UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2024

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 001-39678

SANARA MEDTECH INC.
(Exact name of Registrant as specified in its charter)

Texas	59-2219994
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1200 Summit Ave, Suite 414, Fort Worth, Texas 76102
(Address of principal executive offices)

(817) 529-2300
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	SMTI	The Nasdaq Capital Market

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	Accelerated filer	Non-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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 10, 2024, 8,625,201 shares of the Issuer's common stock, $0.001 par value per share, were outstanding.

SANARA MEDTECH INC.
Form 10-Q
Quarter Ended March 31, 2024

Unless otherwise indicated, "Sanara MedTech," "Sanara," the "Company," "our," "us," or "we," refer to Sanara MedTech Inc. and its consolidated subsidiaries.

Part I – Financial Information

ITEM 1. FINANCIAL STATEMENTS

SANARA MEDTECH INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash	$ 2,828,234	$ 5,147,216
Accounts receivable, net	9,194,799	8,474,965
Accounts receivable – related parties	23,002	8,400
Royalty receivable	-	49,344
Inventory, net	4,229,150	4,717,533
Prepaid and other assets	911,594	608,411
Total current assets	**17,186,779**	**19,005,869**
Long-term assets		
Intangible assets, net	43,953,610	44,926,061
Goodwill	3,601,781	3,601,781
Investment in equity securities	3,084,278	3,084,278
Right of use assets – operating leases	1,894,687	1,995,204
Property and equipment, net	1,190,805	1,257,956
Total long-term assets	**53,725,161**	**54,865,280**
Total assets	**$ 70,911,940**	**$ 73,871,149**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 1,191,816	$ 1,924,082
Accounts payable – related parties	87,116	77,805
Accrued bonuses and commissions	6,893,381	7,676,770
Accrued royalties and expenses	2,288,428	2,047,678
Earnout liabilities – current	979,488	1,100,000
Current portion of debt	928,571	580,357
Operating lease liabilities – current	377,273	361,185
Total current liabilities	**12,746,073**	**13,767,877**
Long-term liabilities		
Long-term debt, net of current portion	8,767,991	9,113,123
Earnout liabilities – long-term	2,777,835	2,723,001

Operating lease liabilities – long-term	1,626,130	1,737,445
Other long-term liabilities	1,982,345	1,941,686
Total long-term liabilities	**15,154,301**	**15,515,255**
Total liabilities	**27,900,374**	**29,283,132**
Commitments and contingencies (Note 8)		
Shareholders' equity		
Common Stock: $0.001 par value, 20,000,000 shares authorized; 8,622,739 issued and outstanding as of March 31, 2024 and 8,535,239 issued and outstanding as of December 31, 2023	8,623	8,535
Additional paid-in capital	73,180,208	72,860,556
Accumulated deficit	(29,898,146)	(28,036,814)
Total Sanara MedTech shareholders' equity	**43,290,685**	**44,832,277**
Equity attributable to noncontrolling interest	(279,119)	(244,260)
Total shareholders' equity	**43,011,566**	**44,588,017**
Total liabilities and shareholders' equity	**$ 70,911,940**	**$ 73,871,149**

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

SANARA MEDTECH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2024	**2023**
Net Revenue	**$ 18,536,638**	**$ 15,521,917**
Cost of goods sold	**1,890,046**	**2,125,659**
Gross profit	**16,646,592**	**13,396,258**
Operating expenses		
Selling, general and administrative expenses	16,192,259	12,969,069
Research and development	946,298	1,317,324
Depreciation and amortization	1,105,420	778,875
Change in fair value of earnout liabilities	(65,678)	(452,687)
Total operating expenses	**18,178,299**	**14,612,581**
Operating loss	**(1,531,707)**	**(1,216,323)**
Other expense		
Interest expense and other	(267,336)	(6)
Total other expense	**(267,336)**	**(6)**
Net loss	**(1,799,043)**	**(1,216,329)**
Less: Net loss attributable to noncontrolling interest	(34,859)	(38,429)
Net loss attributable to Sanara MedTech shareholders	**$ (1,764,184)**	**$ (1,177,900)**
Net loss per share of common stock, basic and diluted	$ (0.21)	$ (0.14)
Weighted average number of common shares outstanding, basic and diluted	8,419,528	8,173,784

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

SANARA MEDTECH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock $0.001 par value		Additional Paid-In	Accumulated	Noncontrolling	Total Shareholders'
	Shares	**Amount**	**Capital**	**Deficit**	**Interest**	**Equity**
Balance at December 31, 2022	8,299,957	$ 8,300	$65,213,987	$ (23,394,757)	$ (107,555)	$ 41,719,975
Share-based compensation	74,781	75	597,230	-	-	597,305
Net settlement and retirement of equity-based awards	(15,854)	(16)	(315,572)	(340,354)	-	(655,942)
Issuance of common stock in equity offering	26,143	26	1,033,735	-	-	1,033,761
Net loss	-	-	-	(1,177,900)	(38,429)	(1,216,329)
Balance at March 31, 2023	8,385,027	$ 8,385	$66,529,380	$ (24,913,011)	$ (145,984)	$ 41,478,770

	Common Stock		Additional			Total

	$0.001 par value		Paid-In	Accumulated	Noncontrolling	Shareholders'
	Shares	Amount	Capital	Deficit	Interest	Equity
Balance at December 31, 2023	8,535,239	$ 8,535	$72,860,556	$ (28,036,814)	$ (244,260)	$ 44,588,017
Share-based compensation	100,662	101	803,285	-	-	803,386
Net settlement and retirement of equity-based awards	(13,162)	(13)	(483,633)	(97,148)	-	(580,794)
Net loss	-	-	-	(1,764,184)	(34,859)	(1,799,043)
Balance at March 31, 2024	8,622,739	$ 8,623	$73,180,208	$ (29,898,146)	$ (279,119)	$ 43,011,566

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

SANARA MEDTECH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net loss	$ (1,799,043)	$ (1,216,329)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,105,420	778,875
Bad debt expense	65,000	36,000
Inventory obsolescence	95,235	30,511
Share-based compensation	803,386	597,305
Noncash lease expense	100,517	76,545
Accretion of finance liabilities	58,834	-
Amortization of debt issuance costs	3,083	-
Change in fair value of earnout liabilities	(65,678)	(452,687)
Changes in operating assets and liabilities:		
Accounts receivable, net	(735,490)	352,102
Accounts receivable – related parties	(14,602)	74,602
Inventory, net	393,148	86,785
Prepaid and other assets	(303,182)	(361,719)
Accounts payable	(732,266)	405,360
Accounts payable – related parties	9,311	(10,747)
Accrued royalties and expenses	300,574	(112,774)
Accrued bonuses and commissions	(783,390)	(1,949,325)
Operating lease liabilities	(95,227)	(75,817)
Net cash used in operating activities	(1,594,370)	(1,741,313)
Cash flows from investing activities:		
Purchases of property and equipment	(65,818)	(27,705)
Proceeds from disposal of property and equipment	-	650
Net cash used in investing activities	(65,818)	(27,055)
Cash flows from financing activities:		
Equity offering net proceeds	-	751,752
Net settlement of equity-based awards	(580,794)	(655,942)
Cash payment of finance and earnout liabilities	(78,000)	-
Net cash provided by (used in) financing activities	(658,794)	95,810
Net decrease in cash	(2,318,982)	(1,672,558)
Cash, beginning of period	5,147,216	8,958,995
Cash, end of period	$ 2,828,234	$ 7,286,437
Cash paid during the period for:		
Interest	$ 205,591	$ 6
Supplemental noncash investing and financing activities:		
Equity offering accrued proceeds	-	282,010
Right of use assets obtained in exchange for lease obligations	-	1,369,164

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

SANARA MEDTECH INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND BACKGROUND

Sanara MedTech Inc. (together with its wholly owned and majority owned subsidiaries on a consolidated basis, the "Company") is a medical technology company focused on developing and commercializing transformative technologies to improve clinical outcomes and reduce healthcare expenditures in the surgical, chronic wound and skincare markets. Each of the Company's products, services and technologies are designed to achieve the Company's goal of providing better clinical outcomes at a lower overall cost for patients regardless of where they receive care. The Company strives to be one of the most innovative and comprehensive providers of effective surgical, wound and skincare solutions and is continually seeking to expand its offerings for patients requiring treatments across the entire continuum of care in the United States.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sanara MedTech Inc. and its wholly owned and majority-owned subsidiaries, as well as other entities in which the Company has a controlling financial interest. All significant intercompany profits, losses, transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management of the Company, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period. These financial statements and notes should be read in conjunction with the financial statements for each of the two years ended December 31, 2023 and 2022, which are included in the Company's most recent Annual Report on Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenue and expenses during the reporting period. However, actual results could differ from those estimates and there may be changes to the Company's estimates in future periods.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Income/Loss Per Share

The Company computes income/loss per share in accordance with Accounting Standards Codification ("ASC") Topic 260, Earnings per Share, which requires the Company to present basic and diluted income per share when the effect is dilutive. Basic income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding. Diluted income per share is computed similarly to basic income per share, except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the potential shares of common stock had been issued and if the additional shares of common stock were dilutive. All common stock equivalents were excluded from the calculations for the periods presented as their inclusion would have been anti-dilutive during the three months ended March 31, 2024 and 2023 due to the Company's net loss.

The following table summarizes the shares of common stock that were potentially issuable but were excluded from the computation of diluted net loss per share for the three months ended March 31, 2024 and 2023 as such shares would have had an anti-dilutive effect:

	As of March 31,	
	2024	**2023**
Stock options [(a)]	90,833	146,191
Warrants [(b)]	16,725	16,725
Unvested restricted stock	193,217	181,887

(a) Shares underlying stock options assumed pursuant to the merger agreement with Precision Healing, Inc. ("Precision Healing") in April 2022.
(b) Shares underlying warrants assumed pursuant to the merger agreement with Precision Healing in April 2022.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). Revenues are recognized when a purchase order is received from the customer and control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for transferring those goods or services. Revenue is recognized based on the following five-step model:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Details of this five-step process are as follows:

Identification of the contract with a customer

Customer purchase orders are generally considered to be contracts under ASC 606. Purchase orders typically identify the specific terms of products to be delivered, create the enforceable rights and obligations of both parties and result in commercial substance. No other forms of contract revenue recognition, such as the completed contract or percentage of completion methods, were utilized by the Company in either 2024 or 2023.

Performance obligations

The Company's performance obligation is generally limited to delivery of the requested items to its customers at the agreed upon quantities and prices.

Determination and allocation of the transaction price

The Company has established prices for its products. These prices are effectively agreed to when customers place purchase orders with the Company. Rebates and discounts, if any, are recognized in full at the time of sale as a reduction of net revenue. Allocation of transaction prices is not necessary where only one performance obligation exists.

Recognition of revenue as performance obligations are satisfied

Product revenues are recognized when a purchase order is received from the customer, the products are delivered and control of the goods and services passes to the customer.

Disaggregation of Revenue

Revenue streams from product sales and royalties are summarized below for the three months ended March 31, 2024 and 2023.

	Three Months Ended March 31,	
	2024	**2023**
Soft tissue repair products	$ 16,082,292	$ 12,872,481
Bone fusion products	2,454,346	2,599,186
Royalty revenue	-	50,250
Total Net Revenue	**$ 18,536,638**	**$ 15,521,917**

Accounts Receivable Allowances

Accounts receivable are typically due within 30 days of invoicing. The Company establishes an allowance for doubtful accounts to provide for an estimate of accounts receivable which are not expected to be collectible. The Company bases the allowance on an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and other information as applicable and will record its allowance based on the estimated credit losses. The Company recorded bad debt expense of $65,000 and $36,000 during the three months ended March 31, 2024 and 2023, respectively. The allowance for doubtful accounts was $593,030 at March 31, 2024 and $ 528,030 at December 31, 2023. Bad debt reserves are maintained based on a variety of factors, including the length of time receivables are past due and a detailed review of certain individual customer accounts. The Company also establishes other allowances to provide for estimated customer rebates and other expected customer deductions. These allowances totaled $3,670 at March 31, 2024 and $ 3,820 at December 31, 2023. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost computed on a first-in, first-out basis. Inventories consist primarily of finished goods, and also include an immaterial amount of raw materials and related packaging components. The Company recorded inventory obsolescence expense of $95,235 and $30,511 for the three months ended March 31, 2024 and 2023 respectively. The allowance for obsolete and slow-moving inventory had a balance of $398,478 at March 31, 2024, and $ 446,917 at December 31, 2023.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets, ranging from two to ten years. Below is a summary of property and equipment for the periods presented:

	Useful Life	**March 31, 2024**	**December 31, 2023**
Computers	3-5 years	$ 215,500	$ 194,788
Office equipment	3-7 years	214,190	201,785
Furniture and fixtures	5-10 years	304,338	304,338
Leasehold improvements	2-5 years	166,871	134,170
Internal use software	5 years	1,618,999	1,618,999
		2,519,898	2,454,080
Less accumulated depreciation		(1,329,093)	(1,196,124)
Property and equipment, net		**$ 1,190,805**	**$ 1,257,956**

Depreciation expense related to property and equipment was $ 132,969 and $107,674 for the three months ended March 31, 2024 and 2023, respectively.

Internal Use Software

The Company accounts for costs incurred to develop or acquire computer software for internal use in accordance with ASC Topic 350-40, Intangibles – Goodwill and Other. The Company capitalizes the costs incurred during the application development stage, which generally includes third-party developer fees to design the software configuration and interfaces, coding, installation and testing.

The Company begins capitalization of qualifying costs when both the preliminary project stage is completed and management has authorized further funding for the completion of the project. Costs incurred during the preliminary project stage along with post implementation stages of internal-use computer software are expensed as incurred. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized development costs are classified as “Property and equipment, net” in the Consolidated Balance Sheets and are depreciated over the estimated useful life of the software, which is generally five years.

Goodwill

The excess of purchase price over the fair value of identifiable net assets acquired in business combinations is recorded as goodwill. As of March 31, 2024 and December 31, 2023, all of the Company’s goodwill relates to the acquisition of Scendia Biologics, LLC (“Scendia”). Goodwill has an indefinite useful life and is not amortized. Goodwill is tested annually as of December 31 for impairment, or more frequently if circumstances indicate impairment may have occurred. The Company may first perform a qualitative assessment to determine if it is more likely than not that the fair value of the reporting unit is less than the respective carrying value. If it is determined that it is more likely than not that a reporting unit’s fair value is less than its carrying value, then the Company will determine the fair value of the reporting unit and record an impairment charge for the difference between fair value and carrying value (not to exceed the carrying amount of goodwill). No impairment was recorded during the three months ended March 31, 2024.

