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## DELTA REPORT

### 10-K

SMTI - SANARA MEDTECH INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

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**TOTAL DELTAS** 3279

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█ **DELETIONS** 1855

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

FORM 10-K

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

For the fiscal year ended December 31, 2022 2023

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-39678

**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

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

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

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

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

\*The registrant has included these items on the cover page but, in accordance with Release No. 33-11126, is not completing the relevant check boxes as it is not yet required to have a policy under an applicable exchange listing standard.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2022 June 30, 2023, based on the \$20.86 \$40.10 closing price as of such date was approximately \$69,503,434 151,156,822.

As of March 17, 2023 March 22, 2024, 8,376,833 8,622,805 shares of the Issuer's common stock, \$0.001 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated by reference to the registrant's Definitive Proxy Statement on Schedule 14A relating to the 2023 2024 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.



**SANARA MEDTECH INC.**  
**Form 10-K**  
For the Year Ended **December 31, 2022** **December 31, 2023**

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Sanara, Sanara MedTech, our logo and other trademarks or service marks appearing in this report are the property of Sanara MedTech Inc. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective owners. Solely for convenience, the trademarks, service marks and trade names included in this report are without the ®, ™ or other applicable symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and trade names.

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

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report 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.

All forward-looking statements speak only as of the date on which they are made. For a more detailed discussion of these and other factors that may affect our business, see the discussion in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. We caution that the foregoing list of factors is not exclusive, and new factors may emerge, or changes to the foregoing factors may occur, that could impact our business. We do not undertake any obligation to update any forward-looking statement, whether written or oral, relating to the matters discussed in this report, except to the extent required by applicable securities laws.

## PART I

### Item 1. BUSINESS

#### 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. Each of our products, services and technologies contributes are designed to achieve our overall goal of achieving 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. We currently license certain 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 products primary product, and HYCOL Hydrolyzed Collagen ("HYCOL") from Applied Nutritionals, LLC ("AN" Applied") (through for human wound care use (such transaction, the "Applied Asset Purchase"). 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")) and, both of which are related parties. 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 have the right to exclusively distribute certain products manufactured by Cook Biotech Inc. ("Cook Biotech"). In addition, through our subsidiary, Scendia Biologics, LLC ("Scendia"), we license our products from multiple manufacturers.

In July 2021, we acquired certain assets from Rochal, including, among others, intellectual property, four U.S. Food and Drug Administration ("FDA") 510(k) clearances, rights to license certain products and technologies currently under development, equipment and supplies. As a result of the asset purchase, our pipeline now contains product candidates for mitigation of opportunistic pathogens and biofilm, wound re-epithelialization and closure, necrotic tissue debridement and cell compatible substrates. Since our acquisition of assets from Rochal, we have been developing additional products in our own product pipeline.

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. We plan to submit a In December 2023, we received 510(k) premarket notification clearance from the U.S. Food and Drug Administration ("FDA") for the Precision Healing diagnostic imager in 2023. imager. We also plan to submit a 510(k) premarket notification are evaluating regulatory pathways for the Precision Healing LFA in 2023. LFA.

In July 2022, we entered into a membership interest purchase agreement with Scendia Biologics, LLC ("Scendia") and Ryan Phillips (the "Seller" ("Phillips") pursuant to which we acquired 100% of the issued and outstanding membership interests in Scendia from the Seller. 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) AMPLIFY ACTIGEN Verified Inductive Bone Matrix ("AMPLIFY 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 enables InfuSystem to offer innovative products including Cork Medical, LLC's negative pressure wound therapy ("NPWT") devices and supplies and 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 ("UWSS" or (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 mission to simplify skin health, starting with wound care through a refined business plan. Through WounDerm, THP, we plan to offer a comprehensive first of its kind value-based wound care program to payers and skincare solution risk-bearing entities such as accountable care organizations and partner with value-based care providers ("VBC") primary care companies, with Medicare Advantage payers as the dual goal of lowering the cost to treat wounds while improving clinical outcomes, initial target segment for this program.

Our comprehensive solution consists of four key components: diagnostics, virtual consult services for THP's programs are expected to enable payers to divest wound care spend risk, reduce wound related hospitalizations and dermatology, proprietary efficacious products, improve patient quality of life. THP plans to coordinate delivery of community and a 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 dermatology specific electronic medical record ("EMR") senior living facilities. THP programs are intended to integrate science and mobile application. We expect these components will work synergistically evidence-based medicine protocols to allow clinicians to analyze standardize wound prevention and treat wound and dermatology conditions more efficiently than the current standard of care: treatment.

• *Diagnostics* – Our proprietary imager 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 LFA currently under development, which we recently acquired through our acquisition "fee for value" pricing. We believe this approach is aligned with the financial goals of Precision Healing, are designed to quantify key biomarkers that dictate the trajectory of wound healing payers and identify deficiencies to aid in treatment. Ultimately, we believe that our diagnostics will lead to treatment algorithms based on help deliver outstanding clinical outcomes for the data collected by the Precision Healing technology patients.

- **Virtual Consult Services** – Through Our vision for our exclusive affiliation with Direct Dermatology Inc., we can offer virtual consult services for 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. (“DirectDerm”) and certain physician-led multispecialty wound care groups. With NPs leading the care hub, RNs would assume the role of 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 technology platform to enable enhanced patient empowerment and self-healthcare. We anticipate that our technology platform will leverage our technology investments and partnerships with Precision Healing, Pixalere Healthcare, Inc. (“Pixelere”) 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 Tissue Health Plus and dermatology provided by experienced, specialized physicians and clinicians, share in the cost of development of the program.

- **Proprietary Products** – We currently offer products for improving patient outcomes by addressing conditions that impact wound healing. We are currently conducting multiple studies to prove the efficacy of our products while developing and exploring new products and opportunities in our six focus areas of (1) debridement, (2) biofilm removal, (3) hydrolyzed collagen, (4) advanced biologics, (5) negative pressure wound therapy products and (6) the oxygen delivery system segment of the wound and skincare market.

- **EMR and Mobile Application** – Our EMR and mobile application were developed specifically for wound care and dermatology. We are currently developing the capability for the EMR and mobile application to offer wound tracking analytics, recommended treatments and decision support, and automated referrals. We believe that by offering a proprietary comprehensive solution for wound care and dermatology, we will be a value-added partner for providers in value-based care programs, such as Medicare Advantage and other risk-based contracts.

#### Market Scale

A study by a physician at the Department of Surgery for the Indiana University Health Comprehensive Wound Center found that approximately 8.2 million patients suffer from surgical and chronic wounds each year in the United States. Furthermore, according to an article published by the *American College of Surgeons and Surgical Infection Society*, in the United States, the annual treatment cost projections for all wounds is approximately \$28 billion with the estimated annual cost of surgical site infections ranging from \$3.5 billion to \$10 billion. Looking at the target markets for our specific products, according to SmartTRAK Advanced Wound Care, the U.S. advanced dressings market is estimated to be \$1.3 billion and the U.S. wound biologics market is estimated to be \$2 billion. The U.S. teledermatology market alone is estimated to grow from \$5 billion in 2019 to \$45 billion by 2027 according to a research report by *Fortune Business Insights*.

#### Summary of Our Product, Service and Technology Offerings and Development Programs

We are committed to developing and commercializing innovative products that address the challenges physicians face in diagnosing and treating wound and skincare ailments. Our surgical products, CellerateRX Surgical, Activated Collagen (Powder and Gel) (collectively, “CellerateRX Surgical”), TEXAGEN, BiFORM, AMPLIFY and ACTIGEN, ALLOCYTE, ALLOCYTE Plus Advanced Viable Bone Matrix (“ALLOCYTE Plus”), BIASURGE, FORTIFY TRG Tissue Repair Graft (“FORTIFY TRG”), and FORTIFY FLOWABLE Extracellular Matrix (“FORTIFY FLOWABLE”) are used in a wide range of surgical specialties to help promote patient healing and reduce the risk of complications. CellerateRX Surgical products, TEXAGEN products, FORTIFY TRG, Tissues Repair Graft, and FORTIFY FLOWABLE Extracellular Matrix are used in specialties including cardiothoracic, colorectal, general surgery, hand, head and neck, high-risk obstetrics and gynecology, Mohs surgery, neurosurgery, oncology, orthopedic (hip and knee, sports, spine, joint, foot and ankle, ortho trauma and ortho oncology), plastic/reconstructive, podiatric, urology, and vascular. BiFORM, AMPLIFY, ACTIGEN, ALLOCYTE, and ALLOCYTE Plus are used in orthopedic specialties including hip and knee, sports, spine, joint, foot and ankle, ortho trauma and ortho oncology. Currently, substantially all of our revenue is derived from the sale of surgical products.

In 2021, we launched FORTIFY TRG Tissue Repair Graft and FORTIFY FLOWABLE, Extracellular Matrix, which we license from Cook Biotech. FORTIFY TRG Tissue Repair Graft and FORTIFY FLOWABLE, Extracellular Matrix, are currently 510(k) cleared for use in the surgical segment. We believe that both products are a complementary offering to CellerateRX Surgical and we are working to increase both the number of contract opportunities and facility approvals to drive further sales growth.

In July 2022, through the acquisition of Scendia, we expanded our surgical product offerings to include regenerative and orthobiologic technologies. We chose to focus our sales and marketing on four key products: TEXAGEN, BiFORM, AMPLIFY ACTIGEN and ALLOCYTE. As part of the integration of Scendia into Sanara, we are continuing to work to add facility approvals for these products.

During the third quarter of 2022, we began to experience supply issues with the ALLOCYTE product line. From the fourth quarter of 2022 through September of 2023, we were unable to fill certain orders for this product, which negatively impacted our sales growth. The supply constraint was caused by significant supplier limits on qualifying eligible donor tissue and supplier necessity to subcontract all processing to secondary suppliers. We have since expanded the ALLOCYTE product line with the release of ALLOCYTE Plus, which is processed by an alternative supplier with in-house processing capabilities. Our chronic first sales of ALLOCYTE Plus occurred in October 2023.

In November 2023, we launched BIASURGE. BIASURGE is a no-rinse, advanced surgical solution used for wound irrigation. It contains an antimicrobial preservative that is effective against a broad spectrum of pathogenic microorganisms. BIASURGE is indicated for use in mechanical cleansing and removal of debris, including microorganisms, from surgical wounds. In December 2023, we entered into an exclusive license agreement with Tufts University ("Tufts") to develop and commercialize certain new bioactive collagen peptide-based applications using patented technology licensed from Tufts. We believe the licensed technology, supported by the expertise of our research and development team, will help us expand our product offering of collagen products.

Our post-acute wound care products, HYCOL, Hydrolyzed Collagen (Powder and Gel) (collectively, "HYCOL"), BIAKÖS Antimicrobial Skin and Wound Cleanser ("BIAKÖS AWC") and BIAKÖS Antimicrobial Wound Gel ("BIAKÖS AWG"), are targeted for use across the post-acute continuum of care, including home health, hospice, physician offices, podiatrists, retail, skilled nursing facilities ("SNFs"), and wound care clinics. Our chronic post-acute wound care products can be used are indicated for use on stage I-IV pressure ulcers, diabetic foot ulcers ("DFUs"), venous stasis, arterial, post-surgical wounds, first- and second-degree burns and donor sites. BIAKÖS AWC is also available in an irrigation bottle (BIAKÖS Antimicrobial Skin and Wound Irrigation Solution) that can be used in conjunction with negative pressure wound therapy NPWT instillation and dwell as well as other wound irrigation needs.

Further, we have a robust pipeline of products under development for to further expand our position in the surgical and chronic wound care markets. We believe our pipeline efforts initiatives will deepen our comprehensive portfolio of offerings as well as and allow us to address additional clinical applications. Wound build product and technology platforms related to hydrolyzed collagen, wound bed preparation, and antimicrobials in the surgical and wound care products in our pipeline include next generation CellerateRX Surgical and HYCOL, a sterile antimicrobial wound solution based on the BIAKÖS technology for use in surgical settings (BIASURGE), a CellerateRX Surgical applicator device for easier usage, an antimicrobial skin protectant and a debrider product that leverages the body's own enzymes and moisture.

Our WounDerm technology-based services include an EMR software platform for both wound and skin conditions, wound and skin virtual consult services (through Direct Dermatology Inc.) and diagnostic products and services for chronic wounds through Precision Healing. Following the anticipated launch of WounDerm, we expect to be able to provide wound treatment solutions for patients across the entire acute and post-acute continuum of care, markets.

#### Strategy

• *Drive additional market penetration as well as geographic expansion for our products.* We are actively working to expand our geographic footprint across the entire United States. We also intend to leverage our comprehensive product, services and technology-based offerings portfolio and relationships with key constituents to deepen our presence in the **chronic surgical**, wound and skincare markets. We believe the breadth and flexibility of the products we offer allow us to address a wide variety of surgical site needs, wound types and sizes and offer significant new opportunities for sales growth. In addition, we believe that as we continue to offer new products, services and technology-based offerings, our salesforce's ability to reach additional customers in new and existing geographic regions while penetrating further in existing customer accounts will be enhanced.

• *Launch new innovative products.* We are actively developing additional proprietary products for the surgical and chronic wound and skincare markets. We expect these products and services to deepen our portfolio of technologies to improve surgical site outcomes and treat chronic wounds. We are focused on offering additional products and services that are more efficacious than competing products and services and provide a stronger value proposition (lower total cost to heal and less time to heal, leading to reduced costs to the healthcare system).

• *Capture patients throughout the entire continuum of care.* We intend to continue expanding our platform to aid in treating wound and skincare patients as they progress through the healing process in all care settings. We formed WounDerm to hold certain investments in technologies and operations in wound and skincare virtual consult services. We believe our service offerings will allow us to collect and analyze large amounts of data on patient conditions and outcomes that will improve treatment protocols and ultimately lead to more evidence-based healing formularies to improve outcomes in the future. We anticipate that this data will also enable us to participate in the creation of new standards of care that promote patient compliance and enable direct dialogue between patients, clinicians and payors, resulting in greater satisfaction for patients, their caregivers, clinicians and payors.

• *Seek and establish partnerships and product, services and/or technology acquisitions.* We plan to continue to seek and establish partnerships in the United States and internationally to provide innovative products, services and technologies. We believe that partnerships will be a key driver of our growth in the future. We also intend to selectively pursue acquisitions of businesses and technologies that complement our existing strategy and footprint.

• *Seek and establish partnerships with Medicare Advantage, at-risk payors and other types of healthcare at-risk models.* We believe we have assembled the products, services and technologies to offer a comprehensive strategy to help improve outcomes and lower wound care costs across the continuum of care. Looking ahead, we plan to leverage these capabilities to partner with value-based care models to aid in the treatment of their wound care patients who currently are a significant cost for the healthcare system and challenging population to heal.

• *Capture patients throughout the entire continuum of care.* We intend to continue expanding our platform to aid in treating wound and skincare patients as they progress through the healing process in all care settings. We formed Tissue Health Plus to hold certain investments in technologies and operations in wound and skincare virtual consult services. We believe our service offerings will allow us to collect and analyze large amounts of data on patient conditions and outcomes that will improve treatment protocols and ultimately lead to more evidence-based healing formularies to improve outcomes in the future. We anticipate that this data will also enable us to participate in the creation of new standards of care that promote patient compliance and enable direct dialogue between patients, clinicians and payors, resulting in greater satisfaction for patients, their caregivers, clinicians and payors.

## Competitive Strengths

• *Attractive markets for surgical and chronic wound care.* We believe the surgical and chronic wound care markets will continue to see accelerated growth given favorable global tailwinds that include an aging population, increasing costs of health care, recognition of difficult-to-treat infection threats such as biofilms, and the increasing prevalence of diabetes and obesity. We believe there will be growing adoption of our products due to their clinical efficacy and cost effectiveness for all key constituents compared to traditional wound care products.

• *Comprehensive solution for improved wound care outcomes.* We are dedicated to offering a comprehensive portfolio of products, services and technologies to improve wound care treatment outcomes. We believe we are the only company that will be able to provide a comprehensive solution for wound care which includes a wound and skin specific **EMR**, **electronic medical record** ("EMR"), virtual consult services with expert wound care providers and dermatologists, propriety diagnostics and highly efficacious proprietary products allowing us to effectively treat wound care patients in any care setting.

• *Wound care products for all care settings.* Our wound care product portfolio allows clinicians to personalize solutions to meet the needs of individual wound care patients in all care settings including acute (hospitals and long-term acute care hospitals) and post-acute (wound care clinics, physician offices, SNFs, home health, hospice, podiatrists and retail).

• *Innovative pipeline and proven clinical performance.* We have a robust pipeline of surgical, **and chronic** wound and skincare products that we expect to market in the near term. We believe the efficacy of our offerings will be proven via statistically significant collected and analyzed clinical and health economic outcomes data, resulting in expanded adoption of our products at a lower overall cost to payors.

• *Proven executive leadership team with a long-term track record of value creation.* We are led by a dedicated and seasoned management team with significant industry experience who have successfully executed our strategic implementation to date by launching new products and technologies through investment in new areas of growth. We believe our management **team** has the vision and experience to implement our future growth strategy.

#### **Market Opportunities for Our Products, Services and Technology-Based Offerings**

According to a study published by the Value in Health journal, roughly 15% of the Medicare beneficiary population has chronic nonhealing wounds. Chronic wounds do not advance through the phases of healing in a normal progression and do not show significant progress toward healing in 30 days. Factors contributing to the chronicity of the wound may include pressure/friction, trauma, insufficient blood flow and oxygenation in locations such as the lower extremities, increased bacterial load, excessive proteases, degraded growth factors, matrix metalloproteinases, senescent/aberrant cells or inappropriate treatment. Examples of chronic wounds include DFUs, venous leg ulcers ("VLUs"), arterial ulcers, pressure ulcers and hard-to-heal surgical/traumatic wounds. In each of the various wound types, the presence of biofilms is a frequent cause for **chronification** **chronicity** of wounds and the removal of biofilms is a crucial step to commence healing. Biofilms need to be eradicated to prevent further deterioration of the wound that may result in additional negative patient outcomes. If not effectively treated, these wounds can lead to potentially severe complications, including further infection, osteomyelitis, fasciitis, amputation and increased mortality. Chronic wounds are primarily seen in the elderly population. For example, a 2019 study published in Advances in Wound Care reported that in the United States, 3% of the population over the age of 65 had open wounds. According to the same study, in 2020, the U.S. government estimated that the elderly population totaled 55 million people, suggesting that chronic wounds will continue to be an increasingly persistent problem in this population. Four common chronic and other hard-to-heal wounds are:

- **Surgical/traumatic wounds.** Surgical wounds form as a result of various types of surgical procedures such as investigative or corrective, minor or major, open (traditional) or minimal access surgery, elective or emergency, and incisions (simple cuts) or excision (removal of tissue), among others. Traumatic wounds form as a result of cuts, lacerations or puncture wounds, which have caused damage to the skin and underlying tissue. Severe traumatic wounds may require surgical intervention to close the wound and stabilize the patient. Surgical/traumatic hard-to-heal wounds develop for various reasons, such as local surgical complications, suboptimal closure techniques, presence of foreign materials, exposed bones or tendons and infection. In the United States, millions of people receive post-surgical wound care annually, and the typical operative patient has comorbidities that create challenges with post-operative wound healing.

- **Diabetic Foot Ulcers.** Diabetes can lead to a reduction in blood flow, which can cause patients to lose sensation in their feet and may prevent them from noticing injuries, sometimes leading to the development of DFUs, which are open sores or ulcers on the feet that may take several weeks to heal, if ever. According to the 2020 National Diabetes Statistics Report by the Center for Disease Control and Prevention, in the United States alone, over 34 million people, or approximately 10% of the population, suffer from diabetes, a chronic, life-threatening disease.

- **Venous Leg Ulcers.** VLUs develop as a result of vascular insufficiency, or the inability for the vasculature of the leg to return blood back toward the heart properly and, according to a 2013 report published by the International Journal of Tissue Repair and Regeneration, VLUs affect approximately 600,000 people per year in the United States alone. These ulcers usually form on the sides of the lower leg, above the ankle and below the calf, and are slow to heal and often recur if preventative steps are not taken. The risk of **venous ulcers** **VLUs** can be increased as a result of a blood clot forming in the deep veins of the legs, obesity, smoking, lack of physical activity or work that requires many hours of standing.

- **Pressure Injury/Ulcers.** Pressure **injury**/ulcers **also known as decubitus ulcers or bed sores**, are injuries to **the** skin and underlying tissue resulting from prolonged pressure, or pressure in combination with shear or friction. Constant pressure on an area of skin reduces blood supply to the area and over time can cause the skin to break down and form an open ulcer. These often occur in patients who are hospitalized or confined to a chair or bed and most often form on the skin over bony areas, where there is little cushion between the bone and the skin, such as heels, ankles, hips and the tailbone. Annually, 2.5 million pressure **injury**/ulcers are treated in the United States in acute care facilities alone, according to a 2006 study published in the Journal of the American Medical Association.

## Sanara Products

We market and distribute surgical, wound and skincare products and services to physicians, hospitals, clinics, and post-acute care settings. Our products are primarily sold in the U.S. surgical tissue repair and advanced wound care markets. We believe we have the ability to drive our product pipeline from concept to preclinical and clinical development while meeting quality and regulatory requirements. We are actively constantly seeking to expand within our six long-term strategic partnerships with a focus areas of wound and skin care for the acute, post-acute, and surgical markets: (1) debridement, (2) biofilm removal, (3) hydrolyzed collagen, (4) advanced biologics, (5) negative pressure wound therapy on products and (6) the oxygen delivery system segment of the wound and skincare market that improve outcomes at a lower overall cost.

CellerateRX Surgical is a medical hydrolysate of Type I bovine collagen indicated for the management of surgical, traumatic, and partial- and full-thickness wounds as well as first- and second-degree burns. It is manufactured with a proprietary process. CellerateRX Surgical **Activated Collagen Powder** powder is sterilized, packaged and designed specifically for use in the operating room or other sterile environment. CellerateRX Surgical products are primarily purchased by hospitals and ambulatory surgical centers for use by surgeons on surgical wounds. The predominance of CellerateRX Surgical products are used for a variety of surgical wounds, including those associated with orthopedic, spine, trauma and oncologic procedures. Additional surgical wounds that may benefit from the use of CellerateRX Surgical include cardiovascular, gynecologic, urologic and plastic/reconstructive related procedures.

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CellerateRX Surgical is used in operative cases where patients might have trouble healing normally due to underlying health complications. There is always a risk of complication with surgical wounds. This is especially true in patients with certain comorbidities, including obesity, diabetes and hypertension. These complications can include surgical wound infections, dehiscence (where an incision opens after primary closure) and necrosis. Surgeons use CellerateRX Surgical to complement the body's normal healing process. By helping supporting the body to heal normally without complications, improved patient outcomes are achieved, thereby reducing downstream costs related to complications (such as re-operation, longer hospitalization, re-admittance, extended rehabilitative care and other additional treatments). Surgical wound complications have become increasingly problematic due to the high rates of surgical patient comorbidities and the financial strain on insurance carriers payors as well as hospitals who suffer exorbitant costs for readmission of these patients within 30 days of surgery.

HYCOL Hydrolyzed Collagen products are a medical hydrolysate of Type I bovine collagen intended for the management of full and partial thickness wounds including pressure ulcers, venous and arterial leg ulcers and DFUs. HYCOL is primarily used in or targeted to post-acute care settings such as home health, SNFs, wound care centers clinics and physician offices and is currently approved eligible for reimbursement under Medicare Part B. HYCOL provides the benefit of hydrolyzed collagen directly in the wound bed. Therefore, unlike with the body's own native collagen or native collagen products, the body does not have to break HYCOL down before use, which is extremely beneficial when treating elderly and otherwise compromised patients with comorbidities such as diabetes and peripheral vascular disease.

BIAKOS AWC is a 510(k) cleared, patented product that laboratory tests show works synergistically contains synergistic ingredients that have been shown to effectively disrupts extracellular polymeric substances to eradicate impact mature biofilm microbes. BIAKOS AWC is indicated for the mechanical removal of debris, dirt, foreign materials, and microorganisms from wounds including stage I-IV pressure ulcers, DFUs, post-surgical wounds, first- and second-degree burns, as well as grafted and donor sites. BIAKOS AWC is effective in killing planktonic microbes and immature and mature bacterial and fungal biofilms within the product wound. In addition, safety studies demonstrated that BIAKOS AWC is biocompatible and supports the wound healing process environment. BIAKOS AWC is also available in an irrigation bottle (BIAKOS Antimicrobial Skin and Wound Irrigation Solution) that can be used in conjunction with NPWT instillation and dwell as well as other wound irrigation needs.

BIAKOS AWG is an antimicrobial hydrogel wound dressing that can be used alone or in combination with BIAKOS AWC. The BIAKOS AWG is also 510(k) cleared and the product launched in November 2020 to complement BIAKOS AWC.

BIAKOS AWC and BIAKOS AWG are effective against planktonic microbes as well as immature and mature biofilms within the product wound. When used together, the cleanser can be used initially to clean a wound and disrupt biofilms (removing 99% in 10 minutes). The gel can then be applied and remains in the wound for up to 72 hours, helping to continue disrupting biofilm microbes. In a study conducted in 2020, BIAKOS AWG, in combination with BIAKOS AWC, was compared to a number of commercially available wound cleansers to treat chronic wounds such as pressure, diabetic and venous ulcers. The BIAKOS combination of cleansing and gel dressing demonstrated a reduction in the biofilm microbes by 7.5 logs (>99.99% reduction).

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. First sales of BIASURGE occurred in early November 2023. FORTIFY TRG Tissue Repair Graft is a freeze-dried, multi-layer small intestinal submucosa extracellular matrix sheet. The graft is 510(k) cleared for implantation to reinforce soft tissue, is terminally sterilized, has a thin profile, is available in multiple sizes, and can be cut to size to accommodate the patient's anatomy. FORTIFY TRG Tissue Repair Graft is provided sterile and can be hydrated with autologous blood fluid. First sales of this product occurred in the fourth quarter of 2021.

FORTIFY FLOWABLE **Extracellular Matrix** is an advanced wound care device that presents Small Intestine Submucosa Extracellular Matrix technology in a way that can fill irregular wound shapes and depths. FORTIFY FLOWABLE **Extracellular Matrix** is indicated for the management of wounds including: partial and full-thickness wounds, pressure ulcers, venous leg ulcers, diabetic foot ulcers, chronic vascular ulcers, tunneled/undermined wounds, surgical wounds (donor sites/grafts, post-Mohs surgery, post-laser surgery, podiatric, wound dehiscence sites), traumatic wounds (abrasions, lacerations, second-degree burns, and skin tears) and draining wounds. FORTIFY FLOWABLE **Extracellular Matrix** is provided sterile and is intended for one-time use. It is a 510(k) cleared product. First sales of this product occurred in the first quarter of 2022.

TEXAGEN is a multi-layer amniotic membrane allograft used as an anatomical barrier with robust handling that can be sutured for securement if needed. BiFORM is an osteoconductive, bioactive, porous implant that allows for bony ingrowth across the graft site. It can be hydrated and used as a strip or molded into a putty to fill a bone defect. **AMPLIFY ACTIGEN** is a verified inductive allograft putty with conformable handling properties. ALLOCYTE **is a** and **ALLOCYTE Plus** are human allograft cellular bone **matrix matrices** containing bone-derived progenitor cells and conformable bone fibers. **This These** viable cellular allograft is **allografts** are ready to use upon thawing and **has have** fibrous handling properties.

#### Recent Published Studies on CellerateRX Surgical

CellerateRX Surgical is a medical hydrolysate of Type I bovine collagen indicated for the management of surgical, traumatic, and partial- and full-thickness wounds as well as first- and second-degree burns. CellerateRX Surgical **Activated Collagen** is sterilized, packaged and designed, specifically for use in the operating room (or sterile field), including additional sterility validation. It can be applied in the operating room to surgical wounds that may result from a wide variety of surgical procedures to support the wound healing environment.

An animal study model by the Indiana University Center for Regenerative Medicine and Engineering and the McGowan Institute for Regenerative Medicine was published in *Advances in Wound Care* in September of 2023. The study, titled "Hydrolyzed Collagen Powder Dressing Improves Wound Inflammation, Perfusion, and Breaking Strength of Repaired Tissue," demonstrated the effects of CellerateRX Surgical powder on resolution of wound inflammation, perfusion, closure, and breaking strength of the repaired skin. Moreover, the study provided translational research validating published clinical case series and further highlighting mechanistic effects of hydrolyzed collagen. Future empirical and clinical research revealing the unique support hydrolyzed collagen provides the wound environment is currently ongoing.

Several research findings involving CellerateRX Surgical powder have been noted in scientific literature. For example, in November 2021, Dr. William Hotchkiss published a retrospective study of 154 patients in JSM Neurosurgery and Spine, in which patients underwent spinal surgery and CellerateRX Surgical was utilized in the surgical wound. The study found a lower wound dehiscence rate in a high-risk patient population, when compared to previously published wound complication rates in the literature. Another retrospective case study regarding the use of CellerateRX Surgical was recently published by Dr. Alex Gitelman in November 2022. This study of 54 patients undergoing spinal surgery demonstrated no incidence of surgical wound complication. Lastly, an oral presentation given at the Surgical Infection Society's 41st Annual Meeting in April 2022 noted that, based on data from a study of 5,335 patients in a surgical registry, the use of CellerateRX Surgical in patients undergoing elective surgery resulted in a 59% overall reduction in surgical wound complications. We believe that studies like these further support the use of CellerateRX Surgical as an effective wound management agent in spinal surgery.

**Sanara Technology-Based Offerings** In a retrospective study published in the Journal of Surgery in October 2023, the impact of CellerateRX Surgical collagen on surgical site infection rates in elective multispecialty surgical procedures was case matched 1:3 for a total of 5,335 patients and demonstrated an overall reduction of 59% in surgical site infection rates. This reduction was most pronounced in the clean cases with a 69% decrease in surgical site infection rates.

We are currently developing the capability to offer various services addressing chronic wound and skin care through our subsidiary WounDerm. We anticipate that our various service offerings will allow us to collect large amounts of data on patient conditions and outcomes that will improve treatment protocols and ultimately lead to more evidence-based treatments to improve outcomes in the future. We believe our planned service offerings through WounDerm are complemented by our existing product portfolio to complete the comprehensive wound strategy. WounDerm plans to offer the following services:

- *EMR software platform for both wound and skin conditions*

In 2021, we entered into an exclusive partnership with Pixelere Healthcare Inc. ("Pixelere"). Our goal is to combine Pixelere's technology, including decision support, documentation, and wound tracking analytics, with complementary Sanara solutions that offer virtual access to expert wound and skin physicians/clinicians, advanced diagnostics, and wound care product order fulfillment.

Pixelere is a cloud-based wound care software tool that empowers nurses, specialists, and administrators to deliver better care from the patient bedside. Currently, Pixelere serves and supports over 8,000 daily clinical users as they treat over 40,000 patients with wounds annually in Canada and other non-U.S. markets. Pixelere currently provides the following solutions to its customers:

- A collaboration tool for nurses and wound care specialists
- Wound tracking analytics
- Recommended treatment plans/decision support
- Automated referrals

These capabilities are being integrated with Sanara's WounDerm platform to better serve the U.S. wound care market. Our partnership with Pixelere advances our comprehensive wound and skincare strategy by integrating key solutions that have been developed by WounDerm with Pixelere's current capabilities. This is expected to allow our technology to be paired with a proven scalable model that arms bedside caregivers who do not specialize in wound care with more information and guidance than the current standard of care.

- *Diagnostic products and services for chronic wounds*

The Precision Healing product platform is a diagnostic imaging and 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. Precision Healing was formed by executives and imaging specialists at Luminell Corporation as well as experienced wound care scientists and physicians. We expect to have our imaging device and LFA commercially available in 2023 and it is currently being integrated into the WounDerm EMR.

- *Virtual consultation services for both wound and skincare conditions*

Direct Dermatology Inc. ("DirectDerm") is a telemedicine company based in Palo Alto, California and has an exclusive network of dermatologists who have trained and/or teach at top U.S. medical institutions, and whose service is covered by many of the major health plans in the United States. WounDerm is working to integrate the DirectDerm platform into its collaboration platform to provide virtual consultations through DirectDerm's network of board-certified dermatologists to patients in all of WounDerm's healthcare markets.

## Intellectual Property

Since the acquisitions of Rochal and Precision Healing acquisitions, and the Applied Asset Purchase, our research and development activities have included internally developing additional proprietary products, services and technologies for the surgical and chronic wound and skincare markets and actively working with third-party research and development partners from which we license products. For our internally developed products, we seek patent protection for our inventions in order to protect and differentiate our products and technologies and establish a defense against third-party infringement claims. With the aim of optimizing commercial and regulatory success, our proprietary technology and innovative applications thereof are protected by product, system, process, and method-of-use patent claims. We believe that our granted patents and pending applications collectively protect our internally developed intellectual property, both in terms of our existing products, as well as our anticipated pipeline of new offerings.

In July 2021, we acquired certain assets from Rochal, including intellectual property. With respect to the assets we acquired from Rochal and products developed following the Rochal acquisition, our patent portfolio includes, among others, eight issued U.S. patents, including U.S. Patent No. 8,829,053 entitled "Biocidal Compositions and Methods of Using the Same" (expiring December 7, 2031) relating to BIAKÖS AWC, BIAKÖS AWG and BIASURGE Antimicrobial Surgical Wash, as well as over 100 issued patents in foreign jurisdictions. Following our acquisition by merger of Precision Healing in April 2022, described in further detail below, our patent portfolio now also includes, among others, five pending U.S. patent applications as well as one pending international patent application. Following the Applied Asset Purchase in August 2023, described in further detail below, our portfolio also now includes, among others, nine additional U.S. patent applications, five trademarks, four 510(k) clearances and various domain names.

In addition to the above patents, our pending patent applications and new filings are representative of our ongoing efforts to broaden our portfolio as we continue developing new products for the surgical and chronic wound and skincare markets. We intend to further grow our patent portfolio by continuing to patent new products as they are developed, to defend intellectual property as we believe necessary by actively pursuing any infringements, to pursue the commercial opportunities our patents provide for our innovations, and to continue to develop our brands and trademarks.

## **Sales and Marketing**

As of December 31, 2022 December 31, 2023, we employed 39 field sales representatives, representatives covering 42 states. Our field sales representatives are recruited based on their previous industry experience and professional performance. We constantly evaluate new markets and sales opportunities to add to our sales teams as warranted.

