operating activities of continuing operations</b>	<b>3,338,800</b>	<b>(1,208,444)</b>
<b>Net cash provided by (used in) operating activities of discontinued operations</b>	<b>8,097</b>	<b>(1,714)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>3,346,897</b>	<b>(1,210,158)</b>
<b>Cash flows from investing activities:</b>		
Receivable from related party	(876,998)	(428,943)
Purchases of property and equipment	(276,983)	(33,940)
<b>Net cash used in investing activities of continuing operations</b>	<b>(1,153,981)</b>	<b>(462,883)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of related party loan payable	580,000	750,000
Payments of related party loan payable	(1,322,000)	-
Payments of debentures	(400,000)	-
Payments of notes payable	(824,869)	(1,171,603)
Receivables paid under accounts receivable sales agreements	-	(317,647)
Proceeds from issuances of preferred stock	-	1,500,000
Proceeds from HHS Provider Relief Funds	-	314,651
Cash paid for fractional shares in connection with reverse stock split	-	(9)
<b>Net cash (used in) provided by financing activities of continuing operations</b>	<b>(1,966,869)</b>	<b>1,075,392</b>
<b>Net change in cash</b>	<b>226,047</b>	<b>(597,649)</b>
Cash at beginning of period	499,470	724,524
<b>Cash at end of period</b>	<b>\$ 725,517</b>	<b>\$ 126,875</b>

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

**RENOVA HEALTH, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Three and Six Months Ended June 30, 2023 and 2022**  
**(unaudited)**

**Note 1 – Organization and Summary of Significant Accounting Policies**

*Description of Business*

Rennova Health, Inc. (“Rennova”, together with its subsidiaries, the “Company”, “we”, “us”, “its” or “our”) is a provider of health care services. The Company owns one operating hospital in Oneida, Tennessee, a hospital located in Jamestown, Tennessee that it plans to reopen, and operate and an operating rural health clinic in Kentucky. In addition, the Company owns a subsidiary pursuing opportunities in the behavioral health sector and, on August 14, 2023, commenced operations of an alcohol and drug treatment facility on the campus of its hospital in Oneida, Tennessee. The Company’s operations consist of only one segment.

*Scott County Community Hospital (d/b/a Big South Fork Medical Center)*

On January 13, 2017, we acquired certain assets related to Scott County Community Hospital, based in Oneida, Tennessee (the “Oneida Assets”). The Oneida Assets include a 52,000-square foot hospital building and 6,300-square foot professional building on approximately 4.3 acres. Scott County Community Hospital has 25 beds, a 24/7 emergency department and a laboratory that provides a range of diagnostic services. Scott County Community Hospital closed in July 2016 in connection with the bankruptcy filing of its parent company, Pioneer Health Services, Inc. We acquired the Oneida Assets out of bankruptcy for a purchase price of \$1.0 million. The hospital, which has since been renamed Big South Fork Medical Center, became operational on August 8, 2017. The hospital became certified as a Critical Access Hospital (rural) hospital in December 2021, retroactive to June 30, 2021.

*CarePlus Clinic*

On March 5, 2019, we acquired certain assets related to an outpatient clinic located in Williamsburg, Kentucky. The clinic and its associated assets, which were acquired from CarePlus Rural Health Clinic, LLC, offers compassionate care in a modern, patient-friendly facility. The CarePlus Clinic is located 32 miles northwest of our Big South Fork Medical Center.

*Myrtle Recovery Centers, Inc.*

In the second quarter of 2022, the Company formed a subsidiary, Myrtle Recovery Centers, Inc. (“Myrtle”), to pursue opportunities in the behavioral health sector, initially in our core, rural markets. We intend to focus on leveraging our existing physical locations and corporate and regional infrastructure to offer behavioral health services, including substance abuse treatment. Services will be provided on either an inpatient, residential basis or an outpatient basis.

On August 10, 2023, Myrtle was granted a license under the rules of the Department of Mental Health and Substance Abuse Services of Tennessee to operate an alcohol and drug treatment facility in Oneida Tennessee. The facility, which is located at Rennova’s Big South Fork Medical Center campus, commenced operations and began accepting patients on August 14, 2023. The facility offers alcohol and drug residential detoxification and residential rehabilitation treatment services for up to 30 patients. Myrtle intends to offer outpatient opioid treatment services at its Oneida facility in the future.

On April 11, 2023, Myrtle sold shares of its common stock equivalent to a 1.961% ownership stake in the subsidiary for de minimis value to an unaffiliated individual licensed as a physician in Tennessee. The shares have certain transfer restrictions, including the right of the subsidiary to transfer the shares to another physician licensed in Tennessee for de minimis value. The shares were sold to the individual for Tennessee healthcare regulatory reasons.

*Jamestown Regional Medical Center*

On June 1, 2018, we acquired from Community Health Systems, Inc. certain assets related to an acute care hospital located in Jamestown, Tennessee, referred to as Jamestown Regional Medical Center, for a purchase price of \$0.7 million. The hospital is an 85-bed facility of approximately 90,000-square feet on over eight acres of land, which offered a 24-hour emergency department with two trauma bays and seven private exam rooms, inpatient and outpatient medical services and a progressive care unit which provided telemetry services. The acquisition also included a separate physician practice known as Mountain View Physician Practice, Inc.

The Company suspended operations at the hospital and physician practice in June 2019, as a result of the termination of the hospital’s Medicare agreement and other factors. The Company is evaluating whether to reopen the facility as an acute care hospital or as another type of healthcare facility. Jamestown is located 38 miles west of Big South Fork Medical Center.



#### *Basis of Presentation*

The 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. 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 June 30, 2023, and the results of its operations and changes in stockholders' deficit for the three and six months ended June 30, 2023 and 2022 and its cash flows for the six months ended June 30, 2023 and 2022. Such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2023 may not be indicative of results for the year ending December 31, 2023.

#### *Principles of Consolidation*

The unaudited 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 and majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in the consolidation.

#### *Comprehensive Income (Loss)*

During the three and six months ended June 30, 2023 and 2022, comprehensive income (loss) was equal to the net income (loss) amounts presented in the unaudited 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 net 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, contractual allowances and bad debt reserves, the recoverability of long-lived assets, the valuation allowance relating to the Company's deferred tax assets, the valuations of investments, equity and derivative instruments, deemed dividends, litigation and related reserves, among others. Actual results could differ from those estimates and would impact future results of operations and cash flows.

#### *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation.

#### *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.

#### *Revenue Recognition*

We recognize revenue in accordance with Accounting Standard Codification ("ASC"), "Revenue from Contracts with Customers (Topic 606)," including subsequently issued updates. Under the accounting guidance, our revenues are presented net of estimated contractual allowances and estimated implicit price concessions. We also do not present "allowances for doubtful accounts" on our balance sheets.

Our revenues 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 averaging approximately three days, and revenues are recognized based on charges incurred. Our performance obligations for outpatient services, including emergency room-related 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, because of the Big South Fork Medical Center's designation as a Critical Access Hospital, generally pays for inpatient and outpatient services at rates related to the hospital's costs. 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 net 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). As of June 30, 2023, \$1.0 million of Medicare cost report settlement reserves were recorded as liabilities on the condensed balance sheet, as more fully discussed in Note 5.

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payers and patients is our primary source of operating 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.

#### *Contractual Allowances and Doubtful Accounts Policy*

Accounts receivable are reported at realizable value, net of estimated contractual allowances and estimated implicit price concessions (also referred to as doubtful accounts), which are estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimating and reviewing the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to contractual allowances and doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues which may impact the receivables or reserve estimates. Receivables deemed to be uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts. Revisions to the allowances for doubtful accounts are recorded as an adjustment to revenues.

During the three months ended June 30, 2023 and 2022, estimated contractual allowances of \$8.5 million and \$5.1 million, respectively, and estimated implicit price concessions of \$1.4 million and \$2.7 million, respectively, have been recorded as reductions to our revenues and accounts receivable balances to enable us to record our revenues and accounts receivable at the estimated amounts we expect to collect. As required by Topic 606, after estimated implicit price concessions and contractual and related allowance adjustments to revenues of \$9.9 million and \$7.8 million, respectively, for the three months ended June 30, 2023 and 2022, we reported net revenues of \$6.4 million and \$3.6 million, respectively.

During the six months ended June 30, 2023 and 2022, estimated contractual allowances of \$19.6 million and \$13.2 million, respectively, and estimated implicit price concessions of \$2.4 million and \$4.1 million, respectively, have been recorded as reductions to our revenues and accounts receivable balances to enable us to record our revenues and accounts receivable at the estimated amounts we expect to collect. As required by Topic 606, for the six months ended June 30, 2023 and 2022, after estimated implicit price concessions and contractual and related allowance adjustments to revenues of \$22.0 million and \$17.3 million, respectively, we reported net revenues of \$11.3 million and \$4.8 million, respectively.

We continue to review the provisions for implicit price concessions and contractual allowances. See Note 4 – Accounts Receivable.

#### *Impairment or Disposal of Long-Lived Assets*

We account for the impairment or disposal of long-lived assets according to the Financial Accounting Standards Board (the “FASB”) ASC Topic 360, *Property, Plant and Equipment* (“ASC 360”). ASC 360 clarifies the accounting for the impairment of long-lived assets and for long-lived assets to be disposed of, including the disposal of business segments and major lines of business. Long-lived assets are reviewed when facts and circumstances indicate that the carrying value of the asset may not be recoverable. When necessary, impaired assets are written down to estimated fair value based on the best information available. Estimated fair value is generally either based on appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates. The Company did not record an asset impairment charge during the three and six months ended June 30, 2023 and 2022.

#### *Leases in Accordance with ASU No. 2016-02*

We account for leases in accordance with Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, which requires leases with durations greater than 12 months to be recognized on the balance sheet. Upon adoption in 2019, 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 operating 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. For finance leases, we record the present value of the lease payments as finance lease obligations. We do not separate lease and non-lease components of contracts. Our finance and operating leases are more fully discussed in Note 8.

#### *Fair Value Measurements*

In accordance with ASC 820, “*Fair Value Measurements and Disclosures*,” the Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; or quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 applies to assets or liabilities for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including our own assumptions.

On June 30, 2023 and December 31, 2022, we applied the Level 3 fair value hierarchy in determining the fair value of InnovaQor, Inc.’s Series B-1 Non-Voting Convertible Preferred Stock (the “InnovaQor Series B-1 Preferred Stock”), which is reflected on our unaudited condensed consolidated balance sheets as an investment. Also, on June 30, 2023 and December 31, 2022, we applied the Level 3 fair value hierarchy in determining the fair value of a derivative liability for an embedded conversion option of an outstanding convertible debenture. Our determination of fair value is more fully discussed in Note 9.

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 (loss) 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 stockholders in basic and diluted 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).

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. The FASB issued this update to clarify and reduce diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The guidance clarifies whether an issuer should account for a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as (1) an adjustment to equity (that is, deemed dividends) and, if so, the related earnings per share (EPS) effects, if any, or (2) an expense and, if so, the manner and pattern of recognition. We adopted this new accounting guidance on January 1, 2022. Under the new guidance, the FASB decided not to include convertible debt instruments in the guidance because *ASU No 2016-01, Financial Instruments – Overall (Subtopic 825-10)* requires that an entity capture the impact of changes in down round provision features of convertible debt within the fair value of the instruments. During the three and six months ended June 30, 2023 and 2022, there were no changes in the fair values of the Company’s convertible debentures with down round provision features as these debentures issued in 2018 have floors of \$0.052 per share and were not in-the-money during these periods. Debentures are more fully discussed in Note 6.

There were no triggers of down round provisions to warrants during the three and six months ended June 30, 2023. The incremental value of modification to warrants as a result of triggers of the down round provisions of \$194.7 million and \$330.5 million were recorded as deemed dividends in the three and six months ended June 30, 2022, respectively. See Note 9 for an additional discussion of derivative financial instruments and deemed dividends.