Intangible Assets

Intangible assets are stated at cost of acquisition less accumulated amortization and impairment loss, if any. Cost of acquisition includes the purchase price and any cost directly attributable to bringing the asset to its working condition for the intended use. The Company amortizes its finite-lived intangible assets on a straight-line basis over the estimated useful life of the respective assets which is generally the life of the related patents or licenses, seven years for customer relationships and five years for assembled workforces. See Note 4 for more information on intangible assets.

Impairment of Long-Lived Assets

Long-lived assets, including certain identifiable intangibles held and to be used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company continuously evaluates the recoverability of its long-lived assets based on estimated future cash flows and the estimated liquidation value of such long-lived assets and provides for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the long-lived assets. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, undiscounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated fair value less cost to sell. No impairment was recorded during the three months ended March 31, 2024 and 2023.

Investments in Equity Securities

The Company's equity investments consist of nonmarketable equity securities in privately held companies without readily determinable fair values. Unless accounted for under the equity method of accounting, the investments are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The Company did not have any investments which are recorded applying the equity method of accounting as of March 31, 2024.

The Company has reviewed the carrying value of its investments and has determined there was no impairment or observable price changes as of and for the three months ended March 31, 2024 and 2023.

Fair Value Measurement

As defined in ASC Topic 820, Fair Value Measurement ("ASC 820"), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This fair value measurement framework applies at both the initial and subsequent measurement.

The three levels of the fair value hierarchy defined by ASC 820 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include nonexchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses, other than acquisition-related expenses, approximate fair value because of the short-term nature of these instruments. The fair value of acquisition-related accrued expenses is categorized as Level 2 of the fair value hierarchy. The value of these instruments has been estimated using discounted cash flow analysis based on the Company's incremental borrowing rate. The carrying value of the Company's debt, which has variable interest rates determined each month, approximates fair value based on instruments with similar terms (Level 2 inputs). The fair value of the contingent earnout consideration and the acquisition date fair value of goodwill and intangibles related to the acquisitions discussed in Notes 3 and 4 are based on Level 3 inputs.

Liabilities for contingent consideration for the Precision Healing merger, acquisition of Scendia and Applied Asset Purchase (defined below) (see Note 3 for more information) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred. Subsequent changes in fair value for the Precision Healing and Scendia acquisitions are reported under the line item captioned "Change in fair value of earnout liabilities" in the Company's Consolidated Statements of Operations. Due to the Applied Asset Purchase being accounted for as an asset acquisition and given that the transaction did not include contingent shares, subsequent revaluations of contingent consideration for the Applied acquisition results in an adjustment to the contingent consideration liability and the intellectual property intangible asset with a cumulative catch-up amortization adjustment. The current year changes in fair value of earnout liabilities below are as a result of a net decrease in the estimated fair value of the earnout liabilities established at the time of the Company's Precision Healing and Scendia acquisitions. The following table sets forth a summary of the changes in fair value for the Level 3 contingent earnout considerations.

Balance at December 31, 2023	$	3,823,001
Changes in fair value of earnout liabilities		(65,678)
Balance at March 31, 2024	$	3,757,323

Income Taxes

Income taxes are accounted for under the asset and liability method, whereby deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all the deferred tax asset will not be realized.

Stock-based Compensation

The Company accounts for stock-based compensation to employees and nonemployees in accordance with ASC Topic 718, Compensation – Stock Compensation. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the stipulated vesting period, if any. The Company estimates the fair value of stock-based payments using the Black-Scholes option-pricing model for common stock options and warrants, and the closing price of the Company's common stock for grants of common stock, including restricted stock awards.

Research and Development Costs

Research and development ("R&D") expenses consist of personnel-related expenses, including salaries, stock-based compensation and benefits for all personnel directly engaged in R&D activities, contracted services, materials, prototype expenses and allocated overhead which is comprised of lease expense and other facilities-related costs. R&D expenses include costs related to enhancements to the Company's currently available products and additional investments in the product and platform development pipeline. The Company expenses R&D costs as incurred.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). This update amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The Company adopted the new guidance effective January 1, 2023. The adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which requires disclosure of incremental segment information on an annual and interim basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 on a retrospective basis. The Company is currently evaluating the effect of this pronouncement on its disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"), which expands the disclosure required for income taxes. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The amendment should be applied on a prospective basis while retrospective application is permitted. The Company is currently evaluating the effect of this pronouncement on its disclosures.

NOTE 3 – APPLIED ASSET PURCHASE

On August 1, 2023, the Company entered into an Asset Purchase Agreement (the "Applied Purchase Agreement") by and among the Company, as guarantor, Sanara MedTech Applied Technologies, LLC, a Texas limited liability company and wholly owned subsidiary of the Company ("SMAT"), The Hymed Group Corporation, a Delaware corporation ("Hymed"), Applied Nutritionals, LLC, a Delaware limited liability company ("Applied", and together with Hymed, the "Sellers"), and Dr. George D. Petito (the "Owner"), pursuant to which SMAT acquired certain assets of the Sellers and the Owner, including, among others, the Sellers' and Owner's inventory, intellectual property, manufacturing and related equipment, goodwill, rights and claims, other than certain excluded assets, all as more specifically set forth in the Applied Purchase Agreement (collectively, the "Applied Purchased Assets"), and assumed certain Assumed Liabilities (as defined in the Applied Purchase Agreement), upon the terms and subject to the conditions set forth in the Applied Purchase Agreement (such transaction, the "Applied Asset Purchase"). The Applied Purchased Assets include the underlying intellectual property of, as well as the rights to manufacture and sell, CellerateRX Surgical Activated Collagen ("CellerateRX Surgical") and HYCOL Hydrolyzed Collagen ("HYCOL") products for human wound care use.

The Applied Purchased Assets were purchased for an initial aggregate purchase price of $ 15.25 million, consisting of (i) $ 9.75 million in cash (the "Cash Closing Consideration"), (ii) 73,809 shares of the Company's common stock (the "Stock Closing Consideration") with an agreed upon value of $ 3.0 million and (iii) $2.5 million in cash (the "Installment Payments"), to be paid in four equal installments on each of the next four anniversaries of the closing of the Applied Asset Purchase (the "Closing").

Prior to the Closing, the Company licensed certain of its products from Applied through a sublicense agreement (the "Sublicense Agreement") with CGI Cellerate RX, LLC ("CGI Cellerate RX"), a related party (see Note 10 for additional information regarding transactions with related parties). Pursuant to the Sublicense Agreement, the Company has an exclusive, world-wide sublicense to distribute CellerateRX Surgical and HYCOL products into the surgical and wound care markets. In connection with the Applied Asset Purchase, Applied assigned its license agreement with CGI Cellerate RX to SMAT. Since the Closing of the Applied Asset Purchase, Sanara indirectly makes intercompany royalty payments to SMAT at the same rate as set forth in the Sublicense Agreement. Effective August 1, 2023, these intercompany royalty payments and the offsetting cost of goods sold are eliminated on a consolidated basis.

In addition to the Cash Closing Consideration, Stock Closing Consideration and Installment Payments, the Applied Purchase Agreement provides that the Sellers are entitled to receive up to an additional $10.0 million (the "Applied Earnout"), which is payable to the Sellers in cash, upon the achievement of certain performance thresholds relating to SMAT's collections from net sales of a collagen-based product currently under development. Upon expiration of the seventh anniversary of the Closing, to the extent the Sellers have not earned the entirety of the Applied Earnout, SMAT shall pay the Sellers a pro-rata amount of the Applied Earnout based on collections from net sales of the product, with such amount to be due credited against any Applied Earnout payments already made by SMAT (the "True-Up Payment"). The Applied Earnout, minus the True-Up Payment and any Applied Earnout payments already made by SMAT, may be earned at any point in the future, including after the True-Up Payment is made.

In connection with the Applied Asset Purchase and pursuant to the Applied Purchase Agreement, effective August 1, 2023, the Company entered into a professional services agreement (the "Petito Services Agreement") with the Owner, pursuant to which the Owner, as an independent contractor, agreed to provide certain services to the Company, including, among other things, assisting with the development of products already in development and assisting with research, development, formulation, invention and manufacturing of any future products (the "Petito Services"). As consideration for the Petito Services, the Owner is entitled to receive: (i) a base salary of $12,000 per month during the term of the Petito Services Agreement, (ii) a royalty payment equal to three percent (3%) of the actual collections from net sales of certain products the Owner develops or co-develops that reach commercialization, (iii) a royalty payment equal to five percent (5%) for the first $50.0 million in aggregate collections from net sales of certain future products and a royalty payment of two and one-half percent (2.5%) on aggregate collections from net sales of certain future products on any amounts exceeding $50.0 million but up to $100.0 million, (iv) $500,000 in cash in the event that 510(k) clearance is issued for any future product accepted by the Company and (v) $1.0 million in cash in the event that a U.S. patent is issued for a certain product; provided that with respect to the incentive payments described in (iv) and (v) of the foregoing, the Owner shall not earn more than $2.5 million.

The Petito Services Agreement has an initial term of three years and is subject to automatic successive one-month renewals unless earlier terminated in accordance with its terms. The Petito Services Agreement may be terminated upon the Owner's death or disability or by the Company or the Owner "For Cause" (as defined in the Petito Services Agreement); provided, however, that the base salary described in (i) of the foregoing paragraph shall survive termination through the three-year initial term and the royalty payments and incentive payments described in (ii)-(v) of the foregoing paragraph shall survive termination of the Petito Services Agreement.

As the contingent consideration was negotiated as part of the transfer of assets, the contingent obligation was measured at fair value and included in the total purchase consideration transferred. Accordingly, since the Applied Asset Purchase was accounted for as an asset acquisition and did not include contingent shares, the contingent consideration is classified as a liability at its estimated fair value at each reporting period with subsequent revaluations recognized as an adjustment to the intellectual property intangible asset and the earnout liability with a cumulative catch-up amortization adjustment.

The total purchase consideration for the Applied Asset Purchase as determined by the Company was as follows:

Consideration	Equity Shares	Dollar Value
Cash Closing Consideration		$ 9,750,000
Fair value of Stock Closing Consideration	73,809	3,089,645
Fair value of Installment Payments		2,040,808
Cash paid for inventory		30,007
Fair value of Petito Services Agreement defined payments		825,834
Fair value of Petito Services Agreement contingent consideration		893,000
Direct transaction costs		162,743
Total purchase consideration		**$ 16,792,037**

Based on guidance provided by ASC 805, the Company recorded the Applied Asset Purchase as an asset acquisition due to the determination that substantially all the fair value of the assets acquired was concentrated in a group of similar identifiable assets. The Company believes the "substantially all" criterion was met with respect to the acquired intellectual property being the only significant asset acquired. Accordingly, the Company accounted for the transaction as an asset acquisition.

The purchase consideration, plus transaction costs, was allocated to the individual assets according to their fair values as a percentage of the total fair value of the assets purchased, with no goodwill recognized. Based on the estimated fair value of the gross assets acquired, the total fair value of the net assets acquired was primarily attributable to, and classified as, finite-lived intellectual property in the third quarter of 2023. The total purchase consideration was allocated based on the relative estimated fair value of such assets as follows:

Description	Amount
Inventory	$ 30,007
Equipment	33,062
Intellectual property	16,728,968
Net assets acquired	**$ 16,792,037**

NOTE 4 – GOODWILL AND INTANGIBLES, NET

The changes in the carrying amount of the Company's goodwill were as follows:

	Total
Balance as of December 31, 2022	$ 3,601,781
Acquisitions	-
Balance as of December 31, 2023	3,601,781
Acquisitions	-
Balance as of March 31, 2024	$ 3,601,781

The carrying values of the Company's intangible assets were as follows for the periods presented:

	March 31, 2024			December 31, 2023		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizable Intangible Assets:						
Product Licenses	$ 4,793,879	$ (1,439,136)	$ 3,354,743	$ 4,793,879	$ (1,342,626)	$ 3,451,253
Patents and Other IP	38,570,549	(3,765,198)	34,805,351	38,570,549	(3,181,186)	35,389,363
Customer relationships and other	7,947,332	(2,153,816)	5,793,516	7,947,332	(1,861,887)	6,085,445
Total	**$51,311,760**	**$ (7,358,150)**	**$43,953,610**	**$51,311,760**	**$ (6,385,699)**	**$44,926,061**

As of March 31, 2024, the weighted-average amortization period for finite-lived intangible assets was 14.5 years. Amortization expense related to intangible assets was $972,451 and $671,201 for the three months ended March 31, 2024 and 2023, respectively. The estimated remaining amortization expense as of March 31, 2024 for finite-lived intangible assets is as follows:

Remainder of 2024	$ 2,917,353
2025	3,889,804
2026	3,872,548
2027	3,758,696
2028	3,725,454
2029	3,725,454
Thereafter	22,064,301
Total	$ 43,953,610

The Company has reviewed the carrying value of intangible assets and has determined there was no impairment during the three months ended March 31, 2024 or 2023.

NOTE 5 – INVESTMENTS IN EQUITY SECURITIES

The Company's equity investments consist of nonmarketable equity securities in privately held companies without readily determinable fair values. Unless accounted for under the equity method of accounting, the investments are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

In July 2020, the Company made a $500,000 long-term investment to purchase certain nonmarketable securities consisting of 7,142,857 Series B-2 Preferred Shares of Direct Dermatology Inc. ("DirectDerm"), representing approximately 2.9% ownership of DirectDerm at that time. Through this investment, the Company received exclusive rights to utilize DirectDerm's technology in all acute and post-acute care settings such as skilled nursing facilities, home health and wound clinics. In 2021, the Company purchased an additional 3,571,430 shares of DirectDerm's Series B-2 Preferred for $250,000. In March 2022, the Company purchased an additional 3,571,429 shares of DirectDerm's Series B-2 Preferred for $ 250,000. The Company's ownership of DirectDerm was approximately 8.1% as of March 31, 2024. The Company does not have the ability to exercise significant influence over DirectDerm's operating and financial activities.

In June 2021, the Company invested $2,084,278 to purchase 278,587 Class A Preferred Shares (the "Pixalere Shares") of Canada based Pixalere Healthcare Inc. ("Pixalere"). The Pixalere Shares are convertible into approximately 27.3% of the outstanding equity of Pixalere. Pixalere provides a cloud-based wound care software tool that empowers nurses, specialists and administrators to deliver better care for patients. In connection with the Company's purchase of the Pixalere Shares, Pixalere granted Pixalere Healthcare USA, LLC ("Pixalere USA"), a subsidiary of the Company, a royalty-free exclusive license to use the Pixalere software and platform in the United States. In conjunction with the grant of the license, the Company issued Pixalere a 27.3% equity ownership interest in Pixalere USA valued at $ 93,879.