Field sales representatives are initially trained through an internal learning management system, SanaraU, "SanaraU", which gives them further product and surgical specialty training including wound etiology, operating room etiquette and credentialing requirements. After completing their internal training, new hire field sales representatives participate in field training with experienced field trainers to get insights into best practice as well as real world training. The initial training period lasts approximately five eight weeks. Field sales representatives are supported by regular updated training modules on product information and best practices.

A key component of our sales and marketing efforts involves working with physicians and clinicians to champion our products in their facilities. We work closely with surgeons and health system stakeholders to demonstrate the efficacy and beneficial impact of our surgical products and successfully navigate the hospital value analysis committee approval process, allowing our products to be sold in those facilities. Similarly, we work with clinicians to demonstrate the efficacy of our wound care products in their respective care settings. If our sales and marketing efforts are successful, the clinicians then advocate for the use of our products when medically necessary.

## **Manufacturing, Supply and Production**

We do not own or operate and do not intend to establish our own manufacturing facilities. We rely on, and plan to continue relying on contract manufacturing for our products. Our contract manufacturing strategy is intended to drive cost leverage through scale and avoid the high capital outlays and fixed costs associated with constructing and operating manufacturing facilities. Our manufacturing partners have internal compliance processes to maintain the high quality and reliability of our products. We do source some packaging and marketing materials separate from our licensing partners.

During the third quarter of 2022, we began to experience supply issues with the ALLOCYTE product line. The amount of supply constraint was caused by significant supplier limits on qualifying eligible donor tissue was significantly reduced industry wide due and supplier necessity to the stringent screening required. During subcontract all processing to secondary suppliers. From the fourth quarter of 2022 through September 2023, we were unable to fill certain orders for this product, which negatively impacted our sales. We anticipate resolution have since expanded the ALLOCYTE product line with the release of ALLOCYTE Plus, which is processed by an alternative supplier with in-house processing capabilities. Our first sales of ALLOCYTE Plus occurred in October 2023. We have a sufficient supply of ALLOCYTE Plus to meet currently expected demand and believe we have measures in place to regularly stock the supply issues product in the second half of 2023, future.

## Reimbursement, Clinical Validation and Clinical Utility

We do not promote our products based on their reimbursement status, however, we are mindful of the benefits of a favorable reimbursement coverage status to increase patient access and support our research and development efforts to supply the highest efficacy solutions.

Three of our chronic wound care products (BIAKÖS AWG, HYCOL Hydrolyzed Collagen Powder and HYCOL Hydrolyzed Collagen Gel) have Healthcare Common Procedure Coding System A codes and are eligible for reimbursement through Medicare Part B. There is currently no reimbursement for BIAKÖS AWC and BIAKÖS Antimicrobial Skin and Wound Irrigation Solution.

We anticipate that our **WounDerm services, THP strategy**, once launched, will provide a significant amount of patient data to help us measure our products' effectiveness on improving patient outcomes while simultaneously reducing healthcare costs. We believe our reimbursement strategy, including establishing the clinical validation, clinical utility and health economics of our products, will allow us to drive improved reimbursement coverage for our products and technologies.

## Competition

The wound care market is served by several large, multi-product line companies as well as a number of small companies. Our products compete with primary dressings, advanced wound care products, collagen matrices and other biopharmaceutical products. Manufacturers and distributors of competitive products include Smith & Nephew plc, Medline Industries, Inc., Convatec Group plc, Mölnlycke Health Care AB, 3M Company, Integra LifeSciences Holdings Corporation and numerous others. Many of our competitors are significantly larger than we are and have greater financial and personnel resources.

**WounDerm** With respect to our comprehensive value-based care strategy, THP plans to offer a comprehensive wound care and dermatology strategy to expand cost-effective, high-quality wound and skin care skincare to all patients throughout the care setting continuum. Although novel in its comprehensive offerings and solutions, there are existing competitors for each of the verticals in which WounDerm THP plans to offer services and solutions.

Existing wound care imaging technology competitors include MolecuLight, Wound-Vision, HyperMed Imaging, Inc., Spectral MD, Inc., Kent and Tissue Analytics. However, we do not believe that any of these existing platforms offer a bioassay evaluation in combination with their imaging solution. In addition, there are existing wound care specific EMR documentation and telemedicine communication platforms such as NetHealth, Swift Medical Inc., Corstrata, LLC and Intelllicure, Inc.

The public health emergency caused by the COVID-19 pandemic has led to the widespread adoption of telemedicine for all health care clinical specialties, including wound care and dermatology. As such, any Any clinical wound care or dermatology physician and/or provider group that has incorporated telemedicine into their practice could be considered competitive. However, the majority most of these groups are local not offering VBC contracts to payers, integrating prevention into their programs, or regional and do not incorporate enabling continuity across the comprehensive national care delivery platform that WounDerm expects to offer. different settings of care. Examples of large wound care specialty practices may include Vohra Physician Group, Healogics Specialty Physicians and Woundtech. WoundTech.

## Licensing and Distribution Agreements

### CellerateRX Surgical Activated Collagen

In August 2018, we entered into an exclusive, world-wide sublicense agreement Sublicense Agreement with CGI Cellerate RX to distribute CellerateRX Surgical and HYCOL products into the surgical and wound care markets. Pursuant to the sublicense agreement, Sublicense Agreement, we pay paid royalties of 3-5% of annual collected net sales of CellerateRX Surgical and HYCOL. As amended in January 2021, In August 2023, we acquired the term underlying intellectual property of, as well as the sublicense extends through May 2050, rights to manufacture and sell, CellerateRX Surgical and HYCOL products from Applied. In connection with automatic successive year-to-year renewal terms thereafter so long as our Net Sales (as defined in the sublicense agreement) each year are equal to or in excess of \$1,000,000. If our Net Sales fall below \$1,000,000 for any year after the initial expiration date, this acquisition, Applied assigned its license agreement with CGI Cellerate RX will have to a wholly owned subsidiary of the right Company and no further royalties are due to terminate the sublicense agreement upon written notice. Applied thereunder.

### BIAKOS Antimicrobial Wound Gel and BIAKOS Antimicrobial Skin and Wound Cleanser

In July 2019, we executed a license agreement with Rochal pursuant to which we 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 "BIAKOS License Agreement"). Currently, the products covered by the BIAKOS License Agreement are BIAKOS AWG and BIAKOS AWC. Both products are 510(k) cleared. Our 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 our directors is also a director and significant shareholder of Rochal.

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

- We pay Rochal a royalty of 2-4% of net sales. The minimum annual royalty due to Rochal was \$120,000 \$130,000 in 2022 2023 and will increase by \$10,000 each subsequent calendar year up to a maximum amount of \$150,000.
- We could pay an additional annual 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 BIAKOS License Agreement expires with the related patents in December 2031. Under this agreement, we paid \$130,000 and \$120,000 in royalties for the years ended December 31, 2023 and 2022, respectively.

*CuraShield Antimicrobial Barrier Film and No Sting Skin Protectant*

In October 2019, we executed a license agreement with Rochal pursuant to which we 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 \$5,000 each subsequent calendar year up to a maximum amount of \$75,000.
- We ~~will~~ could 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 ~~December 31, 2022~~ December 31, 2023.

#### *Debrider License Agreement*

In May 2020, we executed a product license agreement with Rochal, pursuant to which we 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, we will pay Rochal \$500,000 in cash and an additional \$1,000,000, which, at our option, may be paid in any combination of cash and our common stock.
- We 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 \$10,000 each subsequent calendar year up to a maximum amount of \$150,000.
- We ~~will~~ could pay additional ~~royalty~~ royalties 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 ~~December 31, 2022~~ December 31, 2023.

#### *Cook Biotech Marketing and Distribution Agreement*

In December 2020, we entered into a marketing and distribution agreement with Cook Biotech whereby we were appointed as the exclusive distributor in the United States of certain Cook Biotech advanced biologic products. FORTIFY TRG ~~Tissue Repair Graft~~ and FORTIFY FLOWABLE ~~Extracellular Matrix~~ are for use in the surgical care segment.

Under the terms of the agreement, we purchase the products from Cook Biotech at initial transfer prices stipulated in the agreement. Cook Biotech may update the transfer prices annually based on changes in the US Producer's Price Index. Minimum annual order quantities are agreed upon by both parties after each year of the contract term. ~~The~~ While the term of the agreement ~~will~~ terminate ends in June 2024, ~~with~~ the agreement provides for automatic two-year renewal terms ~~unless~~ if notice of nonrenewal is not given by one party at least one year prior to the end of the initial term or renewal term that is then in effect. ~~As of December 31, 2023, a notice of nonrenewal had not been provided by either Cook Biotech or us.~~

#### *Resorbable Bone Hemostat Tufts University License Agreement*

We acquired a patent in 2009 for a resorbable bone hemostat. In December 2023, we signed an exclusive license agreement with Tufts to develop and ~~delivery~~ system for orthopedic bone void fillers. In connection with the patent acquisition, we entered into a royalty agreement to pay 8% of our net revenues, including ~~royalty~~ revenues, generated from products that utilize our acquired commercialized patented bone hemostat and delivery system. This patent is not technology covering 18 unique collagen peptides. As part of our long-term strategic focus. We subsequently ~~this~~ agreement, we formed a new subsidiary, Sanara Collagen Peptides, LLC (“SCP”) and have issued 10% of SCP's outstanding units 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 patent ~~to~~ exclusive license agreement, royalties will be calculated at a ~~third party~~ to market rate of 1.5% or 3%, depending on the type of product or technology developed. SCP will pay Tufts a bone void filler product for which we receive 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 2% \$100,000 minimum annual royalty on product sales through January 1 of each subsequent year during the end of 2023, with annual minimum royalties of \$201,000. To date, royalties received by us related to this licensing agreement have not exceeded royalty term specified in the annual minimum of \$201,000 (\$50,250 per quarter). Therefore, our annual royalty obligation has been \$16,080 (\$4,020 per quarter), exclusive license agreement.

## **Government Regulation**

Our operations are subject to comprehensive federal, state and local laws and regulations in the jurisdictions in which we or our research and development partners or affiliates do business. The laws and regulations governing our business and interpretations of those laws and regulations are subject to frequent change. Our ability to operate profitably will depend in part upon our ability, and that of our research and development partners and affiliates, to operate in compliance with applicable laws and regulations. The laws and regulations relating to medical products and healthcare services that apply to our business and that of our partners and affiliates continue to evolve, and we must, therefore, devote significant resources to monitoring developments in legislation, enforcement, and regulation in such areas. As the applicable laws and regulations change, we are likely to make conforming modifications in our business processes from time to time. We cannot provide assurance that a review of our business by courts or regulatory authorities will not result in determinations that could adversely affect our operations or that the regulatory environment will not change in a way that restricts our operations.

### ***FDA Regulation***

Our medical products and operations are regulated by the FDA and other federal and state agencies. Most of the products we currently market are regulated as medical devices in the United States under the Federal Food, Drug, and Cosmetic Act ("FDCA"), as implemented and enforced by the FDA. The FDA regulates the development, testing, manufacturing, labeling, packaging, storage, installation, servicing, advertising, promotion, marketing, distribution, import, export and market surveillance of our medical devices.

In addition, we market certain products for use in surgical wound care regulated by the FDA under Section 361 of the Public Health Service Act ("PHSA") (42 U.S.C. § 264) and 21 C.F.R. Part 1271.

#### Device Premarket Regulatory Requirements

Before being introduced into the U.S. market, each medical device must obtain marketing clearance or approval from the FDA through the 510(k) premarket notification process, the *de novo* classification process (summarized below), or the premarket approval application ("PMA") process, unless they are determined to be Class I devices or to otherwise qualify for an exemption from one of these available forms of premarket review and authorization by the FDA. Under the FDCA, medical devices are classified into one of three classes—Class I, Class II or Class III—depending on the degree of risk associated with each medical device and the extent of control needed to provide reasonable assurance of safety and effectiveness. Classification of a device is important because the class to which a device is assigned determines, among other things, the necessity and type of FDA review required prior to marketing the device. Class I devices are those for which reasonable assurance of safety and effectiveness can be assured by adherence to general controls that include compliance with the applicable portions of the FDA's Quality System Regulation ("QSR"), as well as regulations requiring facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and ~~nonmisleading~~ non-misleading labeling, advertising and promotional materials. The Class I designation also applies to devices for which there is insufficient information to determine that general controls are sufficient to provide reasonable assurance of the safety and effectiveness of the device or to establish special controls to provide such assurance, but that are not life-supporting or life-sustaining or for a use which is of substantial importance in preventing impairment of human health, and that do not present a potential unreasonable risk of ~~or~~ injury.

Class II devices are those for which general controls alone are insufficient to provide reasonable assurance of safety and effectiveness and there is sufficient information to establish "special controls." These special controls can include performance standards, post-market surveillance requirements, patient registries and FDA guidance documents describing device-specific special controls. While most Class I devices are exempt from the 510(k) premarket notification requirement, most Class II devices require a 510(k) premarket notification prior to commercialization in the United States; however, the FDA has the authority to exempt Class II devices from the 510(k) premarket notification requirement under certain circumstances. As a result, manufacturers of most Class II devices must submit 510(k) premarket notifications to the FDA under Section 510(k) of the FDCA (21 U.S.C. § 360(k)) in order to obtain the necessary clearance to market or commercially distribute such devices. To obtain 510(k) clearance, manufacturers must submit to the FDA adequate information demonstrating that the proposed device is "substantially equivalent" to a predicate device already on the market. A predicate device is a legally marketed device that is not subject to PMA, meaning, (i) a device that was legally marketed prior to May 28, 1976 ("preamendments device") and for which a PMA is not required, (ii) a device that has been reclassified from Class III to Class II or I, or (iii) a device that was found substantially equivalent through the 510(k) process. If the FDA agrees that the device is substantially equivalent to a predicate device currently on the market, it will grant 510(k) clearance to commercially market the device. If there is no adequate predicate to which the manufacturer can compare its proposed device, the proposed device is automatically classified as a Class III device. In such cases, the device manufacturer must then fulfill the more rigorous PMA requirements or can request a risk-based classification determination for the device in accordance with the *de novo* classification process.

The *de novo* classification process allows a manufacturer whose novel device is automatically classified into Class III to request down-classification of its device to Class I or Class II on the basis that the device presents low or moderate risk, rather than requiring the submission and approval of a PMA. Under the Food and Drug Administration Safety and Innovation Act of 2012 ("FDASIA"), the FDA is required to classify a device within 120 days following receipt of the *de novo* classification request. If the manufacturer seeks reclassification into Class II, the classification request must include a draft proposal for special controls that are necessary to provide a reasonable assurance of the safety and effectiveness of the medical device. The FDA may reject the classification request if it identifies a legally marketed predicate device that would be appropriate for a 510(k) or determines that the device is not low to moderate risk or that general controls would be inadequate to control the risks and special controls cannot be developed.

Devices that are intended to be life sustaining or life supporting, devices that are implantable, devices that present a potential unreasonable risk of harm or are of substantial importance in preventing impairment of health and devices that are not substantially equivalent to a predicate device are placed in Class III and generally require FDA approval through the PMA process, unless the device is a preamendments device not yet subject to a regulation requiring premarket approval. The PMA process is more demanding than the 510(k) premarket notification process. For a PMA, the manufacturer must demonstrate through extensive data, including data from preclinical studies and clinical trials, that the device is safe and effective. The PMA must also contain a full description of the device and its components, a full description of the methods, facilities and controls used for manufacturing, and proposed labeling. Following receipt of a PMA, the FDA determines whether the application is sufficiently complete to permit a substantive review. If the FDA accepts the application for review, it has 180 days under the FDCA to complete its review of a PMA, although in practice, the FDA's review often takes significantly longer, and can take up to several years. Before approving a PMA, the FDA generally also performs an on-site inspection of manufacturing facilities for the product to ensure compliance with the QSR.

Thus far, all of the medical devices that we currently market and distribute have been cleared through 510(k) premarket notifications filed by our third-party research and development partners, who are the manufacturers of such devices, notifications. We also are continuing to work through the development process for a number of products in our pipeline. Our autolytic debrider product and a sterile antimicrobial surgical wash product are currently under development. We are in discussions concerning the best path for seeking clearance and approval for these products. The In December 2023, we received 510(k) clearance from the FDA for the Precision Healing imager diagnostic imager. We are currently evaluating commercial and regulatory pathways for the lateral flow assay will both be submitted to the FDA under the 510(k) process. Precision Healing LFA.

Clinical trials are almost always required to support PMAs and are sometimes required to support 510(k) submissions. All clinical investigations of devices to determine safety and effectiveness must be conducted in accordance with the FDA's investigational device exemption ("IDE") regulations that govern investigational device labeling, prohibit promotion of the investigational device and specify recordkeeping, reporting and monitoring responsibilities of study sponsors and study investigators. If the device presents a "significant risk," as defined by the FDA, the agency requires the device sponsor to submit an IDE application to the FDA, which must become effective prior to commencing human clinical trials. The IDE will automatically become effective 30 days after receipt by the FDA, unless the FDA denies the application or notifies the company that the investigation is on hold and may not begin until the sponsor provides supplemental information about the investigation that satisfies FDA's concerns. If the FDA determines that there are deficiencies or other concerns with an IDE that require modification of the study, the FDA may permit a clinical trial to proceed under a conditional approval. In addition, the study must be approved by, and conducted under the oversight of, an institutional review board ("IRB"), for each clinical site. If the device presents a non-significant risk to the patient according to criteria established by the FDA as part of the IDE regulations, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate authorization from the FDA, but must still comply with abbreviated IDE requirements, such as monitoring the investigation, ensuring that the investigators obtain informed consent, and labeling and record-keeping requirements.

#### *Device Postmarket Regulatory Requirements*

After a device is cleared or approved for commercialization, and prior to marketing, numerous regulatory requirements apply to the various entities responsible for preparing a device for distribution, including the manufacturer (including specification developer), contract manufacturers, relabelers/repackagers, sterilizers and initial importer, as applicable. These include:

- establishment registration and device listing;
- development of a quality management system, including establishing and implementing procedures to design and manufacture devices in compliance with the QSR (unless a device category is exempt from this requirement by the FDA, such as in the case of many Class I devices);
- labeling regulations that prohibit the promotion of products for uncleared or unapproved uses (known as off-label uses), as well as requirements to provide accurate and nonmisleading non-misleading information and adequate information on both risks and benefits of the device;
- FDA's unique device identification requirements that call for a unique device identifier on device labels, packages, and in some cases, on the device itself, and submission of data to the FDA's Global Unique Device Identification Database;
- medical device reporting regulations that require manufacturers to report to the FDA if a device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur;
- corrections and removal reporting regulations that require manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may present a risk to health; and
- postmarket surveillance regulations, which apply to Class II or Class III devices if the FDA has issued a postmarket surveillance order and the failure of the device would be reasonably likely to have serious adverse health consequences, the device is expected to have significant use in the pediatric population, the device is intended to be implanted in the human body for more than one year, or the device is intended to be used to support or sustain life and to be used outside a user facility.

Our research and development partners and their contract manufacturers may be subject to periodic scheduled or unscheduled inspections by the FDA. If we are required to register with the FDA, by becoming the manufacturer or specification developer of any medical device for instance, then we also may be subject to such inspections by the FDA. If the FDA believes we or any of our research and development partners or their contract manufacturers are not in compliance with the QSR, or other postmarket requirements, it has broad authority to take significant enforcement actions to compel compliance. Specifically, if the FDA determines that we or our research and development partners or their contract manufacturers failed to comply with applicable regulatory requirements, the agency can take a variety of compliance or enforcement actions, which may result in any of the following sanctions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement or refunds;
- mandatory recalls, withdrawals, or administrative detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying requests for 510(k) marketing clearance or approval of premarket approval applications relating to new products or modified products;
- reclassifying a 510(k)-cleared device or withdrawing PMA approval;
- refusal to grant export approvals for our products; or
- pursuing criminal prosecution.

Any such enforcement action by the FDA would have a material adverse effect on our business. In addition, these regulatory controls, as well as any changes in FDA policies, can affect the time and cost associated with the development, introduction, and continued availability of new products.

#### *HCT/P Regulatory Requirements*

Some of the products we currently market are regulated as biologics, more specifically as human cells, tissues, and cellular and tissue-based products (“HCT/Ps”). They include (i) **TEXAGEN**, (ii) **BiFORM**, (iii) **ACTIGEN**, (iv) **ALLOCYTE** and (v) **ALLOCYTE Plus**. HCT/Ps are regulated by the FDA’s Center for Biologics Evaluation and Research (“CBER”) or Center for Devices and Radiological Health (“CDRH”) depending on the type of product, how it is manufactured and its intended uses. HCT/Ps that meet all of the criteria described in 21 C.F.R. § 1271.10(a) are regulated by the CBER under Section 361 of the PHS Act (42 U.S.C. § 264) and 21 C.F.R. Part 1271 only (“361 products”). Although 361 products do not require premarket review by the FDA prior to commercialization, manufacturers of 361 products must register with the FDA, submit a list of HCT/Ps manufactured, and comply with current good tissue practices (“cGTP”), among other things.

#### *Federal Trade Commission Regulatory Oversight*

Our advertising for our products and services is subject to federal truth-in-advertising laws enforced by the Federal Trade Commission (the “FTC”), as well as comparable state consumer protection laws. Under the Federal Trade Commission Act (“FTC Act”), the FTC is empowered, among other things, to (a) prevent unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce; (b) seek monetary redress and other relief for conduct injurious to consumers; and (c) gather and compile information and conduct investigations relating to the organization, business, practices, and management of entities engaged in commerce. The FTC has very broad enforcement authority, and failure to abide by the substantive requirements of the FTC Act and other consumer protection laws can result in administrative or judicial penalties, including civil penalties, injunctions affecting the manner in which we would be able to market services or products in the future, or criminal prosecution.

#### *Fraud and Abuse and Transparency Laws and Regulations*

Our business activities (and the business activities of our research and development partners and affiliates), including, but not limited to, research, sales, promotion, distribution and medical education, are subject to regulation by numerous federal and state regulatory and law enforcement authorities in the United States, including the Department of Justice, the Department of Health and Human Services and its various divisions, CMS, the Health Resources and Services Administration, the Department of Veterans Affairs, the Department of Defense, and state and local governments. Our business activities must comply with numerous healthcare laws, including, but not limited to, anti-kickback and false claims laws and regulations as well as data privacy and security laws and regulations, which are described below.

The federal Anti-Kickback Statute prohibits, among other things, any person or entity, from knowingly and willfully offering, paying, soliciting, or receiving any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, to induce or in return for purchasing, leasing, ordering, or arranging for or recommending the purchase, lease, furnishing, or order of any item or service reimbursable under Medicare, Medicaid, or other federal healthcare programs, in whole or in part. The term “remuneration” has been interpreted broadly to include anything of value. The Anti-Kickback Statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on one hand and prescribers, purchasers, formulary managers, and beneficiaries on the other. There are certain statutory exceptions and regulatory safe harbors protecting some common activities from prosecution. The exceptions and safe harbors are drawn narrowly, and practices that involve remuneration that may be alleged to be intended to induce prescribing, purchases, or recommendations may be subject to scrutiny if they do not qualify for an exception or safe harbor. Failure to meet all of the requirements of a particular applicable statutory exception or regulatory safe harbor does not make the conduct *per se* illegal under the Anti-Kickback Statute. Instead, the legality of the arrangement will be evaluated on a case-by-case basis based on a cumulative review of all of its facts and circumstances. Several courts have interpreted the statute’s intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The Patient Protection and Affordable Care Act, of 2010, as amended (the “ACA”), modified the intent requirement under the Anti-Kickback Statute to a stricter standard, such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the ACA also provided that a violation of the federal Anti-Kickback Statute is grounds for the government or a whistleblower to assert that a claim for payment of items or services resulting from such violation constitutes a false or fraudulent claim for purposes of the federal civil False Claims Act (the “FCA”). The ACA further created new federal requirements for reporting, by applicable manufacturers of covered drugs, payments and other transfers of value to physicians and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members.

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The federal civil FCA, prohibits, among other things, any person or entity from knowingly presenting, or causing to be presented, a false or fraudulent claim for payment to, or approval by, the federal government, knowingly making, using, or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government, or avoiding, decreasing, or concealing an obligation to pay money to the federal government. A claim includes “any request or demand” for money or property presented to the U.S. government. The civil FCA has been used to assert liability on the basis of kickbacks and other improper referrals, improperly reported government pricing metrics such as Best Price or Average Manufacturer Price, or submission of inaccurate information required by government contracts, improper use of Medicare provider or supplier numbers when detailing a provider of services, improper promotion of off-label uses not expressly approved by the FDA in a drug’s label, and allegations as to misrepresentations with respect to the products supplied or services rendered. Several pharmaceutical and other healthcare companies have further been sued under these laws for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Intent to deceive is not required to establish liability under the civil FCA; however, a change in Department of Justice policy now prohibits enforcement actions for knowing violations of law based on noncompliance with agency subregulatory guidance. Civil FCA actions may be brought by the government or may be brought by private individuals on behalf of the government, called “qui tam” actions. If the government decides to intervene in a qui tam action and prevails in the lawsuit, the individual will share in the proceeds from any fines or settlement funds. If the government declines to intervene, the individual may pursue the case alone. Since 2004, these FCA lawsuits against pharmaceutical companies have increased significantly in volume and breadth, leading to several substantial civil and criminal settlements, as much as \$3.0 billion, regarding certain sales practices and promoting off-label drug uses. Civil FCA liability may be imposed for Medicare or Medicaid overpayments, for example, overpayments caused by understated rebate amounts, that are not refunded within 60 days of discovering the overpayment, even if the overpayment was not caused by a false or fraudulent act.

The government may further prosecute conduct constituting a false claim under the criminal FCA. The criminal FCA prohibits the making or presenting of a claim to the government knowing such claim to be false, fictitious, or fraudulent and, unlike the civil FCA, requires proof of intent to submit a false claim. The civil monetary penalties statute is another potential statute under which drug and device companies may be subject to enforcement. Among other things, the civil monetary penalties statute imposes fines against any person who is determined to have presented, or caused to be presented, claims to a federal healthcare program that the person knows, or should know, is for an item or service that was not provided as claimed or is false or fraudulent.

HIPAA also created federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud or to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, a healthcare benefit program, regardless of whether the payor is public or private, knowingly and willfully embezzling or stealing from a health care benefit program, willfully obstructing a criminal investigation of a health care offense, and knowingly and willfully falsifying, concealing, or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items, or services relating to healthcare matters. The ACA, as amended, modified the intent requirement under the certain portions of these federal criminal statutes such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it. The ACA further created federal requirements for reporting, by applicable manufacturers of covered therapeutics, payments and other transfers of value to physicians and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members.

Many states have also adopted laws similar to each of the above federal laws, which may be broader in scope and apply to items or services reimbursed by any third-party payor, including commercial insurers, and some have transparency laws that require reporting price increases and related information. Certain state laws also regulate manufacturers’ use of prescriber-identifiable data. Certain states also require implementation of commercial compliance programs and compliance with the pharmaceutical industry’s voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government, or otherwise restrict payments or the provision of other items of value that may be made to healthcare providers and other potential referral sources; impose restrictions on marketing practices; or require drug manufacturers to track and report information related to payments, gifts, and other items of value to physicians and other healthcare providers. These laws may affect our future sales, marketing, and other promotional activities by imposing administrative and compliance burdens.

If our operations are found to be in violation of any of the laws or regulations described above or any other laws that apply to us, we may be subject to penalties or other enforcement actions, including criminal and significant civil monetary penalties, damages, fines, disgorgement, imprisonment, exclusion from participation in government healthcare programs, corporate integrity agreements, debarment from receiving government contracts or refusal of new orders under existing contracts, reputational harm, diminished profits and future earnings, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

#### ***Telemedicine Standards, and Related Laws and Guidelines***

We have entered into a professional services agreement with and made a minority investment in DirectDerm, a dermatology telemedicine company based in California, which has an exclusive network of dermatologists.

The delivery of telemedicine services directly or through contractual relationships is subject to various federal, state, and local laws, regulations and approvals, relating to, among other things, the health provider licensure, adequacy and continuity of medical care, medical practice standards (including specific requirements when providing healthcare utilizing telemedicine technologies and consulting services among providers), medical records maintenance, personnel supervision, and prerequisites for the prescription of medication. The application of some of these laws to telemedicine is unclear and subject to differing interpretation. Further, laws and regulations specific to delivering medical services utilizing telemedicine technologies continues to evolve with some states incorporating modality and consent requirements for certain telemedicine encounters.

Telemedicine services also implicate state corporate practice of medicine and fee-splitting laws which vary from state to state and are not always consistent among states. In addition, these requirements are subject to broad powers of interpretation, enforcement discretion by state regulators, and, in some cases, dated (yet still valid) case law. Some of these requirements may apply to us or our partners, even if we do not have a physical presence in the state, based solely on the engagement of a provider licensed in the state or the provision of telemedicine to a resident of the state. However, regulatory authorities or other parties, including providers in our affiliated provider network, may assert that, despite these arrangements, we are engaged in the corporate practice of medicine or that our contractual arrangements with affiliated physician groups constitute unlawful fee-splitting. In this event, failure to comply could lead to adverse judicial or administrative action against us and/or our providers, civil or criminal penalties, receipt of cease-and-desist orders from state regulators, loss of provider licenses, or the need to make changes to the arrangements with our affiliated provider network; each of which could interfere with our business or prompt other materially adverse consequences.

#### ***U.S. Federal and State Health Information Privacy and Security Laws***

There are numerous U.S. federal and state laws and regulations related to the privacy and security of personally identifiable information ("PII"), including health information. In particular, HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and its respective implementing regulations, establishes privacy and security standards that limit the use and disclosure of protected health information ("PHI"), and require the implementation of administrative, physical, and technical safeguards to ensure the confidentiality, integrity and availability of individually identifiable health information in electronic form. Our affiliated network providers and our hospital, health system and other provider clients are all regulated as covered entities under HIPAA. Since the effective date of the HIPAA Omnibus Final Rule on September 23, 2013, HIPAA's requirements are also directly applicable to the independent contractors, agents and other "business associates" of covered entities that create, receive, maintain or transmit PHI in connection with providing services to covered entities. We are a business associate under HIPAA when we are working on behalf of our affiliated providers.

Violations of HIPAA may result in civil and criminal penalties. A single breach incident can result in violations of multiple standards. We must also comply with HIPAA's breach notification rule. Under the breach notification rule, covered entities must notify affected individuals without unreasonable delay in the case of a breach of unsecured PHI, which may compromise the privacy, security or integrity of the PHI. In addition, notification must be provided to Health and Human Services ("HHS") and the local media in cases where a breach affects more than 500 individuals. Breaches affecting fewer than 500 individuals must be reported to HHS on an annual basis. The regulations also require business associates of covered entities to notify the covered entity of breaches by the business associate.

State attorneys general also have the right to prosecute HIPAA violations committed against residents of their states. While HIPAA does not create a private right of action that would allow individuals to sue in civil court for a HIPAA violation, its standards have been used as the basis for the duty of care in state civil suits, such as those for negligence or recklessness in misusing personal information. In addition, HIPAA mandates that HHS conduct periodic compliance audits of HIPAA covered entities and their business associates for compliance. It also tasks HHS with establishing a methodology whereby harmed individuals who were the victims of breaches of unsecured PHI may receive a percentage of the Civil Monetary Penalty fine paid by the violator. In light of the HIPAA Omnibus Final Rule, recent enforcement activity, and statements from HHS, we expect increased federal and state HIPAA privacy and security enforcement efforts. HIPAA also required HHS to adopt national standards establishing electronic transaction standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically.

Many states in which we or our research and development partners may operate also have laws that protect the privacy and security of sensitive and personal information, including health information. These laws may be similar to or even more protective than HIPAA and other federal privacy laws. For example, the laws of the State of California are more restrictive than HIPAA. Where state laws are more protective than HIPAA, we must comply with the state laws to which we are subject, in addition to HIPAA. In certain cases, it may be necessary to modify our planned operations and procedures to comply with these more stringent state laws. Not only may some of these state laws impose fines and penalties upon violators, but also some, unlike HIPAA, may afford private rights of action to individuals who believe their personal information has been misused.

In addition to HIPAA and state health information privacy laws, we may be subject to other state and federal privacy laws, including laws that prohibit unfair privacy and security practices and deceptive statements about privacy and security and laws that place specific requirements on certain types of activities, such as data security and texting.

In recent years, there have been a number of well-publicized data breaches involving the improper use and disclosure of PII and PHI. Many states have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals and state officials. In addition, under HIPAA and pursuant to the related contracts that we enter into with our business associates, we must report breaches of unsecured PHI to our contractual partners following discovery of the breach. Notification must also be made in certain circumstances to affected individuals, federal authorities and others.

## Employees

As of December 31, 2022 December 31, 2023, we had a staff of 101 107 full-time employees and 2 1 part-time employees. employee.

## Corporate Information

We were incorporated in Texas on December 14, 2001. Our principal executive offices are located at 1200 Summit Ave, Suite 414, Fort Worth, Texas 76102, telephone number (817) 529-2300. Our website address is [www.sanaramedtech.com](http://www.sanaramedtech.com). Information accessed through our website is not incorporated into this annual report and is not a part of this annual report.

### Available Information

The Company electronically files reports with the Securities and Exchange Commission (the "SEC"). The SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished to the SEC are also available free of charge through the Company's investor relations website (<http://www.sanaramedtech.com/investor-relations/>), as soon as reasonably practicable after electronically filing with or otherwise furnishing such information to the SEC, and are available in print to any shareholder who requests it.

## Item 1A. RISK FACTORS

The risks below are those that we believe are the material risks that we currently face but are not the only risks facing us and our business. If any of these risks actually occur, our business, financial condition and results of operations could be materially adversely affected. Below is a summary of our risk factors with a more detailed discussion following.

- We have had a history of losses, which may continue as we expand our selling efforts.
- Our revenue growth for a particular period is difficult to predict, and a shortfall in forecasted revenues may harm our operating results.
- Our current comprehensive wound and skincare strategy involves growth through acquisitions and investments, which requires us to incur substantial costs and potential liabilities for which we may never realize the anticipated benefits.
- Our indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations.
- 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.
- Failure to manage our growth strategy could harm our business.
- We may fail to realize all the anticipated benefits of the Applied Asset Purchase, or such benefits may take longer to realize than expected.
- If we are unable to compete within our markets or our products, services and technologies do not gain market acceptance, our financial condition and operating results could suffer.

- Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.
- If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud and our business may be harmed and our stock price may be adversely impacted.
- We rely heavily on our research and development partners to design, manufacture and supply the products we have licensed for marketing. If we or one of our partners fails to perform adequately, or fulfill our needs, or comply with regulations, we may be required to incur significant costs, costs or even be subject to enforcement actions. We also may face significant delays in our product introductions and commercialization.
- Our revenue generated from the sale of Scendia products is heavily dependent on license agreements with certain manufacturers, and the termination of any of these license agreements could harm our business.
- Certain of our product candidates are still under development and we may not be able to successfully commercialize any of these product candidates.
- Our future success will largely depend on our ability to maintain and further grow clinical acceptance and adoption of our products, and we may be unable to adequately educate healthcare practitioners on the use and benefits of our products.

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- Disruption of, or changes in, our distribution model or customer base could harm our sales and margins.
- Interruptions in the supply of our products or inventory loss may adversely affect our business, financial condition and results of operations.
- If we are unable to manage product inventory in an effective manner, our profitability could be impaired.
- Failure of any third-party assessments to demonstrate desired outcomes in proposed endpoints could have a negative impact on our business performance.
- Increased prices for, or unavailability of, raw materials used in our products could adversely affect our business, financial condition and results of operations.
- Our planned expansion into wound and skincare virtual consult and other services could have a material adverse effect on our business, financial condition and results of operations.
- Our planned expansion into wound and skincare virtual consult and other services will require entrance into several markets in which we have little or no experience, which may not be successful and could be costly.
- Our planned expansion into the telehealth business is dependent on our relationships with affiliated professional entities to provide physician services, and our business would be adversely affected if those relationships were disrupted.
- Recent and frequent state legislative and regulatory changes specific to telemedicine may present us with additional requirements and state compliance costs, with potential operational impacts in certain jurisdictions.
- If we are unable to adequately protect our intellectual property rights, we may not be able to compete effectively.
- CellerateRX Surgical is not currently protected by any pending patent application ~~nor~~ or any unexpired patent. Currently the substantial majority of our net revenue is derived from the sale of CellerateRX Surgical. CellerateRX Surgical may be subject to competition from the sale of substantially equivalent products that could adversely affect our business and operations.
- We are heavily dependent on technologies and products we have licensed from third parties, and we may need to license technologies and products in the future, and if we fail to obtain licenses we need, or fail to comply with our payment and other obligations in the agreements under which we in-license intellectual property and other rights from third parties, we could lose our ability to develop and commercialize our products.
- We may be found to infringe on or violate intellectual property rights of others.
- Our business is affected by numerous regulations relating to the development, manufacture, distribution, labeling, marketing and sale of our products.
- We are subject to various governmental regulations relating to the labeling, marketing and sale of our products.

- If we fail to obtain or experience significant delays in obtaining regulatory clearances or approvals to market future medical device products, we will be unable to commercialize these products until such clearance or approval is obtained.
- Delays in or changes to the FDA clearance and approval processes or ongoing regulatory requirements could make it more difficult for us to obtain FDA clearance or approval of new products or comply with ongoing requirements.
- Failure to obtain or maintain adequate reimbursement or insurance coverage for drugs, if any, could limit our ability to market those drugs and decrease our ability to generate revenue. Changes in reimbursement policies and regulations by governmental or other third-party payors may have an adverse impact on the use of our products.
- We rely heavily on our research and development partners to comply with applicable laws and regulations relating to product classification and when and what types of FDA marketing authorization are needed to lawfully commercialize a new or updated medical product in the United States.
- We and our employees and contractors are subject, directly or indirectly, to federal, state and foreign healthcare fraud and abuse laws, including false claims laws. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.
- We and our research and development partners' use and disclosure of PII, including health information, is subject to federal and state privacy and security regulations, and our failure to comply with those regulations or to adequately secure the information we hold could have a material adverse effect on our client base, business, financial condition and results of operations.
- Our officers, employees, independent contractors, principal investigators, consultants and commercial partners may engage in misconduct or activities that are improper under other laws and regulations, which would create liability for us.
- We could be adversely affected if healthcare reform measures substantially change the market for medical care or healthcare coverage in the United States.
- Defects, failures or quality issues associated with our products could lead to product recalls or safety alerts, adverse regulatory actions, product liability lawsuits and other litigation and negative publicity that could materially adversely affect our reputation, business, results of operations and financial condition.

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#### Risks Related to How We Operate Our Business

##### *We have had a history of losses, which may continue as we expand our selling efforts.*

We have incurred net losses in most years since we began our current operations in 2004. We plan to continue making significant investments in our sales force and clinical programs, which substantially increase our operating expenses. Consequently, we will need to continue our revenue growth to become profitable in future periods. If we fail to achieve profitability, our stock price may decline, and you may lose part or all of your investment.

##### *Our revenue growth for a particular period is difficult to predict, and a shortfall in forecasted revenues may harm our operating results.*

Because we are a relatively small company, our revenue growth and, consequently, results of operations are difficult to predict. We plan our operating expense levels based primarily on forecasted revenue levels. A shortfall in revenue could lead to operating results being below expectations as we may not be able to quickly reduce our fixed expenses in response to short-term revenue shortfalls. We have experienced fluctuations in revenue and operating results from quarter to quarter and anticipate that these fluctuations will continue until we achieve a critical mass with our product and service sales. These fluctuations can result from a variety of factors, including:

- economic conditions worldwide, including increases in inflation, as well as economic conditions specific to the healthcare industry, which could affect the ability of surgical and post-acute facilities to purchase our products and could result in a reduction in elective operative procedures;
- governmental regulations, including those adopted in response to the COVID-19 pandemic or other potential outbreaks;
- the uncertainty surrounding our ability to attract new customers and retain existing customers;
- changes in reimbursement rates for our products by government and private insurers;
- the length and variability of our sales cycle, especially gaining approvals for the use of our products in additional hospitals and surgery centers, which makes it difficult to forecast the quarter in which our sales will occur;
- issues including delays in the sourcing of our products;
- the timing of regulatory approvals;
- the timing of operating expense relating to the expansion of our business and operations;
- changes in the pricing of our products and those of our competitors;
- the development of new wound care products or product enhancements by our competitors; and
- actual events, circumstances, outcomes and amounts differing from assumptions and estimates used in preparing our operating plan and how well we execute our strategy and operating plans.

As a consequence, operating results for a particular future period are difficult to predict and prior results are not necessarily indicative of future results. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business.

***Our current comprehensive wound and skincare strategy involves growth through acquisitions and investments, which requires us to incur substantial costs and potential liabilities for which we may never realize the anticipated benefits.***

We may be unable to continue implementing our growth strategy, and our strategy ultimately may be unsuccessful. We engage in evaluations of potential acquisitions and investments and are in various stages of discussion regarding possible acquisitions, certain of which, if consummated, could be significant to us. Any new acquisition or investment could result in material transaction expenses, increased interest and amortization expense, increased depreciation expense and increased operating expense, any of which could have a material adverse effect on our operating results. In addition, if we are unable to integrate businesses and operations that we have acquired or will acquire in the future, our profitability could suffer. These acquisitions and investments also involve other risks, including diversion of management resources otherwise available for the running of our business and the development of our business, as well as risks associated with entering markets in which our marketing teams and sales force has limited experience or where experienced distribution alliances are not available. We may not be able to identify suitable acquisition or investment candidates in the future, obtain acceptable financing or consummate any future acquisitions or investments. In addition, certain potential acquisitions may be subject to antitrust and competition laws, which could impact our ability to pursue strategic acquisitions and could result in mandated divestitures. If we are unsuccessful in our comprehensive **would** wound and skincare strategy, we may be unable to meet our financial targets and our financial performance could be materially and adversely affected.

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**Failure to manage our growth strategy could harm our business.**

Our ability to successfully implement our business plan and develop, market and sell our surgical, wound and skincare products, services and technologies requires an effective plan for managing our future growth. We plan to increase the scope of our operations at a rapid rate. Future expansion efforts will be expensive and may strain our internal operating resources. To manage future growth effectively, we must maintain and enhance our financial and accounting systems and controls, integrate new personnel and manage expanded operations. If we do not manage growth properly, it could harm our operating results and financial condition.

**We may fail to realize all the anticipated benefits of the Applied Asset Purchase, or such benefits may take longer to realize than expected.**

We may fail to realize all of the anticipated benefits of the Applied Asset Purchase, including expected operational, research and development and cost synergies, or such benefits may not be achieved within the anticipated timeframe. In addition, in connection with the Applied Asset Purchase, we acquired control of the manufacturing of our CellerateRX Surgical and HYCOL products, which was previously controlled by the Sellers. If we are unable to maintain or replace the Sellers' manufacturing process, our sales of CellerateRX Surgical and HYCOL products could be jeopardized. Furthermore, we have incurred significant transaction costs in connection with the Applied Asset Purchase, including payment of certain fees and expenses incurred in connection with the Applied Asset Purchase and the financing of the Applied Asset Purchase, and our future financial results could be impacted if the intangible assets we acquired in the Applied Asset Purchase become impaired. The failure to realize the anticipated benefits of the Applied Asset Purchase or any of our other recent acquisitions could cause an interruption of, or a loss of momentum in, our operations and could result in a material adverse effect on our financial condition, results of operations or cash flows.

**If we are unable to compete within our markets or our products, services and technologies do not gain market acceptance, our operating results and financial condition could suffer.**

Competition from other medical device companies is significant and we could be significantly affected by new product introductions and other activities of market participants. We compete with other companies in acquiring rights to products or technologies from third-party developers. In addition, many specialized products companies have formed collaborations with large, established companies to support research, development and commercialization of wound care products which may be competitive with ours. Academic institutions, government agencies and other public and private research organizations are also conducting research activities and may commercialize wound care products on their own or through joint ventures. Although our products have performed well in customer evaluations, we are a relatively unknown brand in a market dominated by companies with extensive product lines and large customer bases. We may not, even with more efficacious products, be able to secure contracts and achieve significant growth with large national accounts.

In addition, if the anticipated full launch of our wound and skincare virtual consult and other service offerings is successful, we will face competition from other telehealth providers. The public health emergency caused by the COVID-19 pandemic has led to the widespread adoption of telemedicine for most health care clinical specialties, including wound care and dermatology. As such, any clinical wound care or dermatology physician and/or provider group that has incorporated telemedicine into their practice could be considered competitive. If we are unable to compete with other telehealth providers, our operating results and financial condition may suffer.

Several factors may limit the market acceptance of our products, services and technologies, including the timing of regulatory approvals and market entry relative to competitive products, services and technologies, the availability of alternative products, services and technologies, the price of our products, services and technologies relative to alternative products, services and technologies, the availability of third-party reimbursement and the extent of marketing efforts by third-party distributors or agents that we retain. Our products, services or technologies may not receive market acceptance in a commercially viable period of time, if at all. Furthermore, our competitors may develop products, services or technologies that are more effective or achieve greater market acceptance than those being developed by us, which would render our products, services and technologies less competitive or obsolete.

Our competitors enjoy several competitive advantages over us, including but not limited to:

- large and established distribution networks in the United States and/or in international markets;
- greater financial, managerial and other resources for products research and development, sales and marketing efforts and protecting and enforcing intellectual property rights;
- greater name recognition;
- larger consumer bases;
- more expansive portfolios of products and intellectual property rights; and
- greater experience in obtaining and maintaining regulatory approvals and/or clearances from the FDA and other regulatory agencies.

The presence of competition in our market may lead to pricing pressure which would make it more difficult to sell our products, services and technologies at a profitable price or may prevent us from selling our products at all. Our failure to compete effectively would have a material adverse effect on our business.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we use networks to collect and store sensitive data, including intellectual property, proprietary business information and important information of our customers, suppliers and business partners, as well as personally identifiable information of our customers and employees. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in the loss of existing customers, difficulty in attracting new customers, backlash from negative public relations, legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties. Further, such access, disclosure or loss may cause disruption of our operations and the services we provide to customers, damage to our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business.

We have programs, processes and technologies in place to prevent, detect, contain, respond to and mitigate security related threats and potential incidents. We undertake considerable ongoing improvements to our systems, connected devices and information-sharing products in order to minimize vulnerabilities, in accordance with industry and regulatory standards. Because the techniques used to obtain unauthorized access change frequently and can be difficult to detect, anticipating, identifying or preventing these intrusions or mitigating them if and when they occur, may be challenging.

***If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud and our business may be harmed and our stock price may be adversely impacted.***

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and to effectively prevent fraud. Any inability to provide reliable financial reports or to prevent fraud could harm our business. The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) requires management to evaluate and assess the effectiveness of our internal control over financial reporting. In order to comply with the requirements of the Sarbanes-Oxley Act, we are required to continuously evaluate and, where appropriate, enhance our policies, procedures and internal controls. If we fail to maintain the adequacy of our internal controls over financial reporting, we could be subject to litigation or regulatory scrutiny and investors could lose confidence in the accuracy and completeness of our financial reports. If we fail to fully comply with the requirements of the Sarbanes-Oxley Act or our management concludes that our internal controls over financial reporting are not effective, our business may be harmed and our stock price may decline. In addition, because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements.

## Risks Related to Our Indebtedness

### ***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;
- cause our interest expense to increase if there is a general increase in interest rates, because our indebtedness bears interest at floating rates;
- 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 Loan Agreement requires us as guarantor and Sanara MedTech Applied Technologies, LLC, a wholly owned subsidiary of the Company ("SMAT"), to maintain compliance with certain operating and financial covenants, which provide that we or SMAT, among other things, may not, subject to certain exceptions:

- create or permit the existence of additional liens on our assets;
- enter into any pledge agreements or arrangements;
- with respect to SMAT, make investments in or provide capital contributions to other entities;
- enter into a merger or consolidation or acquire any assets outside of the ordinary course of business;
- dispose of a material part of our assets or property or enter into any sale-leaseback transactions;
- with respect to SMAT, pay dividends or distributions of our capital stock, without the prior written consent of the Bank;
- make or permit to remain outstanding any loans;
- change the nature of our business;
- enter into transactions with affiliates other than in the ordinary course of business on an arm's-length basis; or
- amend, modify or obtain or grant a waiver of any provision of any document or instrument evidencing or securing any of our subordinated indebtedness.

In addition, starting with the quarter ending September 30, 2023, SMAT is required to maintain a minimum Debt Service Coverage Ratio of 1.2 to 1.0, which ratio is calculated as of the last day of the applicable fiscal quarter. SMAT is also required to maintain as of the end of each fiscal quarter 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 on June 30, 2024, and September 30, 2024, and (d) 3.0 to 1.0 as of the last day of each fiscal quarter thereafter.

Further, in the event that SMAT fails to comply with its financial covenants, we are required to contribute cash to SMAT in an amount equal to the amount required to satisfy the financial covenants. During the three months ended September 30, 2023 and December 31, 2023, we contributed an immaterial amount of cash to SMAT to ensure that SMAT was in compliance with the financial covenants under the Loan Agreement as of September 30, 2023 and December 31, 2023. If we are required to make additional cash contributions to SMAT in future periods, we may not have sufficient funds available to fulfill such obligation.

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 Loan Agreement to become immediately due and payable, and a default interest rate of an additional 5.0% 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.

As a result of the negative covenants contained in the Loan Agreement and the need for cash to pay interest and principal amortization payments required under the Loan Agreement, the Company may not have access to cash it otherwise would have for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

Pursuant to the Loan Agreement, SMAT is subject to restrictions on making certain payments, including dividends, other distributions and loans, to the Company. As a result, although SMAT may use its cash to repay the Term Loan, the Company may not have access to cash it otherwise would have for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

**If our Executive Chairman ceases to serve as the Chairman of the Board of Directors of the Company or SMAT, such event could result in an event of default under the Loan Agreement.**

The Loan Agreement provides that if Ron Nixon, our Executive Chairman, ceases to serve as Chairman of the Board of Directors of the Company or SMAT, an event of default will occur under the Loan Agreement, unless a successor, acceptable to the Bank, is elected or appointed within 10 business days of such event. If such an event were to occur and we are unable to find a replacement suitable to the Bank, we would be in default and all of our outstanding indebtedness could become immediately due and payable, and a default interest rate of an additional 5.0% per annum may be applied to the outstanding loan balance.

**Risks Related to Our Products and Our Product Pipeline**

*We rely heavily on our research and development partners to design, manufacture and supply the products we have licensed for marketing. If we or one of our partners fails to perform adequately, or fulfill our needs, or comply with regulations, we may be required to incur significant costs, costs or even be subject to enforcement actions. We may also face significant delays in our product introductions and commercialization.*

While we expect to have the capability to develop certain of our pipeline in-house, we do not currently own any facility that may be used as a manufacturing and processing facility, and therefore rely heavily on our research and development partners, from whom we license most of the products we currently commercialize, to design, manufacture and supply such products.

We and our research and development partners responsible for manufacturing our products and their contract manufacturers are obliged to operate in accordance with FDA's current good manufacturing practices ("cGMP"), current good tissue practices ("cGTP"), and the QSR, as applicable, as well as other regulations applicable to medical product manufacturers. The manufacture of regulated medical products in compliance with cGMP, cGTP, and the QSR, as applicable, requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of medical products often encounter difficulties in production, including difficulties with production costs and yields, quality control, including product stability and quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced regulatory requirements, other federal and state regulatory requirements and foreign regulations. If we or our research and development partners or their contract manufacturers were to encounter any of these difficulties or otherwise fail to comply with their obligations to us or under applicable regulations, our ability to commercialize our products would be jeopardized.

We and the manufacturers of certain of our products may be unable to comply with applicable FDA, state and foreign regulatory requirements. The FDA or similar foreign regulatory agencies may also implement new standards at any time or change their interpretation and enforcement of existing standards for manufacture, packaging or testing of regulated products. We have little control over the manufacturers' compliance with these regulations and standards. Our failure or a failure of any of our current or future research and development partners or their contract manufacturers to establish and follow cGMP, cGTP, and the QSR, as applicable, and to document their adherence to such practices may lead to significant delays in obtaining marketing authorization of future products or the ultimate launch of products. Failure by us or our current or future partners or manufacturers to comply with applicable regulations could also result in sanctions being imposed on us or our partners, including fines, injunctions, civil penalties, failure of the government to grant marketing authorization, delays, suspension or withdrawal of authorization, seizures or recalls of products, operating restrictions, and criminal prosecutions. If the safety of any product supplied is compromised due to the manufacturers' failure to adhere to applicable laws or for other reasons, we may not be able to successfully commercialize our products. Any of these factors could cause a delay of commercialization of our products, entail higher costs or impair our reputation.

***Our revenue generated from the sale of Scendia products is heavily dependent on license agreements with certain manufacturers, and the termination of any of these license agreements could harm our business.***

In July 2022, we entered into a membership interest purchase agreement with Scendia and the Seller, pursuant to which we acquired 100% of the issued and outstanding membership interests in Scendia from the Seller. Scendia provides clinicians and surgeons with a full line of regenerative and orthobiologic technologies including (i) TEXAGEN, (ii) BiFORM, (iii) **AMPLIFY ACTIGEN** and (iv) ALLOCYTE. We rely on license agreements with certain manufacturers in order to sell Scendia products. These license agreements are nonexclusive and generally have a term between one and five years. The license agreements are subject to renewal; however, the manufacturers may determine not to renew the agreements or to terminate the contracts pursuant to their terms. We cannot be certain that these license agreements will continue to be available to us or will be available to us on reasonable terms. If any of these agreements are terminated, we may be unable to reacquire the necessary license on satisfactory terms or at all. The loss of, or inability to maintain, any of these license agreements could negatively impact our ability to sell Scendia products, which could have a material adverse effect on our business, financial condition and results of operations.

***Certain of our product candidates are still under development, and we may not be able to successfully commercialize any of these product candidates.***

Our pipeline contains products and product candidates for mitigation of opportunistic pathogens and biofilm, wound re-epithelialization and closure, necrotic tissue debridement, and cell compatible substrates. We may also decide to develop other product candidates. Certain of our research and development programs are in developmental stages. One or more of our product candidates may fail to meet safety and efficacy standards in human testing, even if those product candidates are found to be effective in animal studies. To develop and commercialize product candidates, we must provide the FDA and foreign regulatory authorities with human clinical and nonclinical animal data that demonstrate adequate safety and effectiveness. To generate this data, we will have to subject our product candidates to significant additional research and development efforts, including extensive nonclinical studies and clinical testing. Our approach to product discovery may not be effective or may not result in the development of any product. It can take several years for a product to be approved and we may not be successful in bringing any therapeutic candidates to the market. A new product candidate may appear promising at an early stage of development or after clinical trials and never reach the market, or it may reach the market and not sell, for a variety of reasons. For example, the product may:

- be shown to be ineffective or to cause harmful side effects during preclinical testing or clinical trials;
- fail to receive regulatory approval on a timely basis or at all;
- be difficult to manufacture on a large scale;
- not be economically viable;
- not be prescribed by doctors or accepted by patients;
- fail to receive a sufficient level of reimbursement from government, insurers or other third-party payors; or
- infringe on intellectual property rights of any other party.

If our delivery platform technologies or product development efforts fail to generate product candidates that lead to the successful development and commercialization of products, or if the product candidates we have (or may in the future) acquired are not approved or cleared for commercialization in the United States or, otherwise experience adverse regulatory action, our business and financial condition will be materially adversely affected.

***Our future success will largely depend on our ability to maintain and further grow clinical acceptance and adoption of our products, and we may be unable to adequately educate healthcare practitioners on the use and benefits of our products.***

Healthcare practitioners play a significant role in determining the course of a patient's treatment and, ultimately, the type of products, if any, that will be used to treat the patient. As a result, our commercial success is heavily dependent on our ability to educate practitioners on the use of our products in both surgical and post-acute care settings. Acceptance and adoption of our products in our markets depends on educating healthcare practitioners as to the distinctive characteristics, benefits, safety, clinical efficacy and cost-effectiveness of our products, including potential comparisons to our competitors' products, and on training healthcare practitioners in the proper application of our products. If we are not successful in convincing healthcare practitioners of the merits and advantages of our products compared to our competitors' products, they may not use our products and we will be unable to increase our sales and sustain growth or profitability.

Convincing healthcare practitioners to dedicate the time and energy necessary to properly train to use new products and techniques is challenging as healthcare practitioners may be hesitant to change their medical practices, and we may not be successful in these efforts. If healthcare practitioners are not properly trained, they may use our products ineffectively, resulting in unsatisfactory patient outcomes, negative publicity or lawsuits against us. Accordingly, even if our products show superior benefits, safety or efficacy, based on head-to-head clinical trials, in comparison to alternative treatments, our success will depend on our ability to gain and maintain market acceptance for our products. If we fail to do so, our sales will not grow and our business, financial condition and results of operations will be adversely affected. We may not have adequate resources to effectively educate the medical community and our efforts may not be successful due to physician resistance or negative perceptions regarding our products.

***Disruption of, or changes in, our distribution model or customer base could harm our sales and margins.***

If we fail to manage the distribution of our products properly, there may be a material adverse effect on our business. Furthermore, a change in the mix of our customers between service provider and enterprise, or a change in the mix of direct and indirect sales, could adversely affect our business. Several factors could result in disruption of or changes in our distribution model or customer base, which could harm our sales and margins. For instance, we compete with some of our resellers through our direct sales, which may lead these channel partners to use other suppliers that do not compete with them. In addition, some of our resellers may have insufficient financial resources and may not be able to withstand changes in business conditions. If either of these situations were to occur, our reseller channels would weaken, which would result in a material adverse effect on our business.

***Interruptions in the supply of our products or inventory loss may adversely affect our business, financial condition and results of operations.***

Our products are manufactured using technically complex processes requiring specialized facilities, highly specific raw materials and other production constraints. The complexity of these processes, as well as strict company and government standards for the manufacture and storage of our products, subjects us to production risks. In addition to ongoing production risks, process deviations or unanticipated effects of approved process changes may result in noncompliance with regulatory requirements including stability requirements or specifications. Most of our products must be stored and transported within a specified temperature range. For example, if environmental conditions deviate from that range, our products' remaining shelf-lives could be impaired or their safety and efficacy could be adversely affected, making them unsuitable for use. These deviations may go undetected. Severe weather conditions and natural disasters may make compliance with these processes and maintenance of these standards more difficult, and climate change threatens more extreme weather events, which could increase our production risks. The occurrence of actual or suspected production and distribution problems can lead to lost inventories, and in some cases recalls, with consequential reputational damage and the risk of product liability. The investigation and remediation of any identified problems can cause production delays and result in substantial additional expenses. Any unforeseen failure in the storage of our products or loss in supply could result in a loss of our market share and negatively affect our revenues and operations.

In addition, Scendia operates a state-licensed and FDA registered tissue bank for the storage and distribution of allograft tissue-based products to hospitals, surgery centers and clinicians across the United States. **We are currently experiencing, and may continue** During the third quarter of 2022, we began to experience **disruptions in supply issues with the ALLOCYTE product line**. From the fourth quarter of 2022 through September or 2023, we were unable to fill certain orders for this product, which negatively impacted our sales growth. The supply constraint was caused by significant supplier limits on qualifying eligible donor tissue and supplier necessity to subcontract all processing to secondary suppliers. While we have since expanded the ALLOCYTE product line with the release of tissues. Such disruptions in the supply of tissues are having, and may continue to have, a negative impact on our inventory of ALLOCYTE. Prolonged ALLOCYTE Plus, which is processed by an alternative supplier with in-house processing capabilities, any prolonged disruptions to the supply of our products or inventory could materially affect our business, financial condition and results of operations.

***If we are unable to manage product inventory in an effective and efficient manner, our profitability could be impaired.***

Many factors affect the efficient use and planning of product inventory, such as effectiveness of predicting demand, effectiveness of preparing manufacturing to meet demand, efficiently meeting product mix and product demand requirements and product expiration. Our products have a shelf life of between 18 months and 5 years. If we are unable to manage our product inventory efficiently or within expected budget goals or keep sufficient finished and in-process product on hand to meet demand, our operating margins and long-term growth prospects could be impaired.

We place orders with our suppliers based on forecasts of demand and, in some instances, may acquire additional inventory to accommodate anticipated demand. Our forecasts are based on management's judgment and assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, our excess or obsolete inventory may increase significantly, which would reduce our gross margin and adversely affect our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would miss revenue opportunities and potentially lose market share and damage our customer relationships.

***Failure of any third-party assessments to demonstrate desired outcomes in proposed endpoints could have a negative impact on our business performance.***

Our collaborators regularly conduct clinical studies designed to test a variety of endpoints associated with product performance and use across a number of applications. If a clinical study conducted by us or our collaborators fails to demonstrate statistically significant results supporting performance, use benefits or compelling health economic outcomes from using our products, physicians may elect not to use our products as a treatment for conditions that may benefit from them. Furthermore, in the event of an adverse clinical study outcome, our products may not achieve "standard-of-care" designations, where they exist, for the conditions in question, which could deter the adoption of our products. Also, if serious adverse events are reported during the conduct of a study, it could affect continuation of the study, product marketing authorization by regulatory authorities and product adoption by healthcare professionals or could cause regulatory authorities to impose other restrictions on the product or require additional warning or precaution statements to appear on the product labeling. If we or our collaborators are unable to develop a body of statistically significant evidence from our clinical studies, whether due to adverse results or the inability to complete properly designed studies, public and private payors could refuse to cover our products, limit the manner in which they cover our products, or reduce the price they are willing to pay or reimburse for our products.

***Increased prices for, or unavailability of, raw materials used in our products could adversely affect our business, financial condition and results of operations.***

Our profitability is affected by the prices of the raw materials used in the manufacture of our products. These prices may fluctuate based on a number of factors beyond our control, including changes in supply and demand, general economic conditions, labor costs, fuel related delivery costs, competition, import duties, excises and other indirect taxes, currency exchange rates, and government regulation. Due to the highly competitive nature of the healthcare industry and the cost containment efforts of our customers and third-party payors, we may be unable to pass along cost increases for key components or raw materials through higher prices to our customers. If the cost of key components or raw materials increases, and we are unable fully to recover these increased costs through price increases or offset these increases through other cost reductions, we could experience lower margins and profitability. Significant increases in the prices of raw materials that cannot be recovered through productivity gains, price increases or other methods could adversely affect our business, results of operations and financial condition.

#### Risks Related to Our Planned Expansion into Wound and Skincare Virtual Consult and Other Services

*Our planned expansion into wound and skincare virtual consult and other services, including THP programs, could have a material adverse effect on our business, financial condition and results of operations.*

Our planned expansion into wound and skincare virtual consult and other services, **including our planned THP programs**, subjects us to risks associated with the use of new and novel technologies, operational, financial, regulatory, legal and reputational risks, as well as the risk that we may be unable to timely or successfully launch our service offerings. The success of these operations depends upon our ability to commercialize our service offerings, and our failure to do so could negatively affect our ability to generate revenue from these activities.

***Our planned expansion into wound and skincare virtual consult and other services will require entrance into several markets in which we have little or no experience, which may not be successful and could be costly.***

As part of our planned expansion into wound and skincare virtual consult services, we will be required to enter into other markets in which we have little to no experience, including EMR, telehealth and healthcare diagnostics. While we intend to expand our staff with individuals with more experience in the EMR, telehealth and diagnostic markets and will closely scrutinize individuals we engage, we may not be able to retain or continue to hire well-qualified and experienced individuals or our assessment of individuals we retain may not be accurate. As we enter new markets, we will face new technological and operational risks and challenges with which we are unfamiliar and may incur significant costs. Entering new markets requires substantial management efforts and skills to mitigate these risks and challenges. Our lack of experience with certain of these new markets may result in unsuccessful new market entries. If we do not manage our entry into new markets properly, these costs and risks could harm our business, financial condition or results of operations.

***Our planned expansion into the telehealth business, is dependent on our relationships with affiliated professional entities to provide physician services, and our business would be adversely affected if those relationships were disrupted.***

There is a risk that U.S. state authorities in some jurisdictions may find that any future contractual relationships we enter into with our affiliated professional entities who provide telehealth services violate laws prohibiting the corporate practice of medicine and professional fee-splitting laws. These laws generally prohibit the practice of medicine by lay persons or entities or sharing of professional fees with lay persons and are intended to prevent unlicensed persons or entities from interfering with or inappropriately influencing a physician's professional judgment. The corporate practice of medicine prohibition exists in some form, by statute, regulation, board of medicine or attorney general guidance, or case law, in most states and is subject to change and to evolving interpretations by state boards of medicine, state attorneys general and state courts. As such, we will be required to continually monitor our compliance with laws in every jurisdiction in which we plan to operate, and we cannot guarantee that subsequent interpretation of the corporate practice of medicine laws will not circumscribe our future business operations. State corporate practice of medicine doctrines could also subject physicians to penalties for aiding the corporate practice of medicine, which could discourage physicians from participating in our network of providers.

Due to the prevalence of the corporate practice of medicine doctrine, including in the states where we plan to conduct our telehealth business, we expect to continue contracting with provider-entities through management services agreements. Although we expect that these relationships will continue, we cannot guarantee that they will. A material change in our relationships with these provider entities, whether resulting from a dispute among the parties, a change in government regulation, or the loss of these affiliations, could impair our ability to provide services to our future clients and could have a material adverse effect on our business, financial condition and results of operations. Any scrutiny, investigation or litigation with regard to our future arrangements with these professional entities could have a material adverse effect on our business, financial condition, and results of operations.

***Recent and frequent state legislative and regulatory changes specific to telemedicine may present us with additional requirements and state compliance costs, with potential operational impacts in certain jurisdictions.***

The state laws and regulations specific to telemedicine vary from state to state and are continually evolving. In some cases, these laws and regulations target “direct to consumer” telehealth service offerings rather than specialty consultative services, such as our planned acute telemedicine service offerings, and incorporate informed consent, modality, medical records and follow up care and other requirements. Thus, where new legislation and regulations apply to our planned expansion into telemedicine services, we may incur costs to monitor, evaluate, and modify operational processes for compliance. All such activities will increase our costs and could, in certain circumstances, impact our ability to make telemedicine services available in a particular state.

## Risks Related to Intellectual Property

### *If we are unable to adequately protect our intellectual property rights, we may not be able to compete effectively.*

Part of our success depends on our and our research development partners' ability to protect proprietary rights to technologies used in certain of our products. We and our research development partners rely on patents, copyrights, trademarks and trade secret laws to establish and maintain proprietary rights in our technology and products. However, these legal means afford only limited protection and may not adequately protect our or our research development partners' rights or permit us to gain or keep a competitive advantage. Patents and patent applications for the products we have may not be sufficient or broad enough to prevent competitors from introducing similar products into the market. Our or our research development partners' patents or attempts to enforce them may not be upheld by the courts and the damages or other remedies awarded if we were to prevail in upholding such patents may not be commercially meaningful. Efforts to enforce any of our or our research development partners' proprietary rights could be time-consuming and expensive, which could adversely affect our business and prospects and divert management's attention. There can be no assurance that our or our research and development partners' proprietary rights will not be challenged, invalidated or circumvented or that such rights will in fact provide competitive advantages to us.

Furthermore, the issuance of a patent, while presumed valid and enforceable, is not conclusive as to its validity or its enforceability and it may not provide us with adequate proprietary protection or competitive advantages against competitors with similar products. Competitors may also be able to design around our patents. Other parties may develop and obtain patent protection for more effective technologies, designs or methods. In addition, we may not be able to prevent the unauthorized disclosure or use of our technical knowledge or trade secrets by consultants, vendors, former employees and current employees.

Patent rights are territorial, and patent protection extends only to those countries where we have issued patents. Filing, prosecuting and defending patents on our products and product candidates in all countries and jurisdictions throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States could be less or more extensive than those in the United States, and their litigation processes differ. Competitors may successfully challenge or avoid our patents or manufacture products in countries where we have not applied for patent protection. Changes in the patent laws in the United States or other countries may diminish the value of our patent rights. As a result of these and other factors, the scope, validity, enforceability, and commercial value of our and our research development partners' patent rights are uncertain and unpredictable.