In addition, we recorded deemed dividends of approximately \$0.2 million and \$0.3 million during the three and six months ended June 30, 2022, respectively, as a result of the issuances of shares of our Series P Convertible Redeemable Preferred Stock (the “Series P Preferred Stock”), which is more fully discussed in Note 10.

#### *Income Taxes*

Income taxes are accounted for under the liability method of accounting for income taxes. Under the liability method, future tax liabilities and assets are recognized for the estimated future tax consequences attributable to differences between the amounts reported in the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. When projected future taxable income is insufficient to provide for the realization of deferred tax assets, the Company recognizes a valuation allowance.

In accordance with U.S. GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Derecognition of a tax benefit previously recognized could result in the Company recording a tax liability (or reducing a tax asset) that would reduce net assets. The Company did not have an unrecognized tax benefit at June 30, 2023 and December 31, 2022.

### *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 (loss) per share. Basic earnings (loss) per share of common stock is calculated by dividing net earnings (loss) available to common stockholders 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 preferred stock, convertible debt, stock options and warrants outstanding for the period, with options and warrants determined using the treasury stock method. For purposes of the diluted earnings (loss) per share calculation, common stock equivalents are excluded from the calculation when their effect would be anti-dilutive. See Note 3 for the computation of earnings (loss) per share for the three and six months ended June 30, 2023 and 2022.

### *Reverse Stock Split*

On March 15, 2022, the Company effected a 1-for-10,000 reverse stock split (the "Reverse Stock Split"). As a result of the Reverse Stock Split, every 10,000 shares of the Company's common stock then outstanding was combined and automatically converted into one share of the Company's common stock on March 15, 2022. The conversion and exercise prices of all of the Company's outstanding convertible preferred stock, common stock purchase warrants, stock options and convertible debentures were proportionately adjusted at the applicable reverse split ratio in accordance with the terms of such instruments. The par value and other terms of the common stock were not affected by the Reverse Stock Split. All share, per share and capital stock amounts and common stock equivalents presented herein have been restated where appropriate to give effect to the Reverse Stock Split.

### *Amendment to Certificate of Incorporation*

Effective November 5, 2021, the Company filed an Amendment to its Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware to provide that the number of authorized shares of the Company's common stock or preferred stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Company entitled to vote generally in the election of directors, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of the class or classes the number of authorized shares of which are being increased or decreased unless a vote by any holders of one or more series of preferred stock is required by the express terms of any series of preferred stock pursuant to the terms thereof.

## **Note 2 – Liquidity and Financial Condition**

### *Going Concern*

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, *Presentation of Financial Statements-Going Concern (Subtopic 205-40)* ("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 requirements of ASC 205-40.

At June 30, 2023, the Company had a working capital deficit and a stockholders' deficit of \$40.9 million and \$27.0 million, respectively. While the Company incurred net income of \$2.1 million for the six months ended June 30, 2023, it incurred a net loss of \$3.3 million for the year ended December 31, 2022 and as of the date of this report, its cash is deficient and payments for its operations in the ordinary course are not being made. The prior year loss and other related factors, including past due accounts payable and payroll taxes, as well as payment defaults under the terms of outstanding notes payable and debentures, raise substantial doubt about the Company's ability to continue as a going concern for 12 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. The Company's current financial condition may make it difficult to attract and maintain adequate expertise in its management team to successfully operate its healthcare facilities.

There can be no assurance that the Company will be able to achieve its business plan, 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 raise adequate capital to fund its operations and repay its outstanding debt and other past due obligations, fully align its operating costs, increase its net revenues, and maintain profitable operations. The unaudited condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

HHS Provider Relief Funds

The Company received HHS Provider Relief Funds, which were provided to eligible healthcare providers out of the \$100 billion Public Health and Social Services Emergency Fund provided for in the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The funds were allocated to eligible healthcare providers for expenses and lost revenue attributable to the COVID-19 pandemic. As of June 30, 2023, our facilities have received approximately \$13.6 million in relief funds. The fund payments are grants, not loans, and HHS will not require repayment, but the funds must be used only for grant approved purposes. Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the impact of the pandemic on our operating results through June 30, 2023, we have recognized a net of \$13.0 million of these funds as income of which \$0.6 million, \$4.4 million and \$8.0 million were recognized as income during the years ended December 31, 2022, 2021 and 2020, respectively. Accordingly, approximately \$0.6 million of relief funds received as of June 30, 2023 are included on our balance sheets in accrued expenses – see Note 5.

As of June 30, 2023, the Company's estimate of the amount for which it is reasonably assured of meeting the underlying terms and conditions of the grants was based on, among other things, the various notices issued by HHS on September 19, 2020, October 22, 2020, and January 15, 2021 and the Company's results of operations during the three and six months ended June 30, 2023 and the years ended December 31, 2022, 2021 and 2020. The Company believes that it was appropriate to recognize a net of \$13.0 million of the HHS Provider Relief Funds as income in various periods, as discussed in the paragraph above. Accordingly, the \$13.0 million is not recognized as a liability at June 30, 2023. Additional guidance or new and amended interpretations of existing guidance on the terms and conditions of such payments may result in changes in the Company's estimate of amounts for which the terms and conditions are reasonably assured of being met, and any such changes may be material. Additionally, any such changes may result in derecognition of amounts of income previously recognized, which may be material. If we are unable to attest to or comply with current or future terms and conditions, and there is no assurance we will be able to do so, our ability to retain some or all of the funds received may be impacted.

The Company has been served with a *qui tam* complaint with regards to the use of monies received from HHS Provider Relief Funds, as more fully discussed in Note 12.

**Note 3 – Earning (Loss) Per Share**

The earnings (loss) per share accounting guidance is discussed in Note 1. The following table sets forth the computation of the Company's basic and diluted net earnings (loss) per share available to common stockholders (unaudited) for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Numerator</b>				
Net income (loss) from continuing operations	\$ 1,285,930	\$ (499,841)	\$ 2,091,490	\$ (2,765,973)
Deemed dividends	-	(194,951,624)	-	(330,876,369)
Net income (loss) available to common stockholders, continuing operations	1,285,930	(195,451,465)	2,091,490	(333,642,342)
Net loss from discontinued operations	(8,097)	(3,945)	(8,097)	(5,379)
Net income (loss) available to common stockholders	<u>\$ 1,277,833</u>	<u>\$ (195,455,410)</u>	<u>\$ 2,083,393</u>	<u>\$ (333,647,721)</u>
<b>Denominator</b>				
Weighted average number of shares of common stock outstanding during the period - basic	29,934,322,257	1,702,149,425	29,845,095,738	858,169,865
Warrants	-	-	6,335,103,465	-
Preferred stock	452,145,411,111	-	452,234,637,630	-
Weighted average number of shares of common stock outstanding during the period - diluted	<u>482,079,733,368</u>	<u>1,702,149,425</u>	<u>488,414,836,833</u>	<u>858,169,865</u>
<b>Net earnings (loss) available to common stockholders per share - basic:</b>				
Continuing operations	\$ 0.00	\$ (0.11)	\$ 0.00	\$ (0.39)
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Total basic	<u>\$ 0.00</u>	<u>\$ (0.11)</u>	<u>\$ 0.00</u>	<u>\$ (0.39)</u>
<b>Net earnings (loss) available to common stockholders per share - diluted:</b>				
Continuing operations	\$ 0.00	\$ (0.11)	\$ 0.00	\$ (0.39)
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Total diluted	<u>\$ 0.00</u>	<u>\$ (0.11)</u>	<u>\$ 0.00</u>	<u>\$ (0.39)</u>

Diluted earnings (loss) per share excludes all dilutive potential shares if their effect is anti-dilutive.

For the three months ended June 30, 2023 and 2022, the following potential common stock equivalents were excluded from the calculation of diluted earnings (loss) per share as their effect was anti-dilutive:

	<b>Three Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Common stock warrants	511,333,351,089	511,333,351,097
Convertible preferred stock	-	477,576,633,334
Convertible debentures	28,777,833,333	28,777,833,333
Stock options	26	26
	<u>540,111,184,448</u>	<u>1,017,687,817,790</u>

For the six months ended June 30, 2023 and 2022, the following potential common stock equivalents were excluded from the calculation of diluted earnings (loss) per share as their effect was anti-dilutive:

	<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Common stock warrants	504,998,247,624	511,333,351,097
Convertible preferred stock	-	477,576,633,334
Convertible debentures	28,777,833,333	28,777,833,333
Stock options	26	26
	<u>533,776,080,983</u>	<u>1,017,687,817,790</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 floors 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 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 6, 9 and 10). These provisions have resulted in significant dilution of the Company's common stock.

As a result of the Voting Agreement and Irrevocable Proxy (the "Voting Agreement") discussed in Note 10 and the November 5, 2021 Amendment to the Company's Certificate of Incorporation, as amended, to provide that the number of authorized shares of the Company's common stock or preferred stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Company, which is more fully discussed in Note 1, as of the date of filing this report, the Company believes that it has the ability to ensure that it has and or can obtain sufficient authorized shares of its common stock to cover all outstanding rights to acquire potentially dilutive common shares.

As a result of these down round provisions, the potential common stock and common stock equivalents totaled 1.0 trillion at August 8, 2023. See Note 10 for a discussion of the number of shares of the Company's authorized common and preferred stock.

**Note 4 – Accounts Receivable**

Accounts receivable at June 30, 2023 (unaudited) and December 31, 2022 consisted of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Accounts receivable	\$ 12,268,792	\$ 13,046,646
Less:		
Allowance for contractual obligations	(8,190,137)	(8,529,904)
Allowance for doubtful accounts	(1,197,505)	(1,405,773)
Accounts receivable, net	<u>\$ 2,881,150</u>	<u>\$ 3,110,969</u>

**Note 5 – Accrued Expenses**

Accrued expenses at June 30, 2023 (unaudited) and December 31, 2022 consisted of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Accrued payroll and related liabilities	\$ 8,327,011	\$ 8,533,710
HHS Provider Relief Funds	552,099	552,099
Accrued interest	6,308,052	5,736,096
Accrued legal expenses and settlements	498,000	534,550
Medicare cost report settlement reserves	990,062	2,101,837
Other accrued expenses	2,644,351	2,105,516
Accrued expenses	<u>\$ 19,319,575</u>	<u>\$ 19,563,808</u>

Accrued payroll and related liabilities included approximately \$7.3 million and \$7.0 million, respectively, for accrued past due payroll taxes and associated penalties and interest as of June 30, 2023 and December 31, 2022, respectively.

As of December 31, 2022, the Company had Medicare cost reports settlement reserves of \$2.1 million. During the six months ended June 30, 2023, the Company reduced its reserve amount by \$1.1 million due to payments (recoupments) and various final and estimated cost report settlements leaving Medicare cost report settlement reserves of \$1.0 million at June 30, 2023.

**Note 6 – Debt**

At June 30, 2023 (unaudited) and December 31, 2022, debt consisted of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Notes payable- third parties	\$ 1,318,315	\$ 2,917,390
Loan payable – related party	2,253,000	2,995,000
Debentures	8,222,240	8,622,240
Total debt	11,793,555	14,534,630
Less current portion of debt	(11,793,555)	(14,534,630)
Total debt, net of current portion	<u>\$ -</u>	<u>\$ -</u>



At June 30, 2023 (unaudited) and December 31, 2022, notes payable with third parties consisted of the following:

**Notes Payable – Third Parties**

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Notes payable to CommerceNet and Jay Tenenbaum in the original principal amount of \$500,000 (the “Tegal Notes”).	\$ 291,557	\$ 291,557
Note payable to Anthony O’Killough dated September 27, 2019 in the original principal amount of \$1.9 million. Issued net of \$0.4 million of debt discount and financing fees.	-	1,137,380
Notes payable to Western Healthcare, LLC dated August 10, 2021, in the aggregate principal amount of \$2.4 million, bearing interest at 18% per annum, payable in monthly installments aggregating \$0.2 million, due August 30, 2022.	<u>1,026,758</u>	<u>1,488,453</u>
	1,318,315	2,917,390
Less current portion	<u>(1,318,315)</u>	<u>(2,917,390)</u>
<b>Notes payable - third parties, net of current portion</b>	<u>\$ -</u>	<u>\$ -</u>

On December 7, 2016, the holders of the Tegal Notes filed suit against the Company seeking payment for the amounts due under the notes and accrued interest. On April 23, 2018, the holders of the Tegal Notes received a judgment against the Company in the amount of \$384,384 plus post-judgment interest. On June 1, 2023, the Company and the holders of the Tegal Notes agreed to settle all amounts owed pursuant to the judgment for a total of \$462,500 comprised of an initial payment of \$200,000 followed by six monthly payments of \$43,750. The Company has made all required payments to date, including the initial payment of \$200,000, which was applied to accrued interest.