The Company has reviewed the characteristics of the Pixalere Shares in accordance with ASC Topic 323, Investments – Equity Method and Joint Ventures. Due to the substantive liquidation preferences of the Pixalere Shares over Pixalere's common stock, the Pixalere Shares are not "in-substance" common stock, and therefore, the Company does not utilize the equity method of accounting for this investment. In accordance with ASC Topic 321, Investments - Equity Securities, this investment was reported at cost as of March 31, 2024.

The following summarizes the Company's investments for the periods presented:

	March 31, 2024		December 31, 2023	
	Carrying Amount	Economic Interest	Carrying Amount	Economic Interest
Cost Method Investments				
Direct Dermatology, Inc.	$ 1,000,000		$ 1,000,000	
Pixalere Healthcare Inc.	2,084,278		2,084,278	
Total Cost Method Investments	**$ 3,084,278**		**$ 3,084,278**	

NOTE 6 – OPERATING LEASES

The Company periodically enters operating lease contracts for office space and equipment. Arrangements are evaluated at inception to determine whether such arrangements constitute a lease. Right of use assets ("ROU assets") represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities were recognized on the transition date based on the present value of lease payments over the respective lease term, with the office space ROU asset adjusted for deferred rent liability.

The Company has three material operating leases for office space. In March and September of 2023, the Company amended its primary office lease to obtain additional space, as well as extend the term. The leases have remaining lease terms of 81, 17 and 34 months as of March 31, 2024. For practical expediency, the Company has elected to not recognize ROU assets and lease liabilities related to short-term leases.

In accordance with ASC Topic 842, Leases, the Company has recorded ROU assets of $ 1,894,687 and a related lease liability of $ 2,003,403 as of March 31, 2024. The Company recorded lease expense of $138,798 and $88,419 for the three months ended March 31, 2024 and 2023, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was $133,509 and $87,691 for the three months ended March 31, 2024 and 2023, respectively. The present value of the Company's operating lease liabilities as of March 31, 2024 is shown below.

Maturity of Operating Lease Liabilities

	March 31, 2024
Remainder of 2024	$ 371,508
2025	532,053
2026	379,529
2027	297,947
2028	295,689
2029	300,158
Thereafter	604,049
Total lease payments	2,780,933
Less imputed interest	(777,530)
Present Value of Lease Liabilities	$ 2,003,403
Operating lease liabilities – current	$ 377,273
Operating lease liabilities – long-term	$ 1,626,130

As of March 31, 2024, the Company's operating leases had a weighted average remaining lease term of 5.8 years and a weighted average discount rate of 7.65%.

NOTE 7 – DEBT AND CREDIT FACILITIES

Cadence Term Loan

In connection with the entry into the Applied Purchase Agreement, on August 1, 2023, SMAT, as borrower, and the Company, as guarantor, entered into a loan agreement (the "Cadence Loan Agreement") with Cadence Bank (the "Bank") providing for, among other things, an advancing term loan in the aggregate principal amount of $12.0 million (the "Cadence Term Loan"), which was evidenced by an advancing promissory note. Pursuant to the Cadence Loan Agreement, the Bank agreed to make, at any time and from time to time prior to February 1, 2024, one or more advances to SMAT.

The proceeds of the advances under the Cadence Loan Agreement were used for working capital and for purposes of financing up to one hundred percent (100%) of the Cash Closing Consideration and Installment Payments for the Applied Asset Purchase and related fees and expenses, including any subsequent payments that were due to the Sellers after the Closing. On August 1, 2023, the Bank, at the request of SMAT, made an advance for $9.75 million. The proceeds from the advance were used to fund the Cash Closing Consideration for the Applied Asset Purchase.

Advances under the Cadence Term Loan were scheduled to begin amortizing in monthly installments commencing on August 5, 2024. All remaining unpaid balances under the Cadence Term Loan were due and payable in full on August 1, 2028 (the "Cadence Loan Maturity Date"). SMAT was permitted to prepay amounts due under the Cadence Term Loan. All accrued but unpaid interest on the unpaid principal balance of outstanding advances was due and payable monthly, beginning on September 5, 2023 and continuing monthly on the fifth day of each month thereafter until the Cadence Loan Maturity Date. The unpaid principal balance of outstanding advances bore interest, subject to certain conditions, at the lesser of the Maximum Rate (as defined in the Cadence Loan Agreement) or the Base Rate, which was for any day, a rate per annum equal to the term secured overnight financing rate (Term SOFR) (as administered by the Federal Reserve Bank of New York) for a one-month tenor in effect on such day plus three percent (3.0%).

The obligations of SMAT under the Cadence Loan Agreement and the other loan documents delivered in connection therewith were guaranteed by the Company and were secured by a first priority security interest in substantially all of the existing and future assets of SMAT.

The Cadence Loan Agreement contained customary representations and warranties and certain covenants that limit (subject to certain exceptions) the ability of SMAT and the Company to, among other things, (i) create, assume or guarantee certain liabilities, (ii) create, assume or suffer liens securing indebtedness, (iii) make or permit loans and advances, (iv) acquire any assets outside the ordinary course of business, (v) consolidate, merge or sell all or a material part of its assets, (vi) pay dividends or other distributions on, or redeem or repurchase, interest in an obligor, including the Company, as guarantor (vii) cease, suspend or materially curtail business operations or (viii) engage in certain affiliate transactions. In addition, the Cadence Loan Agreement contained financial covenants that required SMAT to maintain (i) a minimum Debt Services Coverage Ratio of 1.2 to 1.0 as of the last day of each applicable fiscal quarter and (ii) a maximum Cash Flow Leverage Ratio of not more than (a) 4.5 to 1.0 as of the last day of the fiscal quarter ending on September 30, 2023, (b) 4.0 to 1.0 as of the last day of each fiscal quarter ending on December 31, 2023 and March 31, 2024, (c) 3.5 to 1.0 as of the last day of each fiscal quarter ending June 30, 2024 and September 30, 2024 and (d) 3.0 to 1.0 as of the last day of each fiscal quarter thereafter. Pursuant to the Cadence Loan Agreement, in the event that SMAT failed to comply with the financial covenants described above, the Company was required to contribute cash to SMAT in an amount equal to the amount required to satisfy the financial covenants.

The Cadence Loan Agreement contained customary events of default. If such an event of default occurs, the Bank was entitled to take various actions, including the acceleration of amounts due under the Cadence Loan Agreement and actions permitted to be taken by a secured creditor.

The table below presents the components of outstanding debt for the periods presented:

As of March 31, 2024 and December 31, 2023, the interest rate on the advance under the Cadence Term Loan was 8.3%.

	March 31, 2024	December 31, 2023
Cadence Term Loan	$ 9,750,000	$ 9,750,000
Total debt	9,750,000	9,750,000
Less: debt issuance costs, net of accumulated amortization of $ 8,221 and $5,138	(53,438)	(56,520)
	9,696,562	9,693,480
Less: Current portion of long-term debt	928,571	580,357
Long-term debt	$ 8,767,991	$ 9,113,123

The table below presents the aggregate maturities of the Company's outstanding debt as of March 31, 2024:

Year	Total
Remainder of 2024	$ 580,357
2025	1,625,000
2026	1,950,000
2027	1,950,000
2028	3,644,643
Thereafter	-
Total debt	**$ 9,750,000**

In connection with the Cadence Term Loan, the Company incurred $ 61,658 in debt issuance costs during the year ended December 31, 2023. Debt issuance costs are amortized to "Interest expense and other" on the Consolidated Statement of Operations over the life of the debt to which they pertain. The total unamortized debt issuance costs were $53,438 and $56,520 as of March 31, 2024 and December 31, 2023, respectively. Debt issuance costs are included in "Long-term debt, net of current portion" on the Consolidated Balance Sheets. Amortization expense related to debt issuance costs was $3,083 and zero for the three months ended March 31, 2024 and 2023, respectively.

CRG Term Loan

On April 17, 2024, the Company entered into a Term Loan Agreement (the "CRG Loan Agreement") by and among the Company, as borrower, the subsidiary guarantors party thereto from time to time (collectively, the "Guarantors"), CRG Servicing LLC as administrative agent and collateral agent (the "Agent"), and the lenders party thereto from time to time, providing for a senior secured term loan of up to $55.0 million (the "CRG Term Loan"). On the closing date of the CRG Term Loan, the Cadence Loan Agreement was terminated and all outstanding amounts under the Cadence Term Loan were

repaid in full and all security interest and other liens granted to or held by the Bank were terminated and released. For more information regarding the CRG Term Loan, see Note 11.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

License Agreements and Royalties

CellerateRX Surgical

In August 2018, the Company entered an exclusive, world-wide sublicense agreement with CGI Cellerate RX, LLC ("CGI Cellerate RX") to distribute CellerateRX Surgical and HYCOL products into the surgical and wound care markets. Pursuant to the Sublicense Agreement, the Company pays royalties of 3-5% of annual collected net sales of CellerateRX Surgical and HYCOL. As amended in January 2021, the term of the sublicense extends through May 2050, with automatic successive year-to-year renewal terms thereafter so long as the Company's Net Sales (as defined in the Sublicense Agreement) each year are equal to or in excess of $1,000,000. If the Company's Net Sales fall below $1,000,000 for any year after the expiration date, CGI Cellerate RX has the right to terminate the Sublicense Agreement upon written notice.

Under this agreement, royalty expense, which is recorded in "Cost of goods sold" in the accompanying Consolidated Statements of Operations, totaled zero and $520,814, respectively, for the three months ended March 31, 2024 and 2023. Sales of CellerateRX Surgical comprised the substantial majority of the Company's sales during the three months ended March 31, 2024 and the year ended December 31, 2023.

As discussed further in Note 3, on August 1, 2023, the Company purchased certain assets from Applied, including the rights to manufacture and sell CellerateRX Surgical and HYCOL products. In connection with the Applied Asset Purchase, Applied assigned its license agreement with CGI Cellerate RX to SMAT. Since the Closing, Sanara indirectly makes intercompany royalty payments to SMAT at the same rate as set forth in the Sublicense Agreement. Effective August 1, 2023, these intercompany royalty payments and the offsetting cost of goods sold are eliminated on a consolidated basis.

BIAKŌS Antimicrobial Wound Gel and BIAKŌS Antimicrobial Skin and Wound Cleanser

In July 2019, the Company executed a license agreement with Rochal Industries, LLC ("Rochal"), a related party, pursuant to which the Company acquired an exclusive world-wide license to market, sell and further develop antimicrobial products for the prevention and treatment of microbes on the human body utilizing certain Rochal patents and pending patent applications (the "BIAKŌS License Agreement"). Currently, the products covered by the BIAKŌS License Agreement are BIAKŌS Antimicrobial Wound Gel and BIAKŌS Antimicrobial Skin and Wound Cleanser. Both products are 510(k) cleared.

Future commitments under the terms of the BIAKŌS License Agreement include:

- The Company pays Rochal a royalty of 2-4% of net sales. The minimum annual royalty due to Rochal was $ 130,000 for 2023 and will increase by $10,000 each subsequent calendar year up to a maximum amount of $ 150,000.

- The Company pays additional royalty annually based on specific net profit targets from sales of the licensed products, subject to a maximum of $1,000,000 during any calendar year.

Unless previously terminated by the parties, the BIAKŌS License Agreement expires with the related patents in December 2031.

Under this agreement, royalty expense, which is recorded in "Cost of goods sold" in the accompanying Consolidated Statements of Operations, was $35,000 and $32,500 for the three months ended March 31, 2024 and 2023, respectively. The Company's Executive Chairman is a director of Rochal, and indirectly a significant shareholder of Rochal, and through the potential exercise of warrants, a majority shareholder of Rochal. Another one of the Company's directors is also a director and significant shareholder of Rochal.

CuraShield Antimicrobial Barrier Film and No Sting Skin Protectant

In October 2019, the Company executed a license agreement with Rochal pursuant to which the Company acquired an exclusive world-wide license to market, sell and further develop certain antimicrobial barrier film and skin protectant products for use in the human health care market utilizing certain Rochal patents and pending patent applications (the "ABF License Agreement"). Currently, the products covered by the ABF License Agreement are CuraShield Antimicrobial Barrier Film and a no sting skin protectant product.

Future commitments under the terms of the ABF License Agreement include:

- The Company will pay Rochal a royalty of 2-4% of net sales. The minimum annual royalty due to Rochal will be $ 50,000 beginning with the first full calendar year following the year in which first commercial sales of the products occur. The annual minimum royalty will increase by 10% each subsequent calendar year up to a maximum amount of $75,000.

- The Company will pay additional royalties annually based on specific net profit targets from sales of the licensed products, subject to a maximum of $500,000 during any calendar year.

Unless previously terminated or extended by the parties, the ABF License Agreement will terminate upon expiration of the last U.S. patent in October 2033. No commercial sales or royalties have been recognized under this agreement as of March 31, 2024.

Debrider License Agreement

In May 2020, the Company executed a product license agreement with Rochal, pursuant to which the Company acquired an exclusive world-wide license to market, sell and further develop a debrider for human medical use to enhance skin condition or treat or relieve skin disorders, excluding uses primarily for beauty, cosmetic, or toiletry purposes (the "Debrider License Agreement").

Future commitments under the terms of the Debrider License Agreement include:

- Upon FDA clearance of the licensed products, the Company will pay Rochal $500,000 in cash and an additional $ 1,000,000, which at the Company's option may be paid in any combination of cash and its common stock.

- The Company will pay Rochal a royalty of 2-4% of net sales. The minimum annual royalty due to Rochal will be $ 100,000 beginning with the first full calendar year following the year in which first commercial sales of the licensed products occur and increase by 10% each subsequent calendar year up to a maximum amount of $150,000.

- The Company will pay additional royalty annually based on specific net profit targets from sales of the licensed products, subject to a maximum of $1,000,000 during any calendar year.

Unless previously terminated or extended by the parties, the Debrider License Agreement will expire in October 2034. No commercial sales or royalties have been recognized under this agreement as of March 31, 2024.

Rochal Asset Acquisition

The Company entered into an asset purchase agreement with Rochal effective July 1, 2021, pursuant to which the Company purchased certain assets of Rochal. Pursuant to the asset purchase agreement, for the three-year period after the effective date, Rochal is entitled to receive consideration for any new product relating to the business that is directly and primarily based on an invention conceived and reduced to practice by a member or members of Rochal's science team. For the three-year period after the effective date, Rochal is also entitled to receive an amount in cash equal to twenty-five percent of the proceeds received for any Grant (as defined in the asset purchase agreement) by either the Company or Rochal. In addition, the Company agreed to use commercially reasonable efforts to perform Minimum Development Efforts (as defined in the asset purchase agreement) with respect to certain products under development, which if obtained, will entitle the Company to intellectual property rights from Rochal in respect of such products.