The patent positions of life sciences companies, including our and our research development partners' patent positions, involve complex legal and factual questions, and, therefore, the issuance, scope, validity and enforceability of any patent claims that we and our research development partners may obtain cannot be predicted with certainty. Patents, if issued, may be challenged, deemed unenforceable, invalidated, or circumvented. A third-party may submit prior patents, or we may become involved in opposition, derivation, reexamination, inter partes review, post-grant review, supplemental examination, or interference proceedings challenging our patent rights or the patent rights of our licensors or development partners. The costs of defending or enforcing our proprietary rights in these proceedings can be substantial, and the outcome can be uncertain. An adverse determination in any such submission or proceeding could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, or reduce our ability to manufacture or commercialize products. Furthermore, if the scope or strength of protection provided by our patents and patent applications is threatened, it could discourage companies from collaborating with us to license, develop or commercialize current or future products. The ownership of our proprietary rights could also be challenged.

Our and our research development partners' ability to enforce our respective patent rights depends on the ability to detect infringement. It is difficult to detect infringers who do not advertise the components that are used in their products. Moreover, it may be difficult or impossible to obtain evidence of infringement in a competitor's or potential competitor's product, particularly in litigation in countries other than the United States that do not provide an extensive discovery procedure.

**CellerateRX Surgical is not currently protected by any pending patent application nor or any unexpired patent. Currently the substantial majority of our net revenue is derived from the sale of CellerateRX Surgical. CellerateRX Surgical may be subject to competition from the sale of substantially equivalent products that could adversely affect our business and operations.**

Our CellerateRX Surgical products, from which we derive a substantial majority of our net revenue, have no patent protection, and therefore, in order to continue to obtain commercial benefits from CellerateRX Surgical, we will rely on product manufacturing trade secrets, know-how and related nonpatent intellectual property, such as potential regulatory rights that would require various resources to separately obtain. The effect of CellerateRX Surgical's lack of patent protection depends, among other things, upon the nature of the market and the position of our products in the market from time to time, the size of the market, the complexities and economics of manufacturing a competitive product and applicable regulatory approval requirements. In the event that competition develops substantially equivalent products, this competition could have a material adverse effect on our business, financial condition and operating results. Trade secret protection is effective only against wrongful acquisition, use or disclosure of confidential information. A competitor can avoid a claim of trade secret misappropriation by showing independent development without use of a trade secret owner's information, however, this typically requires some time, effort and financial resources to develop independently. The entrance into the market of a product substantially equivalent to CellerateRX Surgical may erode our product's market share, which may have a material adverse effect on our business, financial condition and results of operations.

**We are heavily dependent on technologies and products we have licensed from third parties, and we may need to license technologies and products in the future, and if we fail to obtain licenses we need, or fail to comply with our payment and other obligations in the agreements under which we in-license intellectual property and other rights from third parties, we could lose our ability to develop and commercialize our products.**

We are heavily dependent on licenses from our research and development partners for **all** **most** **of** our technologies and products and are party to a **sublicense agreement** with **CGI Cellerate RX**, license agreements with Rochal and a marketing and distribution agreement with Cook Biotech. Our **sublicense agreement** and license agreements require that we comply with various obligations and provisions, and that we pay royalties to the sublicense or licensor, as applicable, based on our net sales of the sublicensed and licensed products.

No assurance can be given that our existing **sublicense agreement**, license agreements or marketing and distribution agreement will continue to be extended on reasonable terms or at all. In addition, we expect we will need to license intellectual property, technology and products from third parties in the future and that these licenses will be material to our business. No assurance can be given that we will meet our minimum performance obligations or generate sufficient revenue or raise additional financing to meet our payment obligations in our agreements with **CGI Cellerate RX**, Rochal and Cook Biotech or other license or marketing and distribution agreements we enter into with third parties in the future. Any failure to meet our minimum performance obligations or make the payments required by our agreements may permit the licensor or supplier to terminate the agreement. If we were to lose or otherwise be unable to maintain these licenses or marketing and distribution agreements for any reason, it would halt our ability to commercialize one or more of our pipeline products. Furthermore, such loss of these licenses or marketing and distribution agreements may enable development of new products that may compete with our pipeline products, and our competitors may gain proprietary position. Any of the foregoing could result in a material adverse effect on our business or results of operations.

In certain cases, we may rely on our licensors to conduct prosecution, maintenance and/or defense of patents or trademarks on our behalf. Our ability to ensure that these patents and trademarks are properly prepared, prosecuted, maintained, enforce or defended is therefore limited, which may adversely affect our licensed intellectual property rights. Any failure by our licensors to properly prepare, prosecute, maintain, enforce, and defend patents or trademarks or other licensed rights could materially harm our ability to protect our products, thereby materially reducing our potential profits.

***We may be found to infringe on or violate the intellectual property rights of others.***

We may not have identified all patents, published applications or published literature that affect our business either by blocking our ability to commercialize our products or R&D candidates, by preventing the patentability of one or more aspects of our products or R&D candidates to us or our licensors, or by covering the same or similar technologies that may affect our ability to market our products and R&D candidates. For example, we (or the licensor of a product or R&D candidate to us) may not have conducted a patent clearance search sufficient to identify potentially obstructing third party patent rights. Moreover, patent applications in the United States are maintained in confidence for up to 18 months after their filing. In some cases, however, patent applications remain confidential in the USPTO, for the entire time prior to issuance as a U.S. patent. Patent applications filed in countries outside of the United States are not typically published until at least 18 months from their first filing date. Similarly, publication of discoveries in the scientific or patent literature often lags behind actual discoveries. We cannot be certain that we or our licensors were the first to invent, or the first to file, patent applications covering our products and candidates. We also may not know if our competitors filed patent applications for technology covered by our pending applications or if we were the first to invent the technology that is the subject of our patent applications. Competitors may have filed patent applications or received patents and may obtain additional patents and proprietary rights that block or compete with our patents.

Such third parties, including customers, may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are relevant to us, our operations and our products. These assertions may emerge over time as a result of our growth and the general increase in the pace of patent claim assertions, particularly in the United States. Because of the existence of a large number of patents in the healthcare field, the secrecy of some pending patent applications and the rapid rate of issuance of new patents, we believe that it is not economically practical or even possible to determine in advance whether a product or any of its components is completely free of infringement of the patent rights of others even when we take reasonably objective steps to determine that relevant patent rights might exist and, if so, to evaluate such patent rights relative to our proposed and actual products and methods with patent counsel. The asserted claims or initiated litigation can include claims against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, intellectual property litigation or claims could force us to cease developing, selling or otherwise commercializing one or more of our products; to pay substantial damages for past use of the asserted intellectual property; to obtain a license from the holder of the asserted intellectual property, which may not be available on reasonable terms, if at all; and redesign, or rename in the case of trademark claims, our product(s) to avoid such third party rights, which may not be possible or which could be costly and time-consuming. Any of these risks coming to fruition could have a material adverse effect on our business, results of operations, financial condition and prospects. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a noninfringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable and the resources required to engage in a full defense of such allegations, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop noninfringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business could be materially and adversely affected.

## Risks Related to Regulations

*Our business is affected by numerous regulations relating to the development, manufacture, distribution, labeling, marketing and sale of our products.*

Government regulation by the FDA and similar agencies in other countries is a significant factor in the development, manufacturing and marketing of our products and in the acquisition or licensing of new products. Complying with government regulations is often time consuming and expensive and may involve delays or actions adversely impacting the marketing and sale of our current or future products.

Following initial regulatory approval or clearance of any products that we or our research and development partners may develop, we and/or our research and development partners will be subject to continuing regulatory review, including, but not limited to:

- appropriate establishment registration and product listing requirements;
- FDA's cGMP, cGTP and QSR regulations, which govern the methods used in, and the facilities and controls used for, the design, manufacture, packaging, labeling, storage, installation, and servicing of finished devices, drugs and/or biologics, as applicable;
- FDA labeling requirements, which mandate the inclusion of certain content in medical product labels and labeling, and which also prohibit the promotion of products for uncleared or unapproved, i.e., "off-label," indications;
- adverse event reporting regulations, which, generally, require applicable establishments (such as manufacturers and importers, among others) report to the FDA any adverse reactions, events, or experiences that meet the FDA's reporting thresholds for the given product type (e.g., under FDA's adverse-event reporting regulations under its device framework, adverse events must be reported if they may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur); and
- the Reports of Corrections and Removals regulation, which requires that manufacturers and importers report to the FDA corrective actions and product removals (both of which are defined under applicable regulations) that meet the definition of a "recall" if undertaken to reduce a risk to health posed by the product or to remedy a violation of the FDCA that may present a risk to health and that manufacturers and importers keep records of recalls that they determine to be not reportable.

Failure to comply with applicable regulatory requirements can result in, among other things, the FDA or other governmental authorities:

- imposing fines and penalties on us;
- preventing us from manufacturing or selling our products;
- delaying or denying pending applications for approval or clearance of our products or of new uses or modifications to our existing products, or withdrawing or suspending current approvals or clearances;
- ordering or requesting a recall of our products;
- issuing warning letters, untitled letters, or "It has Come to Our Attention" letters;
- imposing operating restrictions, including a partial or total shutdown of production or investigation of any or all of our products;
- refusing to permit to import or export of our products;

- detaining or seizing our products;
- obtaining injunctions preventing us from manufacturing or distributing any or all of our products;
- commencing criminal prosecutions or seeking civil penalties; and
- requiring changes in our advertising and promotion practices.

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In addition, private consumer and competitor litigation tends to follow FDA enforcement actions and publications, such that a company that is targeted by FDA or another regulatory body is also at an increased risk of facing civil litigation (often in the form of class actions).

The manufacturing facilities we or our research and development partners use (and may use) to make any of our FDA-regulated products are or may become subject to periodic review and inspection by the FDA. If a previously unknown problem with a product or a manufacturing or laboratory facility used or contracted by us or one of our research and development partners is discovered, the FDA may impose restrictions on that product or on the manufacturing facility, including requiring us and/or our research and development partner to withdraw the product from the market. Any changes to an approved or cleared product, including the way it is manufactured or promoted, often requires FDA review and separate approval or clearance before the product, as modified, may be marketed. In addition, for products we develop in the future, we and our contract manufacturers may be subject to ongoing FDA requirements for submission of safety and other post-market approval information. If we violate regulatory requirements at any stage, whether before or after marketing approval or clearance is obtained, we may be fined, be forced to remove a product from the market or experience other adverse consequences, which would materially harm our financial results. Additionally, due to limitations imposed on us by the scope of the cleared or approved indications or intended use of our products and by FDA and Federal Trade Commission ("FTC") regulations relating to promotional claims, we may not be able to obtain the labeling claims necessary or desirable for product promotion.

Distribution of our products outside the United States is subject to extensive government regulation. These regulations, including the requirements for marketing authorizations or product licenses necessary to bring a medical product to market, the time required for regulatory review and the sanctions imposed for violations, vary from country to country. We do not know whether we will obtain the marketing authorizations or product licenses necessary to market our products in such countries or that we will not be required to incur significant costs in obtaining or maintaining these regulatory approvals.

***We are subject to various governmental regulations relating to the labeling, marketing and sale of our products.***

Both before and after a product is commercially released, we have ongoing responsibilities under regulations promulgated by the FDA, the FTC, and similar U.S. and foreign regulations governing product labeling and advertising, distribution, sale and marketing of our products. Medical devices and biological products may only be marketed or promoted for the uses and indications set forth in the approved or cleared product labeling. A number of enforcement actions have been taken against companies that promoted products for "off-label" uses (i.e., uses that are not described in the approved or cleared labeling), including actions alleging that claims submitted to government healthcare programs for reimbursement of products that were promoted for "off-label" uses are fraudulent in violation of the Federal False Claims Act or other federal and state statutes and that the submission of those claims was caused by off-label promotion. The failure to comply with prohibitions on off-label promotion can result in significant monetary penalties, revocation or suspension of a company's business license, suspension of sales of certain products, product recalls, civil or criminal sanctions, exclusion from participating in federal healthcare programs, or other enforcement actions. In the United States, allegations of such wrongful conduct could also result in a corporate integrity agreement with the U.S. government that imposes significant administrative obligations and costs.

***If we fail to obtain or experience significant delays in obtaining regulatory clearances or approvals to market future medical device products, we will be unable to commercialize these products until such clearance or approval is obtained.***

The developing, testing, manufacturing, marketing and selling of medical devices is subject to extensive regulation by governmental authorities in the United States and other countries. The process of obtaining regulatory clearance and approval of certain medical technology products is costly and time consuming. Inherent in the development of new medical products is the potential for delay because product testing, including clinical evaluation, is typically required, especially for drugs, biologics and high-risk devices, before such products can be approved for human use. With respect to medical devices, such as those that we currently market, before a new medical device, or a new indicated use of, or claim for, an existing product can be marketed (unless it is a Class I device), it must first receive either premarket clearance under Section 510(k) of the FDCA or approval of a PMA from the FDA, or be reclassified and receive marketing authorization through the de novo classification process, unless an exemption applies.

In the 510(k)-clearance process, the FDA must determine that the proposed device is "substantially equivalent" to a Class I or II device legally on the market, known as a "predicate" device, with respect to intended use, technology, safety and effectiveness to clear the proposed device for marketing. Clinical data is sometimes required to support substantial equivalence for certain device types. The PMA pathway requires an applicant to demonstrate the safety and effectiveness of the device for its intended use based, in part, on extensive data including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data. The PMA process is typically required for devices that are deemed to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices. If a device is novel and there is no appropriate predicate to which the applicant can demonstrate substantial equivalence, the device will be automatically classified as a Class III device and require approval through the PMA process prior to commercialization, unless the applicant submits a *de novo* classification request demonstrating that the novel device should be reclassified into Class I or II. Demonstrating that a novel device should be reclassified to Class I or II from Class III typically requires extensive information and data on the benefits and risks of the device, including performance data and frequently data from one or more clinical studies. The 510(k), PMA and *de novo* classification approval processes can be expensive and lengthy.

Failure to comply with applicable regulatory requirements can result in, among other things, suspension or withdrawal of clearances or approvals, seizure or recall of products, injunctions against the manufacture, holding, distribution, marketing and sale of a product and civil and criminal sanctions. Furthermore, changes in existing regulations or the adoption of new regulations could prevent us from obtaining, or affect the timing of, future regulatory clearances or approvals. Meeting regulatory requirements and evolving government standards may delay marketing of any new products developed by us for a considerable period of time, impose costly procedures upon our activities and result in a competitive advantage to larger companies that compete against us.

The FDA or other regulatory agencies may not clear or approve any products developed by us on a timely basis, or at all, or, if granted, clearance or approval may entail limiting the indicated uses for which we may market the product, which could limit the potential market for any of these products.

***Delays in or changes to the FDA clearance and approval processes or ongoing regulatory requirements could make it more difficult for us to obtain FDA clearance or approval of new products or comply with ongoing requirements.***

New government regulations may be enacted and changes in FDA policies and regulations and, their interpretation and enforcement, could prevent or delay regulatory clearance or approval of new products. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. Therefore, we do not know whether we or our research and development partners will be able to continue to comply with such regulations or whether the costs of such compliance will have a material adverse effect on our business. Changes could, among other things, require different labeling, monitoring of patients, interaction with physicians, education programs for patients or physicians, curtailment of necessary supplies, or limitations on product distribution. These changes, or others required by the FDA could have an adverse effect on our business, and specifically, on the sales of affected products. The evolving and complex nature of regulatory science and regulatory requirements, the broad authority and discretion of the FDA and the generally high level of regulatory oversight results in a continuing possibility that from time to time, we will be adversely affected by regulatory actions despite ongoing efforts and commitment to achieve and maintain full compliance with all regulatory requirements. If we or our research and development partners are not able to maintain regulatory compliance, we may not be permitted to market our products and our business would suffer.

***Failure to obtain or maintain adequate reimbursement or insurance coverage for drugs, if any, could limit our ability to market those drugs and decrease our ability to generate revenue. Changes in reimbursement policies and regulations by governmental or other third-party payors may have an adverse impact on the use of our products.***

The pricing, coverage, and reimbursement of our products, if any, must be sufficient to support our commercial efforts and other development programs, and the availability and adequacy of coverage and reimbursement by third-party payors, including governmental and private insurers, are essential for most patients to be able to afford medical treatments. Sales of our products depend substantially, both domestically and abroad, on the extent to which the costs of our products, if any, will be paid for or reimbursed by health maintenance, managed care, and similar healthcare management organizations, or government payers and private payors. If coverage and reimbursement are not available, or are available only in limited amounts, we may have to subsidize or provide medical products for free or we may not be able to successfully commercialize our products.

A significant portion of our wound care products are purchased principally for the Medicare and Medicaid eligible population by hospital outpatient clinics, wound care clinics, durable medical equipment ("DME") suppliers and SNFs, which typically bill various third-party payors, primarily state and federal healthcare programs (e.g., Medicare and Medicaid), and managed care plans, for the products and services provided to their patients. Although the majority of our wound care products are currently eligible for reimbursement under Medicare Part B, adjustments to our reimbursement amounts or a change in CMS's reimbursement policies could have an adverse effect on our market opportunities in this area. The ability of our customers to obtain appropriate reimbursement for products and services from third-party payors is critical to the success of our business because reimbursement status affects which products our customers purchase. In addition, our ability to obtain reimbursement approval in foreign jurisdictions may affect our ability to expand our product offerings internationally.

Third-party payors have adopted, and are continuing to adopt, a number of policies intended to curb rising healthcare costs. These policies include the imposition of conditions of payment by foreign, state and federal healthcare programs as well as private insurance plans, and the reduction in reimbursement amounts applicable to specific products and services.

Changes in healthcare systems in the United States or internationally in a manner that significantly reduces reimbursement for procedures using our products or denies coverage for these procedures would also have an adverse impact on the acceptance of our products and the prices which our customers are willing to pay for them.

Moreover, increasing efforts by governmental and private payors in the United States and abroad to limit or reduce healthcare costs may result in restrictions on coverage and the level of reimbursement for new medical products and, as a result, they may not cover or provide adequate payment for our products. We expect to experience pricing pressures in connection with our products due to the increasing trend toward managed healthcare, including the increasing influence of health maintenance organizations and additional legislative changes. The downward pressure on healthcare costs in general, and prescription drugs or biologics in particular, has and is expected to continue to increase in the future. As a result, profitability of our current or future products may be more difficult to achieve.

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**We rely heavily on our research and development partners to comply with applicable laws and regulations relating to product classification and when and what types of FDA marketing authorizations are needed to lawfully commercialize a new or updated medical product in the United States.**

We rely heavily on our research and development partners, from whom we license most of the products we currently commercialize, to determine the appropriate classification for each such product and to comply with applicable regulations related to obtaining the proper marketing authorization. With respect to each medical device product we license, our respective research and development partner designs the product and determines whether the device should be classified as a Class I, II, or III device and the appropriate FDA marketing authorization pathway to pursue (i.e., 510(k), PMA or *de novo* classification). In addition, we rely on our research and development partners to determine whether specific legal or regulatory definitions or exemptions apply to particular medical products, which individually may be subject to FDA oversight as a device, drug, biologic or human cellular or tissue-based product. The FDA has broad regulatory authority to interpret and enforce the laws and regulations that govern medical products in commercial distribution, and any adverse determination by the FDA relating to one of our licensed products could require significant cost and effort to comply.

For example, our research and development partner, Cook Biotech, from whom we have the right to exclusively distribute three biologic products for surgical and wound care applications, has determined that one such product, VIM Amnion Matrix, is intended for homologous use as a wound covering or barrier. It is possible that the FDA, after evaluating the product, promotional claims and other information pertinent to the FDA's determination of the product's intended use, may not agree with Cook Biotech's conclusion that the VIM Amnion Matrix product is intended for homologous use, which would change the legal framework under which the product is regulated and may require Cook Biotech and us to incur substantial costs and expend significant effort to bring the product into compliance with applicable regulations. Such action by the FDA may also require us to cease marketing operations relating to the VIM Amnion Matrix product until the appropriate corrections are complete. We are subject to similar reliance and risks in connection with our recent acquisition of Scendia, which is an FDA-registered tissue bank with a biologics pipeline comprised of several regenerative and orthobiologic technologies, as we did not have prior experience in obtaining marketing authorizations in this particular segment of the skin- and wound-care industry.

Similarly, some of the devices that we market under a license (or that we have acquired or have, otherwise, obtained commercialization rights in the United States) have been updated or modified since their initial 510(k) clearance. Depending on the nature of the updates or modifications made to a 510(k)-cleared device, the FDA may require the submission (and clearance) of a new 510(k). More specifically, any modification that could significantly affect the cleared device's safety or effectiveness, or that would constitute a significant change in its intended use, will require a new 510(k) clearance. The FDA requires device manufacturers to make the initial determination as to whether a proposed modification to a cleared device requires a new 510(k) submission, but the FDA can review any such decision not to submit a new 510(k) (if it becomes aware of the modifications during an inspection or otherwise) and may disagree with the manufacturer's determination that the given modification(s) did not require new clearance. If the FDA finds that a manufacturer has improperly marketed a modified device (for which the FDA has determined that a new 510(k) is required) under the original device's 510(k), the FDA may mandate that the manufacturer cease marketing and/or recall the modified device until the requisite clearance is obtained, in addition to one or more other enforcement actions. FDA may disagree with our partners' decisions not to submit new 510(k) notifications for those of our 510(k)-cleared devices that have been updated or modified since their initial clearance, in which case, we may be subject to a wide range of FDA enforcement actions, including, but not limited to, warning letters, fines, and other penalties, and our business will be adversely affected, as we would likely be required to cease commercialization (and, possibly, conduct a recall) of the modified product(s) at-issue and may incur additional expenses in connection with the preparation and submission of a new 510(k).

**We and our employees and contractors are subject, directly or indirectly, to federal, state and foreign healthcare fraud and abuse laws, including false claims laws. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.**

Our operations are subject to various federal, state and foreign fraud and abuse laws. These laws may affect our operations, including the financial arrangements and relationships through which we market, sell and distribute our products. U.S. federal and state laws that affect our ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons or entities from knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind in return for, the purchase, recommendation, leasing or furnishing of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;

- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment or approval from Medicare, Medicaid, or other government payors that are false or fraudulent;
- Section 242 of HIPAA codified at 18 U.S.C. § 1347, which created new federal criminal statutes that prohibit a person from knowingly and willfully executing a scheme or from making false or fraudulent statements to defraud any healthcare benefit program (i.e., public or private);
- federal transparency laws, including the so-called federal “sunshine” law, which requires the tracking and disclosure to the federal government by pharmaceutical and medical device manufacturers of payments and other transfers of value to physicians and teaching hospitals as well as ownership and investment interests that are held by physicians and their immediate family members; and
- state law equivalents of each of these federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payer, including commercial insurers, state laws that require pharmaceutical and medical device companies to comply with their industry’s voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict certain payments that may be made to healthcare providers and other potential referral sources, state laws that require drug and medical device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures, state laws that prohibit giving gifts to licensed healthcare professionals and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts in certain circumstances, such as specific disease states.

In particular, activities and arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, waste and other abusive practices. These laws and regulations may restrict or prohibit a wide range of activities or other arrangements related to the development, marketing or promotion of products, including pricing and discounting of products, provision of customer incentives, provision of reimbursement support, other customer support services, provision of sales commissions or other incentives to employees and independent contractors and other interactions with healthcare practitioners, other healthcare providers and patients.

Because of the breadth of these laws and the narrow scope of the statutory or regulatory exceptions and safe harbors available, our business activities could be challenged under one or more of these laws. Relationships between medical product manufacturers and health care providers are an area of heightened scrutiny by the government. We engage in various activities, including the conduct of speaker programs to educate physicians, the provision of reimbursement advice and support to customers, and the provision of customer and patient support services, that have been the subject of government scrutiny and enforcement action within the medical device industry.

Government expectations and industry best practices for compliance continue to evolve and past activities may not always be consistent with current industry best practices. Further, there is a lack of government guidance as to whether various industry practices comply with these laws, and government interpretations of these laws continue to evolve, all of which create compliance uncertainties. Any noncompliance could result in regulatory sanctions, criminal or civil liability and serious harm to our reputation. Although we have a comprehensive compliance program designed to ensure that our employees' and commercial partners' activities and interactions with healthcare professionals and patients are appropriate, ethical, and consistent with all applicable laws, regulations, guidelines, policies and standards, it is not always possible to identify and deter misconduct, and the precautions we take to detect and prevent this activity may not be effective in preventing such conduct, mitigating risks, or reducing the chance of governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations.

If a government entity opens an investigation into possible violations of any of these laws (which may include the issuance of subpoenas), we would have to expend significant resources to defend ourselves against the allegations. Allegations that we, our officers, or our employees violated any one of these laws can be made by individuals called "whistleblowers" who may be our employees, customers, competitors or other parties. Government policy is to encourage individuals to become whistleblowers and file a complaint in federal court alleging wrongful conduct. The government is required to investigate all of these complaints and decide whether to intervene. If the government intervenes and we are required to pay damages, which in such cases are typically set at three times the actual monetary damages, to the government, the whistleblower, as a reward, is awarded a percentage of such damages or any settlement amount. If the government declines to intervene, the whistleblower may proceed on their own and, if they are successful, they will receive a percentage of any judgment or settlement amount the company is required to pay. The government may also initiate an investigation on its own. If any such actions are instituted against us, those actions could have a significant impact on our business, including the imposition of significant fines, and other sanctions that may materially impair our ability to run a profitable business. In particular, if our operations are found to be in violation of any of the laws described above or if we agree to settle with the government without admitting to any wrongful conduct or if we are found to be in violation of any other governmental regulations that apply to us, we, our officers and employees may be subject to sanctions, including civil and criminal penalties, damages, fines, exclusion from participation in government health care programs, such as Medicare and Medicaid, imprisonment, the curtailment or restructuring of our operations and the imposition of a corporate integrity agreement, any of which could adversely affect our business, results of operations and financial condition.

***We and our research and development partners' use and disclosure of PII, including health information, is subject to federal and state privacy and security regulations, and our failure to comply with those regulations or to adequately secure the information we hold could have a material adverse effect on our client base, business, financial condition and results of operations.***

Numerous state and federal laws and regulations, including HIPAA, govern the collection, dissemination, use, privacy, confidentiality, security, availability and integrity of PII, including protected health information. HIPAA establishes a set of basic national privacy and security standards for the protection of PHI by health plans, healthcare clearinghouses and certain healthcare providers, referred to as covered entities, and the business associates with whom such covered entities contract for services, which likely includes us. HIPAA requires healthcare providers and business associates to develop and maintain policies and procedures with respect to PHI that is used or disclosed, including the adoption of administrative, physical, and technical safeguards to protect such information. HIPAA also implemented the use of standard transaction code sets and standard identifiers that covered entities must use when submitting or receiving certain electronic healthcare transactions, including activities associated with the billing and collection of healthcare claims. HIPAA imposes mandatory penalties for certain violations. HIPAA also authorizes state attorneys general to file suit on behalf of their residents. Courts will be able to award damages, costs and attorneys' fees related to violations of HIPAA in such cases. While HIPAA does not create a private right of action allowing individuals to sue us in civil court for violations of HIPAA, its standards have been used as the basis for duty of care in state civil suits such as those for negligence or recklessness in the misuse or breach of PHI.

In addition, HIPAA mandates that the Secretary of HHS conduct periodic compliance audits of HIPAA covered entities or business associates for compliance with the HIPAA Privacy and Security Standards. HIPAA further requires that patients be notified of any unauthorized acquisition, access, use or disclosure of their unsecured PHI that compromises the privacy or security of such information, with certain exceptions related to unintentional or inadvertent use or disclosure by employees or authorized individuals. HIPAA specifies that such notifications must be made without unreasonable delay and in no case later than 60 calendar days after discovery of the breach. If a breach affects 500 patients or more, it must be reported to HHS without unreasonable delay, and HHS will post the name of the breaching entity on its public web site. Breaches affecting 500 patients or more in the same state or jurisdiction must also be reported to the local media. If a breach involves fewer than 500 people, the covered entity must record it in a log and notify HHS at least annually.

Numerous other federal and state laws protect the confidentiality, privacy, availability, integrity and security of PII, including PHI. These laws in many cases are more restrictive than, and may not be preempted by, the HIPAA rules and may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for us and our clients and potentially exposing us to additional expense, adverse publicity and liability. In addition, new health information standards, whether implemented pursuant to HIPAA, congressional action or otherwise, could have a significant effect on the manner in which we must handle healthcare related data, and the cost of complying with standards could be significant. If we do not comply with existing or new laws and regulations related to PHI, we could be subject to criminal or civil sanctions.

Because of the extreme sensitivity of the PII we or our partners may store and transmit, the security features of our technology platforms are very important. If our security measures, some of which may be managed by third parties, are breached or fail, unauthorized persons may be able to obtain access to sensitive client and patient data, including HIPAA-regulated PHI. As a result, our reputation could be severely damaged, adversely affecting client or investor confidence. Clients may curtail their use of or stop using our products and services, which would cause our business to suffer. In addition, we could face litigation, damages for contract breach, penalties and regulatory actions for violation of HIPAA and other applicable laws or regulations and significant costs for remediation, notification to individuals and for measures to prevent future occurrences. Any potential security breach could also result in increased costs associated with liability for stolen assets or information, repairing system damage that may have been caused by such breaches, incentives offered to client or other business partners in an effort to maintain our business relationships after a breach and implementing measures to prevent future occurrences, including organizational changes, deploying additional personnel and protection technologies, training employees and engaging third-party experts and consultants. While we maintain insurance covering certain security and privacy damages and claim expenses, our coverage may not be sufficient to compensate for all liability.

***Our officers, employees, independent contractors, principal investigators, consultants and commercial partners may engage in misconduct or activities that are improper under other laws and regulations, which would create liability for us.***

We are exposed to the risk that our officers, employees, independent contractors (including contract research organizations ("CROs")), principal investigators, consultants and commercial partners may engage in fraudulent conduct or other illegal activity and/or may fail to disclose unauthorized activities to us. Misconduct by these parties could include, but is not limited to, intentional, reckless and/or negligent failures to comply with:

- the laws and regulations of the FDA and its foreign counterparts requiring, among other things, compliance with good manufacturing practice and/or quality system requirements, post-market vigilance reporting, product marketing authorization requirements, facility registration requirements, the reporting of true, complete and accurate information to such regulatory bodies, including but not limited to safety problems associated with the use of our products;
- laws and regulations of the FDA and its foreign counterparts concerning the conduct of clinical trials and the protection of human research subjects, including but not limited to good clinical practices;

- other laws and regulations of the FDA and its foreign counterparts relating to the manufacture, processing, packing, holding, investigating or distributing in commerce of medical devices, biological products and/or HCT/Ps;
- manufacturing standards we have established; or
- healthcare fraud and abuse laws, including but not limited to, the Anti-Kickback Statute, the Stark Law, the FCA, and state law equivalents.

In particular, companies involved in the manufacture of medical products are subject to laws and regulations intended to ensure that medical products that will be used in patients are safe and effective, and, specifically, that they are not adulterated or misbranded, that they are properly labeled, and have the identity, strength, quality and purity that which they are represented to possess. Further, companies involved in the research and development of medical products are subject to extensive laws and regulations intended to protect research subjects and ensure the integrity of data generated from clinical trials and of the regulatory review process. Any misconduct in any of these areas, whether by our own employees or by contractors, vendors, business associates, consultants, or other entities acting as our agents, could result in regulatory sanctions, criminal or civil liability and serious harm to our reputation. Although we have a comprehensive compliance program designed to ensure that our employees', CRO partners', principal investigators', consultants', and commercial partners' activities and interactions with healthcare professionals and patients are appropriate, ethical, and consistent with all applicable laws, regulations, guidelines, policies and standards, it is not always possible to identify and deter misconduct, and the precautions we take to detect and prevent this activity may not be effective in preventing such conduct, mitigating risks, or reducing the chance of governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against us, or our CRO partners, principal investigators, consultants, or commercial partners, those actions could have a significant impact on our business, including the imposition of significant fines, and other sanctions that may materially impair our ability to run a profitable business.

***We could be adversely affected if healthcare reform measures substantially change the market for medical care or healthcare coverage in the United States.***

Third party payors, governmental authorities, and other applicable stakeholders have developed, and are continuing to develop, increasingly sophisticated methods of controlling healthcare costs. In both the United States and certain foreign jurisdictions, there have been numerous legislative and regulatory changes to the healthcare system that could impact our ability to sell our products profitably. In particular, the Affordable Care Act was enacted in the United States in 2010, and various analogous or similarly intended state laws, as well as a number of executive, legislative, and judicial challenges have followed in the years since. There remains substantial uncertainty and continued evolution with regard to healthcare reform measures, and we cannot predict the effect that any current or future such measure will have on our business. Complying with any new or amended legislation, policies, rulings, or other relevant healthcare cost-containment and/or transparency requirements may be time-intensive and expensive, which could have a material adverse effect on our business.

There have been, and likely will continue to be, legislative and regulatory proposals at the foreign, federal and state levels directed at containing or lowering the cost of healthcare. We cannot predict the initiatives that may be adopted in the future. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare and/or impose price controls may adversely affect the demand for some or all of the products we currently market or may commercialize in the future, if any, including: our ability to receive or set a price that we believe is fair for our products; our ability to generate revenue and achieve or maintain profitability; the level of taxes that we are required to pay; and the availability of capital. We expect that existing healthcare reform legislation, and any similar measures implemented in the future, will result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, lower reimbursement, and new payment methodologies. This could lower the prices that we are able to charge or receive for our products and/or may create additional challenges in relation to reimbursement/coverage. Any denial in coverage or reduction in reimbursement from Medicare or other government-funded programs may result in a similar denial or reduction in payments from private payors, which may prevent us from being able to generate sufficient revenue, attain profitability or commercialize our product candidates, if approved.

***Defects, failures or quality issues associated with our products could lead to product recalls or safety alerts, adverse regulatory actions, product liability lawsuits and other litigation and negative publicity that could materially adversely affect our reputation, business, results of operations and financial condition.***

Quality is extremely important to us and our customers due to the serious and costly consequences of product failure. Quality and safety issues may occur with respect to any of our products, and our future operating results will depend on our ability to maintain an effective quality control system and effectively train and manage our workforce with respect to our quality system. The development, manufacture and control of medical products are subject to extensive and rigorous regulation by numerous government agencies, including the FDA and similar foreign agencies. Compliance with these regulatory requirements is subject to continual review and is monitored rigorously through periodic inspections by the FDA and foreign regulatory authorities. The FDA and foreign regulatory authorities may also require post-market testing and surveillance to monitor the performance of products cleared or approved for use in their jurisdictions. Our manufacturing facilities and those of our suppliers and independent sales agencies are also subject to periodic regulatory inspections. If the FDA or other regulatory authority were to conclude that we or our suppliers have failed to comply with any of these requirements, it could institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions, such as product recalls or seizures, withdrawals, monetary penalties, consent decrees, injunctive actions to halt the manufacture or distribution of products, import detentions of products made outside the United States, export restrictions, restrictions on operations or other civil or criminal sanctions. Civil or criminal sanctions could be assessed against our officers, employees, or us. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively manufacturing, marketing, and selling our products.