On September 27, 2019, the Company issued a promissory note payable to Anthony O’Killough in the principal amount of \$1.9 million with payments due in November and December 2019. These payments were not made. In February 2020, Mr. O’Killough sued the Company and Christopher Diamantis, as guarantor and in May 2020, the Company, Mr. Diamantis, as guarantor, and Mr. O’Killough entered into a Stipulation providing for payment of a total of \$2.2 million (which included accrued “penalty” interest as of that date) in installments through November 1, 2020. The Company made payments totaling \$450,000 in 2020. On January 18, 2022, Mr. Diamantis paid \$750,000 and the remaining balance was due 120 days thereafter. Mr. O’Killough agreed to forebear from any further enforcement action until then. On various dates during the remainder of 2022, Mr. Diamantis made additional payments to Mr. O’Killough totaling \$300,000 and the Company gave Mr. Diamantis \$350,000 for further payment to Mr. O’Killough. The Company is obligated to repay Mr. Diamantis for the payments, plus interest, that he made to Mr. O’Killough. As a result of these payments, the past due balance owed to Mr. O’Killough was \$1.1 million on December 31, 2022. During the six months ended June 30, 2023, the parties entered into a final settlement wherein the Company and Mr. Diamantis settled the obligation in full for \$580,000. As a result of the settlement, the Company recorded a \$0.6 million gain on legal settlement during the six months ended June 30, 2023.

On August 10, 2021, the Company entered into two notes payable with Western Healthcare, LLC in the aggregate principal amount of \$2.4 million. The notes were issued under the terms of a settlement agreement related to agreements that the Company had previously entered into for medical staffing services. The notes bear interest at a rate of 18% per annum and payments consisting of principal and interest were due no later than August 30, 2022. The Company paid \$0.2 million to the note holders upon issuance of the notes. On May 12, 2023, the Company and Western Healthcare, LLC agreed to reduce the aggregate principal amount of the notes by \$400,000 in exchange for a cash payment of \$200,000. As a result of the reduction of the principal balance in excess of the amount paid, during the three and six months ended June 30, 2023, the Company recorded a gain on forgiveness of debt of \$0.2 million. The Company has not made all of the monthly installments due under the notes and the notes are past due.

### Loan Payable – Related Party

At June 30, 2023 (unaudited) and December 31, 2022, loan payable - related party consisted of the following:

	June 30, 2023	December 31, 2022
Loan payable to Christopher Diamantis	\$ 2,253,000	\$ 2,995,000
Less current portion of loan payable, related party	(2,253,000)	(2,995,000)
<b>Total loan payable, related party, net of current portion</b>	<b>\$ -</b>	<b>\$ -</b>

Mr. Diamantis was a member of the Company's Board of Directors until his resignation on February 26, 2020. During the six months ended June 30, 2023 and 2022, Mr. Diamantis loaned the Company \$580,000 and \$750,000, respectively, which the Company used to pay amounts owed under the note payable to Mr. O'Killough. These payments and the note payable to Mr. O'Killough are more fully discussed above under the heading *Notes Payable – Third Parties*. During the six months ended June 30, 2023, the Company made payments on the principal amount of the loans from Mr. Diamantis of \$1.3 million. No principal payments were made on loans from Mr. Diamantis during the six months ended June 30, 2022.

During the three months ended June 30, 2023 and 2022, the Company did not incur interest expense on the loans from Mr. Diamantis. During the six months ended June 30, 2023 and 2022, the Company incurred interest expense on the loans from Mr. Diamantis of \$58,000 and \$0.1 million, respectively.

No accrued interest was owed to Mr. Diamantis at June 30, 2023 and December 31, 2022. Interest accrues on loans from Mr. Diamantis at a rate of 10% of the amount loaned.

### Debentures

The carrying amount of all outstanding debentures with institutional investors as of June 30, 2023 (unaudited) and December 31, 2022 was as follows:

	June 30, 2023	December 31, 2022
March 2017 Debenture	\$ 2,580,240	\$ 2,580,240
2018 Debentures	5,642,000	5,642,000
October 2022 Debentures	-	400,000
	8,222,240	8,622,240
Less current portion	(8,222,240)	(8,622,240)
<b>Debentures, net of current portion</b>	<b>\$ -</b>	<b>\$ -</b>

### March 2017 Debenture

In March 2017, the Company issued a debenture due in March 2019 (the "March 2017 Debenture") with a principal balance of \$2.6 million at June 30, 2023 and December 31, 2022, including a 30% late-payment penalty of \$0.6 million. The March 2017 Debenture is past due by its original terms. The March 2017 Debenture bears default interest at the rate of 18% per annum and is secured by a first priority lien on all of the Company's assets. The Company incurred default interest expense on this past due debenture of \$0.1 million and \$0.1 million, respectively, during the three months ended June 30, 2023 and 2022 and \$0.2 million and \$0.2 million, respectively, during the six months ended June 30, 2023 and 2022. As of June 30, 2023, accrued default interest on the March 2017 Debenture totaled \$2.0 million.

On June 30, 2023, the March 2017 Debenture is convertible into shares of the Company's common stock, at a conversion price, which has been adjusted pursuant to its terms, of \$0.00009 per share or 28.7 billion shares of the Company's common stock. The conversion price is subject to reset in the event of offerings or other issuances of common stock, or rights to purchase common stock, at a price below the then conversion price, as well as other customary anti-dilution protections.

The March 2017 Debenture was issued with warrants (the "March Warrants"), which are exercisable into shares of the Company's common stock until March 21, 2024. During the three and six months ended June 30, 2022, the Company recorded \$194.8 million and \$330.5 million of deemed dividends, respectively, as a result of the down round provisions of March Warrants. No deemed dividends were recorded in the three and six months ended June 30, 2023 as there was no change in the exercise prices of the March Warrants during the periods. Deemed dividends and outstanding warrants are more fully discussed in Notes 1, 9 and 10.

#### 2018 Debentures

During 2018, the Company closed various offerings of debentures (the “2018 Debentures”) with principal balances aggregating \$14.5 million, including late-payment penalties, due in September 2019. The conversion terms of the 2018 Debentures are the same as those of the March 2017 Debenture, as more fully described above, with the exception of the conversion price, which was \$0.052 per share at June 30, 2023 and is subject to a floor of \$0.052 per share. At June 30, 2023 and December 31, 2022, the outstanding principal balance of the 2018 Debentures, including 30% late-payment penalties of \$1.3 million, was \$5.6 million and the debentures were convertible into 108.5 million shares of the Company’s common stock. The debentures bear default interest at the rate of 18% per annum and are secured by a first priority lien on all of the Company’s assets. The Company incurred default interest expense on these past due debentures of \$0.3 million and \$0.3 million, respectively, during the three months ended June 30, 2023 and 2022 and \$0.5 million and \$0.5 million, respectively, during the six months ended June 30, 2023 and 2022. As of June 30, 2023, accrued default interest on the 2018 Debentures totaled \$3.8 million.

See Notes 3 and 10 for a discussion of the dilutive effect of the outstanding convertible debentures and warrants as of June 30, 2023.

#### October 2022 Debentures

On October 12, 2022, the Company issued non-convertible, non-interest bearing debentures to institutional investors in the amount of \$550,000, including \$50,000 of original issue discounts, for net proceeds of \$500,000. These debentures were due by their initial terms on February 12, 2023 and were secured by a portion of the Company’s investment in InnovaQor Series B-1 Preferred Stock. On December 15, 2022, the Company and the institutional investors agreed to revise the repayment terms of these debentures as follows: (i) payment of \$150,000 on December 15, 2022; and (ii) monthly payments of \$100,000 due by the 12<sup>th</sup> day of January, February, March and April 2023. The debentures were fully repaid in April 2023.

#### Note 7 – Related Party Transactions

In addition to the transactions discussed in Notes 6 and 10, the Company had the following related party activity during the three and six months ended June 30, 2023 and 2022:

##### *Alcimed Limited*

Pursuant to a consulting agreement, Alcimed Limited billed \$0.1 million and \$0.1 million for services for the three months ended June 30, 2023 and 2022, respectively, and \$0.2 million and \$0.2 million for the six months ended June 30, 2023 and 2022, respectively. Seamus Lagan, the Company’s President and Chief Executive Officer, is the Managing Director of Alcimed Limited.

##### *InnovaQor, Inc.*

In addition to the investment in InnovaQor’s Series B-1 Preferred Stock (see Notes 1 and 9), at June 30, 2023 and December 31, 2022, the Company had a note receivable / related party receivable resulting from working capital advances to InnovaQor, Inc. (“InnovaQor”) of approximately \$2.3 million and \$1.5 million, respectively. From January 1, 2023 to June 30, 2023, the Company advanced \$0.9 million to InnovaQor to finance its working capital requirements. The balance at June 30, 2023 and December 31, 2022 includes amounts due under a note receivable as discussed below.

As of July 1, 2022, the Company had an outstanding related party receivable from InnovaQor of \$803,416. InnovaQor signed a promissory note, dated July 1, 2022, in favor of the Company that provided that InnovaQor repay the Company \$883,757 on December 31, 2022 (inclusive of 10% original issue discount). Effective December 31, 2022, the Company and InnovaQor agreed to restructure the promissory note receivable in favor of the Company in the amount of \$883,757 and additional monies owed in the amount of \$441,018 for a new promissory note receivable with a principal amount of \$1,457,253 (inclusive of a 10% original issue discount, or \$132,478) and an original maturity date of June 30, 2023 except that InnovaQor will pay 25% of any capital it receives from new capital secured prior to the maturity date. The note receivable, in the event of default, bears interest at 18% per annum. During the year ended December 31, 2022, the Company recognized original issue discounts totaling \$0.2 million as interest income. On August 9, 2023, certain modifications were made to the note receivable, as more fully discussed in Note 15.

During the three months ended June 30, 2023 and 2022, the Company contracted with InnovaQor to provide it with ongoing health information technology-related services totaling approximately \$0.1 million and \$50,000, respectively, and during the six months ended June 30, 2023 and 2022, the Company contracted with InnovaQor to provide such services totaling approximately \$0.2 million and \$0.1 million, respectively. In addition, InnovaQor currently subleases office space from the Company at a cost of approximately \$10,200 per month for rent and utilities.

The terms of the foregoing activities, and those discussed in Notes 6 and 10, are not necessarily indicative of those that would have been agreed to with unrelated parties for similar transactions.

**Note 8 – Finance and Operating Lease Obligations**

We lease property and equipment under finance and operating leases. For operating 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.