Precision Healing Merger Agreement

In April 2022, the Company closed a merger transaction with Precision Healing pursuant to which Precision Healing became a wholly owned subsidiary of the Company. Pursuant to the terms of the merger agreement, holders of Precision Healing common stock and preferred stock, other than the Company, were entitled to receive closing consideration, consisting of $125,966 in cash consideration, which was paid to stockholders who were not accredited investors, 165,738 shares of the Company's common stock, which was paid only to accredited investors, and the payment in cash of approximately $0.6 million of transaction expenses of Precision Healing. The Company recorded the issuance of the 165,738 shares to accredited investors and cash payments to nonaccredited investors based on the closing price per share of the Company's common stock on April 4, 2022, which was $30.75.

Upon the closing of the merger, the Precision Healing outstanding options previously granted under the Precision Healing Plan converted, pursuant to their terms, into options to acquire an aggregate of 144,191 shares of Company common stock with a weighted average exercise price of $ 10.71 per share. These options expire between August 2030 and April 2031. In addition, outstanding and unexercised Precision Healing warrants converted into rights to receive warrants to purchase (i) 4,424 shares of the Company's common stock with an initial exercise price of $ 7.32 per share and an expiration date of April 22, 2031, and (ii) 12,301 shares of the Company's common stock with an initial exercise price of $ 12.05 per share and an expiration date of August 10, 2030. Concurrent with the assumption of the Precision Healing Plan, the Company terminated the ability to offer future awards under the Precision Healing Plan.

Pursuant to the merger agreement, upon the achievement of certain performance thresholds, the securityholders of Precision Healing, including the holders of options and warrants to purchase Precision Healing common stock and certain persons promised options to purchase Precision Healing common stock, are also entitled to receive payments of up to $10.0 million, which was accounted for as contingent consideration pursuant to ASC 805. The earnout consideration is payable in cash or, at the Company's election, is payable to accredited investors in shares of Company common stock at a price per share equal to the greater of (i) $27.13 or (ii) the average closing price of Company common stock for the 20 trading days prior to the date such earnout consideration is due and payable. Pursuant to the merger agreement, a minimum percentage of the earnout consideration may be required to be issued to accredited investors in shares of Company common stock for tax purposes. The amount and composition of the portion of earnout consideration payable is subject to adjustment and offsets as set forth in the merger agreement.

Scendia Purchase Agreement

In July 2022, the Company closed the Scendia acquisition pursuant to which Scendia became a wholly owned subsidiary of the Company. Pursuant to the purchase agreement, the aggregate consideration for the acquisition at closing was approximately $7.6 million, subject to customary post-closing adjustments. The consideration consisted of (i) approximately $1.6 million of cash, subject to certain adjustments, and (ii) 291,686 shares of common stock of the Company. Pursuant to the purchase agreement, at closing, the Company withheld 94,798 Indemnity Holdback Shares, which such Indemnity Holdback Shares were withheld to the extent provided in the purchase agreement to satisfy Phillips' indemnification obligations and subsequently issued and released to Phillips in July 2023.

In addition to the cash consideration and the stock consideration, the purchase agreement provides that Phillips is entitled to receive two potential earnout payments, payable on an annual basis, not to exceed $10.0 million in the aggregate, which was accounted for as contingent consideration pursuant to ASC 805. The earnout consideration is payable to Phillips in cash or, at the Company's election, in up to 486,145 shares of the Company's common stock upon the achievement of certain performance thresholds relating to net revenue attributable to sales of Scendia products during the two-year period following the closing. The Company made the first earnout payment of approximately $693,000 in cash in August 2023. The Company expects the final earnout payment to be made in the third quarter of 2024.

Applied Asset Purchase

On August 1, 2023, the Company closed the Applied Asset Purchase. The Applied Purchased Assets were purchased for an initial aggregate purchase price of $15.25 million, consisting of (i) the Cash Closing Consideration, (ii) the Stock Closing Consideration and (iii) the Installment Payments.

In addition to the Cash Closing Consideration, Stock Closing Consideration and Installment Payments, the Applied Purchase Agreement provides that the Sellers are entitled to receive the Applied Earnout, which is payable to the Sellers in cash, upon the achievement of certain performance thresholds relating to SMAT's collections from net sales of a collagen-based product currently under development. Upon expiration of the seventh anniversary of the Closing, to the extent the Sellers have not earned the entirety of the Applied Earnout, SMAT shall pay the Sellers the True-Up Payment. The Applied Earnout, minus the True-Up Payment and any Applied Earnout payments already made by SMAT, may be earned at any point in the future, including after the True-Up Payment is made.

In connection with the Applied Asset Purchase and pursuant to the Applied Purchase Agreement, effective August 1, 2023, the Company entered into the Petito Services Agreement with the Owner, pursuant to which the Owner, as an independent contractor, agreed to provide the Petito Services. As consideration for the Petito Services, the Owner is entitled to receive: (i) a base salary of $12,000 per month during the term of the Petito Services Agreement, (ii) a royalty payment equal to three percent (3%) of the actual collections from net sales of certain products the Owner develops or codevelops that reach commercialization, (iii) a royalty payment equal to five percent (5%) for the first $50.0 million in aggregate collections from net sales of certain future products and a royalty payment of two and one-half percent (2.5%) on aggregate collections from net sales of certain future products on any amounts exceeding $50.0 million but up to $100.0 million, (iv) $500,000 in cash in the event that 510(k) clearance is issued for any future product accepted by the Company and (v) $1.0 million in cash in the event that a U.S. patent is issued for a certain product; provided that with

respect to the incentive payments described in (iv) and (v) of the foregoing, the Owner shall not earn more than $2.5 million.

The Petito Services Agreement has an initial term of three years and is subject to automatic successive one-month renewals unless earlier terminated in accordance with its terms. The Petito Services Agreement may be terminated upon the Owner's death or disability or by the Company or the Owner "For Cause" (as defined in the Petito Services Agreement); provided, however, that the base salary described in (i) of the foregoing paragraph shall survive termination through the three-year initial term and the royalty payments and incentive payments described in (ii)-(v) of the foregoing paragraph shall survive termination of the Petito Services Agreement.

Other Commitments

On December 20, 2023, the Company signed an exclusive license agreement with Tufts University ("Tufts") to develop and commercialize patented technology covering 18 unique collagen peptides. As part of this agreement, the Company formed a new subsidiary, Sanara Collagen Peptides, LLC ("SCP") and 10% of SCP's outstanding units were issued to Tufts. SCP has exclusive rights to develop and commercialize new products based on the licensed patents and patents pending. SCP will pay royalties to Tufts based on net sales of licensed products and technologies. Under the exclusive license agreement, royalties will be calculated at a rate of 1.5% or 3%, depending on the type of product or technology developed. SCP will pay Tufts a minimum annual royalty of $50,000 on January 1 of the year following the first anniversary of the first commercial sale of the licensed products or technologies. SCP will pay Tufts a $100,000 minimum annual royalty on January 1 of each subsequent year during the royalty term specified in the exclusive license agreement. There have been no material accounting impacts related to this arrangement as of March 31, 2024.

NOTE 9 – SHAREHOLDERS' EQUITY

Common Stock

At the Company's Annual Meeting of Shareholders held in July 2020, the Company approved the Restated 2014 Omnibus Long Term Incentive Plan (the "LTIP Plan") in which the Company's directors, officers, employees and consultants are eligible to participate. A total of 681,159 shares had been issued under the LTIP Plan and 1,318,841 were available for issuance as of March 31, 2024.

In April 2022, the Company closed a merger transaction with Precision Healing pursuant to which Precision Healing became a wholly owned subsidiary of the Company. Pursuant to the terms of the merger agreement, holders of Precision Healing common stock and preferred stock, other than the Company, were entitled to receive closing consideration, consisting of $125,966 in cash consideration, which was paid to stockholders who were not accredited investors, 165,738 shares of the Company's common stock, which was paid only to accredited investors, and the payment in cash of approximately $0.6 million of transaction expenses of Precision Healing. The Company recorded the issuance of 165,738 shares to accredited investors and cash payments to nonaccredited investors based on the closing price per share of the Company's common stock on April 4, 2022, which was $30.75.

Upon the closing of the merger, the Precision Healing outstanding options previously granted under the Precision Healing Plan converted, pursuant to their terms, into options to acquire an aggregate of 144,191 shares of Company common stock with a weighted average exercise price of $ 10.71 per share. These options expire between August 2030 and April 2031. In addition, outstanding and unexercised Precision Healing warrants converted into rights to receive warrants to purchase (i) 4,424 shares of the Company's common stock with an initial exercise price of $ 7.32 per share and an expiration date of April 22, 2031, and (ii) 12,301 shares of the Company's common stock with an initial exercise price of $ 12.05 per share and an expiration date of August 10, 2030. Concurrent with the assumption of the Precision Healing Plan, the Company terminated the ability to offer future awards under the Precision Healing Plan.

Pursuant to the merger agreement, upon the achievement of certain performance thresholds, the securityholders of Precision Healing, including the holders of options and warrants to purchase Precision Healing common stock and certain persons promised options to purchase Precision Healing common stock, are also entitled to receive payments of up to $10.0 million, which was accounted for as contingent consideration pursuant to ASC 805. The earnout consideration is payable in cash or, at the Company's election, is payable to accredited investors in shares of Company common stock at a price per share equal to the greater of (i) $27.13 or (ii) the average closing price of Company common stock for the 20 trading days prior to the date such earnout consideration is due and payable. Pursuant to the merger agreement, a minimum percentage of the earnout consideration may be required to be issued to accredited investors in shares of Company common stock for tax purposes. The amount and composition of the portion of earnout consideration payable is subject to adjustment and offsets as set forth in the merger agreement.

In July 2022, the Company closed the Scendia acquisition pursuant to which Scendia became a wholly owned subsidiary of the Company. Pursuant to the purchase agreement, the aggregate consideration at closing for the acquisition was approximately $7.6 million, subject to customary post-closing adjustments. The consideration consisted of (i) approximately $1.6 million of cash, subject to certain adjustments, and (ii) 291,686 shares of common stock of the Company. Pursuant to the purchase agreement, at closing, the Company withheld 94,798 Indemnity Holdback Shares, which such Indemnity Holdback Shares were withheld to the extent provided in the purchase agreement to satisfy Phillips' indemnification obligations and subsequently issued and released to Phillips in July 2023.

In addition to the cash consideration and the stock consideration, the purchase agreement provides that Phillips is entitled to receive two potential earnout payments, payable on an annual basis, not to exceed $10.0 million in the aggregate, which was accounted for as contingent consideration pursuant to ASC 805. The earnout consideration is payable to Phillips in cash or, at the Company's election, in up to 486,145 shares of the Company's common stock upon the achievement of certain performance thresholds relating to net revenue attributable to sales of Scendia products during the two-year period following the closing. The Company made the first earnout payment of approximately $693,000 in cash in August 2023.

In February 2023, the Company entered into a Controlled Equity Offering ^{SM} Sales Agreement (the "Sales Agreement") with Cantor Fitzgerald & Co., as sales agent ("Cantor"), pursuant to which the Company could offer and sell from time to time, to or through Cantor, shares of the Company's common stock having an aggregate offering price of up to $75,000,000.

Sales of the shares were made in sales deemed to be an "at the market offering" as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended. Upon delivery of a placement notice and subject to the terms and conditions of the Sales Agreement, Cantor agreed to use commercially reasonable efforts consistent with its normal trading and sales practices, applicable state and federal law, rules and regulations and the rules of The Nasdaq Capital Market to sell the shares from time to time based upon the Company's instructions, including any price, time period or size limits specified by the Company. The Company had no obligation to sell any of the shares under the Sales Agreement and could suspend or terminate the offering of its common stock pursuant to the Sales Agreement upon notice to Cantor and subject to other conditions. Cantor's obligations to sell the shares under the Sales Agreement were subject to satisfaction of certain conditions, including customary closing conditions. Pursuant to the Sales Agreement, the Company paid Cantor a commission of 3.0% of the aggregate gross proceeds from each sale of the shares.

In 2023, the Company sold an aggregate of 26,143 shares of common stock for gross proceeds of approximately $ 1.1 million and net proceeds of

approximately $0.9 million pursuant to the Sales Agreement. The Company paused the offering at the end of the first quarter of 2023 and did not reactivate it during the remainder of 2023. The Form S-3 registration statement for this offering expired at the beginning of 2024.

On August 1, 2023, the Company closed the Applied Asset Purchase. Included in the purchase price was 73,809 shares of the Company's common stock. See Note 3 for more information regarding the acquisition of Applied.

Restricted Stock Awards

During the three months ended March 31, 2024, the Company issued restricted stock awards under the LTIP Plan which are subject to certain vesting provisions and other terms and conditions set forth in each recipient's respective restricted stock agreement. The Company granted and issued 100,662 shares, net of forfeitures, of restricted common stock to employees, directors, and certain advisors of the Company under the LTIP Plan during the three months ended March 31, 2024. The fair value of these awards was $7,830,959 based on the closing price of the Company's common stock on the respective grant dates, which will be recognized as compensation expense on a straight-line basis over the vesting period of the awards.

Share-based compensation expense of $803,386 and $597,305 was recognized in "Selling, general and administrative expenses" and "Research and development" in the accompanying Consolidated Statements of Operations during the three months ended March 31, 2024 and 2023, respectively.

At March 31, 2024, there was $5,859,819 of total unrecognized share-based compensation expense related to unvested share-based equity awards. Unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of 0.9 years.

Below is a summary of restricted stock activity for the three months ended March 31, 2024:

	For the Three Months Ended March 31, 2024	
	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	144,211	$ 34.07
Granted	105,934	37.36
Vested	(51,656)	32.03
Forfeited	(5,272)	32.66
Nonvested at March 31, 2024	193,217	$ 36.46

Stock Options

A summary of the status of outstanding stock options at March 31, 2024 and changes during the three months ended is presented below:

	For the Three Months Ended March 31, 2024			
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
Outstanding at beginning of period	93,892	$ 10.22		
Granted or assumed	-	-		
Exercised	(3,059)	12.02		
Forfeited	-	-		
Expired	-	-		
Outstanding at March 31, 2024	90,833	$ 10.16	6.6	$ 2,438,222.4
Exercisable at March 31, 2024	90,833	$ 10.16	6.6	$ 2,438,222.4

Warrants

A summary of the status of outstanding warrants to purchase common stock at March 31, 2024 and changes during the three months then ended is presented below:

	For the Three Months Ended March 31, 2024		
	Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at beginning of period	16,725	$ 10.80	
Granted or assumed	-	-	
Exercised	-	-	
Forfeited	-	-	
Expired	-	-	
Outstanding at March 31, 2024	16,725	$ 10.80	6.5
Exercisable at March 31, 2024	16,725	$ 10.80	6.5

NOTE 10 – RELATED PARTIES

CellerateRX Sublicense Agreement

The Company has an exclusive, world-wide sublicense to distribute CellerateRX Surgical and HYCOL products into the surgical and wound care markets from an affiliate of The Catalyst Group, Inc. ("Catalyst"), CGI Cellerate RX, which licenses the rights to CellerateRX Surgical and HYCOL from Applied. Sales of CellerateRX have comprised the substantial majority of the Company's sales during the three months ended March 31, 2024 and 2023. In January 2021, the Company amended the term of the Sublicense Agreement to extend the term to May 17, 2050, with automatic successive one-year renewals so long as annual net sales of the licensed products exceed $1,000,000. The Company pays royalties based on the annual Net Sales of licensed products (as defined in the Sublicense Agreement) consisting of 3% of all collected Net Sales each year up to $12,000,000, 4% of all collected Net Sales each year that exceed $12,000,000 up to $20,000,000, and 5% of all collected Net Sales each year that exceed $20,000,000.