Relatedly, although we have contractual indemnity from the manufacturers of our current products for certain liability claims related to their production, we could face product liability lawsuits or other similar proceedings relating to actual or alleged injuries, defects, deficiencies, failures, and/or representations relating to our products that could fall outside of the scope of the contractual indemnities. We do not have, and do not anticipate obtaining, contractual indemnification from parties supplying raw materials or parties marketing the products we sell. In any event, indemnification from the manufacturers of our products or from any other party is limited by the terms of the indemnity and by the creditworthiness of the indemnifying party. A successful product liability or other applicable claim or series of claims brought against us could result in judgments, fines, damages and liabilities that could have a material adverse effect on our business. We may incur significant expense investigating and defending these claims, even if they do not result in liability. Moreover, even if no judgments, fines, damages or liabilities are imposed on us, our reputation could suffer as result of any such claim, which could have a material adverse effect on our business.

Product liability insurance for the healthcare industry may become prohibitively expensive, to the extent it is available at all. We may not be able to maintain such insurance on acceptable terms or be able to secure increased coverage as commercialization of our products progresses, nor can we be sure that existing or future claims against us will be covered by our product liability insurance. In the event that we do not have adequate insurance or contractual indemnification, product liability claims relating to defective products could have a material adverse effect on our business.

In addition, we cannot predict the results of future legislative activity or future court decisions, any of which could increase regulatory requirements, subject us to government investigations or expose us to unexpected litigation. Any regulatory action or litigation, regardless of the merits, may result in substantial costs, divert management's attention from other business concerns and place additional restrictions on our sales or the use of our products. In addition, negative publicity, including regarding a quality or safety issue, could damage our reputation, reduce market acceptance of our products, cause us to lose customers and decrease demand for our products. Any actual or perceived quality issues may also result in issuances of physician's advisories against our products or cause us to conduct voluntary recalls. Any product defects or problems, regulatory action, litigation, negative publicity or recalls could disrupt our business and have a material adverse effect on our business, results of operations and financial condition.

#### **Risks Related to Ownership of Our Common Stock**

***The issuance of shares upon the exercise of derivative securities or as earnout payments may cause immediate and substantial dilution to our existing shareholders.***

As of December 31, 2022 December 31, 2023, we had approximately 162,916 110,617 shares of common stock that were issuable upon the exercise of vested outstanding stock options and warrants. The issuance of shares upon the exercise of these stock options and warrants may result in dilution to the equity interest and voting power of holders of our common stock.

In the future, we may also issue additional shares of common stock or other securities convertible into or exchangeable for shares of common stock. For instance, certain of the product license agreements we have entered with third parties require us to make payments to such third parties upon the occurrence of certain events. Pursuant to these product license agreements, we may choose to make such payments in shares of our common stock. In addition, the Precision Healing merger agreement and the Scendia membership interest purchase agreement require us to pay up to an aggregate of \$20.0 million upon the achievement of certain performance thresholds. In each case and subject to certain limitations, the earnout consideration is payable in cash or, at our election, in shares of our common stock.

The issuance of additional shares of our common stock may substantially dilute the ownership interests of our existing shareholders. Furthermore, sales of a substantial amount of our common stock in the public market, or the perception that these sales may occur, could reduce the market price of our common stock. This could also impair our ability to raise additional capital through the sale of our securities.

***It is possible that we will require additional capital to meet our financial obligations and support business growth, and this capital might not be available on acceptable terms or at all.***

We intend to continue to make significant investments to support our business growth and expect to require additional funds to respond to business challenges. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when and if we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be harmed.

***The trading price of the shares of our common stock is highly volatile, and purchasers of our common stock could incur substantial losses.***

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

- technological innovations or new products and services by us or by our competitors, including announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships or capital commitments;
- additions or departures of key personnel;
- changes in expectations as to our future financial performance;
- sales of our common stock;
- our ability to execute our business plan;
- loss of any strategic relationship;
- industry developments;
- changes in financial estimates by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;
- general market conditions, including market volatility and inflation;
- fluctuations in stock market prices and trading volumes of similar companies;
- economic, political and other external factors;
- period-to-period fluctuations in our financial results;
- applicable regulatory developments in the United States and foreign countries, both generally or specific to us and our products; and
- intellectual property, product liability or other litigation against us.

Although publicly traded securities are subject to price and volume fluctuations, it is likely that our common stock will experience these fluctuations to a greater degree than the securities of more established and better capitalized organizations.

***Our common stock does not have a vigorous trading market, and you may not be able to sell your securities at or near ask prices, or at all.***

Although there is a public market for our common stock, trading volume has been historically low, which could impact our stock price and your ability to sell shares of our common stock at or near ask prices, or at all. We can give no assurance that a more active and liquid public market for the shares of our common stock will develop in the future.

***The potential sale of large amounts of common stock may have a negative effect upon the market value of our shares.***

Sales of a significant number of shares of our common stock in the public market ~~including pursuant to the Controlled Equity Offering<sup>SM</sup> Sales Agreement we entered into with Cantor Fitzgerald & Co. in February 2023~~, or the perception that these sales might occur could harm the market price of our common stock and make it more difficult for us to raise funds through future offerings of common stock. As additional shares of our common stock become available for resale in the public market, the supply of our common stock will increase, which could decrease the price of our common stock.

***We have not paid, and we are unlikely to pay, cash dividends on our securities in the near future. Because we have no current plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.***

We have not paid and do not currently intend to pay dividends on our common stock, which may limit the current return available on an investment in our stock. Future dividends on our stock, if any, will depend on our future earnings, capital requirements, financial condition and such other factors as our management may consider relevant. Currently, we intend to retain earnings, if any, to increase our net worth and reserves. Consequently, shareholders will only realize an economic gain on their investment in our common stock if the price appreciates. Shareholders should not purchase our common stock expecting to receive cash dividends. Because we currently do not pay dividends, and there may be limited trading in our common stock, shareholders may not have any manner to liquidate or receive any payment on their common stock. Therefore, our failure to pay dividends may cause shareholders to not see any return on their common stock even if we are successful in our business operations. In addition, because we do not pay dividends, we may have trouble raising additional funds, which could affect our ability to expand our business operations.

***A few of our existing shareholders own a large percentage of our voting stock and have control over matters requiring shareholder approval and may delay or prevent a change in control or otherwise lead to actual or potential conflicts of interest.***

As of **March 17, 2023** **March 22, 2024**, our directors beneficially owned, including through their affiliates, approximately **55%** **53%** of our outstanding common stock. As a result, our directors and their affiliates could have the ability to exert substantial influence over all matters requiring approval by our shareholders, including (i) the election and removal of directors, (ii) any proposed merger, consolidation or sale of all or substantially all of our assets as well as other corporate transactions and (iii) any amendment to our Certificate of Formation, as amended (the "Certificate of Formation"). This concentration of control could be disadvantageous to other shareholders having different interests. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors sometimes perceive disadvantages in owning stock in companies with controlling shareholders.

In addition, our Certificate of Formation contains a provision which under the Texas Business Organizations Code (the "TBOC") could allow the shareholders who own a majority of our common stock to approve certain major transactions without the approval of other shareholders that otherwise would be required under Texas corporation law.

**Our Certificate of Formation includes provisions limiting the personal liability of our directors for breaches of fiduciary duties under Texas law.**

Our Certificate of Formation contains a provision eliminating a director's personal liability to the fullest extent permitted under Texas law. Pursuant to the TBOC, a corporation has the power to indemnify its directors and officers against judgments and certain expenses other than judgments that are actually and reasonably incurred in connection with a proceeding, provided that there is a determination that the individual acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal proceeding, had no reasonable cause to believe the individual's conduct was unlawful. However, no indemnification may be made in respect of any proceeding in which such individual is liable to the corporation or improperly received a personal benefit and is found liable for willful misconduct, breach of the duty of loyalty owed to the corporation, or an act or omission deemed not to be committed in good faith.

The principal effect of the limitation on liability provision is that a shareholder will be unable to prosecute an action for monetary damages against a director unless the shareholder can demonstrate a basis for liability for which indemnification is not available under the TBOC. This provision, however, should not limit or eliminate our rights or any shareholder's rights to seek nonmonetary relief, such as an injunction or rescission, in the event of a breach of a director's fiduciary duty. This provision will not alter a director's liability under federal securities laws. The inclusion of this provision in our Certificate of Formation may discourage or deter shareholders or management from bringing a lawsuit against directors for a breach of their fiduciary duties, even though such an action, if successful, might otherwise have benefited us and our shareholders.

**Texas law, and our Certificate of Formation and bylaws our Amended and Restated Bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that shareholders may consider favorable.**

Under our Certificate of Formation, our board of directors can authorize the issuance of preferred stock, which could diminish the rights of holders of our common stock and make a change of control of the Company more difficult even if it might benefit our shareholders. The board of directors is authorized to issue shares of preferred stock in one or more series and to fix the voting powers, preferences and other rights and limitations of the preferred stock. Accordingly, we may issue shares of preferred stock with a preference over our common stock with respect to dividends or distributions on liquidation or dissolution, or that may otherwise adversely affect the voting or other rights of the holders of common stock. Issuances of preferred stock, depending upon the rights, preferences and designations of the preferred stock, may have the effect of delaying, deterring or preventing a change of control, even if that change of control might benefit our shareholders.

In addition, provisions of our Certificate of Formation and **bylaws** our Amended and Restated Bylaws ("Bylaws") may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which shareholders might otherwise receive a premium for their shares, or transactions that our shareholders might otherwise deem to be in their best interests. For example, our Certificate of Formation and **bylaws** Bylaws (i) do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose), (ii) require that special meetings of the shareholders be called by the Chairman of the board of directors, the President or the board of directors, or by the holders of not less than **ten twenty-five percent (10% (25%)** of all the shares issued, outstanding and entitled to vote, (iii) permit our board of directors to alter, amend or repeal our **bylaws** Bylaws or to adopt new bylaws, and (iv) enable our board of directors to increase the number of persons serving as directors and to fill vacancies created as a result of the increase by a majority vote of the directors present at a meeting of directors.

While we are subject to the provisions of Title 2, Chapter 21, Subchapter M of the TBOC, which provides that a Texas corporation that qualifies as an “issuing public corporation” (as defined in the TBOC) may not engage in specified types of business combinations, including mergers, consolidations and asset sales, with a person, or an affiliate or associate of that person, who is an “affiliated shareholder,” the restrictions in Title 2, Chapter 21, Subchapter M of the TBOC do not apply to us because we have elected, in the manner provided under the TBOC, not to be subject to such provisions.

***Our failure to meet the continued listing requirements of The Nasdaq Capital Market could result in a delisting of our common stock.***

Our shares of common stock are currently listed for trading on The Nasdaq Capital Market under the symbol “SMTI.” If we fail to satisfy the continued listing requirements of The Nasdaq Stock Market, LLC (“Nasdaq”), such as the corporate governance requirements, the shareholder’s equity requirement or the minimum closing bid price requirement, Nasdaq may take steps to delist our common stock. Such a delisting or even notification of failure to comply with such requirements would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a delisting, we expect that we would take actions to restore our compliance with Nasdaq’s listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the Nasdaq minimum bid price requirement or prevent future noncompliance with Nasdaq’s listing requirements.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 1C. CYBERSECURITY

We recognize the critical importance of cybersecurity in safeguarding sensitive information and maintaining operational resilience. We have processes for assessing, identifying and managing cybersecurity risks, which are built into our information technology function and are designed to help protect our information assets and operations from internal and external cyber threats, protect employee and customer information from unauthorized access or attack, as well as secure our networks and systems.

The Audit Committee of the Board of Directors (the "Audit Committee") is responsible for overseeing cybersecurity risk and periodically updates our Board of Directors on such matters. The Audit Committee receives periodic updates from management regarding cybersecurity matters and is notified between such updates regarding any significant new cybersecurity threats or incidents. We do not believe that there are currently any known risks from cybersecurity threats that are reasonably likely to materially affect us or our business strategy, results of operations or financial condition.

As a company, we leverage the National Institute of Standards and Technology (NIST) Cybersecurity Framework to align with industry best practices and to develop policies and procedures, which include a Cybersecurity Response Plan focusing on detection, validation, mitigation, recovery, and refinement. In addition to the Cybersecurity Response Plan, we provide cybersecurity awareness training to our employees, including training on social engineering, phishing, password protection, confidential data protection, mobile security, and incident reporting, to help prevent and reduce the impact of potential cybersecurity events.

We have strategically invested resources and tools to combat the ever-changing cyber threat landscape. These investments include growing our internal technology team headcount and bolstering our partnerships with entities with external expertise, resulting in increased protection, monitoring, and response capabilities. We have also made investments to carry cybersecurity insurance that provides additional protection and resources to reduce a cybersecurity event's impact and potential losses.

Our technology and management teams meet regularly with key internal and external stakeholders to review cybersecurity concerns and areas for continued focus and improvement.

We face risks from cybersecurity threats that could have a material adverse effect on our business, financial condition, results of operations, cash flows or reputation. To date, we have not experienced any cyber incidents that have had a material adverse effect on our business, financial condition, results of operations, or cash flows. See "Risk Factors – Risks Related to Our Business – Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer."

#### ITEM 2. PROPERTIES

We do not own any buildings or other real property. We have three material operating leases for office space. Our leased office space in Fort Worth, Texas consists of approximately 5,877 11,414 square feet of rentable space located in Summit Office Park, a twin-building, mid-rise, 242,000 square foot office park located on the perimeter of the Fort Worth central business district. In March and September of 2023, we amended our primary office lease to obtain additional space, as well as to extend the lease term. The lease has a remaining lease term of 1884 months as of December 31, 2022 December 31, 2023.

Our leased office space in San Antonio, Texas consists of approximately 7,289 square feet of rentable space located in a 14,500 square foot office park in an industrial district in San Antonio, Texas. This lease has a remaining lease term of 3220 months as of December 31, 2022 December 31, 2023.

Our leased office space in Orlando, Florida represents a lease we assumed in connection with our acquisition of Scendia. The lease consists of approximately 7,684 square feet in a 22,947 square foot office building. However, we are co-tenants in the lease with an unaffiliated company with our share of the lease being agreed to as 40% or approximately 3,074 square feet. The lease has a remaining term of 4923 months as of December 31, 2022 December 31, 2023.

We periodically enter into operating lease contracts for office space and equipment. Arrangements are evaluated at inception to determine whether such arrangements constitute a lease. In accordance with the transition guidance of Accounting Standards Codification Topic No. 842, such arrangements are included in our balance sheet as of January 1, 2020.

See Note 8 to the consolidated financial statements for additional information on our operating leases.

#### ITEM 3. 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 4. MINE SAFETY DISCLOSURES

This item is not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Capital Market under the trading symbol "SMTI." The closing price of our common stock as reported by Nasdaq on **March 17, 2023** **March 22, 2024**, was **\$40.01**, **\$37.41**.

#### Record Holders

As of **March 17, 2023** **March 22, 2024**, there were **271,283** shareholders of record and there were **8,376,833** **8,622,805** shares of common stock issued and outstanding. The number of shareholders of record does not reflect the number of persons or entities who held stock in nominee or street name through various brokerage firms.

#### Dividends

We have never declared or paid any cash dividends on our common stock and we do not intend to pay cash dividends in the foreseeable future. We currently expect to retain any future earnings to fund our operations and the expansion of our business.

#### Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended **December 31, 2022** **December 31, 2023** that were not previously reported on a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

#### Issuer Purchases of Equity Securities

The following table summarizes

We did not repurchase any of our share repurchases equity securities during the fourth quarter of 2022; the fiscal year ended December 31, 2023.

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
October 1, 2022 through October 31, 2022	-	-	-	-
November 1, 2022 through November 30, 2022	-	-	-	-
December 1, 2022 through December 31, 2022	11,745	\$ 29.49	-	-
<b>Total</b>	<b>11,745</b>	<b>\$ 29.49</b>	-	-

(a) The shares of common stock presented in the table above were originally granted to employees as restricted stock awards. Our Restated 2014 Omnibus Long Term Incentive Plan (the "LTIP Plan") allows for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock. Pursuant to the LTIP Plan, the shares reflected above were relinquished by employees in exchange for our agreement to pay U.S. federal, state and local tax withholding obligations resulting from the vesting of the Company's restricted stock.

### ITEM 6. RESERVED

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements about future revenues, operating results, plans and expectations. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known or unknown factors, including, but not limited to, those factors discussed in Part I, Item 1A. Risk Factors. Also, please read the "Cautionary Statement Regarding Forward-Looking Statements" set forth at the beginning of this Annual Report on Form 10-K.

In addition, the following discussion should be read in conjunction with Part I of this Annual Report on Form 10-K as well as our Consolidated Financial Statements and the related Notes to Consolidated Financial Statements contained elsewhere in this Annual Report on Form 10-K.

#### 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. **Each of our** **Our** products, services and technologies **contributes** **are designed** to **achieve our** **overall** goal of **achieving** **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. **We currently license certain** **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 products primary product, and HYCOL Hydrolyzed Collagen ("HYCOL") from Applied Nutritions, LLC ("AN" **Applied**) (through 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") and, both of which are related parties. 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 have the right to exclusively distribute certain products manufactured by Cook Biotech Inc. ("Cook Biotech"). In addition, through our subsidiary, Scendia Biologics, LLC ("Scendia"), we license our products from multiple manufacturers. In July 2021, we acquired certain assets from Rochal, including, among others, intellectual property, four U.S. Food and Drug Administration ("FDA") 510(k) clearances, rights to license certain products and technologies currently under development, equipment and supplies. As a result of the asset purchase, our pipeline now contains product candidates for mitigation of opportunistic pathogens and biofilm, wound re-epithelialization and closure, necrotic tissue debridement and cell compatible substrates. Since our acquisition of assets from Rochal, we have been developing additional products in our own product pipeline.

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. **We plan to submit** **a** **In December 2023, we received** **510(k)** **premarket notification** **clearance** **from the U.S. Food and Drug Administration ("FDA")** **for the Precision Healing diagnostic imager in 2023.** **imager.** **We also plan to submit** **a** **510(k)** **premarket notification** **are currently evaluating regulatory pathways for the Precision Healing LFA in 2023.** **LFA.**

In July 2022, we entered into a membership interest purchase agreement with Scendia **Biologics, LLC** ("Scendia") and Ryan Phillips (**the "Seller"** ("Phillips") pursuant to which we acquired 100% of the issued and outstanding membership interests in Scendia from **the Seller, 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) **AMPLIFY ACTIGEN** Verified Inductive Bone Matrix ("AMPLIFY" 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 Cork Medical, LLC's negative pressure wound therapy devices and supplies, and 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 ("UWSS" or 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 WounDerm, THP, we plan to offer a comprehensive first of its kind value-based wound care program to payers and skincare solution risk-bearing entities such as accountable care organizations and partner with value-based care providers ("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 dual goal financial goals of lowering the cost to treat wounds while improving payers and will help deliver outstanding clinical outcomes for the patients.

Our vision for our comprehensive solution approach consists of four key components: diagnostics, virtual consult services for wound care and dermatology, proprietary efficacious products, and a wound care and dermatology specific electronic medical record ("EMR") and mobile application. We expect these components will work synergistically to allow clinicians to analyze and treat wound and dermatology conditions more efficiently than the current standard sets of care: planned capabilities:

- **Diagnostics** – Our proprietary imager and LFA currently under development, which we recently acquired through our acquisition of Precision Healing, are designed to quantify key biomarkers that dictate the trajectory of wound healing and identify deficiencies to aid in treatment. Ultimately, we believe that our diagnostics will lead to treatment algorithms based on the data collected by the Precision Healing technology.

(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. ("DirectDerm") 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.

• **Virtual Consult Services** – Through our exclusive affiliation with Direct Dermatology Inc., we can offer virtual consult services for wound care and dermatology provided by experienced, specialized physicians and clinicians.

(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.

• **Proprietary Products** – We currently offer products for improving patient outcomes by addressing conditions that impact wound healing. We are currently conducting multiple studies to prove the efficacy of our products while developing and exploring new products and opportunities in our six focus areas of (1) debridement, (2) biofilm removal, (3) hydrolyzed collagen, (4) advanced biologics, (5) negative pressure wound therapy products and (6) the oxygen delivery system segment of the wound and skincare market.

• **EMR and Mobile Application** – Our EMR and mobile application were developed specifically for wound care and dermatology. We are currently developing the capability for the EMR and mobile application to offer wound tracking analytics, recommended treatments and decision support and automated referrals.

We believe that by offering a seeking a proprietary comprehensive solution partner to facilitate commercialization of Tissue Health Plus and share in the cost of development of the program. Excluding noncash items, our full year operating expenses for wound care and dermatology, we will be a value-added partner for providers THP in value-based care programs, such as Medicare Advantage and other risk-based contracts. 2023 were approximately \$5.2 million.

### Recent Acquisitions

#### Rochal

In July 2021, we acquired certain assets from Rochal, including, among others, intellectual property, four FDA 510(k) clearances, rights to license certain products and technologies currently under development, equipment, and supplies. In exchange for the acquired assets, we paid Rochal (i) \$496,100 in cash and (ii) 14,369 shares of common stock. As a result of the asset purchase, our pipeline now contains product candidates for mitigation of opportunistic pathogens and biofilm, wound re-epithelialization and closure, necrotic tissue debridement and cell compatible substrates.

#### Precision Healing

In April 2022, we closed a merger transaction with Precision Healing, pursuant to which Precision Healing became a wholly owned subsidiary of the Company. Precision Healing is developing a diagnostic imager and 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.

Pursuant to the merger agreement, among other things, we agreed to (i) pay the holders of Precision Healing common stock and preferred stock closing consideration consisting of 165,738 shares of our common stock, which was issued to accredited investors, and \$125,966 in cash, which was paid to stockholders who were not accredited investors (ii) pay approximately \$0.6 million of transaction expenses on behalf of the equity holders of Precision Healing, (iii) assume all outstanding options and warrants of Precision Healing and (iv) pay, subject to the achievement of certain performance thresholds, earnout consideration of up to \$10.0 million which is payable in cash or, at our election, is payable to accredited investors in shares of our common stock.

### Scendia

In July 2022, we entered into a membership interest purchase agreement by and among the Company, Scendia and Seller pursuant to which we acquired 100% of the issued and outstanding membership interests in Scendia from the Seller. Scendia provides clinicians and surgeons with a full line of regenerative and orthobiologic technologies. Beginning in early 2022, the Company we began co-promoting certain products with Scendia, including: (i) TEXAGEN, Amniotic Membrane Allograft, (ii) BiFORM, Bioactive Moldable Matrix, (iii) AMPLIFY Verified Inductive Bone Matrix ACTIGEN, and (iv) ALLOCYTE Advanced Cellular Bone Matrix, ALLOCYTE. Prior to the acquisition, Scendia owned 50% of the issued and outstanding membership interests in Sanara Biologics, LLC (“Sanara Biologics”), and the Company we owned the remaining 50% of the membership interests. As a result of the acquisition, the Company we indirectly acquired all the interests in Sanara Biologics, such that the Company we now holds hold 100% of the issued and outstanding equity interests in Sanara Biologics.

Pursuant to the purchase agreement, the aggregate consideration at closing for the acquisition was \$7.6 million, which consisted of (i) a \$1.6 million cash payment, subject to certain adjustments, and (ii) 291,686 shares of our common stock, with an agreed upon value of \$6.0 million. Pursuant to the purchase agreement, at closing, we withheld 94,798 shares of common stock with an agreed upon value of \$1.95 million (the “Indemnity Holdback Shares”), which such Indemnity Holdback Shares shall be were withheld issued, and released to the Seller after closing as and to the extent provided in the purchase agreement to satisfy the Seller’s Phillips’ indemnification obligations if any, and subsequently issued and released to Phillips in July 2023.

In addition to the cash and stock consideration, the purchase agreement provides that the Seller Phillips is entitled to receive two potential earnout payments, payable on an annual basis, not to exceed \$10.0 million in the aggregate. The earnout consideration is payable to the Seller Phillips in cash or, at our election, in up to 486,145 shares of our 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. We made the first earnout payment of approximately \$693,000 in cash in August 2023. We expect the final earnout payment to be made in the third quarter of 2024.

#### **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 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**

##### ***Sanara Pulsar, LLC 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 "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 "Term Loan"). 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 "Liquidity and Capital Resources" section below.

##### ***Tufts University License Agreement***

In May 2019, December 2023, we organized 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 Pulsar, Collagen Peptides, LLC ("SCP") and have issued 10% of SCP's outstanding units 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 Texas limited liability company ("Sanara Pulsar") rate of 1.5% or 3%, which was owned 60% by our wholly owned subsidiary Cellerate, LLC ("Cellerate"), and 40% by Wound Care Solutions, Limited ("WCS"), an unaffiliated company registered 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 United Kingdom. At the time of the formation of Sanara Pulsar, Sanara Pulsar and WCS entered into a supply agreement whereby Sanara Pulsar became the exclusive distributor in the United States of certain wound care products, including the Sanara Pulsar II AWI Wound Debridement System, that utilized intellectual property developed and owned by WCS (collectively, the "Pulsar Products"). When we formed Sanara Pulsar, we believed the Pulsar Products would provide clinicians with a novel debridement solution. We also believed the Pulsar Products would receive an expanded reimbursement code for use by all clinician types, license agreement.

Ultimately, we did not receive an additional reimbursement code, which limited the adoption of the Pulsar Products. Sanara Pulsar, which had minimal sales since its inception, was dissolved effective December 2022. As a result, we recorded a \$1.0 million noncash loss on disposal of investment in the fourth quarter of 2022.

#### Components of Results of Operations

##### Sources of Revenues

Our revenue is derived primarily from sales of our surgical 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 powder. 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.

For the year ended December 31, 2022, our revenues included \$6.0 million of revenue generated by Scendia, which was acquired by the Company in July 2022. Revenue streams from product sales and royalties are summarized below for the years ended December 31, 2022 December 31, 2023 and 2021, 2022.

	For the Year Ended December 31,		For the Year Ended December 31,	
	2022		2023	
	\$ 45,641,845	\$ 23,942,919	\$ 54,836,410	\$ 41,653,954
<b>Product sales revenue</b>			9,952,432	3,987,891
<b>Soft tissue repair products</b>				
<b>Bone fusion products</b>				
<b>Royalty revenue</b>	201,000	201,000	201,000	201,000
<b>Total Net Revenue</b>	\$ 45,842,845	\$ 24,143,919	\$ 64,989,842	\$ 45,842,845

We recognize royalty revenue from a development and licensing agreement with BioStructures, LLC. We record revenue each calendar quarter as earned per the terms of the agreement which stipulates that we will receive quarterly royalty payments of at least \$50,250. Under the terms of the development and license agreement, royalties of 2.0% are recognized on sales of products containing our patented resorbable bone hemostasis. The minimum annual royalty due to us is \$201,000 per year through the end of 2023. These royalties are payable in quarterly installments of \$50,250. To date, royalties related to this development and licensing agreement have not exceeded the annual minimum of \$201,000 (\$50,250 per quarter).

#### **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 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 to 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 Expense Income (Expense)

Other expense income (expense) is primarily comprised of losses on equity method investments, accretion expense on earnout liabilities, interest expense, and other nonoperating activities.

#### Results of Operations

**Net Revenues.** For the year ended December 31, 2022 December 31, 2023, we generated net revenues of \$45.8 million \$65.0 million compared to net revenues of \$24.1 million \$45.8 million for the year ended December 31, 2021 December 31, 2022, a 90% 42% increase from the prior year. Our 2022 net revenues included \$6.0 million of Scendia sales. The higher net revenues in 2022 were revenue for 2023 was primarily due to increased sales of surgical wound care soft tissue repair products, including CellerateRX, and bone fusion products as a result of our increased market penetration, and geographic expansion, additional revenues as a result of the Scendia acquisition and our continuing strategy to expand our independent distribution network in both new and existing U.S. markets.

During the third quarter of 2022, we began to experience supply issues with the ALLOCYTE product line. The amount of qualifying eligible donor tissue was significantly reduced industry wide due to the stringent screening required. During the fourth quarter of 2022 and the nine months ended September 30, 2023, we were unable to fill certain orders for this product, which negatively impacted our sales, sales growth. The supply constraint was caused by significant supplier limits on qualifying eligible donor tissue and supplier necessity to subcontract all processing to secondary suppliers. We anticipate resolution have since expanded the ALLOCYTE product line with the release of ALLOCYTE Plus, which is processed by an alternative supplier with in-house processing capabilities. Our first sales of ALLOCYTE Plus occurred in October 2023. We have a sufficient supply of ALLOCYTE Plus to meet currently expected demand and believe we have measures in place to regularly stock the supply issues product in the second half of 2023. future.

**Cost of goods sold.** Cost of goods sold for the year ended December 31, 2022 December 31, 2023, was \$6.4 million \$7.9 million, compared to costs of goods sold of \$2.3 million \$6.4 million for the year ended December 31, 2021 December 31, 2022. The higher increase in cost of goods sold for 2023 was primarily due to higher sales volume as a result of organic sales volume in 2022 and our acquisition of Scendia, which added \$2.0 million of cost of goods sold during 2022, growth. Gross margins were approximately 86% 88% and 90% 86% for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The lower gross margins in 2022 were primarily due to for 2023 included lower margins realized on sales of Scendia products, certain bone fusion products, partially offset by higher margins realized due to the elimination in consolidation of the CellerateRX Surgical royalty expense under the Sublicense Agreement.

**Selling, general and administrative expenses.** SG&A expenses for the year ended December 31, 2022 December 31, 2023, were \$46.0 million \$57.0 million compared to SG&A expenses of \$28.1 million \$46.0 million for the year ended December 31, 2021 December 31, 2022. Our 2022 SG&A expenses included \$2.9 million of costs related to Scendia operations. The higher SG&A expenses in 2022 for 2023 were primarily due to higher direct sales and marketing expenses, which accounted for approximately \$13.6 million \$8.0 million, or 76% of the increase increases compared to the prior year year period. The higher direct sales and marketing expenses were for 2023 was primarily attributable to an increase in sales commissions of \$9.6 million \$6.9 million as a result of higher product sales and \$2.7 million sales. The year-ended 2023 included \$1.2 million of increased costs as a result of sales force expansion and operational support. Costs related to travel and in-person promotional activities increased by \$0.9 million in 2022 compared to 2021 due to the resumption of many in-person activities that were cancelled or postponed in 2021 as a result of the COVID-19 pandemic. The increase in 2022 Our 2023 SG&A expenses was also partly attributable to increased noncash equity compensation and higher payroll included \$0.4 million of costs related to associated with an acquisition opportunity that we abandoned during the mid-year addition first quarter of the Rochal workforce in July 2021, the Precision Healing workforce in April 2022 and the Scendia workforce in July 2022, 2024. We expect our SG&A expenses to continue to decline as a percentage of net revenues as our sales growth outpaces the costs of sales force expansion and corporate overhead.

**Research and development expenses.** R&D expenses for the year ended December 31, 2022 December 31, 2023, were \$3.4 million \$4.1 million compared to \$0.6 million \$3.4 million for the year ended December 31, 2021 December 31, 2022. The higher R&D expenses for 2022 included approximately \$2.5 million of in 2023 were primarily due to costs related to our newly acquired the Precision Healing diagnostic imager and LFA for assessing patient wound and skin conditions. The higher LFA R&D expenses in 2022 were for 2023 also partly due to included costs associated with several new ongoing development projects for our currently licensed products, products in development.

**Depreciation and amortization expense.** Depreciation and amortization expense for the year ended December 31, 2022 December 31, 2023, was \$2.4 million \$3.7 million compared to \$0.6 million \$2.4 million for the year ended December 31, 2021 December 31, 2022. The higher increase in depreciation and amortization expense during 2022 2023 was primarily due to the amortization of intangible assets acquired as part of the Precision Healing, Scendia and Scendia Applied transactions.

**Other expense.** **Change in fair value of earnout liabilities.** Other expense Change in fair value of earnout liabilities was a benefit of \$3.4 million for the year ended December 31, 2022 was \$1.7 million December 31, 2023 compared to \$0.6 million expense of \$0.3 million for the year ended December 31, 2021 December 31, 2022. The current year benefit is as 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 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, partially offset by accretion. The prior year period expenses were due to the accretion of the earnout liabilities.

**Other income (expense).** Other income (expense) for the year ended December 31, 2023 was \$0.2 million compared to \$1.4 million for the year ended December 31, 2022. Other income (expense) for 2023 included interest expense, and amortization of debt issuance costs related to the Term Loan entered into in conjunction with the Applied Asset Purchase. The higher other expense income (expense) in 2022 was primarily due to a \$1.0 million loss recognized due to the dissolution of Sanara Pulsar. In May 2019, we organized our subsidiary, Sanara Pulsar, which was owned 60% by our wholly owned subsidiary Cellerate and 40% by WCS. At the time of the formation of LLC ("Sanara Pulsar, it and WCS, entered into a supply agreement whereby Sanara Pulsar became the exclusive distributor in the United States of certain wound care products that utilize intellectual property developed and owned by WCS. Pulsar"). Sanara Pulsar had minimal sales since its inception and was dissolved effective December 2022. The higher other expense income (expense) was also due to the recognition of \$0.3 million \$0.4 million of accretion expense on earnout liabilities related to loss from our Precision Healing and Scendia transactions partially offset by lower losses from equity method investment in Precision Healing prior to our acquisition of the remaining interest in April 2022.

**Loss before income taxes.** We had a loss before income taxes of \$13.9 million \$4.4 million for the year ended December 31, 2022 December 31, 2023, compared to a loss before income taxes of \$8.0 million \$13.9 million for the year ended December 31, 2021 December 31, 2022. The higher lower loss in 2022 2023 was due to increased gross profits and changes in fair value of earnout liabilities, partially offset by higher SG&A costs, higher R&D expenses, the loss on disposal of investment related to the dissolution of Sanara Pulsar and higher amortization of our acquired intangible assets as discussed above.