Generally, we use our most recent agreed-upon borrowing interest rate 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 June 30, 2023 (unaudited) and December 31, 2022:

	<u>Balance Sheet Classification</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
<b>Assets:</b>			
Operating leases	Right-of-use operating lease assets	\$ 440,310	\$ 574,256
Finance lease	Property and equipment, net	-	-
<b>Total lease assets</b>		<b>\$ 440,310</b>	<b>\$ 574,256</b>
<b>Liabilities:</b>			
<b>Current:</b>			
Operating leases	Right-of-use operating lease obligations	\$ 168,761	\$ 215,063
Finance lease	Finance lease obligation	220,461	220,461
<b>Long-term</b>	<b>Right-of-use operating lease obligations</b>	<b>271,549</b>	<b>359,193</b>
<b>Total lease liabilities</b>		<b>\$ 660,771</b>	<b>\$ 794,717</b>
<b>Weighted-average remaining term:</b>			
Operating leases		2.33 years	2.59 years
Finance lease (1)		N/a	N/a
<b>Weighted-average discount rate:</b>			
Operating leases		13.0%	13.0%
Finance lease		4.9%	4.9%

The following table presents certain information related to lease expense for finance and operating leases for the three and six months ended June 30, 2023 and 2022 (unaudited):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
<b>Finance lease expense:</b>				
Depreciation/amortization of leased assets	\$ -	\$ -	\$ -	\$ -
Interest on lease liabilities	-	-	-	-
<b>Operating leases:</b>				
Short-term lease expense (2)	82,347	97,681	174,915	165,039
<b>Total lease expense</b>	<b>\$ 82,347</b>	<b>\$ 97,681</b>	<b>\$ 174,915</b>	<b>\$ 165,039</b>

*Other Information*

The following table presents supplemental cash flow information for the six months ended June 30, 2023 and 2022 (unaudited):

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows for operating leases	\$ 175,460	\$ 162,539
Operating cash flows for finance lease	\$ -	\$ -
Financing cash flows for finance lease payments	\$ -	\$ -

(1) As of June 30, 2023 and December 31, 2022, the Company was in default under its finance lease obligation, therefore, the aggregate future minimum lease payments and accrued interest under this finance lease in the amount of \$0.2 million are deemed to be immediately due.

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

Aggregate future minimum lease payments under right-of-use operating and finance leases are as follows:

	Right-of-Use Operating Leases	Finance Lease
<b>Twelve months ending June 30:</b>		
2024	\$ 216,239	\$ 224,252
2025	222,712	-
2026	74,598	-
2027	-	-
2028	-	-
Thereafter	-	-
<b>Total</b>	<b>513,549</b>	<b>224,252</b>
Less interest	(73,239)	(3,791)
<b>Present value of minimum lease payments</b>	<b>440,310</b>	<b>220,461</b>
Less current portion of lease obligations	(168,761)	(220,461)
<b>Lease obligations, net of current portion</b>	<b>\$ 271,549</b>	<b>\$ -</b>

**Note 9 – Fair Value, Derivative Financial Instruments and Deemed Dividends**

*Fair Value Measurements*

The estimated fair value of financial instruments was determined by the Company using available market information and valuation methodologies considered to be appropriate. The fair value measurements accounting guidance is more fully discussed in Note 1. At June 30, 2023 and December 31, 2022, the carrying value of the Company's accounts receivable, note receivable / receivable from related party, accounts payable and accrued expenses approximated their fair values due to their short-term nature.

The following table sets forth the financial assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2023 (unaudited) and December 31, 2022:

	Level 1	Level 2	Level 3	Total
<b>As of June 30, 2023:</b>				
Asset - InnovaQor Series B-1 Preferred Stock	\$ -	\$ -	\$ 9,016,072	\$ 9,016,072
Liability - Embedded conversion option of debenture	-	-	455,336	455,336
<b>As of December 31, 2022:</b>				
Asset - InnovaQor Series B-1 Preferred Stock	\$ -	\$ -	\$ 9,016,072	\$ 9,016,072
Liability - Embedded conversion option of debenture	-	-	455,336	455,336

*InnovaQor Series B-1 Preferred Stock*

During 2021, the Company sold several subsidiaries to InnovaQor. As consideration for the sale, the Company received 14,950 shares of InnovaQor's Series B-1 Preferred Stock of which 100 shares were used in 2021 to settle an outstanding liability leaving a balance of 14,850 shares at June 30, 2023 and December 31, 2022. The fair value of the Company's InnovaQor Series B-1 Preferred Stock investment was determined based on the Option Price Method (the "OPM"). The OPM treats common and preferred interests as call options on the equity value of the subject company, with exercise prices based on the liquidation preference of the preferred interests and participation thresholds for subordinated classes. The Black Scholes model was used to price the call options. The assumptions used were: risk free rate of 0.84%; volatility of 250.0%; and exit period of 5 years. Lastly, a discount rate of 35% was applied due to the lack of marketability of the InnovaQor Series B-1 Preferred Stock and the underlying liquidity of InnovaQor's common stock.

In reviewing the fair value of the InnovaQor Series B-1 Preferred Stock, the Company believes that the value recorded at June 30, 2023 and December 31, 2022 of \$9.0 million represents its fair value. In determining fair value, consideration was given to: (i) the variable rate conversion feature of the InnovaQor Series B-1 Preferred Stock in that changes in the price of the common stock do not affect conversion value; (ii) recent sales and offering prices by InnovaQor of shares of its common stock; (iii) that InnovaQor is actively seeking additional capital; and (iv) other considerations that we believe will bolster the underlying liquidity of InnovaQor's common stock.

*Embedded Conversion Option*

The Company utilized the following method to value its derivative liability as of June 30, 2023 and December 31, 2022 for an embedded conversion option related to an outstanding convertible debenture valued at \$455,336. The Company determined the fair value by comparing the conversion price per share, which based on the conversion terms is 85% of the market price of the Company's common stock, multiplied by the number of shares issuable at the balance sheet dates 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. There was no change in the value of the embedded conversion option in the three and six months ended June 30, 2023 and 2022 and the year ended December 31, 2022 as there was no change in the conversion price terms during the periods.

*Deemed Dividends*

During the three and six months ended June 30, 2023, there were no triggers of down round provisions of outstanding warrants and, therefore, no associated deemed dividends were recorded in the periods. During the three and six months ended June 30, 2022, the conversions of preferred stock triggered a reduction in the exercise prices of warrants containing down round provisions. In accordance with U.S. GAAP, the incremental fair value of the warrants, as a result of the decreases in the exercise prices, was measured using Black Scholes. The following assumptions were utilized in the Black Scholes valuation models for the three months ended June 30, 2022: risk free rates ranging from 2.37% to 2.73%, volatility ranging from 717% to 792% and terms ranging from 1.83 to 2.39 years. The following assumptions were utilized in the Black Scholes valuation models for the six months ended June 30, 2022: risk free rates ranging from 0.0% to 2.73%, volatility ranging from 1.94% to 1,564% and terms ranging from 0.01 to 2.45 years. The incremental value of modifications to warrants as a result of the down round provisions of \$194.7 million and \$330.5 million were recorded as deemed dividends during the three and six months ended June 30, 2022, respectively.

In addition, deemed dividends of \$0.2 million and \$0.3 million were recorded in the three and six months ended June 30, 2022, respectively, as a result of the issuances of shares of our Series P Preferred Stock, as more fully discussed in Note 10. Deemed dividends are also discussed in Notes 1 and 3.

## Note 10 – Stockholders’ Deficit

### Authorized Capital

The Company has 250,000,000,000 authorized shares of Common Stock at a par value of \$0.0001 per share and 5,000,000 authorized shares of Preferred Stock at a par value of \$0.01 per share.

### Preferred Stock

As of June 30, 2023, the Company had outstanding shares of preferred stock consisting of 10 shares of its Series H Convertible Preferred Stock (the “Series H Preferred Stock”), 250,000 shares of its Series L Convertible Preferred Stock (the “Series L Preferred Stock”), 20,810.35 shares of its Series M Convertible Redeemable Preferred Stock (the “Series M Preferred Stock”), 2,864.31 shares of its Series N Convertible Redeemable Preferred Stock (the “Series N Preferred Stock”), 8,644.59 shares of its Series O Convertible Redeemable Preferred Stock (the “Series O Preferred Stock”) and 10,194.87 shares of its Series P Preferred Stock. The Company’s outstanding shares of preferred stock do not contain mandatory redemption or other features that would require them to be presented on the balance sheet outside of equity and, therefore, they qualify for equity accounting treatment. As a result of the equity accounting treatment, fair value accounting is not required in connection with the issuances of the stock and no gains, losses or derivative liabilities have been recorded in connection with the preferred stock.

#### *Series H Preferred Stock*

Each of the 10 shares of 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.

#### *Series L Preferred Stock*

The Series L Preferred Stock is held by Alcimed LLC and has a stated value of \$1.00 per share. Mr. Lagan is the sole manager of Alcimed LLC. The Series L Preferred Stock is not entitled to receive any dividends. Each share of the Series L Preferred Stock is convertible into shares of the Company’s common stock at a conversion price equal to the average closing price of the Company’s common stock on the ten trading days immediately prior to the conversion date. On June 30, 2023, the Series L Preferred Stock was convertible into approximately 2.8 billion shares of the Company’s common stock at a conversion price of \$0.00009 per share.

#### *Series M Preferred Stock*

On June 30, 2020, the Company and Mr. Diamantis entered into an exchange agreement wherein Mr. Diamantis agreed to the extinguishment of the Company’s indebtedness to him totaling \$18.8 million, including accrued interest, on that date in exchange for 22,000 shares of the Company’s Series M Preferred Stock with a par value of \$0.01 per share and a stated value of \$1,000 per share. See Note 6 for a discussion of the Company’s indebtedness to Mr. Diamantis as of June 30, 2023 and December 31, 2022.

The terms of the Series M Preferred Stock include: (i) each share of the Series M Preferred Stock is convertible into shares of the Company’s common stock at a conversion price equal to 90% of the average closing price of the Company’s common stock on the ten trading days immediately prior to the conversion date but in any event not less than the par value of the Company’s common stock; (ii) dividends at the rate per annum of 10% of the stated value per share shall accrue on each outstanding share of Series M Preferred Stock from and after the date of the original issuance of such share of Series M Preferred Stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization). The dividends shall accrue from day to day, whether or not declared, and shall be cumulative and non-compounding; provided, however that such dividend shall be payable only when, as, and if declared by the Board of Directors and the Company shall be under no obligation to pay such dividends. No cash dividends shall be paid on the Company’s common stock unless the dividends are paid on the Series M Preferred Stock; and (iii) each holder of the Series M Preferred Stock shall be entitled to vote on all matters submitted to a vote of the holders of the Company’s common stock. Regardless of the number of shares of Series M Preferred Stock outstanding and so long as at least one share of Series M Preferred Stock is outstanding, the outstanding shares of Series M Preferred Stock shall have the number of votes, in the aggregate, equal to 51% of all votes entitled to be voted at any meeting of stockholders or action by written consent. Each outstanding share of the Series M Preferred Stock shall represent its proportionate share of the 51% allocated to the outstanding shares of Series M Preferred Stock in the aggregate. The Series M Preferred Stock shall vote with the common stock and any other voting securities as if they were a single class of securities. On August 13, 2020, Mr. Diamantis entered into the Voting Agreement with Mr. Lagan and Alcimed LLC (of which Mr. Lagan is the sole manager) pursuant to which Mr. Diamantis granted an irrevocable proxy to Mr. Lagan to vote the Series M Preferred Stock held by Mr. Diamantis. Mr. Diamantis has retained all other rights under the Series M Preferred Stock.

During the year ended December 31, 2021, Mr. Diamantis converted a total of 610.65 shares of his Series M Preferred Stock with a stated value of \$0.6 million into 45 shares of the Company's common stock. On August 27, 2021, the Company entered into an exchange agreement with Mr. Diamantis. Pursuant to the exchange agreement, Mr. Diamantis exchanged 570 shares of his Series M Preferred Stock with a stated value of approximately \$0.6 million for 9,500 shares of the Company's common stock and warrants to purchase 4,750 shares of the Company's common stock at an exercise price of \$70.00 per share. The warrants have a three-year term and, as of June 30, 2023, are exercisable into 3.7 billion shares of the Company's common stock at an exercise price of \$0.00009 per share as a result of down-round provision features. On June 30, 2023, 20,810.35 shares of Series M Preferred Stock remained outstanding and were convertible into 208.1 billion shares of the Company's common stock.