As discussed further in Note 3, on August 1, 2023, the Company purchased certain assets from Applied, including the underlying intellectual property of, as well as the rights to manufacture and sell, CellerateRX Surgical and HYCOL products. In connection with the Applied Asset Purchase, Applied assigned its license agreement with CGI Cellerate RX to SMAT. Since the Closing, Sanara indirectly makes intercompany royalty payments to SMAT at the same rate as set forth in the Sublicense Agreement. Ronald T. Nixon, the Company's Chief Executive Officer and Executive Chairman, is the founder and managing partner of Catalyst.

Product License Agreements

In July 2019, the Company executed a license agreement with Rochal, a related party, whereby the Company acquired an exclusive world-wide license to market, sell and further develop antimicrobial products for the prevention and treatment of microbes on the human body utilizing certain Rochal patents and pending patent applications. Currently, the products covered by the BIAKŌS License Agreement are BIAKŌS Antimicrobial Wound Gel and BIAKŌS Antimicrobial Skin and Wound Cleanser. Both products are 510(k) cleared. Mr. Nixon is a director of Rochal, and indirectly a significant shareholder of Rochal, and through the potential exercise of warrants, a majority shareholder of Rochal. Another one of the Company's directors is also a director and significant shareholder of Rochal.

In October 2019, the Company executed the ABF License Agreement with Rochal whereby the Company acquired an exclusive world-wide license to market, sell and further develop certain antimicrobial barrier film and skin protectant products for use in the human health care market utilizing certain Rochal patents and pending patent applications. Currently, the products covered by the ABF License Agreement are CuraShield Antimicrobial Barrier Film and a no sting skin protectant product.

In May 2020, the Company executed a product license agreement with Rochal, whereby the Company acquired an exclusive world-wide license to market, sell and further develop a debrider for human medical use to enhance skin condition or treat or relieve skin disorders, excluding uses primarily for beauty, cosmetic, or toiletry purposes.

See Note 8 for more information on these product license agreements.

Consulting Agreement

Concurrent with the Rochal asset purchase, in July 2021, the Company entered into a consulting agreement with Ann Beal Salamone pursuant to which Ms. Salamone agreed to provide the Company with consulting services with respect to, among other things, writing new patents, conducting patent intelligence, and participating in certain grant and contract reporting. In consideration for the consulting services to be provided to the Company, Ms. Salamone is entitled to receive an annual consulting fee of $177,697, with payments to be paid once per month. The consulting agreement has an initial term of three years, unless earlier terminated by the Company, and is subject to renewal. Ms. Salamone is a director of the Company and is a significant shareholder and the current Chair of the board of directors of Rochal.

Catalyst Transaction Advisory Services Agreement

In March 2023, the Company entered into a Transaction Advisory Services Agreement (the "Catalyst Services Agreement") effective March 1, 2023 with Catalyst, a related party. Pursuant to the Catalyst Services Agreement, Catalyst, by and through its directors, officers, employees and affiliates that are not simultaneously serving as directors, officers or employees of the Company (collectively, the "Covered Persons"), agreed to perform certain transaction advisory, business and organizational strategy, finance, marketing, operational and strategic planning, relationship access and corporate development services for the Company in connection with any merger, acquisition, recapitalization, divestiture, financing, refinancing, or other similar transaction in which the Company may be, or may consider becoming, involved, and any such additional services as mutually agreed upon in writing by and between Catalyst and the Company (the "Catalyst Services").

Pursuant to the Catalyst Services Agreement, the Company agreed to reimburse Catalyst for (i) compensation actually paid by Catalyst to any of the Covered Persons at a rate no more than a rate consistent with industry practice for the performance of services similar to the Catalyst Services, as documented in reasonably sufficient detail, and (ii) all reasonable out-of-pocket costs and expenses payable to unaffiliated third parties, as documented in customary expense reports, as each of (i) and (ii) is incurred in connection with the Catalyst Services rendered under the Catalyst Services Agreement, with all reimbursements being contingent upon the prior approval of the Audit Committee of the Company's Board of Directors. The Company incurred costs of $56,272 and zero pursuant to the Catalyst Services Agreement in the three months ended March 31, 2024 and 2023, respectively.

NOTE 11 – SUBSEQUENT EVENTS

CRG Loan Agreement

On April 17, 2024 (the "Closing Date"), the Company entered into the CRG Loan Agreement, by and among the Company, as borrower, the Guarantors, the Agent, and the lenders party thereto from time to time, providing for a senior secured term loan of up to $55.0 million. The CRG Loan Agreement provides for (i) $15.0 million of the CRG Loan to be borrowed on the Closing Date (the "First Borrowing") and (ii) up to an aggregate of $ 40.0 million available for borrowing in two subsequent borrowings, *provided* that each such borrowing must be at least $5.0 million or a multiple of $5.0 million and occur between the Closing Date and June 30, 2025, subject to the satisfaction of certain conditions, including that the First Borrowing having previously occurred and the Agent having received certain fees.

The CRG Loan is due and payable on March 30, 2029 (the "Maturity Date"), absent any acceleration. Pursuant to the CRG Loan Agreement, the proceeds of the CRG Loan shall be used to repay the Cadence Term Loan, to pay fees and expenses related to the CRG Loan Agreement, for certain permitted acquisitions and similar investments and for general working capital and corporate purposes.

The CRG Loan bears interest at a per annum rate equal to 13.25% (subject to a 4.0% increase during an event of default), of which 8.00% must be paid in cash and 5.25% may, at the election of the Company, be deferred through the 19 th quarterly Payment Date (defined below) by adding such amount to the aggregate principal loan amount, so long as no default or event of default under the CRG Loan Agreement has occurred and is continuing. The Company is required to make quarterly interest payments on the final business day of each calendar quarter following the Closing Date, commencing on

the first such date to occur at least 30 days after the Closing Date (each, a "Payment Date"). Interest is payable on each Payment Date in arrears with respect to the time between each Payment Date and upon the payment or prepayment of the CRG Loan, ending on the Maturity Date. In addition, the Company is required to pay an upfront fee of 1.50% of the principal amount of the CRG Loan, which is payable as amounts are advanced under the CRG Loan on a pro rata basis. The Company will also be required to pay a back-end fee equal to 7.00% of the aggregate principal amount advanced under the CRG Loan Agreement.

Subject to certain exceptions, the Company is required to make mandatory prepayments of the CRG Loan with the proceeds of certain assets sales and in the event of a change of control of the Company. In addition, the Company may make a voluntary prepayment of the CRG Loan, in whole or in part, at any time. All mandatory and voluntary prepayments of the CRG Loan are subject to the payment of prepayment premiums as follows: (i) if prepayment occurs on or prior to the date that is one year following the applicable borrowing (the "Borrowing Date"), an amount equal to 10.0% of the aggregate outstanding principal amount of the Loan being prepaid and (ii) if prepayment occurs one year after the applicable Borrowing Date and on or prior to two years following the applicable Borrowing Date, an amount equal to 5.0% of the aggregate outstanding principal amount of the CRG Loan being prepaid. No prepayment premium is due on any principal prepaid if prepayment occurs two years or more after the applicable Borrowing Date.

Certain of the Company's current and future subsidiaries, including the Guarantors, are guaranteeing the obligations of the Company under the CRG Loan Agreement. As security for their obligations under the CRG Loan Agreement, on the Closing Date, the Company and the Guarantors entered into a security agreement with the Agent pursuant to which the Company and the Guarantors granted to the Agent, as collateral agent for the lenders, a lien on substantially all of the Company's and the Guarantors' assets, including intellectual property (subject to certain exceptions).

The CRG Loan Agreement contains affirmative and negative covenants customary for financings of this type, including limitations on the Company's and the Guarantors' abilities, among other things, to incur additional debt, grant or permit additional liens, make investments and acquisitions above certain thresholds, merge or consolidate with others, dispose of assets, pay dividends and distributions and enter into affiliate transactions, in each case, subject to certain exceptions. In addition, the CRG Loan Agreement contains the following financial covenants requiring the Company and the Guarantors in the aggregate to maintain:

- liquidity in an amount which shall exceed the greater of (i) $3.0 million and (ii) to the extent the Company has incurred certain permitted debt, the minimum cash balance, if any, required of the Company by the creditors of such permitted debt; and

- annual minimum revenue: (i) for the twelve-month period beginning on January 1, 2024 and ending on December 31, 2024, of at least $60.0 million, (ii) for the twelve-month period beginning on January 1, 2025 and ending on December 31, 2025, of at least $75.0 million, (iii) for the twelve-month period beginning on January 1, 2026 and ending on December 31, 2026, of at least $85.0 million, (iv) for the twelve-month period beginning on January 1, 2027 and ending on December 31, 2027, of at least $95.0 million and (v) during each twelve-month period beginning on January 1 of a given year thereafter, of at least $105.0 million.

The CRG Loan Agreement contains representations and warranties of the Company and the Guarantors customary for financings of this type, and also includes events of default customary for financings of this type, including, among other things, non-payment, inaccuracy of representations and warranties, covenant breaches, a material adverse change, bankruptcy and insolvency, material judgments and a change of control, in certain cases subject to customary periods to cure. The occurrence and continuance of an event of default could result in the acceleration of the obligations under the CRG Loan Agreement.

As discussed above in Note 7, on the Closing Date, the Cadence Loan Agreement terminated and all outstanding amounts under the Cadence Term Loan were repaid in full, and all security interests and other liens granted to or held by the Bank were terminated and released.

Resignation of Chief Executive Officer

On May 10, 2024 (the "Effective Date"), Zachary B. Fleming delivered notice to the Board of Directors of the Company (the "Board") that he is resigning from his position as Chief Executive Officer of the Company, effective immediately. Effective as of the Effective Date, Mr. Fleming's amended and restated employment agreement (the "Fleming Employment Agreement") terminated, except that certain surviving customary confidentiality provisions and non-disparagement covenants will remain in full force and effect. The Company intends to negotiate a separation agreement (the "Separation Agreement") with Mr. Fleming to set forth certain separation benefits for Mr. Fleming and provide for certain restrictive covenants in favor of the Company.

In connection with Mr. Fleming's resignation, the Board modified the vesting provisions of Mr. Fleming's restricted stock award agreements such that fifty percent (50%) of the unvested shares of restricted stock that have previously been granted to Mr. Fleming under such award agreements shall continue to vest on the same time schedule in the applicable restricted stock agreements; *provided* that Mr. Fleming enters into the Separation Agreement (which must be acceptable to the Company) and, in lieu of the continued service requirement, Mr. Fleming continues to comply with the continuing provisions of the Fleming Employment Agreement, the restricted stock agreements and the restrictive covenants set forth in the Separation Agreement.

Appointment of New Chief Executive Officer

On May 12, 2024, the Board appointed Ronald T. Nixon, the Company's Executive Chairman, as the Chief Executive Officer of the Company, effective immediately, to serve in such position until his successor is elected and qualified.

There are no arrangements or understandings between Mr. Nixon and any other persons pursuant to which he was selected to serve as the Company's Chief Executive Officer. There is no family relationship between Mr. Nixon and any director or executive officer of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of Sanara MedTech Inc. (together with its wholly owned or majority-owned subsidiaries on a consolidated basis, the "Company," "Sanara MedTech," "Sanara," "our," "us," or "we") should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023 and with the unaudited consolidated financial statements and related notes thereto presented in this Quarterly Report on Form 10-Q.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "aims," "anticipates," "believes," "contemplates," "continue," "could," "estimates," "expects," "forecast," "guidance," "intends," "may," "plans," "possible," "potential," "predicts," "preliminary," "projects," "seeks," "should," "target," "will" or "would" or the negative of these words, variations of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Such forward-looking statements are subject to certain risks, uncertainties and assumptions relating to factors that could cause actual results to differ materially from those

anticipated in such statements, including, without limitation, the following:

- shortfalls in forecasted revenue growth;
- our ability to implement our comprehensive wound and skincare strategy through acquisitions and investments and our ability to realize the anticipated benefits of such acquisitions and investments;
- our ability to meet our future capital requirements;
- our ability to retain and recruit key personnel;
- the intense competition in the markets in which we operate and our ability to compete within our markets;
- the failure of our products to obtain market acceptance;
- the effect of security breaches and other disruptions;
- our ability to maintain effective internal controls over financial reporting;
- our ability to develop and commercialize new products and products under development, including the manufacturing, distribution, marketing and sale of such products;
- our ability to maintain and further grow clinical acceptance and adoption of our products;
- the impact of competitors inventing products that are superior to ours;
- disruptions of, or changes in, our distribution model, consumer base or the supply of our products;
- our ability to manage product inventory in an effective and efficient manner;
- the failure of third-party assessments to demonstrate desired outcomes in proposed endpoints;
- our ability to successfully expand into wound and skincare virtual consult and other services;

- our ability and the ability of our research and development partners to protect the proprietary rights to technologies used in certain of our products and the impact of any claim that we have infringed on intellectual property rights of others;
- our dependence on technologies and products that we license from third parties;
- the effects of current and future laws, rules, regulations and reimbursement policies relating to the labeling, marketing and sale of our products and our planned expansion into wound and skincare virtual consult and other services and our ability to comply with the various laws, rules and regulations applicable to our business; and
- the effect of defects, failures or quality issues associated with our products.

For a more detailed discussion of these and other factors that may affect our business and that could cause the actual results to differ materially from those anticipated in forward-looking statements, see “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, Part II, Item 1A “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Forward-looking statements speak only as of the date on which they are made, and the Company does not assume any obligation to update these forward-looking statements, except to the extent required by applicable securities laws.

OVERVIEW

We are a medical technology company focused on developing and commercializing transformative technologies to improve clinical outcomes and reduce healthcare expenditures in the surgical, chronic wound and skincare markets. Our products, services and technologies are designed to achieve our goal of providing better clinical outcomes at a lower overall cost for patients regardless of where they receive care. We strive to be one of the most innovative and comprehensive providers of effective surgical, wound and skincare solutions and are continually seeking to expand our offerings for patients requiring treatments across the entire continuum of care in the United States.