**Income tax benefit.** We recognized net deferred tax liabilities associated with the Precision Healing and Scendia transactions. As of December 31, 2022, prior to consideration of these deferred tax liabilities, the Company we had net deferred tax assets in excess of the deferred tax liabilities being recognized, however, a 100% valuation allowance had previously been provided against the Company's our net deferred tax assets. As a result of the recording of the net deferred tax liabilities related to the Precision Healing merger and Scendia acquisition, the Company has we have reviewed the valuation allowance and determined that it should be reduced by the amount of the net deferred tax liabilities that were recognized. This resulted in recognition of an income tax benefit of \$5.8 million recognized for the year ended December 31, 2022.

**Net loss.** For the year ended December 31, 2022 December 31, 2023, we had a net loss of \$8.1 million \$4.4 million, compared to a net loss of \$8.0 million \$8.1 million for the year ended December 31, 2021 December 31, 2022. The lower net loss in 2023 was primarily due to additional gross profit realized on higher 2023 revenues.

#### **Liquidity and Capital Resources**

Cash on hand at December 31, 2022 December 31, 2023 was \$9.0 million \$5.1 million, compared to \$18.7 million \$9.0 million at December 31, 2021 December 31, 2022. Historically, we have financed our operations primarily from the sale of equity securities. In February 2021, we closed an underwritten public offering of 1,265,000 shares of our common stock at a public offering price of \$25.00 per share resulting in gross proceeds of \$31.6 million, before deducting underwriting discounts and commissions and offering expenses. 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 and for general corporate purposes. Based on our current plan of operations, we believe our cash on hand, when combined with expected cash flows from operations, 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.

On February 24, 2023, we entered into a Controlled Equity Offering<sup>SM</sup> Sales Agreement (the "Sales Agreement") with Cantor Fitzgerald & Co., as sales agent ("Cantor"), pursuant to which we may 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, if any, pursuant to the Sales Agreement, may be 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 have had no obligation to sell any of the shares under the Sales Agreement and may at any time could suspend or terminate the offering of our 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 are subject to satisfaction of certain conditions, including customary closing conditions. Pursuant to the Sales Agreement, we will pay Cantor a commission of 3.0% of the aggregate gross proceeds from each sale of the shares.

From February 24, 2023 through March 17, 2023, the Company In 2023, we sold an aggregate of 17,878 26,143 shares of common stock for gross proceeds of approximately \$732,000 \$1.1 million and net proceeds of approximately \$710,000.

In July 2019, we executed a license agreement with Rochal \$1.0 million pursuant to which we acquired an exclusive world-wide license to market, sell and further develop antimicrobial products for the prevention and treatment of microbes on Sales Agreement. We paused the human body utilizing certain Rochal patents and pending patent applications (the "BIAKOS License Agreement"). Under offering at the terms end of the BIAKOS License Agreement, we agreed first quarter of 2023 and did not reactivate it during the remainder of 2023. The Registration Statement on Form S-3 relating to pay Rochal \$750,000 upon the completion of a capital raise, on or before December 31, 2022, of at least \$10,000,000 through the sale of our common stock or assets. At our option, the \$750,000 payment may have been paid this offering expired in any combination of cash and our common stock. In March 2021, we issued 20,834 shares of our common stock to Rochal as full payment of the \$750,000 which became due upon the completion of our capital raise in February 2021, January 2024.

In June 2021, On August 1, 2023, we, invested \$2.1 million to purchase 278,587 Class A Preferred Shares (the "Shares") of Canada based Pixalere Healthcare Inc. ("Pixalere"). The Shares are convertible as guarantor, and SMAT, as borrower, entered into approximately 27.3% of the outstanding equity of Pixalere. Pixalere provides Loan Agreement with the Bank providing for, among other things, a cloud-based wound care software tool that empowers nurses, specialists and administrators to deliver better care for patients. In connection with our purchase of the Shares, Pixalere granted Pixalere Healthcare USA, LLC ("Pixalere USA"), our subsidiary, a royalty-free exclusive license to use the Pixalere software and platform Term Loan in the United States. In conjunction with aggregate principal amount of up to \$12.0 million, which was evidenced by an advancing promissory note. Pursuant to the grant 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 license, we issued Pixalere a 27.3% equity ownership interest in Pixalere USA valued at \$0.1 million. Cash Closing Consideration for the Applied Asset Purchase. For more information regarding the Loan Agreement, see the "Loan Agreement" section below.

In July 2021, 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 entered into an asset purchase agreement with Rochal, effective July 1, 2021, pursuant seek to which we purchased certain assets of Rochal, including, among others, certain of Rochal's intellectual property, furniture and equipment, supplies, rights and claims, other than certain excluded assets, all as more specifically set forth consummate acquisitions in the asset purchase agreement, 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, will be sufficient to fund our growth strategy and assumed certain liabilities upon to meet our anticipated operating expenses and capital expenditures for at least the terms and subject to the conditions set forth in the asset purchase agreement. In exchange for the acquired assets, we paid to Rochal (i) \$496,100 in cash and (ii) 14,369 shares of our common stock and assumed certain net liabilities of \$3,900. next twelve months.

#### Precision Healing Merger

In November 2020, we entered into agreements to purchase shares of Series A Convertible Preferred Stock (the "Series A Stock") of Precision Healing for an aggregate purchase price of \$600,000. In 2021, we made additional purchases of Series A Stock: \$600,000 in February, \$500,000 in June, \$500,000 in October, and \$600,000 in December.

In April 2022, we closed a merger transaction with Precision Healing pursuant to which Precision Healing became our wholly owned subsidiary. 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, which was paid to stockholders who were not accredited investors, 165,738 shares of our 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. We 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 our common stock on April 4, 2022, which was \$30.75.

Upon the closing of the merger, the outstanding Precision Healing options previously granted under the Precision Healing Inc. 2020 Stock Option and Grant Plan (the “Precision Healing Plan”) converted, pursuant to their terms, into options to acquire an aggregate of 144,191 shares of our common stock with a weighted 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 our 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 our 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, we terminated the ability to offer future awards under the Precision Healing Plan.

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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 Accounting Standards Codification Topic 805, Business Combinations. The earnout consideration is payable in cash or, at our election, is payable to accredited investors in shares of our common stock at a price per share equal to the greater of (i) \$27.13 or (ii) the average closing price of our 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 our 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. We do not anticipate making an earnout consideration payment prior to January 2025.

#### **Scendia Acquisition**

In July 2022, we entered into a membership interest purchase agreement by and among the Company, Scendia and the Seller Phillips pursuant to which, and in accordance with the terms and conditions set forth therein, we acquired 100% of the issued and outstanding membership interests in Scendia from the Seller Phillips.

Pursuant to the purchase agreement, the Seller Phillips was entitled to receive closing consideration consisting of (i) approximately \$1.6 million of cash, subject to certain adjustments, and (ii) 291,686 shares of our common stock. Pursuant to the purchase agreement, at closing, we withheld 94,798 shares of common stock with an agreed upon value of \$1.95 million (the "Indemnity Holdback Shares"), which such Indemnity Holdback Shares shall be withheld issued, and released to the Seller after closing as and to the extent provided in the purchase agreement to satisfy the Seller's Phillips' indemnification obligations if any, 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 the Seller Phillips is entitled to receive two potential earnout payments, payable on an annual basis, not to exceed \$10.0 million in the aggregate. The earnout consideration is payable to the Seller Phillips in cash or, at our election, in up to 486,145 shares of our 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. We made the first earnout payment of approximately \$693,000 in cash in August 2023. We expect the final earnout payment to be made in the third quarter of 2024.

#### **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 intends to use the royalties received to repay borrowings under the Term Loan. As described under "Loan Agreement" below, SMAT is required to maintain compliance with certain maintenance covenants and is limited in its ability to distribute or lend cash to the Company without consent of the Bank.

#### **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 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 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 may be 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 Term Loan will begin amortizing in monthly installments commencing on August 5, 2024. All remaining unpaid balances under the Term Loan are due and payable in full on August 1, 2028 (the "Maturity Date"). SMAT may prepay amounts due under the Term Loan. All accrued but unpaid interest on the unpaid principal balance of outstanding advances is due and payable monthly, beginning on September 5, 2023 and continuing monthly on the fifth day of each month thereafter until the Maturity Date. The unpaid principal balance of outstanding advances bears interest, subject to certain conditions, at the lesser of the Maximum Rate (as defined in the Loan Agreement) or the Base Rate, which is 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 Loan Agreement and the other loan documents delivered in connection therewith are guaranteed by us and are secured by a first priority security interest in substantially all of the existing and future assets of SMAT.

The Loan Agreement contains customary representations and warranties and certain covenants that limit (subject to certain exceptions) the ability of SMAT and us 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 us as guarantor, (vii) cease, suspend or materially curtail business operations or (viii) engage in certain affiliate transactions. In addition, the Loan Agreement contains financial covenants that require SMAT to maintain (i) a minimum Debt Services Coverage Ratio and (ii) a maximum Cash Flow Leverage Ratio, in each case, as defined and calculated according to the procedures set forth in the Loan Agreement. Pursuant to the Loan Agreement, in the event that SMAT fails to comply with the financial covenants described above, we are required to contribute cash to SMAT in an amount equal to the amount required to satisfy the financial covenants. SMAT is limited in its ability to distribute or lend cash to the Company without consent of the Bank.

Pursuant to the Loan Agreement, starting with the three months ended September 30, 2023 and for each quarter thereafter, SMAT will be required to maintain a minimum Debt Service Coverage Ratio (as defined below) of 1.2 to 1.0, which ratio is calculated as of the last day of the applicable fiscal quarter. The "Debt Service Coverage Ratio" is the ratio of (a) the sum of the following during the preceding twelve (12) month period, subject to annualization in certain circumstances: (i) earnings before interest, taxes, amortization, stock compensation expense and gains or losses on sales of assets outside the ordinary course of business ("EBITDA") minus (ii) capital expenditures, minus (iii) cash taxes, minus (iv) dividends and distributions, to (b) the sum of (i) the current portion of long-term debt, (ii) Installment Payments made during the preceding twelve (12) month period and (iii) interest expense during the preceding twelve (12) month period, subject to annualization in certain circumstances. As of December 31, 2023, following an immaterial cash contribution from Sanara, SMAT's Debt Service Coverage Ratio was 1.3 to 1.0.

The Loan Agreement also requires SMAT to, subject to certain conditions, maintain a maximum Cash Flow Leverage Ratio (as defined below) 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 on June 30, 2024, and September 30, 2024, and (d) 3.0 to 1.0 as of the last day of each fiscal quarter thereafter. The "Cash Flow Leverage Ratio" is the ratio of all Funded Debt (as defined in the Loan Agreement) to certain multiples of EBITDA during the preceding twelve (12) month period, subject to annualization in certain circumstances. SMAT was in compliance with all financial covenants under the Loan Agreement as of December 31, 2023. As of December 31, 2023, following an immaterial cash contribution from Sanara, SMAT's Cash Flow Leverage Ratio was 4.0 to 1.0.

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

#### Cash Flow Analysis

For the year ended December 31, 2022 December 31, 2023, net cash used in operating activities was \$5.6 million \$3.2 million compared to \$4.8 million \$5.6 million used in operating activities for the year ended December 31, 2021 December 31, 2022. The higher lower use of cash in 2022 2023 was primarily due to higher SG&A net revenue growth outpacing the growth of our cash operating expenses related to direct sales and marketing efforts, the addition timing of the Rochal workforce in mid-2021, the Precision Healing cash expenditures for certain accrued payables and Scendia workforces in 2022, higher R&D costs related to Precision Healing and the resumption of certain travel and promotional activities in 2022 which were cancelled or postponed in 2021 as a result of the COVID-19 pandemic prepaids.

For the year ended December 31, 2022 December 31, 2023, net cash used in investing activities was \$3.5 million \$10.2 million compared to \$5.3 million \$3.5 million used in investing activities during the year ended December 31, 2021 December 31, 2022. The lower higher use of cash used in investing activities in 2022 during 2023 was primarily due to fewer cash investments in equity securities during 2022, partially offset by cash used in paid pursuant to the Precision Healing merger and the Scendia acquisition Applied Asset Purchase.

For the year ended December 31, 2022 December 31, 2023, net cash used in provided by financing activities was \$0.6 million \$9.6 million as compared to \$28.3 million provided by \$0.6 million used in financing activities for the year ended December 31, 2021 December 31, 2022. The cash provided by financing activities in 2021 during 2023 was due to net loan proceeds of \$9.7 million utilized for the Applied Asset Purchase and net proceeds received pursuant to an underwritten public offering of 1,265,000 shares sales of our common stock at a public offering price of \$25.00 per share resulting in gross proceeds \$0.9 million, partially offset by the Scendia earnout payment of \$31.6 million, less underwriting discounts \$0.7 million and commissions and other offering expenses. the net settlement of equity-based awards, which totaled \$0.1 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, licenses prior to the Applied Asset Purchase, licensed the rights to CellerateRX from AN Applied. Sales of CellerateRX have Surgical comprised the substantial majority of our sales during 2022 the twelve months ended December 31, 2023 and 2021. In January 2021, 2022. Prior to the Applied Asset Purchase discussed above, we 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 \$1.0 million. We pay paid royalties based on the annual Net Sales of licensed products (as defined in the sublicense agreement) 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. For the years year ended December 31, 2022 December 31, 2023 and 2021, 2022, royalty expense was \$1.8 million \$1.0 million and \$0.9 million \$1.8 million, respectively, under the terms of this agreement.

Ronald T. Nixon, our 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 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.

#### **Rochal Asset Purchase Consulting Agreement**

In July 2021, we entered into an asset purchase agreement with Rochal, effective July 1, 2021, pursuant to which we purchased certain assets of Rochal, including, among others, certain of Rochal's intellectual property, furniture and equipment, supplies, rights and claims, and assumed certain liabilities upon the terms and subject to the conditions set forth in the asset purchase agreement. In exchange for the acquired assets, we paid Rochal (i) \$496,100 in cash and (ii) 14,369 shares of our common stock.

After the asset purchase, Rochal owned 95,203 shares of our common stock. 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. Additionally, Ann Beal Salamone, a director of the Company, is a significant shareholder and the current Chair of the board of directors of Rochal.

#### **Consulting Agreement**

related party. Concurrent with the Rochal asset purchase, in July 2021, we entered into a consulting agreement with Ann Beal Salamone pursuant to which Ms. Salamone agreed to provide the Company 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 the Company, 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 \$174,486 of costs pursuant to the Catalyst Services Agreement during 2023.

#### **Receivables and Payables**

We had outstanding related party receivables totaling **\$8,400** at December 31, 2023, and **\$98,548** at December 31, 2022, and **\$79,787** at December 31, 2021. We had outstanding related party payables totaling **\$77,805** at December 31, 2023, and **\$34,036** at December 31, 2022, and **\$155,817** at December 31, 2021.

#### **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 Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us 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. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of these assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We have identified certain significant accounting **policies and estimates** which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements, as summarized below.

##### **Revenue Recognition**

We recognize revenue in accordance with Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers. 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 we expect 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, we satisfy a performance obligation

#### **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. We recorded inventory obsolescence expense of **\$0.5 million** \$406,812 in **2022** 2023 and **\$0.3 million** \$540,090 in **2021**, 2022. The allowance for obsolete and slow-moving inventory had a balance of **\$0.5 million** \$446,917 at **December 31, 2022** December 31, 2023, and **\$0.3 million** \$523,832 at **December 31, 2021** December 31, 2022.

#### **Goodwill**

The excess of purchase price over the fair value of identifiable net assets acquired in business combinations is recorded as goodwill. As of **December 31, 2022**, December 31, 2023 and 2022, all of our goodwill relates to the acquisition of 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. We 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 we 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 **year** years ended **December 31, 2022**, December 31, 2023 and 2022.

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

Long-lived assets, including certain identifiable intangibles held and to be used by us, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We continuously evaluate the recoverability of our long-lived assets based on estimated future cash flows and the estimated liquidation value of such long-lived assets and provide 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 years ended December 31, 2022 December 31, 2023 and 2021 2022.

#### **Investments in Equity Securities**

Our 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.

We apply the equity method of accounting to investments when we have significant influence, but not controlling interest, in the investee. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions. Our proportionate share of the net income (loss) resulting from these investments is reported under the line item captioned "Share of losses from equity method investment" in our Consolidated Statements of Operations. Our equity method investment is adjusted each period for our share of the investee's income or loss and dividend paid, if any. We classify distributions received from our equity method investment using the cumulative earnings approach on the Consolidated Statements of Cash Flows. As a result of the Precision Healing merger in April 2022, as of December 31, 2022, we do not have any investments which are recorded applying the equity method of accounting, accounting as of December 31, 2023 or 2022.

We have reviewed the carrying value of our investments and have determined there was no impairment or observable price changes as of December 31, 2022, and for the years ended December 31, 2023 and 2022.

#### **Income Taxes**

We account for income taxes in accordance with ASC Topic No. 740, Income Taxes. This standard requires us to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. A valuation allowance is provided if it is more likely than not that some or all of a net deferred tax asset will not be realized.

The Company We recognized net deferred tax liabilities associated with the Precision Healing merger and the Scendia acquisition. As of December 31, 2022, the dates of these acquisitions, prior to consideration of these acquired deferred tax liabilities, the Company we had net deferred tax assets in excess of the deferred tax liabilities being recognized, however, a 100% valuation allowance had previously been provided against the Company's our net deferred tax assets. As a result of the recording of the net deferred tax liabilities related to the Precision Healing merger and Scendia acquisition, the Company we reviewed the valuation allowance and determined that it should be reduced by the amount of the deferred tax liabilities that were recognized. This resulted in a 2022 income tax benefit of \$5.8 million.

A 100% valuation allowance has been provided for the remaining net deferred tax assets as of December 31, 2023 and 2022, as our ability of the Company to generate sufficient taxable income in the future is uncertain.

#### **Off-Balance Sheet Arrangements**

None.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****SANARA MEDTECH INC. AND SUBSIDIARIES  
Index to Consolidated Financial Statements**

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Board of Directors and Shareholders  
Sanara MedTech Inc.

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Sanara MedTech Inc. and subsidiaries (collectively, the Company) as of December 31, 2022 December 31, 2023 and 2021, 2022, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2022 December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022 December 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

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

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

**Critical Audit Matters**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Merger with Precision Healing Inc. ("Precision Healing") and the acquisition of Scendia Biologics, LLC ("Scendia") Applied Asset Purchase (Refer to Notes 4 and Note 5 to the financial statements)**  
**Critical Audit Matter Description**

The Company entered into a merger agreement with Precision Healing and an asset purchase agreement with Scendia, to acquire certain assets from the equity interests of those entities during the year ended December 31, 2022 Sellers (as defined in Note 5). Management has recorded the Merger with Precision Healing acquisition as an asset acquisition due to its determination that substantially all of the fair value of the assets acquired was concentrated in a group of similar identifiable assets. Management has recorded the acquisition of Scendia Biologics as a business combination. Management has determined the estimated fair value of acquired intangible assets for purposes of making these determinations.

We identified the determination of the fair values of the acquired intangible assets as a critical audit matter because of the subjective process when developing the estimated fair values. This in turn led to significant auditor judgment and subjectivity in performing procedures relating to the valuation of acquired intangible assets and consideration paid, and significant audit effort was necessary in evaluating the significant assumptions relating to the estimates, including the timing and amounts of future cash flows. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

**How the Critical Audit Matter Was Addressed in the Audit**

Our audit procedures related to the Company's Company's estimated fair values included the following, among others:

- We obtained an understanding of the design and implementation of management's management's controls over the merger and acquisition, including the fair value of the acquired intangible assets.
- We obtained and evaluated the relevant merger and asset purchase agreements agreement to evaluate the completeness of the identified assets.
- With the assistance of our internal fair value specialists, we evaluated the appropriateness of the methodologies applied in determining the fair values of the acquired intangible assets, and the reasonableness of the significant inputs and assumptions used by management, and the skills, knowledge and experience of the fair value specialists engaged by management to assist in determining the fair value of the acquired intangible assets. This testing included inquiries with management, evaluation of the methods applied by management's management's specialists, consideration of positive and negative evidence impacting management's management's forecasts and assumptions, and evaluation of relevant market and industry factors.
- In regards to the merger with Precision Healing, we We evaluated management's management's determination that substantially all of the value of the acquired assets was concentrated in a single asset or group of similar assets, and management's management's conclusion that the transaction should therefore be accounted for as an asset acquisition.

We have served as the Company's Company's auditor since 2021.

/s/ Weaver and Tidwell, L.L.P.

Austin, Texas  
March 20, 2023 25, 2024

**SANARA MEDTECH INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>December</u> <u>31,</u> <u>2023</u>	<u>December</u> <u>31,</u> <u>2022</u>
<b>Assets</b>				
<b>Current assets</b>				
Cash	\$ 8,958,995	\$ 18,652,841	\$ 5,147,216	\$ 8,958,995
Accounts receivable, net	6,805,761	2,861,014	8,474,965	6,805,761
<b>Accounts receivable – related party</b>	<b>98,548</b>	<b>79,787</b>		
Accounts receivable – related parties			8,400	98,548
Accounts receivable			8,400	98,548
Royalty receivable	99,594	49,344	49,344	99,594
Inventory, net	3,549,000	2,048,191	4,717,533	3,549,000
Prepaid and other assets	1,104,611	917,318	608,411	1,104,611
<b>Total current assets</b>	<b>20,616,509</b>	<b>24,608,495</b>	<b>19,005,869</b>	<b>20,616,509</b>
<b>Long-term assets</b>				
Intangible assets, net			44,926,061	31,509,980
Goodwill			3,601,781	3,601,781
Investment in equity securities			3,084,278	3,084,278
Right of use assets – operating leases			1,995,204	806,402
Property and equipment, net	1,416,436	1,629,845	1,257,956	1,416,436
Right of use assets – operating leases	806,402	412,770		
Goodwill	3,601,781	-		
Intangible assets, net	31,509,980	4,727,970		
Investment in equity securities	3,084,278	5,017,351		
<b>Total long-term assets</b>	<b>40,418,877</b>	<b>11,787,936</b>	<b>54,865,280</b>	<b>40,418,877</b>
<b>Total assets</b>	<b>\$ 61,035,386</b>	<b>\$ 36,396,431</b>	<b>\$ 73,871,149</b>	<b>\$ 61,035,386</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 1,392,701	\$ 438,154	\$ 1,924,082	\$ 1,392,701
Accounts payable – related parties	34,036	155,817	77,805	34,036
Accounts payable			77,805	34,036
Accrued bonuses and commissions			7,676,770	7,758,284
Accrued royalties and expenses	2,144,475	706,196	2,047,678	2,144,475
Accrued bonuses and commissions	7,758,284	4,518,817		
Earnout liabilities – current	1,162,880	-	1,100,000	1,162,880
Current portion of debt			580,357	-
Operating lease liabilities – current	313,933	203,292	361,185	313,933
<b>Total current liabilities</b>	<b>12,806,309</b>	<b>6,022,276</b>	<b>13,767,877</b>	<b>12,806,309</b>
<b>Long-term liabilities</b>				
Long-term debt, net of current portion			9,113,123	-
Earnout liabilities – long-term	6,003,811	-	2,723,001	6,003,811
Operating lease liabilities – long-term	505,291	222,151	1,737,445	505,291
Other long-term liabilities			1,941,686	-
<b>Total long-term liabilities</b>	<b>6,509,102</b>	<b>222,151</b>	<b>15,515,255</b>	<b>6,509,102</b>
<b>Total liabilities</b>	<b>19,315,411</b>	<b>6,244,427</b>	<b>29,283,132</b>	<b>19,315,411</b>

**Commitments and contingencies (Note 10)**

**Shareholders' equity**

Common Stock: \$0.001 par value, 20,000,000 shares authorized; 8,299,957 issued and outstanding as of December 31, 2022 and 7,676,662 issued and outstanding as of December 31, 2021	8,300	7,677		
Common Stock: \$0.001 par value, 20,000,000 shares authorized; 8,535,239 issued and outstanding as of December 31, 2023 and 8,299,957 issued and outstanding as of December 31, 2022			8,535	8,300
Additional paid-in capital	65,213,987	45,867,768	72,860,556	65,213,987
Accumulated deficit	(23,394,757)	(15,235,044)	(28,036,814)	(23,394,757)
<b>Total Sanara MedTech shareholders' equity</b>	<b>41,827,530</b>	<b>30,640,401</b>	<b>44,832,277</b>	<b>41,827,530</b>
<b>Equity (deficit) attributable to noncontrolling interest</b>	<b>(107,555)</b>	<b>(488,397)</b>		
<b>Equity attributable to noncontrolling interest</b>			<b>(244,260)</b>	<b>(107,555)</b>
<b>Total shareholders' equity</b>	<b>41,719,975</b>	<b>30,152,004</b>	<b>44,588,017</b>	<b>41,719,975</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 61,035,386</b>	<b>\$ 36,396,431</b>	<b>\$ 73,871,149</b>	<b>\$ 61,035,386</b>

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

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**SANARA MEDTECH INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	2022		2021		Year Ended December 31, 2023	
	Year Ended December 31, 2022		2021		Year Ended December 31, 2022	
	\$	45,842,845	\$	24,143,919	\$ 64,989,842	\$ 45,842,845
<b>Net Revenue</b>						
Cost of goods sold		6,360,851		2,311,221	7,852,686	6,360,851
<b>Gross profit</b>		39,481,994		21,832,698	57,137,156	39,481,994
<b>Operating expenses</b>						
Selling, general and administrative expenses		45,976,328		28,053,176	56,994,753	45,976,328
Research and development		3,367,032		558,704	4,132,425	3,367,032
Depreciation and amortization		2,371,068		596,975	3,675,026	2,371,068
<b>Change in fair value of earnout liabilities</b>					(3,449,895)	284,746
<b>Total operating expenses</b>		51,714,428		29,208,855	61,352,309	51,999,174
<b>Operating loss</b>		(12,232,434)		(7,376,157)	(4,215,153)	(12,517,180)
<b>Other expense</b>						
Interest and accretion expense		(284,746)		(711)		
<b>Other income (expense)</b>						
Interest expense and other					(475,783)	-
Share of losses from equity method investment		(379,633)		(616,927)	-	(379,633)
Loss on disposal of investment		(1,040,311)		-		
<b>Total other expense</b>		(1,704,690)		(617,638)		
<b>Gain (loss) on disposal of investment</b>					251,034	(1,040,311)
<b>Total other income (expense)</b>					(224,749)	(1,419,944)
<b>Loss before income taxes</b>		(13,937,124)		(7,993,795)	(4,439,902)	(13,937,124)
Income tax benefit		5,844,796		-	-	5,844,796
<b>Net loss</b>		(8,092,328)		(7,993,795)	(4,439,902)	(8,092,328)
<b>Less: Net loss attributable to noncontrolling interest</b>		(154,831)		(71,881)	(136,705)	(154,831)
<b>Net loss attributable to Sanara MedTech shareholders</b>	\$	(7,937,497)	\$	(7,921,914)	\$ (4,303,197)	\$ (7,937,497)
<b>Net loss per share of common stock, basic and diluted</b>	\$	(1.00)	\$	(1.08)	\$ (0.52)	\$ (1.00)
<b>Weighted average number of common shares outstanding, basic and diluted</b>		7,906,794		7,341,580	8,278,949	7,906,794

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

**SANARA MEDTECH INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Shares	Amount	Capital	(Deficit)	Interest	Equity	Shares	Amount	Capital	Defici	
	Common Stock		Additional	Paid-In	Accumulated	Noncontrolling	Shareholders'	Common Stock		Additional	
	\$0.001 par value						Total	\$0.001 par value		Paid-In	Accumul
	Shares	Amount	Capital		Deficit	Interest	Equity	Shares	Amount	Capital	Defici
<b>Balance at</b>											
December 31, 2020	6,297,008	\$ 6,297	\$ 13,176,576	\$ (7,032,242)	\$ (310,395)	\$ 5,840,236					
<b>Balance at</b>											
December 31, 2021							7,676,662	\$ 7,677	\$ 45,867,768	\$ (15,235)	
Issuance of common stock for acquisitions							457,424		457	11,128,053	
Issuance of common stock options and warrants for acquisitions							-	-	-	4,612,645	
Share-based compensation							173,959		174	3,790,643	
Net settlement and retirement of equity-based awards							(8,088)		(8)	(185,122)	(222)
Distribution to noncontrolling interest member							-	-	-	-	
Dissolution of investment							-	-	-	-	
Net loss							-	-	-	-	(7,937)
<b>Balance at</b>							8,299,957	\$ 8,300	\$ 65,213,987	\$ (23,394)	
December 31, 2022							8,299,957	\$ 8,300	\$ 65,213,987	\$ (23,394)	
<b>Balance</b>											
Share-based compensation	59,933	60	1,580,648	-	-	1,580,708	100,829	100	3,442,622		
Net settlement and retirement of equity-based awards	(10,018)	(10)	(161,627)	(280,888)	-	(442,525)	34,501	35	203,031	(338)	
Issuance of common stock for acquisitions	64,739	65	2,334,179	-	-	2,334,244	73,809	74	3,089,571		
Issuance of common stock in equity offering	1,265,000	1,265	28,937,992	-	-	28,939,257	26,143	26	911,345		
Distribution to noncontrolling interest member	-	-	-	-	(200,000)	(200,000)					

<b>Capital contribution of noncontrolling interest member</b>	-	-	-	-	<b>93,879</b>	<b>93,879</b>				
<b>Net loss</b>				<b>(7,921,914)</b>		<b>(71,881)</b>	<b>(7,993,795)</b>			<b>(4,303)</b>
<b>Balance at December 31, 2021</b>	<b>7,676,662</b>	\$ 7,677	\$ 45,867,768	\$ (15,235,044)	\$ (488,397)	\$ 30,152,004				
<b>Beginning balance</b>	<b>7,676,662</b>	\$ 7,677	\$ 45,867,768	\$ (15,235,044)	\$ (488,397)	\$ 30,152,004				
<b>Share-based compensation</b>	<b>173,959</b>	174	<b>3,790,643</b>	-	-	<b>3,790,817</b>				
<b>Net settlement and retirement of equity-based awards</b>	<b>(8,088)</b>	(8)	<b>(185,122)</b>	<b>(222,216)</b>	-	<b>(407,346)</b>				
<b>Issuance of common stock for acquisitions</b>	<b>457,424</b>	457	<b>11,128,053</b>	-	<b>(2,638)</b>	<b>11,125,872</b>				
<b>Issuance of common stock options and warrants for acquisitions</b>	-	-	<b>4,612,645</b>	-	-	<b>4,612,645</b>				
<b>Distribution to noncontrolling interest member</b>	-	-	-	-	<b>(220,000)</b>	<b>(220,000)</b>				
<b>Dissolution of investment</b>	-	-	-	-	<b>758,311</b>	<b>758,311</b>				
<b>Net loss</b>				<b>(7,937,497)</b>		<b>(154,831)</b>	<b>(8,092,328)</b>			
<b>Balance at December 31, 2022</b>	<b>8,299,957</b>	\$ 8,300	\$ 65,213,987	\$ (23,394,757)	\$ (107,555)	\$ 41,719,975				
<b>Ending balance</b>	<b>8,299,957</b>	\$ 8,300	\$ 65,213,987	\$ (23,394,757)	\$ (107,555)	\$ 41,719,975				
<b>Balance at December 31, 2023</b>					<b>8,535,239</b>	\$ 8,535	\$ 72,860,556	\$ (28,036)		
<b>Balance</b>					<b>8,535,239</b>	\$ 8,535	\$ 72,860,556	\$ (28,036)		

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

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**SANARA MEDTECH INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	2022		2021		2023		2022	
	Year Ended December 31,				Year Ended December 31,			
	2022	2021	2023	2022	2023	2022	2023	2022
<b>Cash flows from operating activities:</b>								
Net loss	\$ (8,092,328)	\$ (7,993,795)	\$ (4,439,902)	\$ (8,092,328)				
Adjustments to reconcile net loss to net cash used in operating activities								
Adjustments to reconcile net loss to net cash used in operating activities:								
Depreciation and amortization	2,371,068	596,975	3,675,026	2,371,068				
Loss on disposal of property and equipment	2,634	41	-	2,634				
Bad debt expense	280,000	51,536	202,941	280,000				
Inventory obsolescence	540,090	251,826	406,812	540,090				
Share-based compensation	2,702,633	2,668,892	3,442,722	2,702,633				
Accretion of earnout liabilities	284,540	-						
Noncash lease expense	263,518	174,955	342,972	263,518				
Loss on equity method investment	379,633	616,927	-	379,633				
<b>Loss on disposal of investment</b>	<b>1,040,311</b>	<b>-</b>	<b>(251,034)</b>	<b>1,040,311</b>				
(Gain) Loss on disposal of investment								
Benefit from deferred income taxes	(5,844,796)	-	-	(5,844,796)				
Accretion of finance liabilities			98,926	-				
Amortization of debt issuance costs			5,138	-				
Change in fair value of earnout liabilities			(3,449,895)	284,746				
<b>Changes in operating assets and liabilities:</b>								
Accounts receivable, net	(2,250,223)	(695,018)	(1,821,895)	(2,250,223)				
Accounts receivable – related party	(18,761)	(79,787)						
Accounts receivable – related parties			90,148	(18,761)				
Inventory, net	(517,271)	(1,151,764)	(1,545,339)	(517,271)				
Prepaid and other assets	(159,592)	(305,501)	496,200	(159,592)				
Accounts payable	(301,966)	166,903	531,380	(301,966)				
Accounts payable – related parties	(121,781)	(67,772)	43,768	(121,781)				
Accrued royalties and expenses	1,156,279	204,005	(739,645)	1,156,073				
Accrued bonuses and commissions	2,994,512	923,063	(81,513)	2,994,512				
Operating lease liabilities	(263,370)	(176,012)	(252,366)	(263,370)				
<b>Net cash used in operating activities</b>	<b>(5,554,870)</b>	<b>(4,814,526)</b>	<b>(3,245,556)</b>	<b>(5,554,870)</b>				
<b>Cash flows from investing activities:</b>								
Purchases of property and equipment	(147,015)	(171,867)	(265,246)	(147,015)				
Proceeds from disposal of assets	1,549	-						
Proceeds from disposal of property and equipment			650	1,549				
Purchases of intangible assets	(600,000)	(578,586)	-	(600,000)				
Investment in equity securities	(250,000)	(4,534,278)	-	(250,000)				
Acquisitions, net of cash acquired	(2,516,164)	-	(9,942,750)	(2,516,164)				
<b>Net cash used in investing activities</b>	<b>(3,511,630)</b>	<b>(5,284,731)</b>	<b>(10,207,346)</b>	<b>(3,511,630)</b>				
<b>Cash flows from financing activities:</b>								
Draw on line of credit	-	800,000						
Pay off line of credit	-	(800,000)						
Public offering net proceeds	-	28,939,257						
Loan proceeds, net			9,688,341	-				
Equity offering net proceeds			911,371	-				
Net settlement of equity-based awards	(407,346)	(442,525)	(135,794)	(407,346)				
<b>Cash payment of finance and earnout liabilities</b>	<b></b>	<b></b>	<b>(822,795)</b>	<b>-</b>				

Distribution to noncontrolling interest member	(220,000)	(200,000)	-	(220,000)
Net cash flows provided by (used in) financing activities	(627,346)	28,296,732		
Net increase (decrease) in cash	(9,693,846)	18,197,475		
Net cash provided by (used in) financing activities			9,641,123	(627,346)
Net decrease in cash			(3,811,779)	(9,693,846)
Cash, beginning of period	18,652,841	455,366	8,958,995	18,652,841
Cash, end of period	\$ 8,958,995	\$ 18,652,841	\$ 5,147,216	\$ 8,958,995
Cash paid during the period for:				
Interest	\$ 206	\$ 711	\$ 283,948	\$ 206
Supplemental noncash investing and financing activities:				
Right of use assets obtained in exchange for lease obligations			1,531,773	-
Equity issued for acquisitions	15,738,517	2,334,244	3,089,645	15,738,518
Earnout liabilities generated by acquisitions	6,882,151	-		
Earnout and other liabilities generated by acquisitions			3,759,642	6,882,151
Investment in equity securities converted in asset acquisition	1,803,440	-	-	1,803,440
License agreement as capital contribution from noncontrolling interest member			93,879	

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

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**SANARA MEDTECH INC. AND SUBSIDIARIES**  
**NOTES TO 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 contributes are designed to achieve the Company’s overall goal of achieving 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**

*The accompanying 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.*

**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 current and prior period calculations as their inclusion would have been anti-dilutive during the years ended December 31, 2022 December 31, 2023 and 2021 2022 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 years ended December 31, 2022 December 31, 2023 and 2021 2022 as such shares would have had an anti-dilutive effect:*

	2022		2021		As of December 31,	
	As of December 31,		2021			
	2022	2021	2021	2020		
Stock options (a)	146,191	11,500	11,500	93,892	146,191	
Warrants (b)	16,725	-	-	16,725	16,725	
Unvested restricted stock	181,102	161,450	161,450	144,211	181,102	
Anti-dilutive securities	181,102	161,450	161,450	144,211	181,102	

(a) Includes 146,191 Shares underlying stock options assumed pursuant to the merger agreement with Precision Healing, Inc. (“Precision Healing”) in April 2022. See Note 43 for more information regarding the Precision Healing merger.