#### *Series N Preferred Stock*

The Company's Board of Directors has designated 50,000 shares of the 5,000,000 shares of authorized preferred stock as the Series N Preferred Stock. Each share of Series N Preferred Stock has a stated value of \$1,000. On August 31, 2020, the Company and its debenture holders exchanged, under the terms of Exchange, Redemption and Forbearance Agreements, certain outstanding debentures and all of the then outstanding shares of the Company's Series I-1 Convertible Preferred Stock and Series I-2 Convertible Preferred Stock for 30,435.52 shares of the Company's Series N Preferred Stock.

The terms of the Series N Preferred Stock include: (i) each share of the Series N Preferred Stock is convertible into shares of the Company's common stock, at any time and from time to 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 Series N Preferred Stock, plus any accrued declared and unpaid dividends, by the conversion price; (ii) the conversion price is equal to 90% of the lowest VWAP during the 10 trading days immediately prior to the conversion date; (iii) dividends at the rate per annum of 10% of the stated value per share shall accrue on each outstanding share of Series N Preferred Stock from and after the date of the original issuance of such share of Series N Preferred Stock (the "Series N Preferred Accruing Dividends"). The Series N Preferred Accruing Dividends shall accrue from day to day, whether or not declared, and shall be cumulative and non-compounding; provided, however, that such Series N Preferred Accruing Dividends shall be payable only when, as, and if declared by the Board of Directors. No cash dividends shall be paid on the common stock unless the Series N Preferred Accruing Dividends are paid; and (iv) except as provided below or by law, the Series N Preferred Stock shall have no voting rights. However, as long as any shares of Series N Preferred Stock are outstanding, the Company shall not, without the affirmative vote of the holders of a majority of the then outstanding shares of the Series N Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Series N Preferred Stock or alter or amend the Certificate of Designation, (b) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders, (c) increase the number of authorized shares of the Series N Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing.

During the six months ended June 30, 2023 and 2022, the holders converted 36 shares and 1,833.71 shares, respectively, of their Series N Preferred Stock with a stated value of \$36,000 and \$1.8 million, respectively, into 400.0 million and 2.6 billion shares, respectively, of the Company's common stock. On June 30, 2023, 2,864.31 shares of Series N Preferred Stock remained outstanding and were convertible into 31.8 billion shares of the Company's common stock.

#### *Series O Preferred Stock*

On May 10, 2021, the Company closed an offering of shares of its newly-authorized Series O Preferred Stock. The offering was pursuant to the terms of the securities purchase agreement dated as of May 10, 2021. On September 7, 2021, the Company entered into a second securities purchase agreement and on October 28, 2021, the Company entered into a third securities purchase agreement. These agreements were between the Company and certain existing institutional investors of the Company. Under these agreements, the Company issued 9,900 shares of its Series O Preferred Stock and it received \$9.0 million in aggregate proceeds.

The terms of the Series O Preferred Stock include: (i) each share of the Series O Preferred Stock is convertible into shares of the Company's common stock, at any time and from time to 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 Series O Preferred Stock, plus any accrued declared and unpaid dividends, by the conversion price; (ii) the conversion price is equal to 90% of the lowest VWAP during the 10 trading days immediately prior to the conversion date; (iii) dividends at the rate per annum of 10% of the stated value per share shall accrue on each outstanding share of Series O Preferred Stock from and after the date of the original issuance of such share of Series O Preferred Stock (the "Series O Preferred Accruing Dividends"). The Series O Preferred Accruing Dividends shall accrue from day to day, whether or not declared, and shall be cumulative and non-compounding; provided, however, that such Series O Preferred Accruing Dividends shall be payable only when, as, and if declared by the Board of Directors. No cash dividends shall be paid on the common stock unless the Series O Preferred Accruing Dividends are paid; and (iv) except as provided below or by law, the Series O Preferred Stock shall have no voting rights. However, as long as any shares of Series O Preferred Stock are outstanding, the Company shall not, without the affirmative vote of the holders of a majority of the then outstanding shares of the Series O Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Series O Preferred Stock or alter or amend the Certificate of Designation, (b) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders, (c) increase the number of authorized shares of the Series O Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing.



During the six months ended June 30, 2023, the holders converted 40.5 shares of their Series O Preferred Stock with a stated value of \$40,500 into 450.0 million shares of the Company's common stock. During the six months ended June 30, 2022, the holders converted 179.46 shares of their Series O Preferred Stock with a stated value of \$0.2 million into 1.6 billion shares of the Company's common stock. On June 30, 2023, 8,644.59 shares of Series O Preferred Stock remained outstanding and were convertible into 96.1 billion shares of the Company's common stock.

#### *Series P Preferred Stock*

On November 7, 2021, the Company entered into Exchange and Amendment Agreements (the "November 2021 Exchange Agreements") with certain institutional investors in the Company wherein the investors agreed to reduce their holdings of \$1.1 million principal value of then outstanding warrant promissory notes payable and \$4.5 million of then outstanding non-convertible debentures, plus accrued interest thereon of \$1.5 million, by exchanging the indebtedness and accrued interest for 8,544.87 shares of the Company's Series P Preferred Stock. Each share of the Series P Preferred Stock has a stated value of \$1,000. In addition, pursuant to the November 2021 Exchange Agreements, the expiration dates of the March Warrants that were issued by the Company to the debenture holders in March 2017 were extended from March 21, 2022 to March 21, 2024.

On March 11, 2022, under the terms of a securities purchase agreement dated January 31, 2022, the Company issued to the institutional investors an additional 1,100 shares of its Series P Preferred Stock for aggregate proceeds of \$1.0 million. On April 1, 2022, the Company issued an additional 550 shares of its Series P Preferred Stock and received proceeds of \$0.5 million. During the three and six months ended June 30, 2022, the Company recorded \$0.1 million and \$0.3 million of deemed dividends, respectively, as a result of the issuances of shares of its Series P Preferred Stock during the periods. The deemed dividends resulted from the difference between the stated value of the shares issued and the proceeds received, as well as the 10% conversion price discount.

The terms of the Series P Preferred Stock include: (i) each share of the Series P Preferred Stock is convertible into shares of the Company's common stock, at any time and from time to 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 Series P Preferred Stock, plus any accrued declared and unpaid dividends, by the conversion price; (ii) the conversion price is equal to 90% of the lowest VWAP during the 10 trading days immediately prior to the conversion date; (iii) dividends at the rate per annum of 10% of the stated value per share shall accrue on each outstanding share of Series P Preferred Stock from and after the date of the original issuance of such share of Series P Preferred Stock (the "Series P Preferred Accruing Dividends"). The Series P Preferred Accruing Dividends shall accrue from day to day, whether or not declared, and shall be cumulative and non-compounding; provided, however, that such Series P Preferred Accruing Dividends shall be payable only when, as, and if declared by the Board of Directors. No cash dividends shall be paid on the common stock unless the Series P Preferred Accruing Dividends are paid; and (iv) except as provided below or by law, the Series P Preferred Stock shall have no voting rights. However, as long as any shares of Series P Preferred Stock are outstanding, the Company shall not, without the affirmative vote of the holders of a majority of the then outstanding shares of the Series P Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Series P Preferred Stock or alter or amend the Certificate of Designation, (b) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders, (c) increase the number of authorized shares of the Series P Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing.

On June 30, 2023, 10,194.87 shares of the Company's Series P Preferred Stock were outstanding and were convertible into 113.3 billion shares of the Company's common stock.

#### **Common Stock**

The Company had 29.9 billion and 29.1 billion shares of its common stock issued and outstanding at June 30, 2023 and December 31, 2022, respectively. During the six months ended June 30, 2023, the Company issued 400 million shares of its common stock upon the conversion of 36 shares of its Series N Preferred Stock and 450 million shares of its common stock upon conversion of 40.5 shares of its Series O Preferred Stock. During the six months ended June 30, 2022, the Company issued 2.6 billion shares of its common stock upon the conversions of 1,833.71 shares of its Series N Preferred Stock and 1.6 billion shares of its common stock upon the conversions of 179.46 shares of its Series O Preferred Stock.

The Company has outstanding options, warrants, convertible preferred stock and convertible debentures. Exercise of the outstanding options and warrants, and conversions of the convertible preferred stock and debentures could result in substantial dilution of the Company's common stock and a decline in the market price of the common stock. In addition, 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. 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 the Company's common stock and have given rise to reverse splits of its common stock, including the Reverse Stock Split, which is more fully discussed in Note 1.

On August 13, 2020, Mr. Diamantis entered into the Voting Agreement with the Company, Mr. Lagan and Alcimedé LLC (of which Mr. Lagan is the sole manager) pursuant to which Mr. Diamantis granted an irrevocable proxy to Mr. Lagan to vote the Series M Preferred Stock held by Mr. Diamantis. Mr. Diamantis has retained all other rights under the Series M Preferred Stock. Regardless of the number of shares of Series M Preferred Stock outstanding and so long as at least one share of Series M Preferred Stock is outstanding, the outstanding shares of Series M Preferred Stock shall have the number of votes, in the aggregate, equal to 51% of all votes entitled to be voted at any meeting of stockholders or action by written consent. This means that the holders of Series M Preferred Stock have sufficient votes, by themselves, to approve or defeat any proposal voted on by the Company's stockholders, unless there is a supermajority required under applicable law or by agreement.

As a result of the Voting Agreement discussed above and the November 5, 2021 Amendment to the Company's Certificate of Incorporation, as amended, to provide that the number of authorized shares of the Company's common stock or preferred stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Company, which is more fully discussed in Note 1, as of the date of filing this report, the Company believes that it has the ability to ensure that it has and or can obtain sufficient authorized shares of its common stock to cover all outstanding rights to acquire potentially dilutive common shares.

#### **Stock Options**

The Company maintained and sponsored the Tegal Corporation 2007 Incentive Award Equity 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. As of June 30, 2023 and December 31, 2022, the Company had 26 stock options outstanding and exercisable with a weighted average exercise price of \$2.9 million per share. At June 30, 2023, the weighted average remaining contractual life was 2.87 years for options outstanding and exercisable. The intrinsic value of options exercisable at June 30, 2023 and December 31, 2022 was \$0. As of June 30, 2023 and 2022, there was no remaining compensation expense associated with stock options as all of the outstanding options had fully vested as of December 31, 2019.

#### **Warrants**

The Company, as part of financing transactions, has issued warrants to purchase shares of the Company's common stock exercisable into a total of 511.3 billion shares at June 30, 2023.

The following summarizes the information related to warrant activity during the six months ended June 30, 2023:

	<b>Number of Shares of Common Stock Issuable for Warrants</b>	<b>Weighted average exercise price</b>
Balance at December 31, 2022	511,333,351,090	\$ 0.00009
Issuance of warrants	-	-
Expiration of warrants	(1)	(794,998.13)
Balance at June 30, 2023	<u>511,333,351,089</u>	<u>\$ 0.00009</u>

Included in the warrants outstanding at June 30, 2023 were the March Warrants issued in March 2017 in connection with the March 2017 Debenture. (The March 2017 Debenture is more fully discussed in Note 6.) The Company issued these warrants to purchase shares of the Company's common stock to several accredited investors. On June 30, 2023, the March Warrants were exercisable into an aggregate of approximately 507.6 billion shares of the Company's common stock. The March Warrants were issued to the investors in three tranches, Series A Warrants, Series B Warrants and Series C Warrants. At June 30, 2023, the Series A Warrants were exercisable for 190.0 billion shares of the Company's common stock. They were exercisable upon issuance in March 2017 and had an initial term of exercise equal to five years. On June 30, 2023, the Series B Warrants were exercisable for 127.6 billion shares of the Company's common stock. They were exercisable upon issuance in March 2017, and had an initial term of exercise of eighteen months, which was extended until March 21, 2022. On June 30, 2023, the Series C Warrants were exercisable for 190.0 billion shares of the Company's common stock and had an initial term of five years provided such warrants shall only vest if, when and to the extent that the holders exercise the Series B Warrants. On November 7, 2021, the expiration dates of the March Warrants were extended to March 21, 2024. On June 30, 2023, the Series A, Series B and Series C Warrants each have an exercise price of \$0.00009 per share, which reflects down round provision adjustments pursuant to their terms. The March Warrants are subject to "full ratchet" and other customary anti-dilution protections.