We currently market several products across surgical and chronic wound care applications and have multiple products in our pipeline. On August 1, 2023, we acquired, among other things, the underlying intellectual property of, as well as the rights to manufacture and sell, CellerateRX Surgical Activated Collagen (“CellerateRX Surgical”), our primary product, and HYCOL Hydrolyzed Collagen (“HYCOL”) from Applied Nutritionals, LLC (“Applied”) for human wound care use (for more information regarding this acquisition, see the “Recent Acquisitions” section below). Prior to such time, we had licensed the rights to these products through a sublicense agreement (the “Sublicense Agreement”) with CGI Cellerate RX, LLC (“CGI Cellerate RX”), an affiliate of The Catalyst Group, Inc. (“Catalyst”), both of which are related parties (for additional information regarding related parties, see the section titled “Material Transactions with Related Parties” below). In connection with the asset purchase, Applied assigned its license agreement with CGI Cellerate RX to a wholly owned subsidiary of the Company. We also license certain products from Rochal Industries, LLC (“Rochal”) and Cook Biotech Inc.

In April 2022, we entered into a merger agreement through which Precision Healing Inc. (“Precision Healing”) became a wholly owned subsidiary of the Company. Precision Healing is developing a diagnostic imager and lateral flow assay (“LFA”) for assessing a patient’s wound and skin conditions. This comprehensive wound and skin assessment technology is designed to quantify biochemical markers to determine the trajectory of a wound’s condition to enable better diagnosis and treatment protocol. In December 2023, we received 510(k) clearance from the U.S. Food and Drug Administration for the Precision Healing diagnostic imager. We are currently evaluating regulatory pathways for the Precision Healing LFA.

In July 2022, we entered into a membership interest purchase agreement with Scendia Biologics, LLC (“Scendia”) and Ryan Phillips (“Phillips”) pursuant to which we acquired 100% of the issued and outstanding membership interests in Scendia from Phillips. Since our acquisition of Scendia, we have been selling a full line of regenerative and orthobiologic technologies including (i) TEXAGEN Amniotic Membrane Allograft (“TEXAGEN”), (ii) BiFORM Bioactive Moldable Matrix (“BiFORM”), (iii) ACTIGEN Verified Inductive Bone Matrix (“ACTIGEN”) and (iv) ALLOCYTE Advanced Cellular Bone Matrix (“ALLOCYTE”).

In November 2022, we established a partnership with InfuSystem Holdings, Inc. (“InfuSystem”) focused on delivering a complete wound care solution targeted at improving patient outcomes, lowering the cost of care, and increasing patient and provider satisfaction. The partnership is expected to enable InfuSystem to offer innovative products, including our advanced wound care product line and associated services to new customers.

In November 2023, we launched BIASURGE Advanced Surgical Solution ("BIASURGE"). BIASURGE is a no-rinse, advanced surgical solution used for wound irrigation. It contains an antimicrobial preservative effective against a broad spectrum of pathogenic microorganisms. BIASURGE is indicated for use in the mechanical cleansing and removal of debris, including microorganisms, from surgical wounds.

COMPREHENSIVE VALUE-BASED CARE STRATEGY

In June 2020, we formed a subsidiary, United Wound and Skin Solutions, LLC (formerly known as "WounDerm"), to hold certain investments and operations in wound and skincare virtual consult services. In 2023, WounDerm was renamed and is now doing business as "Tissue Health Plus" ("THP"). THP is continuing its current mission to simplify skin health, starting with wound care through a refined business plan. Through THP, we plan to offer a first of its kind value-based wound care program to payers and risk-bearing entities such as accountable care organizations and value-based care ("VBC") primary care companies, with Medicare Advantage payers as the initial target segment for this program.

THP's programs are expected to enable payers to divest wound care spend risk, reduce wound related hospitalizations and improve patient quality of life. THP plans to coordinate delivery of community and home-based wound care for its managed patients. Community based care spans a variety of settings including physician offices, skilled nursing homes, assisted living facilities and senior living facilities. THP programs are intended to integrate science and evidence-based medicine protocols to standardize wound prevention and treatment.

We anticipate that THP's customer contracts will have three-to-five-year terms. These contracts are expected to incorporate a mix of value-based pricing methodologies including episodic, "per member per month", and "fee for value" pricing. We believe this approach is aligned with the financial goals of the payers and will help deliver outstanding clinical outcomes for the patients.

Our vision for our comprehensive approach consists of three key sets of planned capabilities:

(a) *Care Hub* – This virtual patient monitoring, care coordination and navigation center is expected to help doctors and nurses support their patients throughout their wound care journey, from prevention to treatment. We expect to have Care Hub staffed by wound care certified nurse practitioners ("NPs") and registered nurses ("RNs"), incorporating care delivery best practices from partnerships with Direct Dermatology Inc. and certain physician-led multispecialty wound care groups. With NPs leading the care hub, RNs are expected to be the wound specialists, providing patients with expert review and support of the overarching plan of care on each patient's journey through the process. In addition, care navigators are expected to serve as a primary point of contact for patients and their providers, coordinating care, managing appointments and ensuring seamless communication among all team members.

(b) *Managed Services Organization ("MSO") Network* – With respect to patient-side wound care, our plan is that THP's programs would be performed by a network of third-party providers who will be contracted through managed services agreements. These providers would include podiatrists, wound care provider groups, primary care physicians and home health agencies. The providers in the THP network are expected to leverage THP's standard of care, patient education and tools to deliver optimal patient outcomes with high predictability and efficiency.

(c) *Technology Platform* – THP's technology platform will focus on scaling workflows of THP's Care Hub and MSO Network through automation and integration. We expect the THP technology platform to enable enhanced patient empowerment and self-healthcare. We anticipate that our platform will leverage our technology investments and partnerships with Precision Healing, Pixalere Healthcare, Inc. ("Pixalere") and others, by leveraging modern technology including artificial intelligence and machine learning. Our platform technology is expected to manage program economics, standards of care, patient monitoring, wound assessments, network performance monitoring, and revenue cycle management. We expect that each of these components will work in concert with each other, constantly improving economics and care delivery.

We are seeking a partner to facilitate commercialization of THP and share in the cost of development of the program. Our operating expenses for THP, which includes depreciation, amortization, accretion, change in fair value of earnout liabilities and interest expense were approximately $5.2 million for the twelve months ended December 31, 2023 and $0.9 million for the three months ended March 31, 2024, respectively.

RECENT ACQUISITIONS

Applied Asset Purchase

On August 1, 2023, we entered into an Asset Purchase Agreement (the "Applied Purchase Agreement") by and among the Company, as guarantor, Sanara MedTech Applied Technologies, LLC, a wholly owned subsidiary of the Company ("SMAT"), Applied, The Hymed Group Corporation ("Hymed" and together with Applied, the "Sellers"), and Dr. George D. Petito (the "Owner"), pursuant to which SMAT acquired certain assets of the Sellers and the Owner, including, among others, the Sellers' and Owner's inventory, intellectual property, manufacturing and related equipment, goodwill, rights and claims, other than certain excluded assets, all as more specifically set forth in the Applied Purchase Agreement (collectively, the "Applied Purchased Assets"), and assumed certain Assumed Liabilities (as defined in the Applied Purchase Agreement), upon the terms and subject to the conditions set forth in the Applied Purchase Agreement (such transaction, the "Applied Asset Purchase"). The Applied Purchased Assets include the underlying intellectual property of, as well as the rights to manufacture and sell, CellerateRX Surgical and HYCOL products for human wound care use.

The Applied Purchased Assets were purchased for an initial aggregate purchase price of $15.25 million, consisting of (i) $9.75 million in cash (the "Cash Closing Consideration"), (ii) 73,809 shares of our common stock (the "Stock Closing Consideration") with an agreed upon value of $3.0 million and (iii) $2.5 million in cash (the "Installment Payments"), to be paid in four equal installments on each of the next four anniversaries of the closing of the Applied Asset Purchase (the "Closing").

In addition to the Cash Closing Consideration, Stock Closing Consideration and Installment Payments, the Applied Purchase Agreement provides that the Sellers are entitled to receive up to an additional $10.0 million (the "Applied Earnout"), which is payable to the Sellers in cash, upon the achievement of certain performance thresholds relating to SMAT's collections from net sales of a collagen-based product currently under development. Upon expiration of the seventh anniversary of the Closing, to the extent the Sellers have not earned the entirety of the Applied Earnout, SMAT shall pay the Sellers a pro-rata amount of the Applied Earnout based on collections from net sales of the product, with such amount to be due credited against any Applied Earnout payments already made by SMAT (the "True-Up Payment"). The Applied Earnout, minus the True-Up Payment and any Applied Earnout payments already made by SMAT, may be earned at any point in the future, including after the True-Up Payment is made.

In connection with the Applied Asset Purchase and pursuant to the Applied Purchase Agreement, effective August 1, 2023, we entered into a professional services agreement (the "Petito Services Agreement") with the Owner, pursuant to which the Owner, as an independent contractor, agreed to provide certain services to us, including, among other things, assisting with the development of products already in development and assisting with research, development, formulation, invention and manufacturing of any future products (the "Petito Services"). As consideration for the Petito Services, the Owner is entitled to receive: (i) a base salary of $12,000 per month during the term of the Petito Services Agreement, (ii) a royalty payment equal to

three percent (3%) of the actual collections from net sales of certain products the Owner develops or co-develops that reach commercialization, (iii) a royalty payment equal to five percent (5%) for the first $50.0 million in aggregate collections from net sales of certain future products and a royalty payment of two and one-half percent (2.5%) on aggregate collections from net sales of certain future products on any amounts exceeding $50.0 million but up to $100.0 million, (iv) $500,000 in cash in the event that 510(k) clearance is issued for any future product accepted by the Company and (v) $1.0 million in cash in the event that a U.S. patent is issued for a certain product; provided that with respect to the incentive payments described in (iv) and (v) of the foregoing, the Owner shall not earn more than $2.5 million. The Petito Services Agreement has an initial term of three years and is subject to automatic successive one-month renewals unless earlier terminated in accordance with its terms. The Petito Services Agreement may be terminated upon the Owner's death or disability or by us or the Owner "For Cause" (as defined in the Petito Services Agreement); provided, however, that the base salary described in (i) of the foregoing paragraph shall survive termination through the three-year initial term and the royalty payments and incentive payments described in (ii)-(v) of the foregoing paragraph shall survive termination of the Petito Services Agreement.

RECENT DEVELOPMENTS

Cadence Loan Agreement

In connection with the entry into the Applied Purchase Agreement, on August 1, 2023, we, as guarantor, and SMAT, as borrower, entered into a loan agreement (the "Cadence Loan Agreement") with Cadence Bank (the "Bank") which provided for, among other things, an advancing term loan in the aggregate principal amount of $12.0 million (the "Cadence Term Loan"). Pursuant to the Cadence Loan Agreement, the Bank agreed to make, at any time and from time to time prior to February 1, 2024, one or more advances to SMAT. On August 1, 2023, the Bank made an advance under the Cadence Term Loan for $9.75 million, the proceeds of which were used to fund the Cash Closing Consideration for the Applied Asset Purchase. As described in further detail below, on the Closing Date of the CRG Loan (defined below), the Cadence Loan Agreement with the Bank was terminated and all outstanding amounts under the Cadence Term Loan were repaid in full and all security interest and other liens granted to or held by the Bank were terminated and released. For more information regarding the Cadence Loan Agreement, see the "Liquidity and Capital Resources" section below.

CRG Loan Agreement

On April 17, 2024 (the "Closing Date"), we, as borrower, entered into a Term Loan Agreement (the "CRG Loan Agreement") with the subsidiary guarantors party thereto from time to time (collectively, the "Guarantors"), CRG Servicing LLC as administrative agent and collateral agent (the "Agent"), and the lenders party thereto from time to time, providing for a senior secured term loan of up to $55.0 million (the "CRG Loan"). A portion of the proceeds of the CRG Loan were used to repay the Cadence Term Loan and to pay fees and expenses related to the CRG Loan Agreement. The remaining proceeds shall be used for certain permitted acquisitions and similar investments and for general working capital and corporate purposes. For more information regarding the CRG Loan, see the "Liquidity and Capital Resources" section below.

Tufts University License Agreement

In December 2023, we signed an exclusive license agreement with Tufts University ("Tufts") to develop and commercialize patented technology covering 18 unique collagen peptides. As part of this agreement, we formed a new subsidiary, Sanara Collagen Peptides, LLC ("SCP") and 10% of SCP's outstanding units were issued to Tufts. SCP has exclusive rights to develop and commercialize new products based on the licensed patents and patents pending. SCP will pay royalties to Tufts based on net sales of licensed products and technologies. Pursuant to the exclusive license agreement, royalties will be calculated at a rate of 1.5% or 3%, depending on the type of product or technology developed. SCP will pay Tufts a minimum annual royalty of $50,000 on January 1 of the year following the first anniversary of the first commercial sale of the licensed products or technologies. SCP will pay Tufts a $100,000 minimum annual royalty on January 1 of each subsequent year during the royalty term specified in the exclusive license agreement.

COMPONENTS OF RESULTS OF OPERATIONS

Sources of Revenues

Our revenue is derived primarily from sales of our soft tissue repair and bone fusion products to hospitals and other acute care facilities. In particular, the substantial majority of our product sales revenue is derived from sales of CellerateRX Surgical. Our revenue is driven by direct orders shipped by us to our customers, and to a lesser extent, direct sales to customers through delivery at the time of procedure by one of our sales representatives. We generally recognize revenue when a purchase order is received from the customer and our product is received by the customer.

Revenue streams from product sales and royalties are summarized below for the three months ended March 31, 2024 and 2023.

	Three Months Ended March 31,	
	2024	**2023**
Soft tissue repair products	$ 16,082,292	$ 12,872,481
Bone fusion products	2,454,346	2,599,186
Royalty revenue	-	50,250
Total Net Revenue	**$ 18,536,638**	**$ 15,521,917**

Cost of Goods Sold

Cost of goods sold consists primarily of the acquisition costs from the manufacturers of our licensed products, raw material costs for certain components sourced directly by us, and all related royalties due as a result of the sale of our products. Our gross profit represents total net revenue less the cost of goods sold, and gross margin represents gross profit expressed as a percentage of total revenue.

Operating Expenses

Selling, general and administrative ("SG&A") expenses consist primarily of salaries, sales commissions, benefits, bonuses and stock-based compensation. SG&A also includes outside legal counsel fees, audit fees, insurance premiums, rent and other corporate expenses. We expense all SG&A expenses as incurred.