(b) Warrants Shares underlying warrants assumed pursuant to the merger agreement with Precision Healing in April 2022. See Note 43 for more information regarding the Precision Healing merger.

## 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

**- 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 2022 2023 or 2021 2022.

### 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 years ended December 31, 2022 December 31, 2023 and 2021, 2022.

	2022		2021		2023		2022	
	For the Year Ended December 31,				For the Year Ended December 31,			
	2022	2021	2023	2022	2023	2021	2023	2022
Product sales revenue	\$ 45,641,845	\$ 23,942,919	\$ 54,836,410	\$ 41,653,954				
Soft tissue repair products			9,952,432	3,987,891				
Bone fusion products								
Royalty revenue	201,000	201,000	201,000	201,000				
Total Net Revenue	\$ 45,842,845	\$ 24,143,919	\$ 64,989,842	\$ 45,842,845				

The Company recognizes royalty revenue from a development and license agreement between with BioStructures, LLC and the Company, LLC. The Company records revenue each calendar quarter as earned per the terms of the agreement, which stipulates the Company will receive quarterly royalty payments of at least \$50,250. Under the terms of the development and license agreement, royalties of 2.0% are recognized on sales of products containing the Company's patented resorbable bone hemostasis. The minimum annual royalty due to the Company is \$201,000 per year through the end of 2023. These royalties are payable in quarterly installments of \$50,250. To date, royalties related to this development and license agreement have not exceeded the annual minimum of \$201,000 (\$50,250 per quarter).

#### 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 \$280,000 in 2022, \$202,941 in 2023 and \$51,536 in 2021, respectively. The allowance for doubtful accounts was \$265,089 in 2023, \$528,030 at December 31, 2023 and \$325,089 at December 31, 2022, and \$64,899 at December 31, 2021. 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 \$3,820 at December 31, 2023 and \$4,761 at December 31, 2022 and \$34,379 at December 31, 2021. 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 \$406,812 in 2023 and \$540,090 in 2022 and \$251,826 in 2021, respectively. The allowance for obsolete and slow-moving inventory had a balance of \$446,917 at December 31, 2023, and \$523,832 at December 31, 2022, and \$333,850 at December 31, 2021.

#### 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	December 31, 2022		December 31, 2021		Useful Life	December 31, 2023	December 31, 2022
Computers	3-5 years	\$ 172,154		\$ 104,568		3-5 years	\$ 194,788	\$ 172,154
Office equipment	3-7 years		87,225		21,731	3-7 years	201,785	87,225
Furniture and fixtures	5-10 years		258,414		221,565	5-10 years	304,338	258,414
Leasehold improvements	2-5 years		19,631		2,030	2-5 years	134,170	19,631
Internal use software	5 years		1,618,998		1,622,525	5 years	1,618,999	1,618,998
			2,156,422		1,972,419		2,454,080	2,156,422
Less accumulated depreciation			(739,986)		(342,574)		(1,196,124)	(739,986)
Property and equipment, net		\$ 1,416,436		\$ 1,629,845			\$ 1,257,956	\$ 1,416,436

Depreciation expense related to property and equipment was \$407,769 in 2022, \$220,571 in 2023 and \$207,769 for the year ended December 31, 2022, December 31, 2023 and 2021, 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 amortized/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 December 31, 2023 and December 31, 2022, all of the Company's goodwill relates to the acquisition of Scendia Biologics, LLC ("Scendia") (see Note 5). 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 year ended December 31, 2022, December 31, 2023 and 2022.

## 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 6 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 years ended December 31, 2022 December 31, 2023 and 2021, 2022.

## 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 applies the equity method of accounting to investments when it has significant influence, but not controlling interest, in the investee. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions. The Company's proportionate share of the net income (loss) resulting from these investments is reported under the line item captioned "Share of losses from equity method investment" in the Company's Consolidated Statements of Operations. The Company's equity method investment is adjusted each period for the Company's share of the investee's income or loss and dividend paid, if any. The Company classifies distributions received from its equity method investment using the cumulative earnings approach in the Company's Consolidated Statements of Cash Flows. As a result of the Precision Healing merger in April 2022 (see Note 4), as of December 31, 2022, we do the Company does not have any investments which are recorded applying the equity method of accounting.

The Company has reviewed the carrying value of its investments and has determined there was no impairment or observable price changes as of December 31, 2022, December 31, 2023 and 2022.

#### **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 initial and subsequent measurement.*

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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 acquired acquisition date fair value of goodwill and intangibles related to the acquisitions discussed in Notes 3, 4 and 5 are based on Level 3 inputs.**

**Liabilities for contingent consideration for the Company's Precision Healing, Scendia and Applied acquisitions 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 included as a component reported under the line item captioned "Change in fair value of "Operating loss" 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 current year revaluation of earnout liability is a result of a decrease in the estimated earnout liability established at the time of the Company's Applied acquisition. The following table sets forth a summary of the changes in fair value for the Level 3 contingent earnout considerations.**

Balance at December 31, 2022	\$ 7,166,691
Additions	893,000
Changes in fair value of earnout liabilities	(3,449,895)
Revaluation of earnout liability	(94,000)
Settlements	(692,795)
Balance at December 31, 2023	\$ 3,823,001

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## 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 [Accounting Standards Update \(“ASU\) 2018-07, ASC Topic 718, Compensation – Stock Compensation \(Topic 718\) \(“ASC 718”\)](#). 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 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

There were no new material accounting standards adopted in the 2022 fiscal year.

### Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the “FASB” (“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 aren't measured at fair value through net income. For available-for-sale debt securities, entities will be required to recognize an allowance for credit losses rather than a reduction in carrying value of The Company adopted the asset. Entities will no longer be permitted to consider the length of time that fair value has been less than amortized cost when evaluating when credit losses should be recognized. This update is new guidance effective for the Company as of January 1, 2023. The Company continues to evaluate the provisions of this update but does adoption did not believe the adoption will have a material impact on its the Company's consolidated financial statements and related disclosures, position, results of operations or cash flows.

### Recent Accounting Pronouncements

In October 2021, November 2023, the FASB issued ASU 2021-08, Business Combinations 2023-07, Segment Reporting (Topic 805). This update 280: Improvements to Reportable Segment Disclosures (“ASU 2023-07”), which requires the acquirer in a business combination to record contract asset disclosure of incremental segment information on an annual and liabilities following ASC 606 at acquisition as if it had originated the contract, rather than at fair value. This update interim basis. ASU 2023-07 is effective for the Company fiscal years beginning after December 15, 2022 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 16, 2024, with early adoption permitted. The amendment should be applied on a prospective basis while retrospective application is permitted. The Company continues to evaluate is currently evaluating the provisions effect of this update but does not believe the adoption will have a material impact pronouncements on its consolidated financial statements and related disclosures.

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**NOTE 3 – ROCHAL ASSET ACQUISITION**

In July 2021, the Company entered into an asset purchase agreement with Rochal Industries, LLC ("Rochal"), a related party, effective July 1, 2021, pursuant to which the Company purchased certain assets of Rochal, including, among others, certain of Rochal's intellectual property, furniture and equipment, supplies, rights and claims, other than certain excluded assets, all as more specifically set forth in the asset purchase agreement, and assumed certain liabilities upon the terms and subject to the conditions set forth in the asset purchase agreement. 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.

In exchange for the acquired assets, the Company paid to Rochal (i) \$496,100 in cash and (ii) 14,369 shares of the Company's common stock and assumed certain net liabilities of \$3,900. Based on the trading price of the Company's common stock on July 14, 2021, the fair value of the equity consideration transferred was determined to be \$584,244. The total purchase price as determined by the Company was as follows:

<b>Description</b>	<b>Amount</b>
Net cash consideration	\$ 496,100
Equity consideration (fair value)	584,244
Net liabilities assumed	3,900
Transaction costs	78,586
<b>Total purchase consideration</b>	<b>\$ 1,162,830</b>

Prior to the transaction, the Company entered into product license agreements with Rochal, pursuant to which the Company acquired exclusive world-wide licenses to market, sell and further develop certain antimicrobial barrier film and skin protectant products, antimicrobial products for the prevention and treatment of microbes on the human body utilizing certain of Rochal's patents and a debrider for human medical use to enhance skin condition or treat or relieve skin disorders. Pursuant to the asset purchase agreement, each of the foregoing licenses were retained by Rochal and were excluded from the purchased assets.

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.

In connection with the asset purchase agreement, the Company hired certain employees of Rochal on an "at will" basis, with the terms of such employment being consistent with the Company's current employment agreements.

Concurrent with the 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. As discussed above, Ms. Salamone is a director of the Company and is a significant shareholder and the current Chair of the board of directors of Rochal.

Based on guidance provided by ASC Topic 805, Business Combinations ("ASC 805"), the Company recorded the Rochal 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 (i.e., patents, patent applications and patent applications to be written) based on the Company's internal valuation models. These models assigned value to the acquired intellectual property based on estimated future cash flows over the life of the respective patents and patent applications. Accordingly, the Company accounted for the acquisition of the purchased net assets 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 Company's internal valuation performed, the total fair value of the net assets acquired was attributable to the intellectual property (i.e., patents, patent applications and patent applications to be written) and assembled workforce. Due to the de minimis estimated fair value of furniture and equipment acquired, the Company did not allocate any amounts to such assets. The total purchase consideration was allocated based on the relative estimated fair value of such assets as follows:

<b>Description</b>	<b>Amount</b>
Patents and Intellectual Property	\$ 1,099,801
Assembled Workforce	63,029
<b>Net Assets Acquired</b>	<b>\$ 1,162,830</b>

The Company did not recognize any gain on the purchase of the net assets.

#### NOTE 43 – PRECISION HEALING MERGER

In April 2022, the Company entered into a merger agreement by and among the Company, United Wound and Skin Solutions, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company, Precision Healing, PH Merger Sub I, Inc., a Delaware corporation, PH Merger Sub II, LLC, a Delaware limited liability company, and Furneaux Capital Holdco, LLC (d/b/a BlueIO), solely in its capacity as the representative of the securityholders of Precision Healing. On April 4, 2022 (the "Closing Date"), the merger parties closed the transactions contemplated by the merger agreement and Precision Healing became a wholly owned subsidiary of the Company.

Precision Healing is developing a diagnostic imager and lateral flow assay for assessing a patient's wound and skin conditions. This comprehensive skin and wound assessment technology is designed to quantify biochemical markers to determine the trajectory of a wound's condition to enable better diagnosis and treatment protocol. To date, Precision Healing has not generated revenues.

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, 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 the Closing Date, which was \$30.75.

On the Closing Date, the outstanding Precision Healing options previously granted under the Precision Healing Inc. 2020 Stock Option and Grant Plan (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 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 Company 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.

Pursuant to the merger agreement, the Company assumed sponsorship of the Precision Healing Plan, effective as of the Closing Date, as well as the outstanding awards granted thereunder, the award agreements evidencing the grants of such awards and the remaining shares available under the Precision Healing Plan, in each case adjusted in the manner set forth in the merger agreement to such awards. 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.

As the contingent earnout payments are not subject to any specific individual performance by the shareholders, the contingent shares are not subject to ASC Topic 718, Compensation – Stock Compensation ("ASC 718").<sup>718</sup> Further, as the contingent consideration was negotiated as part of the transfer of assets, the obligation was measured at fair value and included in the total purchase consideration transferred. Additionally, the contingent earnout payments meet the criteria under ASC Topic 480, Distinguishing Liabilities from Equity ("ASC 480") as the monetary value of the shares to be issued is predominantly based on the exercise contingency (i.e., revenue targets). Accordingly, the consideration is classified as a liability and will be remeasured at its estimated fair value at each reporting period with the subsequent change in fair value recognized as a gain or loss in accordance with ASC 480.

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The total purchase consideration as determined by the Company was as follows:

Consideration	Equity Shares	Dollar Value
Fair value of Sanara common shares issued	165,738	\$ 5,096,444
Fair value of assumed options	144,191	4,109,750
Fair value of assumed warrants	16,725	502,895
Cash paid to nonaccredited investors		125,370
Cash paid for fractional shares		596
Carrying value of equity method investment in Precision Healing		1,803,440
Fair value of contingent earnout consideration		3,882,151
Direct transaction costs		1,061,137
<b>Total purchase consideration</b>		<b>\$ 16,581,783</b>

Based on guidance provided by ASC 805, the Company recorded the Precision Healing merger 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 based on the Company’s valuation models. These models assigned value to the acquired intellectual property based on estimated future cash flows. Accordingly, the Company accounted for the merger 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 and assembled workforce in the second quarter of 2022. The total purchase consideration was allocated based on the relative estimated fair value of such assets as follows:

Description	Amount
Cash	\$ 32,202
Net working capital (excluding cash)	(308,049)
Fixed assets, net	9,228
Deferred tax assets	278,661
Intellectual property	20,325,469
Assembled workforce	664,839
Deferred tax liabilities	(4,420,567)
<b>Net assets acquired</b>	<b>\$ 16,581,783</b>

#### NOTE 54 – SCENDIA PURCHASE AGREEMENT

In July 2022, the Company entered into a membership interest purchase agreement by and among the Company, Scendia, a Delaware limited liability company, and Ryan Phillips (the "Seller" ("Phillips")) pursuant to which, and in accordance with the terms and conditions set forth therein, the Company acquired **100% 100%** of the issued and outstanding membership interests in Scendia from the Seller, Phillips.

Scendia provides clinicians and surgeons with a full line of regenerative and orthobiologic technologies for their patients through certain customer accounts. Beginning in early 2022, the Company began co-promoting certain products with Scendia, including: (i) TEXAGEN Amniotic Membrane Allograft, (ii) BiFORM Bioactive Moldable Matrix, (iii) **AMPLIFY ACTIGEN** Verified Inductive Bone Matrix and (iv) ALLOCYTE Advanced Cellular Bone Matrix. Prior to the acquisition, Scendia owned 50% of the issued and outstanding membership interests in Sanara Biologics, LLC ("Sanara Biologics"), and the Company owned the remaining 50% of the membership interests. As a result of the acquisition, the Company indirectly acquired all the interests in Sanara Biologics, such that the Company now holds **100% 100%** of the issued and outstanding equity interests in Sanara Biologics.

Pursuant to the purchase agreement, the Seller Phillips was entitled to receive closing consideration consisting 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 shares of common stock with an agreed upon value of \$1.95 million (the "Indemnity Holdback Shares"), which such Indemnity Holdback Shares shall be withheld issued, and released to the Seller after closing as and to the extent provided in the purchase agreement to satisfy the Seller's Phillips' indemnification obligations if any, 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 the Seller 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 the Seller 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.

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As the contingent earnout payments are not subject to any specific individual performance by **the Seller, Phillips**, the contingent shares are not subject to ASC 718. Further, as the contingent consideration was negotiated as part of the transfer of assets, the obligation was measured at fair value and included in the total purchase consideration transferred. Additionally, the contingent earnout payments meet the criteria under ASC 480, as the monetary value of the shares to be issued is predominantly based on the exercise contingency (i.e., revenue targets). Accordingly, the **contingent** consideration is classified as a liability at its estimated fair value at each reporting period with the subsequent change in fair value recognized as a gain or loss in accordance with ASC 480.

The total purchase consideration, subject to typical post-closing adjustments, as determined by the Company was as follows:

Consideration	Equity Shares	Dollar Value
Fair value of Sanara common shares issued	291,686	\$ 6,032,066
Cash consideration		1,562,668
Fair value of contingent earnout consideration		3,000,000
<b>Total purchase consideration</b>		<b>\$ 10,594,734</b>

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Based on guidance provided by ASC 805, the Company recorded the Scendia acquisition as a business combination. The purchase consideration was allocated to the individual assets according to their fair values as a percentage of the total fair value of the net assets purchased. The excess of the purchase consideration over the net assets purchased was recorded as goodwill. The total purchase consideration was allocated as follows:

Description	Amount
Cash	\$ 201,406
Net working capital (excluding cash)	1,294,499
Fixed assets, net	42,300
Noncontrolling interest in Sanara Biologics, LLC	2,638
Customer relationships	7,155,000
Deferred tax liabilities	(1,702,890)
Goodwill	3,601,781
<b>Net assets acquired</b>	<b>\$ 10,594,734</b>

The goodwill acquired consists of expected synergies from the acquisition to the Company's overall corporate strategy. The Company does not expect any of the goodwill to be deductible for income tax purposes. The Company incurred acquisition costs of approximately \$187,000 in 2022, which is included in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations. The purchase accounting is preliminary as the assessment of purchase consideration and allocation of fair value is still subject to post-closing adjustments and the Company is still gathering and evaluating available information to determine if further adjustments are needed. The Scendia acquisition contributed net revenues of \$6.0 million and net income of \$1.0 million from acquisition through December 31, 2022.

***Unaudited Pro Forma Financial Information*****NOTE 5 – 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 unaudited pro forma financial 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 14 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 table below summarizes Sublicense Agreement. Effective August 1, 2023, these intercompany royalty payments and the combined results of operations of the Company and Scendia as though the acquisition had occurred as of January 1, 2021. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of each period presented nor is it indicative of future results. The following pro forma financial information presented includes adjustments for net revenue and offsetting cost of goods sold related are eliminated on a consolidated basis.

In addition to transactions between 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 Scendia (v) \$1.0 million in cash in the event that have been eliminated, as well as a U.S. patent is issued for a certain product; provided that with respect to the pro forma depreciation incentive payments described in (iv) and amortization charges from acquired tangible and intangible assets for (v) of the year ended December 31, 2022 and 2021, foregoing, the Owner shall not earn more than \$2.5 million.

	Year Ended December 31,	
	2022	2021
Net Revenue	\$ 51,770,977	\$ 30,783,017
Net Loss	\$ (7,356,563)	\$ (8,344,339)

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
<b>Total purchase consideration</b>		<b>\$ 16,792,037</b>

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
<b>Net assets acquired</b>	<b>\$ 16,792,037</b>

**NOTE 6 – INTANGIBLE ASSETS GOODWILL AND INTANGIBLES, NET**

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

	<b>Total</b>
Balance as of December 31, 2021	\$ -
Scendia Acquisition	3,601,781
Balance as of December 31, 2022	3,601,781
Acquisitions	-
Balance as of December 31, 2023	<u>3,601,781</u>

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

	<b>December 31, 2022</b>			<b>December 31, 2021</b>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
<b>Amortizable Intangible Assets:</b>						
Product Licenses	\$ 4,793,879	\$ (980,583)	\$ 3,813,296	\$ 4,193,879	\$ (586,541)	\$ 3,607,338
Patents and Other IP	21,935,580	(1,492,057)	20,443,523	1,610,111	(551,285)	1,058,826
Customer relationships and other	7,947,332	(694,171)	7,253,161	127,492	(65,686)	61,806
<b>Total</b>	<b>\$ 34,676,791</b>	<b>\$ (3,166,811)</b>	<b>\$ 31,509,980</b>	<b>\$ 5,931,482</b>	<b>\$ (1,203,512)</b>	<b>\$ 4,727,970</b>
In March 2021, the Company issued 20,834 shares of its common stock to Rochal for a \$750,000 milestone payment required per the terms of a licensing agreement with Rochal. The payment became due upon the Company's public offering of common stock in February 2021. The milestone payment was recorded as an addition to intangible assets.						
	<b>December 31, 2023</b>			<b>December 31, 2022</b>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
<b>Amortizable Intangible Assets:</b>						
Product Licenses	\$ 4,793,879	\$ (1,342,626)	\$ 3,451,253	\$ 4,793,879	\$ (980,583)	\$ 3,813,296
Patents and Other IP	38,570,549	(3,181,186)	35,389,363	21,935,580	(1,492,057)	20,443,523
Customer relationships and other	7,947,332	(1,861,887)	6,085,445	7,947,332	(694,171)	7,253,161
<b>Total</b>	<b>\$ 51,311,760</b>	<b>\$ (6,385,699)</b>	<b>\$ 44,926,061</b>	<b>\$ 34,676,791</b>	<b>\$ (3,166,811)</b>	<b>\$ 31,509,980</b>

As of December 31, 2022 December 31, 2023, the weighted-average amortization period for finite-lived intangible assets was 14.3 14.5 years. Amortization expense related to intangible assets was \$1,963,299 3,218,888 and \$376,404 1,963,299 for the year ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The estimated remaining amortization expense as of December 31, 2022 December 31, 2023 for finite-lived intangible assets is as follows:

<b>2023</b>	<b>\$</b>	<b>2,780,806</b>
<b>2024</b>	<b>2,780,806</b>	<b>\$ 3,889,804</b>
<b>2025</b>	<b>2,780,806</b>	<b>3,889,804</b>
<b>2026</b>	<b>2,763,550</b>	<b>3,872,548</b>
<b>2027</b>	<b>2,649,698</b>	<b>3,758,696</b>
<b>2028</b>		<b>3,725,454</b>
<b>Thereafter</b>		<b>17,754,314</b>
<b>Total</b>	<b>\$</b>	<b>31,509,980</b>
		<b>\$ 44,926,061</b>

The Company has reviewed the carrying value of intangible assets and has determined there was no impairment during either of the years ended December 31, 2022 December 31, 2023 or 2021, 2022.

**NOTE 7 – 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% 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. The Company does not have the ability to exercise significant influence over DirectDerm's operating and financial activities. 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% 8.1% as of December 31, 2022 December 31, 2023. The Company does not have the ability to exercise significant influence over DirectDerm's operating and financial activities.

In November 2020, the Company entered into agreements to purchase certain nonmarketable securities consisting of 150,000 shares of Series A Convertible Preferred Stock (the "Series A Stock") of Precision Healing for an aggregate purchase price of \$600,000. The Series A Stock was convertible into 150,000 shares of common stock of Precision Healing and had a senior liquidation preference relative to the common shareholders. This initial investment represented approximately **12.6%** 12.6% ownership of Precision Healing's outstanding voting securities. In February 2021, the Company invested \$600,000 to purchase 150,000 additional shares of Series A Stock which was convertible into 150,000 shares of common stock of Precision Healing. This resulted in ownership of approximately **22.4%** 22.4% of Precision Healing's outstanding voting securities. With this level of significant influence, the Company transitioned to the equity method of accounting for this investment. In June 2021, the Company invested \$500,000 for 125,000 additional shares of Series A Stock, which increased the Company's ownership of Precision Healing's outstanding voting securities to approximately **29.0%** 29.0%. In October and in December of 2021, 125,000 and 150,000 more shares of Series A Stock were purchased for \$500,000 and \$600,000, respectively.

As discussed above, 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 (see Note **43** for more information). As a result of the merger, the Company's equity method investment in Precision Healing ceased in April 2022. The Company has recorded **\$379,633** \$379,633 as its share of the loss from this equity method investment in 2022 for the period prior to acquisition.

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In June 2021, the Company invested \$2,084,278 to purchase 278,587 Class A Preferred Shares (the "Shares") of Canada based Pixelere Healthcare Inc. ("Pixelere"). The Shares are convertible into approximately **27.3%** **27.3%** of the outstanding equity of Pixelere. Pixelere 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 Pixelere Shares, Pixelere granted Pixelere Healthcare USA, LLC ("Pixelere USA"), a subsidiary of the Company, a royalty-free exclusive license to use the Pixelere software and platform in the United States. In conjunction with the grant of the license, the Company issued Pixelere a **27.3%** **27.3%** equity ownership interest in Pixelere USA valued at \$93,879.

The Company has reviewed the characteristics of the Pixelere Shares in accordance with ASC Topic 323, Investments – Equity Method and Joint Ventures. Due to the substantive liquidation preferences of the Shares over Pixelere's common stock, the Pixelere Shares are not "in-substance" common stock, and therefore, the Company will 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 **December 31, 2022** **December 31, 2023**.

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

	<b>December 31, 2022</b>		<b>December 31, 2021</b>		<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Carrying Amount</b>	<b>Economic Interest</b>						
<b><i>Equity Method Investment</i></b>								
<b>Precision Healing Inc.</b>	\$ -	- %	\$ 2,183,073	40.3 %	\$ -	- %	\$ -	- %
<b><i>Cost Method Investments</i></b>								
<b>Direct Dermatology, Inc.</b>	1,000,000		750,000		1,000,000		1,000,000	
<b>Pixelere Healthcare Inc.</b>	<u>2,084,278</u>		<u>2,084,278</u>		<u>2,084,278</u>		<u>2,084,278</u>	
<b>Total Cost Method Investments</b>	<b>3,084,278</b>		<b>2,834,278</b>		<b>3,084,278</b>		<b>3,084,278</b>	
<b>Total Investments</b>	<b>\$ 3,084,278</b>		<b>\$ 5,017,351</b>		<b>\$ 3,084,278</b>		<b>\$ 3,084,278</b>	

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The following summarizes the loss from the equity method investment reflected in the Consolidated Statements of Operations:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Investment</b>		
Precision Healing Inc.	\$ (379,633)	\$ (616,927)
<b>Total</b>	<b>\$ (379,633)</b>	<b>\$ (616,927)</b>
The Company has reviewed the carrying value of its investments and has determined there was no impairment or observable price changes as of December 31, 2022.		
	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Investment</b>		
Precision Healing Inc.	\$ -	\$ (379,633)
<b>Total</b>	<b>\$ -</b>	<b>\$ (379,633)</b>

#### NOTE 8 ■ 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 18, 84, 49, 20 and 32, 37 months as of December 31, 2022 December 31, 2023. All other material leases are short-term leases, which for practical expediency, the Company has elected to not recognize as ROU assets and lease liabilities. Liabilities related to short-term leases.

In accordance with ASC Topic 842, Leases, the Company has recorded ROU assets of \$806,402, 1,995,204 and a related lease liability of \$819,224, 2,098,630 as of December 31, 2022 December 31, 2023. The Company recorded lease expense of \$434,066 for the year ended December 31, 2023 for its leased assets and \$297,136 for the year ended December 31, 2022 for its leased assets and \$202,498 for the year ended December 31, 2021. Cash paid for amounts included in the measurement of operating lease liabilities was \$380,576 for the year ended December 31, 2023 and \$296,988 for the year ended December 31, 2022 and \$203,555 for the year ended December 31, 2021. The present value of the Company's operating lease liabilities as of December 31, 2022 December 31, 2023 is shown below.

**Maturity of Operating Lease Liabilities**

Year	Total	Total
2023	\$ 354,165	
2024	283,581	\$ 505,017
2025	168,269	532,053
2026	79,161	379,529
2027	6,727	297,947
2028		295,689
<b>Thereafter</b>		<b>604,050</b>
<b>Total lease payments</b>	<b>\$ 891,903</b>	<b>\$ 2,614,285</b>
<b>Less imputed interest</b>	<b>(72,679)</b>	<b>(515,655)</b>
<b>Present Value of Lease Liabilities</b>	<b>\$ 819,224</b>	<b>\$ 2,098,630</b>
<b>Operating lease liabilities – current</b>	<b>\$ 313,933</b>	<b>\$ 361,185</b>
<b>Operating lease liabilities – long-term</b>	<b>\$ 505,291</b>	<b>\$ 1,737,445</b>

As of December 31, 2022 December 31, 2023, the Company's operating leases have a weighted average remaining lease term of 5.9 years and a weighted average discount rate of 6.21% 7.6%.

NOTE 9 – DEBT AND CREDIT FACILITIES

**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 “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 “Term Loan”), 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.

The proceeds of the advances under the Loan Agreement will be 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 may be 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 Term Loan will begin amortizing in monthly installments commencing on August 5, 2024. All remaining unpaid balances under the Term Loan are due and payable in full on August 1, 2028 (the “Maturity Date”). SMAT may prepay amounts due under the Term Loan. All accrued but unpaid interest on the unpaid principal balance of outstanding advances is due and payable monthly, beginning on September 5, 2023 and continuing monthly on the fifth day of each month thereafter until the Maturity Date. The unpaid principal balance of outstanding advances bears interest, subject to certain conditions, at the lesser of the Maximum Rate (as defined in the Loan Agreement) or the Base Rate, which is 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 Loan Agreement and the other loan documents delivered in connection therewith are guaranteed by the Company and are secured by a first priority security interest in substantially all of the existing and future assets of SMAT.

The Loan Agreement contains 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 Loan Agreement contains financial covenants that require 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 Loan Agreement, in the event that SMAT fails to comply with the financial covenants described above, the Company is required to contribute cash to SMAT in an amount equal to the amount required to satisfy the financial covenants. During the year ended December 31, 2023, the Company contributed an immaterial amount of cash to SMAT in order to permit SMAT to be in compliance with the financial covenants under the Loan Agreement.

The Loan Agreement contains customary events of default. If such an event of default occurs, the Bank would be entitled to take various actions, including the acceleration of amounts due under the 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 December 31, 2023, the interest rate on the advance under the Term Loan was 8.3%.

	December 31, 2023	December 31, 2022
Term Loan	\$ 9,750,000	\$ -
Total debt	9,750,000	-
Less: debt issuance costs, net of accumulated amortization of \$5,138 and zero	(56,520)	-
	9,693,480	-
Less: Current portion of long-term debt	580,357	-
Long-term debt	\$ 9,113,123	\$ -

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The table below presents the aggregate maturities of the Company's outstanding debt as of December 31, 2023:

Year	Total
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 Term Loan, the Company incurred \$61,658 in debt issuance costs during 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 \$56,520 and zero as of December 31, 2023 and December 31, 2022, 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 \$5,138 and zero for the year ended December 31, 2023 and 2022, respectively.

#### Revolving Line of Credit

In January 2021, the Company entered into a loan agreement (the "Loan Agreement") with Cadence Bank, N.A. ("Cadence") providing for a \$2.5 million revolving line of credit. Pursuant to the terms of the Loan Agreement, the revolving line of credit was set to mature on January 13, 2023 and was secured by substantially all of the Company's assets. Effective March 25, 2022, the Company terminated the Loan Agreement and released Cadence from any obligation to make advances under the Loan Agreement. No amounts of principal, interest or other fees and expenses were owed by the Company as of the termination date.

#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

##### License Agreements and Royalties

###### CellerateRX Activated Collagen 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 initial expiration date, CGI Cellerate RX will have 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 \$1,771,219 991,099 and \$856,755 1,771,219, respectively for the years ended December 31, 2022 December 31, 2023 and 2021 2022. Sales of CellerateRX have Surgical comprised the substantial majority of our the Company's sales during 2022 2023 and 2021 2022.

As discussed further in Note 5, 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.

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**BAKOS Antimicrobial Wound Gel and BAKOS 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 "BAKOS License Agreement"). Currently, the products covered by the BAKOS License Agreement are BAKOS Antimicrobial Wound Gel and BAKOS Antimicrobial Skin and Wound Cleanser. Both products are 510(k) cleared.

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

- The Company pays Rochal a royalty of 2-~~4%~~ 4% of net sales. The minimum annual royalty due to Rochal was \$120,000 for 2022 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 BIAKÖS 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 \$~~120,000~~ 130,000 and \$~~110,000~~ 120,000 for the years ended ~~December 31, 2022~~ December 31, 2023 and ~~2021~~ 2022, 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%~~ 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%~~ 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 ~~December 31, 2022~~ December 31, 2023.

#### ***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~~, \$~~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%~~ 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%~~ 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 ~~December 31, 2022~~ December 31, 2023.