The number of shares of common stock issuable under outstanding warrants and the exercise prices of the warrants as reflected in the table above 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 down round provisions of the outstanding warrants, subsequent issuances of the Company's common stock or common stock equivalents at prices below the then current exercise prices of the warrants have resulted in increases in the number of shares issuable pursuant to the warrants and decreases in the exercise prices of the warrants. See, also, Notes 1 and 3 for a discussion of the dilutive effect on the Company's common stock as a result of the outstanding warrants.

#### **Deemed Dividends**

During the three and six months ended June 30, 2022, reductions in the exercise prices of the warrants gave rise to deemed dividends. See Note 9 for the assumptions used in the calculations of deemed dividends. Deemed dividends are also discussed under the heading "Preferred Stock" above and in Notes 1 and 3.

#### **Note 11 – Supplemental Disclosure of Cash Flow Information**

	<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Cash paid for interest	\$ 411,791	\$ 944,082
Cash paid for income taxes	\$ -	\$ -
<b>Non-cash investing and financing activities:</b>		
Stated value of Series N Preferred Stock converted into common stock	\$ 36,000	\$ 1,833,712
Stated value of Series O Preferred Stock converted into common stock	40,500	179,460
Deemed dividends from issuances of Series P Preferred Stock	-	333,333
Deemed dividends from triggers of down round provisions of warrants	-	330,543,036

#### **Note 12 – Commitments and Contingencies**

##### **Concentration of Credit Risk**

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients at its facilities. The Company does have significant receivable balances with government and other payers. Generally, the Company does not require collateral or other security to support accounts 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.

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 Corp.

##### **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 filed suit against CIGNA Health for failure to pay claims for laboratory services provided. Cigna Health, in turn, sued for alleged improper billing practices. The suit remains ongoing but because the Company did not have the financial resources to see the legal action to conclusion it assigned the benefit, if any, from the suit to Mr. Diamantis for his financial support to the Company and assumption of all costs to carry the case to conclusion.

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. The balance accrued of approximately \$0.4 million remained outstanding to the DOR at June 30, 2023.

On December 7, 2016, the holders of the Tegal Notes filed suit against the Company seeking payment for the amounts due under the notes and accrued interest. On April 23, 2018, the holders of the Tegal Notes received a judgment against the Company in the amount of \$384,384 plus post-judgment interest. On June 1, 2023, the Company and the holders of the Tegal Notes agreed to settle all amounts owed pursuant to the judgment for a total of \$462,500 comprised of an initial payment of \$200,000 followed by six monthly payments of \$43,750. The Company has made all required payments to date.

In February 2020, Anthony O’Killough sued the Company and Mr. Diamantis, as guarantor, in New York State Supreme Court for the County of New York, for approximately \$2.0 million relating to the promissory note issued by the Company in September 2019. In May 2020, the Company, Mr. Diamantis, as guarantor, and Mr. O’Killough entered into a Stipulation providing for a payment of a total of \$2.2 million (which included accrued “penalty” interest as of that date) in installments through November 1, 2020. The Company made payments totaling \$450,000 in 2020. On January 18, 2022, Mr. Diamantis paid \$750,000 and the remaining balance was due 120 days thereafter. Mr. O’Killough agreed to forebear from any further enforcement action until then. On various dates during the remainder of 2022, Mr. Diamantis made additional payments to Mr. O’Killough totaling \$300,000 and the Company gave Mr. Diamantis \$350,000 for further payment to Mr. O’Killough. The Company is obligated to repay Mr. Diamantis for the payments, plus interest, that he made to Mr. O’Killough. As a result of these payments, the past due balance owed to Mr. O’Killough was \$1.1 million on December 31, 2022. During the six months ended June 30, 2023, the parties entered into a final settlement wherein the Company and Mr. Diamantis settled the obligation in full for \$580,000. The promissory note, forbearance agreement and final settlement are also discussed in Note 6.

In July 2019, CHSPSC, the former owners of Jamestown Regional Medical Center, obtained judgments against the Company totaling of \$1.3 million. The Company has recorded these judgments as liabilities as of June 30, 2023. However, management believes that a number of insurance payments were made to CHSPSC for services provided after the change of ownership and believes that these payments will offset portions of the judgments.

On June 30, 2021, the Company entered into a settlement agreement with the Tennessee Bureau of Workers’ Compensation. Per the terms of the settlement agreement, the Company is obligated to pay a total of \$109,739, payable in a lump sum payment of \$32,922 on or before August 15, 2021 and in 24 consecutive monthly payments of \$3,201 each on or before the 15<sup>th</sup> day of each month beginning September 15, 2021. The Company made the required payments due to date and has recorded the remaining amounts owed as a liability as of June 30, 2023.

A sealed *qui tam* lawsuit in the US District Court for the Southern District of Florida against the Company was filed in July 2021. This lawsuit was unsealed in November 2022 and Clifford Barron disclosed as the Plaintiff-Relator asserted violations of the False Claims Act. Clifford Barron was an employee of CollabRx, Inc. (a San Francisco based, wholly owned subsidiary of the Company) until early 2018. Following his resignation on January 17, 2018, Clifford Barron sought and received a judgment against the Company for approximately \$253,000 he claimed was owed to him by the CollabRx subsidiary for severance and payment of COBRA. On receiving the judgment, he collected all monies owed to him under this judgment, including from the Company’s rural healthcare operations in Tennessee with which he was not involved. Payments included approximately \$164,000 secured from hospital operating and other bank accounts by garnishments initiated by Jonathan Swann Taylor of Taylor & Knight, GP, Knoxville Tennessee, on behalf of Clifford Barron in May 2022. Clifford Barron has not been an employee of any subsidiary of the Company since January 2018, is not involved with the Company and has no knowledge of the Company’s operations, financial status, or controls. On November 21, 2022, the Company was advised that the U.S. Department of Justice was intervening in the action filed by the Plaintiff-Relator, Clifford Barron and has requested repayment of HHS Provider Relief Funds that certain subsidiaries of the Company obtained and other relief. The Company has retained the services of a specialist third-party accounting firm to complete a forensic review of the expenditure of all monies expended since the receipt of HHS Provider Relief Funds. It has been discovered that certain filing requirements of the Company’s operating subsidiaries were incomplete or contained errors that did not accurately reflect the expenditure of HHS Provider Relief Funds received. The Company disputes the allegations made in the False Claims Act complaint and believes that the forensic review of funds expended will address the lawsuit and demonstrate adherence with the applicable rules for use of HHS Provider Relief Funds. Accordingly, no amount has been accrued for this potential liability at June 30, 2023 and December 31, 2022. There is no assurance that the Company will be able to retain all HHS Provider Relief Funds it has received nor avoid payment of other relief sought by the Department of Justice. Any requirement to repay a significant amount of HHS Provider Relief Funds could have a material adverse effect on the Company.

### Note 13 – Discontinued Operations

#### EPIC Reference Labs, Inc. and Other Non-Operating Subsidiaries

During the third quarter of 2020, the Company made a decision to sell EPIC and it made a decision to discontinue other non-operating subsidiaries, and as a result, EPIC's operations and the other non-operating subsidiaries' liabilities have been included in discontinued operations for all periods presented. The Company was unable to find a buyer for EPIC and, therefore, it has ceased all efforts to sell EPIC and closed down its operations.

Carrying amounts of major classes of liabilities of EPIC and the other non-operating subsidiaries included as part of discontinued operations in the unaudited condensed consolidated balance sheets as of June 30, 2023 (unaudited) and December 31, 2022 consisted of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Accounts payable	\$ 1,115,066	\$ 1,115,066
Accrued expenses	349,143	341,046
<b>Current liabilities of discontinued operations</b>	<b>\$ 1,464,209</b>	<b>\$ 1,456,112</b>

#### Consolidated Loss from Discontinued Operations:

	<u>Three Months Ended June 30, 2023 (unaudited)</u>	<u>Three Months Ended June 30, 2022 (unaudited)</u>	<u>Six Months Ended June 30, 2023 (unaudited)</u>	<u>Six Months Ended June 30, 2022 (unaudited)</u>
General and administrative expenses	\$ -	\$ 2,811	\$ -	\$ 4,245
Other expense	(8,097)	(1,134)	(8,097)	(1,134)
Provision for income taxes	-	-	-	-
Loss from discontinued operations	<u>\$ (8,097)</u>	<u>\$ (3,945)</u>	<u>\$ (8,097)</u>	<u>\$ (5,379)</u>

#### Note 14 – Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. The new guidance provides accounting for convertible instruments and contracts in an entity's own equity. The FASB issued this Update to address issues identified as a result of the complexity associated with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. The Board focused on amending the guidance on convertible instruments and the guidance on the derivatives scope exception for contracts in an entity's own equity. This standard will be effective for us for annual periods beginning on January 1, 2024, including interim periods within those fiscal years. Early adoption of this standard is not permitted for us because we have already adopted ASU 2017-11 "Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815)." We have not yet determined the impact of adopting this new accounting guidance on our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820), Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The FASB issued this ASU to: (1) clarify the guidance in *Topic 820, Fair Value Measurement*, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) amend a related illustrative example, and (3) introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with *Topic 820*. The amendments in this ASU do not change the principles of fair value measurement. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company should apply the amendments prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. We have not yet determined the impact of adopting this new accounting guidance on our consolidated financial statements.

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 15 – Subsequent Events**

*Myrtle Commencement of Operations*

On August 10, 2023, Myrtle received its state license to operate an alcohol and drug treatment facility at the Company's Big South Fork Medical Center campus and, accordingly, commenced operations on August 14, 2023. Myrtle is more fully discussed in Note 1.

*InnovaQor Note Receivable Modifications*

On August 9, 2023, the Company and InnovaQor mutually agreed to modify the promissory note receivable to extend the maturity date from June 30, 2023 to December 31, 2023 and to provide for additional interest in the form of 5% of the principal amount to be added to the amount payable under the note. The promissory note receivable is more fully discussed in Note 7.

**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, 2022 (the "2022 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 2022 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 are a provider of health care services for our patients. We own one operating hospital in Oneida, Tennessee, a hospital located in Jamestown, Tennessee that we plan to reopen, and operate an operating rural clinic in Kentucky. In addition, the Company owns a subsidiary pursuing opportunities in the behavioral health sector and, on August 14, 2023, commenced operations of an alcohol and drug treatment facility on the campus of its hospital in Oneida, Tennessee. The Company's operations consist of only one segment.

*Scott County Community Hospital (d/b/a Big South Fork Medical Center)*

On January 13, 2017, we acquired certain assets related to Scott County Community Hospital, based in Oneida, Tennessee (the "Oneida Assets"). The Oneida Assets include a 52,000-square foot hospital building and 6,300-square foot professional building on approximately 4.3 acres. Scott County Community Hospital has 25 beds, a 24/7 emergency department and a laboratory that provides a range of diagnostic services. Scott County Community Hospital closed in July 2016 in connection with the bankruptcy filing of its parent company, Pioneer Health Services, Inc. We acquired the Oneida Assets out of bankruptcy for a purchase price of \$1.0 million. The hospital, which has since been renamed Big South Fork Medical Center, became operational on August 8, 2017. The hospital became certified as a Critical Access Hospital (rural) hospital in December 2021, retroactive to June 30, 2021.

*CarePlus Rural Health Clinic*

On March 5, 2019, we acquired certain assets related to an outpatient clinic located in Williamsburg, Kentucky known as CarePlus Clinic. The clinic, which was acquired from CarePlus Rural Health Clinic, LLC, offers compassionate care in a modern, patient-friendly facility. The CarePlus Clinic is located 32 miles northeast of our Big South Fork Medical Center.