Research and development ("R&D") expenses include costs related to enhancements to our currently available products and additional investments in our product, services and technologies development pipeline. This includes personnel-related expenses, including salaries, stock-based compensation, and benefits for all personnel directly engaged in R&D activities, contracted services, materials, prototype expenses and allocated overhead, which is comprised of lease expense and other facilities related costs. We expense R&D costs as incurred. We generally expect that R&D expenses will increase

as we continue to support product enhancements and bring new products to market.

Depreciation and amortization expenses include depreciation of fixed assets and amortization of intangible assets that have a finite life, such as product licenses, patents and intellectual property, customer relationships and assembled workforces.

Change in fair value of earnout liabilities represents our measurement of the change in fair value at the balance sheet date of our earnout liabilities that were established at the time of our Precision Healing and Scendia acquisitions.

Other Income (Expense)

Other income (expense) is primarily comprised of interest expense and other nonoperating activities.

RESULTS OF OPERATIONS

Net Revenue. For the three months ended March 31, 2024, we generated net revenue of $18.5 million compared to net revenue of $15.5 million for the three months ended March 31, 2023, a 19% increase from the prior year period. The higher net revenue for the three months ended March 31, 2024 was primarily due to increased sales of soft tissue repair products, including CellerateRX, as a result of our increased market penetration, geographic expansion, and our continuing strategy to expand our independent distribution network in both new and existing U.S. markets.

***Cost of goods sold*.** Cost of goods sold for the three months ended March 31, 2024, was $1.9 million, compared to costs of goods sold of $2.1 million for the three months ended March 31, 2023. The decrease in cost of goods sold for the three months ended March 31, 2024 was primarily due to the elimination in consolidation of the CellerateRX Surgical royalty expense under the Sublicense Agreement. Gross margins were approximately 90% and 86% for the three months ended March 31, 2024 and 2023, respectively. The gross margins for the three months ended March 31, 2024 included higher margins realized due to increased sales of soft tissue repair products, including CellerateRX, and bone fusion products and the elimination in consolidation of the CellerateRX Surgical royalty expense under the Sublicense Agreement.

***Selling, general and administrative expenses*.** SG&A expenses for the three months ended March 31, 2024, were $16.2 million compared to SG&A expenses of $13.0 million for the three months ended March 31, 2023. The higher SG&A expenses for the three months ended March 31, 2024 were primarily due to higher direct sales and marketing expenses, which accounted for approximately $2.2 million, or 69%, of the increases compared to the prior year period. The higher direct sales and marketing expenses for the three months ended March 31, 2024 were primarily attributable to an increase in sales commissions of $1.6 million as a result of higher product sales and $0.6 million of increased costs as a result of sales force expansion and operational support.

***Research and development expenses*.** R&D expenses for the three months ended March 31, 2024, were $0.9 million compared to $1.3 million for the three months ended March 31, 2023. The lower R&D expenses for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 were primarily due to lower costs associated with the Precision Healing diagnostic imager and LFA.

Depreciation and amortization expense. Depreciation and amortization expense for the three months ended March 31, 2024, was $1.1 million compared to $0.8 million for the three months ended March 31, 2023. The increase in depreciation and amortization expense during the three months ended March 31, 2024 was primarily due to the amortization of intangible assets acquired as part of the Applied Asset Purchase.

Change in fair value of earnout liabilities. Change in fair value of earnout liabilities was a benefit of $0.1 million for the three months ended March 31, 2024 compared to a benefit of $0.5 million for the three months ended March 31, 2023. The benefit for the three months ended March 31, 2024 is a result of a decrease in the estimated fair value of the earnout liabilities established at the time of our Precision Healing and Scendia acquisitions. The decrease in the estimated fair value was due to a decrease in the projected undiscounted amounts to be paid, partially offset by accretion. The prior year period benefit was due to a decrease in the fair value due to a change in the discount factor utilized in the valuation models, a decrease in the projected undiscounted amounts to be paid, as well as adjustments to the projected timing of the payments to be made.

Other income (expense). Other income (expense) for the three months ended March 31, 2024 was $0.3 million compared to zero for the three months ended March 31, 2023. Other income (expense) for the three months ended March 31, 2024 included interest expense and amortization of debt issuance costs related to the Cadence Term Loan entered into in conjunction with the Applied Asset Purchase.

Net Loss. We had a net loss of $1.8 million for the three months ended March 31, 2024, compared to a net loss $1.2 million for the three months ended March 31, 2023. The higher net loss in the three months ended March 31, 2024 was due to higher SG&A costs and higher amortization of our acquired intangible assets as discussed above, offset by higher gross profit and lower R&D expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash on hand at March 31, 2024 was $2.8 million, compared to $5.1 million at December 31, 2023. Historically, we have financed our operations primarily from the sale of equity securities. In February 2023, we entered into a Controlled Equity Offering ^{SM} Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co., as sales agent (“Cantor”), pursuant to which we could offer and sell from time to time, to or through Cantor, shares of our common stock having an aggregate offering price of up to $75.0 million.

Sales of the shares, pursuant to the Sales Agreement, were made in sales deemed to be an “at the market offering” as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended. Upon delivery of a placement notice and subject to the terms and conditions of the Sales Agreement, Cantor agreed to use commercially reasonable efforts consistent with its normal trading and sales practices, applicable state and federal law, rules and regulations and the rules of The Nasdaq Capital Market to sell the shares from time to time based upon our instructions, including any price, time period or size limits specified by us. We had no obligation to sell any of the shares under the Sales Agreement and could suspend or terminate the offering of our common stock pursuant to the Sales Agreement upon notice to Cantor and subject to other conditions. Pursuant to the Sales Agreement, we paid Cantor a commission of 3.0% of the aggregate gross proceeds from each sale of the shares.

In 2023, we sold an aggregate of 26,143 shares of common stock for gross proceeds of approximately $1.1 million and net proceeds of approximately $1.0 million pursuant to the Sales Agreement. We paused the offering at the end of the first quarter of 2023 and did not reactivate it during the remainder of 2023. The Registration Statement on Form S-3 relating to this offering expired in January 2024.

On August 1, 2023, we, as guarantor, and SMAT, as borrower, entered into the Loan Agreement with the Bank providing for, among other things, a Term Loan in the aggregate principal amount of up to $12.0 million, which was evidenced by an advancing promissory note. Pursuant to the Loan Agreement, the Bank agreed to make, at any time and from time to time prior to February 1, 2024, one or more advances to SMAT. On August 1, 2023, the Bank made an advance under the Term Loan for $9.75 million, the proceeds of which were used to fund the Cash Closing Consideration for the Applied Asset

Purchase. For more information regarding the Loan Agreement, see the "Loan Agreement" section below.

On April 17, 2024, we entered into the CRG Loan Agreement by and among us, as borrower, the Guarantors, the Agent and the lenders party thereto from time to time, providing for a senior secured term loan of up to $55.0 million. On the closing date of the CRG Loan, a $15.0 million advance was made to repay the Cadence Term Loan of $9.75 million and the remaining as cash on the balance sheet. On the Closing Date, the Cadence Loan Agreement was terminated and all outstanding amounts under the Cadence Term Loan were repaid in full and all security interest and other liens granted to or held by the Bank were terminated and released.

We expect our future needs for cash to include funding potential acquisitions, further developing our products, services and technologies pipeline and clinical studies, expanding our sales force, repayment of debt as it becomes due and for general corporate purposes. If we seek to consummate acquisitions in the future, we expect to finance such acquisitions with the proceeds from equity or debt issuances. Based on our current plan of operations, we believe our cash on hand, when combined with expected cash flows from operations and proceeds from the CRG Loan discussed above, will be sufficient to fund our growth strategy and to meet our anticipated operating expenses and capital expenditures for at least the next twelve months.

Applied Asset Purchase

On August 1, 2023, we entered into the Applied Purchase Agreement by and among the Company, SMAT, Hymed, Applied and the Owner, pursuant to which SMAT acquired the Applied Purchased Assets and assumed certain Assumed Liabilities upon the terms and subject to the conditions set forth in the Applied Purchase Agreement. The transaction closed on August 1, 2023. The Applied Purchased Assets were purchased for an initial aggregate purchase price of $15.25 million, consisting of (i) $9.75 million in cash, (ii) 73,809 shares of our common stock, with an agreed upon value of $3.0 million and (iii) $2.5 million in cash, to be paid in four equal installments on each of the next four anniversaries of the Closing.

In addition to the Cash Closing Consideration, Stock Closing Consideration and Installment Payments, the Applied Purchase Agreement provides that the Sellers are entitled to receive up to an additional $10.0 million, which is payable to the Sellers in cash, upon the achievement of certain performance thresholds relating to SMAT's collections from net sales of a collagen-based product currently under development. Upon expiration of the seventh anniversary of the Closing, to the extent the Sellers have not earned the entirety of the Applied Earnout, SMAT shall pay the Sellers the True-Up Payment. The Applied Earnout, minus the True-Up Payment and any Applied Earnout payments already made by SMAT, may be earned at any point in the future, including after the True-Up Payment is made.

Since the closing of the Applied Asset Purchase, we make intercompany royalty payments to SMAT at the same rate as set forth in the Sublicense Agreement. SMAT used the royalties received to repay borrowings under the Cadence Term Loan. As described under "Cadence Loan Agreement" below, during the three months ended March 31, 2024, SMAT was required to maintain compliance with certain maintenance covenants and was limited in its ability to distribute or lend cash to the Company without consent of the Bank.

Cadence Loan Agreement

In connection with the entry into the Applied Purchase Agreement, on August 1, 2023, we, as guarantor, and SMAT, as borrower, entered into the Cadence Loan Agreement with the Bank providing for, among other things, a Term Loan in the aggregate principal amount of $12.0 million, which was evidenced by an advancing promissory note. Pursuant to the Cadence Loan Agreement, the Bank agreed to make, at any time and from time to time prior to February 1, 2024, one or more advances to SMAT.

The proceeds of the advances under the Loan Agreement were used for working capital and for purposes of financing up to one hundred percent (100%) of the Cash Closing Consideration and Installment Payments for the Applied Asset Purchase and related fees and expenses, including any subsequent payments that were due to the Sellers after the Closing. On August 1, 2023, the Bank, at the request of SMAT, made an advance for $9.75 million. The proceeds from the advance were used to fund the Cash Closing Consideration for the Applied Asset Purchase.

The unpaid principal balance of outstanding advances under the Cadence Term Loan bore interest, subject to certain conditions, at the lesser of the Maximum Rate (as defined in the Cadence Loan Agreement) or the Base Rate, which was for any day, a rate per annum equal to the term secured overnight financing rate (Term SOFR) (as administered by the Federal Reserve Bank of New York) for a one-month tenor in effect on such day plus three percent (3.0%).

Pursuant to the Cadence Loan Agreement, SMAT was required to maintain a minimum Debt Service Coverage Ratio and a Cash Flow Leverage Ratio.

As noted above, on the Closing Date the Cadence Loan Agreement was terminated and all outstanding amounts under the Cadence Term Loan were repaid in full and all security interest and other liens granted to or held by the Bank were terminated and released. The aggregate principal amount of the Cadence Term Loan outstanding under the Cadence Loan Agreement was $9.8 million at the time of termination, and the Cadence Term Loan bore interest at a per annum rate equal to the term secured overnight financing rate (Term SOFR) (as administered by the Federal Reserve Bank of New York) for a one-month tenor in effect on such day plus three percent (3.0%). At the time of termination, we also paid the Bank approximately $27.1 thousand, which consisted of interest accrued or deemed payable under the Cadence Loan Agreement. We did not pay an exit fee or prepayment fee in connection with our voluntary repayment of the Cadence Term Loan.

CRG Loan Agreement

On April 17, 2024, we, as borrower, entered into the CRG Loan Agreement with the Guarantors, the Agent, and the lenders party thereto from time to time, providing for a senior secured term loan of up to $55.0 million. The CRG Loan Agreement provides for (i) $15.0 million of the CRG Loan to be borrowed on the Closing Date (the "First Borrowing") and (ii) up to an aggregate of $40.0 million available for borrowing in two subsequent borrowings, *provided* that each such borrowing must be at least $5.0 million or a multiple of $5.0 million and occur between the Closing Date and June 30, 2025, subject to the satisfaction of certain conditions, including that the First Borrowing having previously occurred and the Agent having received certain fees.

The CRG Loan is due and payable on March 30, 2029 (the "Maturity Date"), absent any acceleration. Pursuant to the CRG Loan Agreement, a portion of the proceeds of the CRG Loan we used to repay the Cadence Term Loan and to pay fees and expenses related to the CRG Loan Agreement. The remainder of the proceeds may be used for certain permitted acquisitions and similar investments and for general working capital and corporate purposes.

The CRG Loan bears interest at a per annum rate equal to 13.25% (subject to a 4.0% increase during an event of default), of which 8.00% must be paid in cash and 5.25% may, at our election, be deferred through the 19th quarterly Payment Date (defined below) by adding such amount to the aggregate principal loan amount, so long as no default or event of default under the CRG Loan Agreement has occurred and is continuing. We are required to make quarterly interest payments on the final business day of each calendar quarter following the Closing Date, commencing on the first such date to occur at least 30 days after the Closing Date (each, a "Payment Date"). Interest is payable on each Payment Date in arrears with respect to the time between

each Payment Date and upon the payment or prepayment of the CRG Loan, ending on the Maturity Date. In addition, we are required to pay an upfront fee of 1.50% of the principal amount of the CRG Loan, which is payable as amounts are advanced under the CRG Loan on a pro rata basis. We are also required to pay a back-end fee equal to 7.00% of the aggregate principal amount advanced under the CRG Loan Agreement. We paid upfront fees of $225,000 on the Closing Date related to the First Borrowing.

Subject to certain exceptions, we are required to make mandatory prepayments of the CRG Loan with the proceeds of certain assets sales and in the event of a change of control of the Company. In addition, we may make a voluntary prepayment of the CRG Loan, in whole or in part, at any time. All mandatory and voluntary prepayments of the CRG Loan are subject to the payment of prepayment premiums as follows: (i) if prepayment occurs on or prior to the date that is one year following the applicable borrowing (the "Borrowing Date"), an amount equal to 10.0% of the aggregate outstanding principal amount of the Loan being prepaid and (ii) if prepayment occurs one year after the applicable Borrowing Date and on or prior to two years following the applicable Borrowing Date, an amount equal to 5.0% of the aggregate outstanding principal amount of the CRG Loan being prepaid. No prepayment premium is due on any principal prepaid if prepayment occurs two years or more after the applicable Borrowing Date.

Certain of our current and future subsidiaries, including the Guarantors, are guaranteeing our obligations under the CRG Loan Agreement. As security for our obligations under the CRG Loan Agreement, on the Closing Date, we and the Guarantors entered into a security agreement with the Agent pursuant to which we and the Guarantors granted to the Agent, as collateral agent for the lenders, a lien on substantially all of our and the Guarantors' assets, including intellectual property (subject to certain exceptions).