*Myrtle Recovery Centers, Inc.*

In the second quarter of 2022, we formed a subsidiary, Myrtle Recovery Centers, Inc. ("Myrtle"), to pursue opportunities in the behavioral health sector, initially in our core, rural markets. We intend to focus on leveraging our existing physical locations and corporate and regional infrastructure to offer behavioral health services, including substance abuse treatment. Services will be provided on either an inpatient, residential basis or an outpatient basis.

On August 10, 2023, Myrtle was granted a license under the rules of the Department of Mental Health and Substance Abuse Services of Tennessee to operate an alcohol and drug treatment facility in Oneida Tennessee. The facility, which is located at Rennova's Big South Fork Medical Center campus, commenced operations and began accepting patients on August 14, 2023. The facility offers alcohol and drug residential detoxification and residential rehabilitation treatment services for up to 30 patients. Myrtle intends to offer outpatient opioid treatment services at its Oneida facility in the future.

On April 11, 2023, Myrtle sold shares of its common stock equivalent to a 1.961% ownership stake in the subsidiary for de minimis value to an unaffiliated individual licensed as a physician in Tennessee. The shares have certain transfer restrictions, including the right of the subsidiary to transfer the shares to another physician licensed in Tennessee for de minimis value. The shares were sold to the individual for Tennessee healthcare regulatory reasons.

*Jamestown Regional Medical Center*

On June 1, 2018, we acquired from Community Health Systems, Inc. certain assets related to an acute care hospital located in Jamestown, Tennessee, referred to as Jamestown Regional Medical Center, for a purchase price of \$0.7 million. The hospital is an 85-bed facility of approximately 90,000-square feet on over eight acres of land, which offered a 24-hour emergency department with two trauma bays and seven private exam rooms, inpatient and outpatient medical services and a progressive care unit which provided telemetry services. The acquisition also included a separate physician practice known as Mountain View Physician Practice, Inc.

The Company suspended operations at the hospital and physician practice in June 2019, as a result of the termination of the hospital's Medicare agreement and other factors. The Company is evaluating whether to reopen the facility as an acute care hospital or as another type of healthcare facility. Jamestown is located 38 miles west of Big South Fork Medical Center.

**Outlook**

We currently operate one hospital, a rural health clinic and an alcohol and drug treatment facility. We also own another hospital at which operations are currently suspended. Owning a number of facilities in the same geographic location will create numerous efficiencies in management, purchasing and staffing and will enable the provision of additional, specialized and more valuable services that are needed by rural communities but cannot be sustained by a standalone facility. We remain confident that this is a sustainable model we can continue to grow through acquisition and development.



**Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022**

The following table summarizes the results of our consolidated continuing operations for the three months ended June 30, 2023 and 2022:

	Three Months Ended June 30,					
	2023		2022			
		%		%		
Net Revenues	\$ 6,389,219	100.0%	\$ 3,606,236	100.0%		
Operating expenses:						
Direct costs of revenues	1,834,107	28.7%	1,571,673	43.6%		
General and administrative expenses	2,358,758	36.9%	1,880,167	52.1%		
Depreciation and amortization	99,357	1.6%	117,216	3.3%		
Income from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest	2,096,997	32.8%	37,180	1.0%		
Other income (expense), net	212,368	3.3%	(316,369)	-8.8%		
Gain from forgiveness of debt	200,000	3.1%	334,819	9.3%		
Loss from legal settlements, net	(276,313)	-4.3%	(76,218)	-2.1%		
Interest expense	(431,484)	-6.8%	(479,253)	-13.3%		
Provision for income taxes	(517,000)	-8.1%	-	0.0%		
Net loss attributable to noncontrolling interest	1,362	0.0%	-	0.0%		
Net income (loss) from continuing operations	\$ 1,285,930	20.1%	\$ (499,841)	-13.9%		

**Net Revenues**

Net revenues were \$6.4 million for the three months ended June 30, 2023, as compared to net revenues of \$3.6 million for the three months ended June 30, 2022, an increase of \$2.8 million. We attribute the increase in net revenues to greater inpatient admissions, increased outpatient services, higher reimbursement rates and certain collections from prior periods related to Critical Access Hospital designation at our Big South Fork Medical Center.

**Direct Cost of Revenues**

Direct costs of revenues increased by \$0.3 million for the three months ended June 30, 2023 compared to the three months ended June 30, 2022. We attribute the increase primarily to higher salaries and wages and professional fees. Salaries and wages increased primarily due to greater inpatient admissions and increased non-clinical staffing, partially offset by reduced contract labor. Professional fees increased as a result of the restructuring of our relationships with certain professional service firms.

**General and Administrative Expenses**

General and administrative expenses increased by \$0.5 million in the three months ended June 30, 2023 compared to the three months ended June 30, 2022. Our hospital operations general and administrative expenses contributed approximately \$0.5 million of the increase due primarily to increased salaries and wages, professional fees and an increase in property taxes. In addition, we incurred approximately \$0.1 million of startup expenses associated with Myrtle, partially offset by a reduction of approximately \$0.1 million of corporate related expenses.

**Depreciation and Amortization**

Depreciation and amortization expense remained relatively constant at approximately \$0.1 million and \$0.1 million in the three months ended June 30, 2023 and 2022, respectively.

**Income from Continuing Operations Before Other Income (Expense), Income Taxes and Net Loss Attributable to Noncontrolling Interest**

Income from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest for the three months ended June 30, 2023 was \$2.1 million compared to income of \$37,180 for the three months ended June 30, 2022. We attribute the increase to the \$2.8 million increase in net revenues in the three months ended June 30, 2023 compared to the comparable 2022 period, partially offset by the increases in direct costs of net revenues and general and administrative expenses in the three months ended June 30, 2023 versus the 2022 period.

**Other Income (Expense), Net**

Other income, net of \$0.2 million for the three months ended June 30, 2023 consisted primarily of various miscellaneous income items, partially offset by \$0.1 million of penalties and interest from non-payment of payroll taxes. Other expense, net of \$0.3 million for the three months ended June 30, 2022 consisted primarily of penalties and interest from non-payment of payroll taxes.

### Gain from Forgiveness of Debt

Gain from forgiveness of debt of \$0.2 million for the three months ended June 30, 2023 resulted from the forgiveness of a portion of outstanding notes payable. Gain from forgiveness of debt for the three months ended June 30, 2022 resulted from the forgiveness of Paycheck Protection Program loans ("PPP Notes").

### Loss from Legal Settlements, Net

The loss from legal settlements, net was \$0.3 million and \$0.1 million for the three months ended June 30, 2023 and 2022, respectively. The loss from legal settlements, net for the three months ended June 30, 2023 resulted primarily from the adjustment of reserves related to judgments with the former owners of Jamestown Regional Medical Center.

### Interest Expense

Interest expense was \$0.4 million and \$0.5 million for the three months ended June 30, 2023 and 2022, respectively. Interest expense for the three months ended June 30, 2023 and 2022 consisted of interest expense on debentures and notes payable.

### Provision for Income Taxes

The provision for income taxes of \$517,000 for the three months ended June 30, 2023 compared to no provision for the three months ended June 30, 2022 was due to the taxable income in the 2023 period versus a loss for the 2022 period.

### Net Income (Loss) from Continuing Operations

Net income from continuing operations for the three months ended June 30, 2023 was \$1.3 million, as compared to a net loss from continuing operations of \$0.5 million for the three months ended June 30, 2022. The improvement in the 2023 period as compared to the 2022 period was primarily due to \$2.1 million of income from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest in the three months ended June 30, 2023 compared to income of \$37,180 for the comparable 2022 period and \$0.2 million of other income, net in the 2023 period compared to \$0.3 million of other expense, net in the 2022 period, partially offset by an increase of \$0.2 million from loss from legal settlements, net in the 2023 period, a decrease of \$0.1 million from the forgiveness of debt in the 2023 period and \$0.5 million of income taxes in the 2023 period.

### Six months ended June 30, 2023 compared to the six months ended June 30, 2022

The following table summarizes the results of our consolidated continuing operations for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,			
	2023		2022	
		%		%
Net Revenues	\$ 11,305,115	100.0%	\$ 4,750,756	100.0%
Operating expenses:				
Direct costs of revenues	3,687,153	32.6%	2,946,316	62.0%
General and administrative expenses	4,575,428	40.5%	3,452,503	72.7%
Depreciation and amortization	193,492	1.7%	234,040	4.9%
Income (loss) from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest	2,849,042	25.2%	(1,882,103)	-39.6%
Other income (expense), net	255,114	2.3%	(42,281)	-0.9%
Gain from forgiveness of debt	200,000	1.8%	334,819	7.0%
Gain (loss) from legal settlements, net	286,719	2.5%	(76,218)	-1.6%
Interest expense	(983,747)	-8.7%	(1,100,190)	-23.2%
Provision for income taxes	(517,000)	-4.6%	-	0.0%
Net loss attributable to noncontrolling interest	1,362	0.0%	-	0.0%
Net income (loss) from continuing operations	\$ 2,091,490	18.5%	\$ (2,765,973)	-58.2%

## Net Revenues

Net revenues were \$11.3 million for the six months ended June 30, 2023, as compared to \$4.8 million for the six months ended June 30, 2022, an increase of \$6.5 million. We attribute the increase in net revenues to greater inpatient admissions, increased outpatient services, higher reimbursement rates and certain collections from prior periods related to Critical Access Hospital designation at our Big South Fork Medical Center. We began billing as a Critical Access Hospital in the three months ended June 30, 2022 retroactive to June 30, 2021.

## Direct Costs of Revenues

Direct costs of revenue increased by \$0.7 million for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. We attribute the increase primarily to higher salaries and wages and professional fees. Salaries and wages increased primarily due to greater inpatient admissions and increased non-clinical staffing, partially offset by reduced contract labor. Professional fees increased as a result of the restructuring of our relationships with certain professional service firms.

## General and Administrative Expenses

General and administrative expenses increased by \$1.1 million in the six months ended June 30, 2023 compared to the 2022 period. Our hospital operations general and administrative expenses increased by approximately \$0.9 million primarily due to increased salaries and wages, professional and purchased services and property taxes. In addition, we incurred \$146,000 of startup expenses associated with Myrtle and a \$54,000 increase in corporate related expenses.

## Depreciation and Amortization Expense

Depreciation and amortization expense remained relatively constant at approximately \$0.2 million and \$0.2 million in the six months ended June 30, 2023 and 2022, respectively.

## Income (Loss) from Continuing Operations Before Other Income (Expense), Income Taxes and Net Loss Attributable to Noncontrolling Interest

Our income from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest for the six months ended June 30, 2023 was \$2.8 million compared to a loss of \$1.9 million for the six months ended June 30, 2022. We attribute the \$4.7 million improvement in the six months ended June 30, 2023 to the \$6.5 million increase in net revenues in the six months ended June 30, 2023 compared to the comparable 2022 period, partially offset by higher direct costs of net revenues and general and administrative expenses in the six months ended June 30, 2023 versus the 2022 period.

## Other Income (Expense), net

Other income, net for the six months ended June 30, 2023 of \$0.3 million consisted primarily of various other miscellaneous income items, partially offset by \$0.2 million of penalties and interest associated with past due payroll taxes. Other expense, net for the six months ended June 30, 2022 of \$42,281 consisted primarily of \$0.4 million of penalties and interest associated with past due payroll taxes, partially offset by approximately \$0.4 million of various other miscellaneous income items.

## Gain from Forgiveness of Debt

Gain from forgiveness of debt of \$0.2 million for the six months ended June 30, 2023 resulted from the forgiveness of a portion of outstanding notes payable. Gain from forgiveness of debt for the six months ended June 30, 2022 resulted from the forgiveness of PPP Notes.

## Gain (Loss) from Legal Settlements, net

The gain from legal settlements, net was \$0.3 million and \$0.1 million for the six months ended June 30, 2023 and 2022, respectively. The gain from legal settlements, net in the 2023 period resulted primarily from a gain of \$0.6 million from the settlement of an obligation under a note payable, partially offset by \$0.3 million associated with the adjustment of reserves related to judgments with the former owners of Jamestown Regional Medical Center.