The CRG Loan Agreement contains affirmative and negative covenants customary for financings of this type, including limitations on our and the Guarantors' abilities, among other things, to incur additional debt, grant or permit additional liens, make investments and acquisitions above certain thresholds, merge or consolidate with others, dispose of assets, pay dividends and distributions and enter into affiliate transactions, in each case, subject to certain exceptions. In addition, the CRG Loan Agreement contains the following financial covenants requiring us and the Guarantors in the aggregate to maintain:

- liquidity in an amount which shall exceed the greater of (i) $3.0 million and (ii) to the extent we have incurred certain permitted debt, the minimum cash balance, if any, required of us by the creditors of such permitted debt; and
- annual minimum revenue: (i) for the twelve-month period beginning on January 1, 2024 and ending on December 31, 2024, of at least $60.0 million, (ii) for the twelve-month period beginning on January 1, 2025 and ending on December 31, 2025, of at least $75.0 million, (iii) for the twelve-month period beginning on January 1, 2026 and ending on December 31, 2026, of at least $85.0 million, (iv) for the twelve-month period beginning on January 1, 2027 and ending on December 31, 2027, of at least $95.0 million and (v) during each twelve-month period beginning on January 1 of a given year thereafter, of at least $105.0 million.

On the Closing Date, the Cadence Loan Agreement terminated and all outstanding amounts under the Cadence Term Loan were repaid in full, and all security interests and other liens granted to or held by the Bank were terminated and released.

Cash Flow Analysis

For the three months ended March 31, 2024, net cash used in operating activities was $1.6 million compared to $1.7 million used in operating activities for the three months ended March 31, 2023. The lower use of cash in the three months ended March 31, 2024 was due to net revenue growth outpacing the growth of our cash operating expenses and timing of cash expenditures for certain accrued payables and prepaids.

For the three months ended March 31, 2024, net cash used in investing activities was $0.1 million compared to an immaterial amount used in investing activities during the three months ended March 31, 2023. The higher use of cash used in investing activities during the three months ended March 31, 2024 was due to cash paid for purchases of property and equipment.

For the three months ended March 31, 2024, net cash used in financing activities was $0.7 million as compared to $0.1 million provided by financing activities for the three months ended March 31, 2023. The cash used in financing activities during the three months ended March 31, 2024 was primarily due to the net settlement of equity-based awards, which totaled $0.6 million.

MATERIAL TRANSACTIONS WITH RELATED PARTIES

CellerateRX Surgical Sublicense Agreement

We have an exclusive, world-wide sublicense to distribute CellerateRX Surgical and HYCOL products into the surgical and wound care markets from an affiliate of Catalyst, CGI Cellerate RX, which, prior to the Applied Asset Purchase, licensed the rights to CellerateRX from Applied. Sales of CellerateRX Surgical comprised the substantial majority of our sales during the three months ended March 31, 2024 and 2023. Prior to the Applied Asset Purchase discussed above, we paid royalties based on the annual Net Sales of licensed products (as defined in the Sublicense Agreement) consisting of 3% of all collected Net Sales each year up to $12.0 million, 4% of all collected Net Sales each year that exceed $12.0 million up to $20.0 million, and 5% of all collected Net Sales each year that exceed $20.0 million. Ronald T. Nixon, our Chief Executive Officer and Executive Chairman, is the founder and managing partner of Catalyst.

In August 2023, we acquired the underlying intellectual property of, as well as the rights to manufacture and sell, CellerateRX Surgical and HYCOL products from Applied. In connection with this acquisition, Applied assigned its license agreement with CGI Cellerate RX to a wholly owned subsidiary of the Company, SMAT, and no further royalties will be due to Applied thereunder. Since the Closing of the Applied Asset Purchase, we indirectly make intercompany royalty payments to SMAT at the same rate as set forth in the Sublicense Agreement. These intercompany royalty payments and the offsetting cost of goods sold were eliminated in consolidation effective as of August 1, 2023.

Consulting Agreement

In July 2021, we entered into an asset purchase agreement with Rochal, a related party. Concurrent with the Rochal asset purchase, we entered into a consulting agreement with Ann Beal Salamone pursuant to which Ms. Salamone agreed to provide us with consulting services with respect to, among other things, writing new patents, conducting patent intelligence and participating in certain grant and contract reporting. In consideration for the consulting services to be provided to us, Ms. Salamone is entitled to receive an annual consulting fee of $177,697, with payments to be paid once per month. The consulting agreement has an initial term of three years, unless earlier terminated by us, and is subject to renewal. Ms. Salamone is a director of the Company, is a significant shareholder and the current Chair of the board of directors of Rochal.

Catalyst Transaction Advisory Services Agreement

In March 2023, we entered into a Transaction Advisory Services Agreement (the "Catalyst Services Agreement") effective March 1, 2023 with Catalyst, a related party. Pursuant to the Catalyst Services Agreement, Catalyst, by and through its directors, officers, employees and affiliates that are not simultaneously serving as directors, officers or employees of the Company (collectively, the "Covered Persons"), agreed to perform certain transaction advisory, business and organizational strategy, finance, marketing, operational and strategic planning, relationship access and corporate development services for us in connection with any merger, acquisition, recapitalization, divestiture, financing, refinancing, or other similar transaction in which we may be, or may consider becoming, involved, and any such additional services as mutually agreed upon in writing by and between Catalyst and us (the "Catalyst Services").

Pursuant to the Catalyst Services Agreement, we agreed to reimburse Catalyst for (i) compensation actually paid by Catalyst to any of the Covered Persons at a rate no more than a rate consistent with industry practice for the performance of services similar to the Catalyst Services, as documented in reasonably sufficient detail, and (ii) all reasonable out-of-pocket costs and expenses payable to unaffiliated third parties, as documented in customary expense reports, as each of (i) and (ii) is incurred in connection with the Catalyst Services rendered under the Catalyst Services Agreement, with all reimbursements being contingent upon the prior approval of the Audit Committee of our Board of Directors. We incurred $56,272 of costs pursuant to the Catalyst Services Agreement during the three months ended March 31, 2024. No expenses were incurred pursuant to the Catalyst Services Agreement in the three months ended March 31, 2023.

Receivables and Payables

We had outstanding related party receivables totaling $23,002 at March 31, 2024, and $8,400 at December 31, 2023. We had outstanding related party payables totaling $87,116 at March 31, 2024, and $77,805 at December 31, 2023.

IMPACT OF INFLATION AND CHANGING PRICES

Inflation and changing prices have not had a material impact on our historical results of operations. We do not currently anticipate that inflation and changing prices will have a material impact on our future results of operations.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Although we base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, actual results may differ from the estimates on which our financial statements are prepared at any given point of time. Changes in these estimates could materially affect our consolidated financial position, results of operations or cash flows. Significant items that are subject to such estimates and assumptions include revenue and expense accruals, the fair value measurement of assets and liabilities and the allocation of purchase price to the fair value of assets acquired. Our critical accounting estimates have not significantly changed since December 31, 2023 and are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officers (whom we refer to in this periodic report as our Certifying Officers), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Certifying Officers, the effectiveness of our disclosure controls and procedures as of March 31, 2024, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of March 31, 2024, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in claims and legal actions that arise in the ordinary course of business. To our knowledge, there are no material pending legal proceedings to which we are a party or of which any of our property is the subject.

ITEM 1A. RISK FACTORS

Except as provided below, there were no material changes to the Risk Factors disclosed in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023. For more information concerning our risk factors, please see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023.

Our indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations.

A significant portion of our future cash flow is required to pay interest and principal on our outstanding indebtedness, and we may be unable to generate sufficient cash flow from operations, or have future borrowings available, to enable us to repay our indebtedness or to fund other liquidity needs. Among other consequences, this indebtedness could:

- require us to use a significant percentage of our cash flow from operations for debt service and the satisfaction of repayment obligations, and not for other purposes, such as funding working capital and capital expenditures or making future acquisitions;

- limit our flexibility in planning for or reacting to changes in our business and limit our ability to exploit future business opportunities; and
- cause us to be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage.

Our outstanding indebtedness is subject to certain operating and financial covenants that restrict our business and financing activities and may adversely affect our cash flow and our ability to operate our business.

The CRG Loan Agreement requires us, as borrower, and the Guarantors to maintain compliance with certain operating and financial covenants, which provide that we and the Guarantors, among other things, may not, subject to certain exceptions:

- create, incur, assume or permit to exist certain other indebtedness, whether directly or indirectly;
- create, incur, assume or permit the existence of additional liens on our property or assets, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof;
- enter into any transaction of merger, amalgamation or consolidation or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or make certain acquisitions;
- engage to any material extent in any business other than the business engaged in on the date of closing or a business that constitutes a reasonable extension or expansion thereof;
- make, directly or indirectly, or permit to remain outstanding any investments;
- declare or make, or agree to pay or make, directly or indirectly, any restricted payments as described in the CRG Loan Agreement;
- make any payments in respect of any subordinated debt or certain other indebtedness incurred pursuant to the CRG Loan Agreement;
- sell, lease, license, transfer, or otherwise dispose of any of its property to any person in one transaction or series of transactions;
- sell, lease, license or otherwise transfer any assets to, or purchase, lease, license or otherwise acquire any assets from, or otherwise engage in any other transactions with, any of its affiliates;
- directly or indirectly, enter into, incur or permit to exist any restrictive agreement as described in the CRG Loan agreement;

- enter into any amendment to or modification of its organizational documents in a manner that would be materially adverse to the interests, or rights or remedies, of the Agent and the lenders;
- engage in sale-leasebacks;
- make any significant change in accounting treatment or reporting practices, except as required or permitted by GAAP;
- dispose of, whether by sale, contribution, investment or otherwise, any material intellectual property to any Guarantor that is not an obligor or to any joint venture; or
- contribute or otherwise invest any material intellectual property in any Guarantor that is not an obligor or to any joint venture.

In addition, the CRG Loan Agreement requires us and the Guarantors in the aggregate to maintain:

- liquidity in an amount which shall exceed the greater of (i) $3.0 million and (ii) to the extent we have incurred certain permitted debt, the minimum cash balance, if any, required of us by the creditors of such permitted debt; and
- annual minimum revenue: (i) for the twelve-month period beginning on January 1, 2024 and ending on December 31, 2024, of at least $60.0 million, (ii) for the twelve-month period beginning on January 1, 2025 and ending on December 31, 2025, of at least $75.0 million, (iii) for the twelve-month period beginning on January 1, 2026 and ending on December 31, 2026, of at least $85.0 million, (iv) for the twelve-month period beginning on January 1, 2027 and ending on December 31, 2027, of at least $95.0 million and (v) during each twelve-month period beginning on January 1 of a given year thereafter, of at least $105.0 million.

A breach of any of the covenants under our loan agreements, subject to certain cure periods, will result in an event of default, which could cause all of our outstanding indebtedness under the CRG Loan Agreement to become immediately due and payable, and a default interest rate of up to an additional 4.0% per annum may be applied to the outstanding loan balance. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of unregistered securities during the quarter ended March 31, 2024 that were not previously reported on a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

This item is not applicable.

ITEM 5. OTHER INFORMATION

During the three months ended March 31, 2024, no director or officer (as defined in Rule 16a-1(f) of the Exchange Act) of the Company adopted, modified, or terminated any “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement” (in each case, as defined in Item 408(a) of Regulation S-K).

ITEM 6. EXHIBITS

The exhibits listed below are filed as part of this report or incorporated herein by reference.

Exhibit No.	Description
2.1#	Asset Purchase Agreement, dated July 14, 2021, by and between Sanara MedTech Inc., as Purchaser, and Rochal Industries, LLC, as Seller (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 19, 2021).
2.2#	Agreement and Plan of Merger, dated April 1, 2022, by and among Sanara MedTech Inc., United Wound and Skin Solutions, LLC, Precision Healing Inc., PH Merger Sub I, Inc., PH Merger Sub II, LLC and Furneaux Capital Holdco, LLC (d/b/a BlueIO) (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 4, 2022).
2.3#	Membership Interest Purchase Agreement, dated July 1, 2022, by and among Sanara MedTech Inc., Scendia Biologics, LLC and Ryan Phillips (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 5, 2022).
2.4#	Asset Purchase Agreement, dated August 1, 2023, by and among Sanara MedTech Inc., Sanara MedTech Applied Technologies, LLC, The Hymed Group Corporation, Applied Nutritionals, LLC and Dr. George D. Petito (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 2, 2023).
3.1	Articles of Incorporation of Sanara MedTech Inc. (as amended through December 30, 2020) (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 30, 2021).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 22, 2024).
10.1 †	Employment Agreement, effective April 15, 2024, by and between Sanara MedTech Inc. and Jacob A. Waldrop (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 5, 2024).
10.2#	Term Loan Agreement, dated April 17, 2024, by and among Sanara MedTech Inc., as borrower, the Subsidiary Guarantors party thereto, the lenders party thereto and CRG Servicing LLC, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 18, 2024).
10.3#	Form of Security Agreement, by and among Sanara MedTech Inc., the Subsidiary Guarantors party thereto and CRG Servicing LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 18, 2024).
31.1*	Certification of Principal Executive Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission or its staff upon request. If indicated on the first page of such agreement, certain confidential information has been excluded pursuant to Item 601(b)(2)(ii) of Regulation S-K. Such excluded information is not material and is the type that the Company treats as private or confidential.

** The certifications attached as Exhibit 32.1 and Exhibit 32.2 are not deemed "filed" with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Sanara MedTech Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

† Identifies a management contract or compensatory plan.

SIGNATURES

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

SANARA MEDTECH INC.

May 13, 2024

By: */s/ Michael D. McNeil*

Michael D. McNeil

Chief Financial Officer
(Principal Financial Officer and duly authorized officer)

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
IN ACCORDANCE WITH 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald T. Nixon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sanara MedTech Inc. for the period ended March 31, 2024;

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) 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) 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 functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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.

Date: May 13, 2024

/s/ Ronald T. Nixon
Ronald T. Nixon, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
IN ACCORDANCE WITH 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael D. McNeil, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sanara MedTech Inc. for the period ended March 31, 2024;

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) 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) 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 functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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.

Date: May 13, 2024

/s/ Michael D. McNeil
Michael D. McNeil, Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
IN ACCORDANCE WITH 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sanara MedTech Inc. (the "Company") for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald T. Nixon, in my capacity as Chief Executive Officer of the Company and not in my individual capacity, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

May 13, 2024

/s/ Ronald T. Nixon
Ronald T. Nixon, Chief Executive Officer

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
IN ACCORDANCE WITH 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sanara MedTech Inc. (the "Company") for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. McNeil, in my capacity as Chief Financial Officer of the Company and not in my individual capacity, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

May 13, 2024

/s/ Michael D. McNeil
Michael D. McNeil, Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.