## Interest Expense

Interest expense for the six months ended June 30, 2023 was \$1.0 million compared to \$1.1 million for the six months ended June 30, 2022. Interest expense for the six months ended June 30, 2023 included \$0.9 million for interest on debentures and notes payable and \$58,000 for interest on loans from Mr. Diamantis, a former member of our Board of Directors. Interest expense for the six months ended June 30, 2022 included \$1.0 million for interest on debentures and notes payable and \$0.1 million for interest on loans from Mr. Diamantis.

## **Provision for Income Taxes**

The provision for income taxes of \$517,000 for the six months ended June 30, 2023 compared to no provision for the three months ended June 30, 2022 was due to the taxable income in the 2023 period versus a loss for the 2022 period.

## **Net Income (Loss) from Continuing Operations**

Net income from continuing operations for the six months ended June 30, 2023 was \$2.1 million compared to a net loss from continuing operations of \$2.8 million for the six months ended June 30, 2022. The improvement in the results from continuing operations in the 2023 period as compared to the 2022 period of approximately \$4.9 million was primarily due to the income from continuing operations before other income (expense), income taxes and net loss attributable to noncontrolling interest of \$2.8 million in the 2023 period versus a loss of \$1.9 in the comparable 2022 period, a gain from legal settlements, net of \$0.3 million in the 2023 period compared to a loss from legal settlements, net of \$0.1 million in the 2022 period and a reduction in interest expense of \$0.1 million in the 2023 period compared to the 2022 period. Partially offsetting the improvement was a decrease of \$0.1 million in the gain from forgiveness of debt in the 2023 period compared to the 2022 period and \$0.5 million of income tax expense in the 2023 period.

## **Liquidity and Capital Resources**

### *Overview*

For the six months ended June 30, 2023, we financed our operations with the \$3.3 million of cash that we generated from operations and \$0.6 million of loans from Mr. Diamantis, a former member of our Board of Directors. During the six months ended June 30, 2022, we financed our operations with \$1.5 million from issuances of our Series P Convertible Redeemable Preferred Stock and \$0.8 million of loans from Mr. Diamantis. Also, during the six months ended June 30, 2022, we received \$0.3 million from HHS Provider Relief Funds. During the six months ended June 30, 2023, the Company repaid \$1.3 million of loans from Mr. Diamantis and \$0.4 million of debentures. During the six months ended June 30, 2023 and 2022, we repaid \$0.8 million and \$1.2 million of notes payable, respectively. Each of these financing transactions is more fully discussed in Notes 6 and 10 to our accompanying unaudited condensed consolidated financial statements.

Future cash needs for working capital, capital expenditures, pursuit of opportunities in the behavioral health sector, debt service obligations and potential acquisitions will require management to seek additional capital. The sale/issuance of additional equity will result in additional dilution to our stockholders.

### *Going Concern and Liquidity*

Under Accounting Standards Codification (“ASC”), *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.

At June 30, 2023, the Company had a working capital deficit and a stockholders’ deficit of \$40.9 million and \$27.0 million, respectively. While the Company incurred net income of \$2.1 million for the six months ended June 30, 2023, it incurred a net loss of \$3.3 million for the year ended December 31, 2022 and as of the date of this report, its cash is deficient and payments for its operations in the ordinary course are not being made. The prior year loss and other related factors, including past due accounts payable and payroll taxes, as well as payment defaults under the terms of certain outstanding notes payable and debentures, as more fully discussed in Notes 5 and 6 to the accompanying unaudited condensed consolidated financial statements, raise substantial doubt about the Company’s ability to continue as a going concern for 12 months from the filing date of this report.

The Company’s accompanying 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. In 2021, the Company sold subsidiaries to InnovaQor Inc. and the Company received 14,950 shares of InnovaQor, Inc.’s Series B-1 Non-Voting Convertible Preferred Stock (the “InnovaQor Series B-1 Preferred Stock”) valued at \$9.1 million as consideration for the sale. As of June 30, 2023, the Company held 14,850 shares of InnovaQor’s Series B-1 Preferred Stock valued at \$9.0 million as an investment.

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.

As of June 30, 2023, we were party to legal proceedings, which are presented in Note 12 to the accompanying unaudited condensed consolidated financial statements.

The following table presents our capital resources as of June 30, 2023 and December 31, 2022:

	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>Change</u>
Cash	\$ 725,517	\$ 499,470	\$ 226,047
Working capital deficit	40,899,034	42,944,995	(2,045,961)
Total debt	11,793,555	14,534,630	(2,741,075)
Finance lease obligation	220,461	220,461	-
Stockholders' deficit	27,012,555	29,094,588	(2,082,033)

The following table presents the major sources and uses of cash for the six months ended June 30, 2023 and 2022:

	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2023</u>	<u>2022</u>	
Cash provided by (used in) operations	\$ 3,346,897	\$ (1,210,158)	\$ 4,557,055
Cash used in investing activities	(1,153,981)	(462,883)	(691,098)
Cash (used in) provided by financing activities	(1,966,869)	1,075,392	(3,042,261)
Net change in cash	226,047	(597,649)	823,696
Cash and cash equivalents, beginning of the year	499,470	724,524	(225,054)
Cash and cash equivalents, end of the period	\$ 725,517	\$ 126,875	\$ 598,642

The components of cash provided by (used in) operations for the six months ended June 30, 2023 and 2022 are presented in the following table:

	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2023</u>	<u>2022</u>	
Net income (loss) from continuing operations, including noncontrolling interest	\$ 2,090,128	\$ (2,765,973)	\$ 4,856,101
Non-cash adjustments to net income (loss) (1)	(293,227)	(23,703)	(269,524)
Changes in operating assets and liabilities:			
Accounts receivable	229,819	186,131	43,688
Inventory	7,280	36,890	(29,610)
Accounts payable and accrued expenses	962,939	1,352,286	(389,347)
Income taxes payable	517,000	-	517,000
Loss from discontinued operations	(8,097)	(5,379)	(2,718)
Other	(167,042)	11,304	(178,346)
Net cash provided by (used in) operating activities of continuing operations	3,338,800	(1,208,444)	4,547,244
Cash provided by (used in) operating activities of discontinued operations	8,097	(1,714)	9,811
Cash provided by (used in) operations	\$ 3,346,897	\$ (1,210,158)	\$ 4,557,055

(1) Non-cash adjustments to net income for the six months ended June 30, 2023 of \$0.3 million included primarily \$0.2 million of gain from forgiveness of debt and \$0.3 million of gain from legal settlements, net, partially offset by \$0.2 million of depreciation and amortization. Non-cash adjustments to net loss for the six months ended June 30, 2022 of \$23,703 included primarily \$0.3 million of gain from forgiveness of PPP Notes, partially offset by \$0.2 million of depreciation and amortization and \$0.1 million of loss from legal settlements, net.

### *Common Stock and Common Stock Equivalents*

The Company had 29,934,322,257 and 29,084,322,257 shares of its common stock issued and outstanding at June 30, 2023 and December 31, 2022, respectively. During the six months ended June 30, 2023, the Company issued an aggregate of 850,000,000 shares of its common stock upon conversions of 36 shares of its Series N Convertible Redeemable Preferred Stock (the "Series N Preferred Stock") and 40.5 shares of its Series O Convertible Redeemable Preferred Stock (the "Series O Preferred Stock"). During the six months ended June 30, 2022, the Company issued 4.2 billion shares of its common stock upon conversions of 1,833.71 shares of its Series N Preferred Stock and 179.46 shares of its Series O Preferred Stock.

The terms of certain of the outstanding 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 6, 9 and 10 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, including a 1-for-10,000 reverse stock split effected on March 15, 2022. As a result of these down round provisions, the potential common stock equivalents, including outstanding common stock, totaled 1.0 trillion at June 30, 2023 and August 8, 2023.

On August 13, 2020, Mr. Diamantis entered into the Voting Agreement and Irrevocable Proxy (the "Voting Agreement") with the Company, Mr. Seamus Lagan and Alcimed LLC (of which Mr. Lagan, the Company's Chief Executive Officer, is the sole manager) pursuant to which Mr. Diamantis granted an irrevocable proxy to Mr. Lagan to vote the Series M Preferred Stock held by Mr. Diamantis. Mr. Diamantis has retained all other rights under the Series M Preferred Stock. Regardless of the number of shares of Series M Preferred Stock outstanding and so long as at least one share of Series M Preferred Stock is outstanding, the outstanding shares of Series M Preferred Stock shall have the number of votes, in the aggregate, equal to 51% of all votes entitled to be voted at any meeting of stockholders or action by written consent. This means that the holders of Series M Preferred Stock have sufficient votes, by themselves, to approve or defeat any proposal voted on by the Company's stockholders, unless there is a supermajority required under applicable law or by agreement.

Also, on November 5, 2021, the Company amended its Certificate of Incorporation, as amended, to provide that the number of authorized shares of its common stock or preferred stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Company entitled to vote generally in the election of directors, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of the class or classes the number of authorized shares of which are being increased or decreased unless a vote by any holders of one or more series of preferred stock is required by the express terms of any series of preferred stock pursuant to the terms thereof.

As a result of the Voting Agreement and the November 5, 2021 amendment to the Company's Certificate of Incorporation discussed above, as of the date of filing of this report, the Company believes that it has the ability to ensure that it has and can obtain sufficient authorized shares of its common stock to cover all potentially dilutive shares of common stock outstanding.

### **OTHER MATTERS**

#### **Inflation and Supply Chain Issues**

The healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures, as are supply and other costs. The nationwide shortage of nurses and other clinical staff and support personnel has been a significant operating issue facing us and other healthcare providers. In particular, like others in the healthcare industry, we continue to experience a shortage of nurses and other clinical staff and support personnel. This staffing shortage may require us to further enhance wages and benefits to recruit and retain nurses and other clinical staff and support personnel or require us to hire expensive temporary personnel. Our ability to pass on increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted that, in certain cases, limit our ability to increase prices.

### 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 June 30, 2023, 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 Securities Exchange Act of 1934, as amended (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, who also serves as our 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 June 30, 2023, 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), who also serves as our 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, 2022, we identified material weaknesses in our internal control over financial reporting. Insufficient staffing, accounting processes and procedures led to a lack of contemporaneous documentation supporting the accounting for certain transactions and the approval of certain cash disbursements. 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. Based on these material weaknesses in internal control over financial reporting, management concluded the Company did not maintain effective internal control over financial reporting as of December 31, 2022. As of June 30, 2023, we concluded that these material weaknesses continued to exist.

The Company expects improvements to be made on the integration of information issues during 2023 and 2024 as we plan to move towards securing a more timely and accurate reporting system. The Company is continuing to further remediate the material weaknesses identified above. The Company has taken or is in the process of taking the following steps to remediate these material weaknesses: (i) increasing the staffing of its internal accounting department; and (ii) implementing enhanced documentation procedures to be followed by the internal accounting department.

Notwithstanding such material weaknesses, management believes that the unaudited 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 three months ended June 30, 2023, 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 except as disclosed above.

**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 12 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 our 2022 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 2022 Form 10-K.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.



**Item 6. Exhibits**

- 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 the 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 Inline XBRL Instance Document
- 101.SCH Inline XBRL Schema Document
- 101.CAL Inline XBRL Calculation Link base Document
- 101.DEF Inline XBRL Definition Link base Document
- 101.LAB Inline XBRL Label Link base Document
- 101.PRE Inline XBRL Presentation Link base Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed herewith

\*\* 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: August 15, 2023

By: /s/ Seamus Lagan  
Seamus Lagan  
Chief Executive Officer, President and Interim Chief Financial Officer  
(Principal Executive Officer and Principal Financial Officer)

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**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: August 15, 2023

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**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: August 15, 2023

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**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 June 30, 2023 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*

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Seamus Lagan  
Chief Executive Officer  
Dated: August 15, 2023

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**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 June 30, 2023 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*

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Seamus Lagan  
Interim Chief Financial Officer  
Dated: August 15, 2023

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