#### **Resorbable Bone HemostatRochal Asset Acquisition**

The Company acquired a patent in 2009 for a resorbable bone hemostat and delivery system for orthopedic bone void fillers. In connection with the patent acquisition, the Company entered into a royalty an asset purchase agreement with Rochal effective July 1, 2021, pursuant to pay 8% of the Company's net revenues, including royalty revenues, generated from products that utilize the Company's acquired patented bone hemostat and delivery system. This patent is not part of the Company's long-term strategic focus. The Company subsequently licensed the patent to a third party to market a bone void filler product for which the Company receives 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 2% royalty on product sales through member or members of Rochal's science team. For the end three-year period after the effective date, Rochal is also entitled to receive an amount in cash equal to twenty-five percent of 2023, with annual minimum royalties of \$201,000. To date, royalty revenues the proceeds received for any Grant (as defined in the asset purchase agreement) by either the Company related or Rochal. In addition, the Company agreed to this licensing agreement have not exceeded the annual minimum of \$201,000 (\$50,250 per quarter). Therefore, the Company's annual royalty obligation has been \$16,080 (\$4,020 per quarter), with the expense being reported in "Cost of goods sold" use commercially reasonable efforts to perform Minimum Development Efforts (as defined in the accompanying Consolidated Statements 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 Operations, 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 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 Company 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. See Note 4 for more information regarding the merger with Precision Healing.

#### **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 shall be withheld issued, and released to the Seller after closing as and to the extent provided in the purchase agreement to satisfy the Seller's Phillips' indemnification obligations if any, 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 the Seller 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 the Seller 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. See Note 5 for more information regarding the acquisition of Scendia.

#### 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

In May 2019, the Company organized Sanara Pulsar, LLC ("Sanara Pulsar"), a Texas limited liability company, which was owned 60% by the Company's wholly owned subsidiary Cellerate, LLC, and 40% owned by Wound Care Solutions, Limited ("WCS"), an unaffiliated company registered in the United Kingdom. At the time of the formation of Sanara Pulsar, it and WCS, entered into a supply agreement whereby Sanara Pulsar became the exclusive distributor in the United States of certain wound care products that utilize intellectual property developed and owned by WCS. Pursuant to the operating agreement of Sanara Pulsar, in the event WCS's annual Form K-1 does not allocate to WCS net income of at least \$200,000 (the "Target Net Income") On December 20, 2023, the Company is required, within 30 days after such determination, 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 has issued 10% of SCP's outstanding units to Tufts. SCP has exclusive rights to develop and commercialize new products based on the licensed patents and patents pending. SCP will pay WCS royalties to Tufts based on net sales of licensed products and technologies. Under the amount exclusive license agreement, royalties will be calculated at a rate of funds representing 1.5% or 3% depending on the difference between the Target Net Income and the actual amount type of net income shown product or technology developed. SCP will pay Tufts a minimum annual royalty of \$50,000 on WCS's Form K-1, as a distribution from Sanara Pulsar to WCS. For each January 1 of the years 2021 through 2024 year following the Target Net Income was to increase by 10%. In April 2022, first anniversary of the Company paid WCS first commercial sale of the licensed products or technologies. SCP will pay Tufts a \$220,000 100,000 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 the fiscal 2021 Form K-1 and in December 2022, the Company accrued an additional payment this arrangement as of December 31, 2023.

242,000 related to the projected fiscal 2022 Form K-1. The Company terminated Sanara Pulsar in December 2022, and accordingly, there will be no additional payments made beyond the accrued payment. The Company recognized a loss on the termination of Sanara Pulsar which is included in "Loss on disposal of investment" in the accompanying Consolidated Statements of Operations.

#### NOTE 11 – 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 479,668 580,497 shares had been issued under the LTIP Plan and 1,520,332 1,419,503 were available for issuance as of December 31, 2022 December 31, 2023.

In January 2021, the Company entered into an Equity Exchange Agreement (the "Exchange Agreement") whereby the Company acquired the remaining equity interests in Woundyne Medical, LLC ("Woundyne") in exchange for the issuance of an aggregate of 29,536 shares of the Company's common stock with a fair value of \$1,000,000. The acquisition of the outstanding equity interests of Woundyne was accounted for as an asset acquisition. The primary asset acquired by the Company was the Woundyne software platform which allows data related to chronic and surgical wounds to be tracked, monitored, and interfaced with the software user's electronic medical records. Woundyne has no other material assets, liabilities, or revenues. The issuance of these shares was recorded as the cost of acquiring internal use software. The Company subsequently changed the name of Woundyne Medical, LLC to WounDerm, LLC.

In February 2021, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Cantor Fitzgerald & Co. as representative of several underwriters named therein (Collectively, the "Underwriters"), pursuant to which the Company agreed to issue and sell an aggregate of 1,100,000 shares of the Company's common stock to the Underwriters at a price to the public of \$25.00 per share, less underwriting discounts and commissions (the "Offering"). Pursuant to the Underwriting Agreement, the Company granted the Underwriters a 30-day option to purchase up to an additional 165,000 shares of common stock at the public offering price, less underwriting discounts and commissions, which the Underwriters exercised in full. The Offering, including the purchase of the 165,000 additional shares of common stock, closed in February 2021.

The net proceeds to the Company from the Offering were \$28.9 million, after (i) giving effect to the Underwriter's full exercise of its option to purchase additional shares of common stock, and (ii) deducting the underwriting discounts and commissions and offering expenses payable by the Company. Through an insured cash sweep service, the net proceeds have been deposited in accounts insured by the Federal Deposit Insurance Corporation.

Following the closing of the Offering in February 2021, the Company made a \$750,000 milestone payment to Rochal in the form of 20,834 shares of the Company's common stock (see Note 6).

In July 2021, the Company entered into an asset purchase agreement with Rochal, effective July 1, 2021, pursuant to which the Company purchased certain assets of Rochal, including, among others, certain of Rochal's intellectual property, furniture and equipment, supplies, rights and claims, other than certain excluded assets, all as more specifically set forth in the asset purchase agreement. In exchange for the acquired assets, the Company paid to Rochal (i) \$496,100 in cash and (ii) 14,369 shares of the Company's common stock and assumed certain net liabilities of \$3,900. Based on the trading price of the Company's common stock on July 14, 2021, the fair value of the equity consideration transferred was determined to be \$584,244. See Note 3 for more information regarding this transaction.

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 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 **Company** 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** **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.

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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. See Note 4.3 for more information regarding the merger with Precision Healing.

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 shall be withheld issued, and released to the Seller after closing as and to the extent provided in the purchase agreement to satisfy the Seller's Phillips' indemnification obligations if any, 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 the Seller 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 the Seller 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. See Note 5.4 for more information regarding the acquisition of Scendia.

In February 2023, the Company entered into a Controlled Equity Offering<sup>SM</sup> 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 end of 2023.

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 5 for more information regarding the acquisition of Applied.

#### Restricted Stock Awards

During the year ended December 31, 2022, the The Company issued issues 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 173,959 100,829 shares, net of forfeitures, of restricted common stock to employees, directors, and certain advisors of the Company under the LTIP Plan. Plan during the year ended December 31, 2023. The fair value of these awards was \$4,361,698 4,045,377 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 \$2,702,633 3,442,722 and \$2,668,892 2,702,633 was recognized in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations during the years ended December 31, 2022 December 31, 2023 and 2021 2022, respectively. Equity awards totaling \$1,038,183, which were accrued as a liability as of December 31, 2021, were reclassified to equity in 2022 upon settlement of these awards.

At December 31, 2022 December 31, 2023, there was \$2,275,010 2,877,664 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 0.7 0.1 years.

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Below is a summary of restricted stock activity for the year ended December 31, 2022 December 31, 2023:

	For the Year Ended December 31, 2022		For the Year Ended December 31, 2023	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
<b>Nonvested at beginning of period</b>	<b>161,450</b>	<b>\$ 18.13</b>	<b>181,102</b>	<b>\$ 22.89</b>
<b>Granted</b>	<b>184,640</b>	<b>24.98</b>	<b>118,912</b>	<b>39.14</b>
<b>Vested</b>	<b>(154,307)</b>	<b>20.37</b>	<b>(137,720)</b>	<b>23.75</b>
<b>Forfeited</b>	<b>(10,681)</b>	<b>23.44</b>	<b>(18,083)</b>	<b>33.66</b>
<b>Nonvested at December 31, 2022</b>	<b>181,102</b>	<b>\$ 22.89</b>		
<b>Nonvested at December 31, 2023</b>			<b>144,211</b>	<b>\$ 34.07</b>

#### Stock Options

A summary of the status of outstanding stock options at December 31, 2022 December 31, 2023 and changes during the year then ended is presented below:

	For the Year Ended December 31, 2022		
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at beginning of period	11,500	\$ 6.00	
Granted or assumed	144,191	10.71	
Exercised	(7,000)	6.00	
Forfeited	(2,500)	6.00	
Expired	-	-	
Outstanding at December 31, 2022	<b>146,191</b>	\$ 10.65	7.7
Exercisable at December 31, 2022	<b>146,191</b>	\$ 10.65	7.7
For the Year Ended December 31, 2023			
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
	146,191	\$ 10.65	
Outstanding at beginning of period			
Granted or assumed	-	-	
Exercised	(52,299)	11.41	
Forfeited	-	-	
Expired	-	-	
Outstanding at December 31, 2023	<b>93,892</b>	\$ 10.22	6.8
Exercisable at December 31, 2023	<b>93,892</b>	\$ 10.22	6.8

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## Warrants

A summary of the status of outstanding warrants to purchase common stock at December 31, 2022 December 31, 2023 and changes during the year then ended is presented below:

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2023		
	Weighted Average		Weighted Average	Weighted Average		Weighted Average
	Warrants	Exercise	Remaining Contract Life	Warrants	Exercise	Remaining Contract Life
<b>Outstanding at beginning of period</b>	-	\$ -	-	<b>16,725</b>	\$ <b>10.80</b>	<b>7.8</b>
<b>Granted or assumed</b>	<b>16,725</b>	<b>10.80</b>	-	-	-	-
<b>Exercised</b>	-	-	-	-	-	-
<b>Forfeited</b>	-	-	-	-	-	-
<b>Expired</b>	-	-	-	-	-	-
<b>Outstanding at December 31, 2022</b>	<b>16,725</b>	<b>\$ 10.80</b>	<b>7.8</b>			
<b>Outstanding at December 31, 2023</b>				<b>16,725</b>	<b>\$ 10.80</b>	<b>6.8</b>
<b>Exercisable at December 31, 2022</b>	<b>16,725</b>	<b>\$ 10.80</b>	<b>7.8</b>			
<b>Exercisable at December 31, 2023</b>				<b>16,725</b>	<b>\$ 10.80</b>	<b>6.8</b>

## NOTE 12 – CUSTOMERS AND SUPPLIERS

The Company had no customers in 2022 2023 that accounted for at least 10% of the Company's annual sales or whose accounts receivable balance exceeded 10% of the year-end balance. The Company had no customers in 2021 2022 that accounted for at least 10% of Company's annual sales and one customer whose accounts receivable exceeded 10% of the year-end balance.

The Company's principal revenue producing products are purchased from one manufacturer. If this supplier became unable to provide finished goods inventory in a timely manner, the Company's business, operating results, and financial condition could be materially adversely affected.

## NOTE 13 – INCOME TAXES

The Company accounts for income taxes in accordance with ASC Topic No. 740, Income Taxes. This standard requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards.

As discussed in Notes 4.3 and 5.4, the Company recognized net deferred tax liabilities associated with the Precision Healing merger and the Scendia acquisition. As of December 31, 2022, the dates of these acquisitions, prior to consideration of these acquired deferred tax liabilities, the Company had net deferred tax assets in excess of the deferred tax liabilities being recognized, however, a 100% valuation allowance had previously been provided against the Company's net deferred tax assets. As a result of the recording of the net deferred tax liabilities related to the Precision Healing merger and Scendia acquisition, the Company reviewed the valuation allowance and determined that it should be reduced by the amount of the deferred tax liabilities that were recognized. This resulted in a year-to-date income tax benefit of \$5.8 million for the year ending December 31, 2022.

After applying the provisions of Section 382 of the Internal Revenue Code, the unexpired net operating loss ("NOL") carryforward at December 31, 2022 December 31, 2023 was approximately \$32.5 55.7 million, of which, approximately \$5.4 27.0 million, generated in 2017 and prior, will expire between 2023 2024 and 2037, 2037. Under the Tax Cuts and Jobs Act, the NOL generated from 2018 through 2022, 2023, of approximately \$27.1 28.7 million, will have an indefinite carryforward period but can generally only be used to offset 80% of taxable income in any particular year. The Company may be subject to certain limitations in its annual utilization of NOL carry forwards to off-set future taxable income pursuant to Section 382 of the Internal Revenue Code, which could result in NOLs expiring unused.

The components of the deferred income tax assets and liabilities consisted of the following:

	As of December 31,			
	2022		2021	
	2023	2022	2023	2022
<b>Deferred tax assets</b>				
<b>Net operating loss carry forwards</b>	\$ 6,818,547		\$ 4,352,201	
<b>Research and development costs</b>				\$ 12,467,570 \$ 6,818,547
<b>Stock compensation expense</b>				2,119,193 707,076
<b>Accrued expenses</b>				711,598 232,250
<b>Lease liability</b>				528,148 -
<b>Contingent liability</b>				512,668 -
<b>Acquisition liability</b>				221,028 -
<b>Bad debt and other reserves</b>				176,629 -
<b>Inventory reserves</b>	43,678		70,221	129,924 92,286
<b>Bad debt and other reserves</b>	92,286	561,944		109,176 43,678
<b>Accrued expenses</b>	-			35,579

<b>Research and development expenses</b>	<b>707,076</b>	<b>-</b>		
<b>Share-based compensation expense</b>	<b>232,250</b>	<b>-</b>		
<b>Other temporary differences</b>	<b>26,102</b>	<b>1,134</b>	<b>203,340</b>	<b>26,102</b>
<b>Total deferred tax assets</b>	<b>7,919,939</b>	<b>5,021,079</b>	<b>17,179,274</b>	<b>7,919,939</b>
<b>Deferred tax liabilities</b>				
<b>Depreciation and amortization</b>	<b>(5,919,626)</b>	<b>(17,001)</b>	<b>(6,180,688)</b>	<b>(5,919,626)</b>
<b>Right of Use assets</b>			<b>(487,402)</b>	<b>-</b>
<b>Accrued expenses</b>	<b>(26,903)</b>	<b>)</b>	<b>(424,423)</b>	<b>(26,903)</b>
<b>Contingent liability</b>			<b>(130,802)</b>	<b>-</b>
<b>Other temporary differences</b>			<b>(166,712)</b>	<b>-</b>
<b>Valuation allowance</b>	<b>(1,973,410)</b>	<b>(5,004,078)</b>	<b>(9,789,247)</b>	<b>(1,973,410)</b>
<b>Net deferred tax asset</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

A 100% valuation allowance has been provided for all deferred tax assets, as the ability of the Company to generate sufficient taxable income in the future is uncertain.

Reconciliations of the expected federal income tax benefit based on the statutory income tax rate of 21% to the actual benefit for the years ended **December 31, 2022** **December 31, 2023** and **2021** **2022** are listed below.

	<i>For the Year Ended December 31,</i>		<i>2023</i>	<i>2022</i>
	<i>2022</i>	<i>2021</i>	<i>For the Year Ended December 31,</i>	<i>2022</i>
<b>Expected federal income tax benefit</b>	<b>\$ 2,851,758</b>	<b>\$ 1,663,601</b>		
			<b>2023</b>	<b>2022</b>
<b>Expected federal income tax (expense) benefit</b>			<b>\$ (903,220)</b>	<b>\$ 2,851,758</b>
<b>State and local taxes, net of federal (expense) benefit</b>			<b>(226,714)</b>	<b>-</b>
<b>Fair value adjustments</b>			<b>(819,270)</b>	<b>-</b>
<b>Share-based compensation</b>			<b>(557,168)</b>	<b>(249,516)</b>
<b>Other permanent differences</b>			<b>118,765</b>	<b>-</b>
<b>NOL carryover adjusted for expiration</b>	<b>46,936</b>	<b>(29,730)</b>	<b>-</b>	<b>46,936</b>
<b>Equity method investment loss</b>	<b>(79,723)</b>	<b>(129,555)</b>	<b>-</b>	<b>(79,723)</b>
<b>Meals and entertainment</b>	<b>(4,843)</b>	<b>(7,439)</b>	<b>-</b>	<b>(4,843)</b>
<b>Share-based compensation</b>	<b>(249,516)</b>	<b>120,924</b>		
<b>Research and development expenses</b>	<b>(707,076)</b>	<b>)</b>	<b>-</b>	
<b>Research and development costs</b>			<b>-</b>	<b>(707,076)</b>
<b>Other temporary differences</b>	<b>329,829</b>	<b>(46,683)</b>	<b>-</b>	<b>329,829</b>
<b>NOL carryover adjustments</b>			<b>(5,148,128)</b>	<b>-</b>
<b>Intangibles</b>			<b>(720,407)</b>	<b>-</b>
<b>Other true ups</b>			<b>(230,474)</b>	<b>-</b>
<b>Changes in tax rates</b>			<b>673,449</b>	<b>-</b>
<b>Change in valuation allowance</b>	<b>3,657,431</b>	<b>(1,571,118)</b>	<b>7,813,167</b>	<b>3,657,431</b>
<b>Income tax expense (benefit)</b>	<b>\$ 5,844,796</b>	<b>\$ -</b>		
<b>Income tax (expense) benefit</b>			<b>\$ -</b>	<b>\$ 5,844,796</b>

All tax years starting with **2019** **2021** are open for examination.

#### NOTE 14 ■ 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 Nutritionals. Applied. Sales of CellerateRX have comprised the substantial majority of the Company's sales during **2022** **2023** and **2021** **2022**. 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. \$20,000,000 For the years ended December 31, 2022 and 2021, royalty expense, which is recorded in "Cost of goods sold" in the accompanying Consolidated Statements of Operations, was \$1,771,219 and \$856,755, respectively under the terms of this agreement.

As discussed further in Note 5, 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 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 BIAKÖS License Agreement are BIAKÖS Antimicrobial Wound Gel and BIAKÖS 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 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 10 for more information on these product license agreements.

#### **Rochal Asset Purchase**

As discussed in Note 3, in July 2021, the Company entered into an asset purchase agreement with Rochal, effective July 1, 2021, pursuant to which we purchased certain assets of Rochal, including, among others, certain of Rochal's intellectual property, furniture and equipment, supplies, rights and claims, and assumed certain liabilities upon the terms and subject to the conditions set forth in the asset purchase agreement. In exchange for the acquired assets, the Company paid Rochal (i) \$496,100 in cash and (ii) 14,369 shares of the Company's common stock.

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#### **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.

#### **NOTE 15 – SUBSEQUENT EVENTS**

##### **At-The-Market Share Offering**

On February 24, 2023, the Company entered into a Controlled Equity Offering<sup>SM</sup> Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co., as sales agent (“Cantor”), pursuant to which the Company may 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, if any, pursuant to the Sales Agreement, may be 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 has no obligation to sell any of the shares under the Sales Agreement and may at any time 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 are subject to satisfaction of certain conditions, including customary closing conditions. Pursuant to the Sales Agreement, the Company will pay Cantor a commission of 3.0% of the aggregate gross proceeds from each sale of the shares.

From February 24, 2023 through March 17, 2023, the Company sold an aggregate of 17,878 shares of common stock for gross proceeds of approximately \$732,000 and net proceeds of approximately \$710,000.

##### **Catalyst Transaction Advisory Services Agreement**

On March 20, 2023, In March 2023, the Company entered into a Transaction Advisory Services Agreement (the “Services Agreement” “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 “Services” “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 \$174,486 of costs pursuant to the Catalyst Services Agreement in the year ended December 31, 2023.

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## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. 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 **December 31, 2022** December 31, 2023, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of **December 31, 2022** December 31, 2023, our disclosure controls and procedures were effective.

#### *Management's Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate over time.

Management believes that our policies and procedures provide reasonable assurance that our operations are conducted with a high standard of business ethics. In management's opinion, our financial statements present fairly, in all material respects, our financial position, results of operations, and cash flows. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Management applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company's management, specifically its Certifying Officers, has assessed the effectiveness of the Company's internal control over financial reporting as of **December 31, 2022** December 31, 2023 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013) and SEC guidance on conducting such assessments. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of **December 31, 2022** December 31, 2023.

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

There were no changes in our internal control over financial reporting that occurred during the quarter ended **December 31, 2022** December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We will continue to evaluate the effectiveness of internal controls and procedures on an on-going basis.

#### *No Attestation Report of Registered Public Accounting Firm*

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the rules of the SEC that permit us to provide only management's report in this Annual Report on Form 10-K.

## ITEM 9B. OTHER INFORMATION

None.

On March 20, 2023, we entered into a Transaction Advisory Services Agreement (the "Services Agreement"), effective as of March 1, 2023, with Catalyst. Pursuant to the 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 we may be, or may consider becoming, involved, and any such additional services as mutually agreed upon in writing by and between us and Catalyst (the "Services").

Pursuant to the 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 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 Services rendered under the Services Agreement, with all reimbursements being contingent upon the prior approval of the Audit Committee of our Board of Directors (the "Audit Committee").

As previously discussed, our Executive Chairman, Ronald T. Nixon, is the founder and managing partner of Catalyst, and Catalyst and its affiliates collectively beneficially own more than 5% of the Company's outstanding common stock. As a result, the transactions contemplated by the Services Agreement may constitute one or more transactions with a related person requiring approval under the Audit Committee's charter and disclosure under Item 404 of Regulation S-K promulgated under the Securities Act of 1933, as amended. Accordingly, the Audit Committee authorized the entry into the Services Agreement at a meeting duly called and held in March 2023, and approved up to \$250,000 in fees to be paid under the Services Agreement for the 2023 calendar year.

The foregoing description of the Services Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Services Agreement, a copy of which is filed as Exhibit 10.15 hereto and incorporated herein by reference.

## ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required in response to this Item 10 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required in response to this Item 11 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required in response to this Item 12 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required in response to this Item 13 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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#### PART IV

##### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

Refer to Index to Financial Statements appearing on page F-1.

(b) Financial Statement Schedules

No financial statement schedules are provided because the information called for is not required or is shown in the financial statements or the notes thereto.

(c) Exhibits

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

Exhibit No.	Description
1.1#	<a href="#">Controlled Equity Offering<sup>SM</sup> Sales Agreement, dated February 24, 2023, by and between Sanara MedTech Inc. and Cantor Fitzgerald &amp; Co. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on February 24, 2023).</a>
2.1#	<a href="#">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).</a>
2.2#	<a href="#">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 Fureaux 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).</a>
2.3#	<a href="#">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).</a>
2.4#	<a href="#">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).</a>
3.1	<a href="#">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).</a>
3.2	<a href="#">Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement Current Report on Form S-18-K filed April 11, 2008 on March 22, 2024).</a>
4.1	<a href="#">Description of Securities (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K filed March 30, 2021).</a>
10.1.1*† 10.1.1†	<a href="#">Sanara MedTech Inc. Restated 2014 Omnibus Long Term Incentive Plan dated February 10, 2020 effective upon shareholder approval on July 9, 2020. (incorporated by reference to Exhibit 10.1.1 to the Company's Annual Report on Form 10-K filed on March 20, 2023).</a>
10.1.2†	<a href="#">Form of Restricted Stock Award Agreement for Employees under the Sanara MedTech Inc. Restated 2014 Omnibus Long Term Incentive Plan (incorporated by reference to Exhibit 10.1.2 to the Company's Annual Report on Form 10-K filed on March 30, 2021).</a>
10.1.3*† 10.1.3†	<a href="#">Form of Restricted Stock Award Agreement for Outside Directors under the Sanara MedTech Inc. Restated 2014 Omnibus Long Term Incentive Plan (2022). (incorporated by reference to Exhibit 10.1.3 to the Company's Annual Report on Form 10-K filed on March 20, 2023).</a>
10.1.4*† 10.1.4†	<a href="#">Form of Restricted Stock Award Agreement for Employees under the Sanara MedTech Inc. Restated 2014 Omnibus Long Term Incentive Plan (2023). (incorporated by reference to Exhibit 10.1.4 to the Company's Annual Report on Form 10-K filed on March 20, 2023).</a>
10.2†	
10.2 †	<a href="#">Amended and Restated Employment Agreement, dated April 28, 2022, by and between Sanara MedTech Inc. and Zachary B. Fleming (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 29, 2022).</a>
10.3† 10.3 †	<a href="#">Employment Agreement, dated April 28, 2022, by and between Sanara MedTech Inc. and Michael D. McNeil (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 29, 2022).</a>
10.4	<a href="#">Contribution Agreement dated August 27, 2018 between Wound Care Innovations, LLC and Catalyst Cellerate RX, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 14, 2018).</a>
10.5	<a href="#">Operating Agreement dated August 27, 2018 between Wound Care Innovations, LLC and Catalyst Cellerate RX, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed November 14, 2018).</a>

10.6.1 [Sublicense Agreement dated August 27, 2018 between Catalyst Cellerate RX, LLC and Cellerate, LLC \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed November 14, 2018\).](#)

10.6.2 [First Amendment of Sublicense Agreement dated May 31, 2019, between Cellerate, LLC, as Sublicensee, and CGI Cellerate RX, LLC, as Sublicensor \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 26, 2021\).](#)

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10.6.3	<a href="#">Second Amendment of Sublicense Agreement dated January 26, 2021, between Cellerate, LLC, as Sublicensee, and CGI Cellerate RX, LLC, as Sublicensor (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 26, 2021).</a>
10.7.1	<a href="#">Exclusive License Agreement dated July 8, 2019 between Sanara MedTech Inc. and Rochal Industries, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2019).</a>
10.7.2	<a href="#">Amendment No. 1 to Exclusive License Agreement dated May 4, 2020 between Sanara MedTech Inc. and Rochal Industries, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 13, 2020).</a>
10.8	<a href="#">Exclusive License Agreement dated October 1, 2019 between Sanara MedTech Inc. and Rochal Industries, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2019).</a>
10.9	<a href="#">Exclusive License Agreement dated May 4, 2020 between Sanara MedTech Inc. and Rochal Industries, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 12, 2020).</a>
10.10†	<a href="#">Consulting Agreement, dated July 14, 2021, by and between Sanara MedTech Inc. and Ann Beal Salamone (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed on July 19, 2021 by the Company with the SEC).</a>
10.11† 10.11	<a href="#">Separation Agreement and General Release and Waiver, dated December 2, 2022, between Sanara MedTech Inc. and Shawn M. Bowman (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on December 6, 2022).</a>
10.12	<a href="#">Common Stock Warrant, issued by Sanara MedTech Inc. to Furneaux Capital Holdco, LLC (d/b/a BlueIO) on April 4, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 8, 2022).</a>
10.13 10.12	<a href="#">Common Stock Warrant, issued by Sanara MedTech Inc. to Furneaux Capital Holdco, LLC (d/b/a BlueIO) on April 4, 2022 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 8, 2022).</a>
10.14 10.13	<a href="#">Precision Healing Inc. 2020 Stock Option and Grant Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 8, 2022).</a>
10.15* 10.14	<a href="#">Controlled Equity Offering<sup>SM</sup> Sales Agreement, dated February 24, 2023, by and between Sanara MedTech Inc. and Cantor Fitzgerald &amp; Co. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on February 24, 2023).</a>
10.15	<a href="#">Transaction Advisory Services Agreement, dated March 1, 2023, by and between Sanara MedTech Inc. and The Catalyst Group, Inc. (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on March 20, 2023).</a>
10.16+	<a href="#">Professional Services Agreement, dated August 1, 2023, by and between Sanara MedTech Inc. and Dr. George D. Petito (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 2, 2023).</a>
10.17+	<a href="#">Loan Agreement, dated August 1, 2023, between Sanara MedTech Applied Technologies, LLC, Sanara MedTech Inc. and Cadence Bank (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 2, 2023).</a>
21.1*	<a href="#">List of Subsidiaries.</a>
23.1*	<a href="#">Consent of Weaver and Tidwell, L.L.P.</a>
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32.1**	<a href="#">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.</a>
32.2**	<a href="#">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.</a>
97.1*	<a href="#">Sanara MedTech Inc. Compensation Recovery Policy.</a>
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith herewith.

# Schedules Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. Sanara MedTech Inc. hereby undertakes to furnish supplementally copies A copy of any of the omitted schedules upon request by 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.

+ 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. Certain confidential information has been excluded pursuant to Item 601(b)(10)(iv) 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 plan.

**ITEM 16. FORM 10-K SUMMARY**

**None.**

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## 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.

March 20, 2023 25, 2024

By: /s/ Michael D. McNeil

Michael D. McNeil  
Chief Financial Officer  
(Principal Financial Officer and duly authorized officer)

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

Signature	Title	Date
<u>/s/ Zachary B. Fleming</u> Zachary B. Fleming	Chief Executive Officer (Principal Executive Officer)	March 20, 2023 25, 2024
<u>/s/ Michael D. McNeil</u> Michael D. McNeil	Chief Financial Officer (Principal Financial and Accounting Officer)	March 20, 2023 25, 2024
<u>/s/ Ronald T. Nixon</u> Mr. Ronald T. Nixon	Chairman	March 20, 2023 25, 2024
<u>/s/ Robert DeSutter</u> Robert DeSutter	Director	March 20, 2023 25, 2024
<u>/s/ Roszell Mack III</u> Roszell Mack III	Director	March 20, 2023 25, 2024
<u>/s/ Eric D. Major</u> Eric D. Major	Director	March 25, 2024
<u>/s/ Sara Ortwein</u> Sara Ortwein	Director	March 20, 2023 25, 2024
<u>/s/ Ann Beal Salamone</u> Ann Beal Salamone	Director	March 20, 2023 25, 2024
<u>/s/ James W. Stuckert</u> James W. Stuckert	Director	March 20, 2023 25, 2024
<u>/s/ Eric D. Tanzberger</u> Eric D. Tanzberger	Director	March 20, 2023 25, 2024
<u>/s/ Kenneth E. Thorpe</u> Kenneth E. Thorpe	Director	March 20, 2023

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Exhibit 10.1.1

### SANARA MEDTECH INC.

### RESTATED 2014 OMNIBUS LONG TERM INCENTIVE PLAN

February 10, 2020

#### ARTICLE 1

##### General Purpose of Plan; Definitions

**1.1 Name and Purposes.** The name of this plan is the Sanara MedTech Inc. 2014 Omnibus Long Term Incentive Plan. The purpose of this Plan is to enable Sanara MedTech Inc. and its Affiliates to: (i) attract and retain skilled and qualified officers, employees and Directors who are expected to contribute to the Company's success by providing long-term incentive compensation opportunities competitive with those made available by other companies; (ii) motivate participants to achieve the long-term success and growth of the Company; (iii) facilitate ownership of shares of the Company; and (iv) align the interests of the participants with those of the Company's Shareholders.

**1.2 Certain Definitions.** Unless the context otherwise indicates, the following words shall have the following meanings whenever used in this Plan:

**"Affiliate"** means any corporation, partnership, joint venture or other entity, directly or indirectly, through one or more intermediaries, controlling, controlled by, or

under common control with the Company within the meaning of Section 414(b) or (c) of the Code.

**"Award"** means any Common Share, Stock Option, Stock Appreciation Right, Restricted Share, Restricted Share Unit or Performance Share granted pursuant to this

Plan.

**"Base Value"** is defined in Section 7.3.

**"Beneficial Owner"** means a "beneficial owner," as such term is defined in Rule 13d-3 under the Exchange Act (or any successor rule thereto).

**"Board"** means the Board of Directors of the Company.

**"Change in Control"** is defined in Section 12.1.

**"Code"** means the Internal Revenue Code of 1986, as amended from time to time, and lawful regulations and guidance promulgated thereunder. Whenever reference is made to a specific Internal Revenue Code section, such reference shall be deemed to be a reference to any successor Internal Revenue Code section or sections with the same or similar purpose.

**"Committee"** means the entity administering this Plan as provided in Section 2.1.

**"Common Shares"** means shares of common stock of the Company, par value \$0.001 per share.

**"Company"** means Sanara MedTech Inc., a corporation organized under the laws of the State of Texas and, except for purposes of determining whether a Change in Control has occurred, any corporation or entity that is a successor to Sanara MedTech Inc. or substantially all of the assets of Sanara MedTech Inc. and that assumes the obligations of Sanara MedTech Inc. under this Plan by operation of law or otherwise.

**"Date of Grant"** means the date on which the Committee grants an Award.

**"Director"** means a member of the Board.

**"Disability"** shall be defined in the Award agreements, as necessary.

**"Employment"** as used herein shall be deemed to refer to (i) a participant's employment if the participant is an employee of the Company or any of its Affiliates, (ii) a participant's services as a consultant, if the participant is a consultant to the Company or its Affiliates and (iii) a participant's services as a non-employee director, if the participant is a non-employee member of the Board; provided that, for any Award that is or becomes subject to Section 409A of the Code, termination of Employment means a "separation from service" under Section 409A of the Code.

**"Exchange Act"** means the Securities Exchange Act of 1934, as amended from time to time, and any lawful regulations and guidance promulgated thereunder. Whenever reference is made to a specific Securities Exchange Act of 1934 section, such reference shall be deemed to be a reference to any successor section or sections with the same or similar purpose.

**"Exercise Price"** means the purchase price of a Share pursuant to a Stock Option.

**"Fair Market Value"** means: (i) if the Common Shares are listed on a national securities exchange or quoted in an interdealer quotation system, the last sales price or, if unavailable, the average of the closing bid and asked prices per Share on such date (or, if there was no trading or quotation of the Common Shares on such date, on the next preceding date on which there was trading or quotation); or (ii) if the Common Shares are not listed on a national securities exchange or quoted in an interdealer quotation system, the "Fair Market Value" of Common Shares shall be determined by the Committee in a reasonable manner pursuant to a reasonable valuation method. Notwithstanding anything to the contrary in the foregoing, as of any date, the "Fair Market Value" of Common Shares shall be determined in a manner consistent with avoiding adverse tax consequences under Code Section 409A. In addition, "Fair Market Value" with respect to ISOs and related SARs shall be determined in accordance with Section 6.2(f).

**"Full-Value Awards"** means Restricted Share Awards, Restricted Share Unit Awards, Performance Share Awards and Common Share Awards.

**"Incentive Stock Option"** and "ISO" mean a Stock Option which meets the requirements of Section 422 of the Code.

**"Non-Qualified Stock Option"** and "NQSO" mean a Stock Option that does not meet the requirements of Section 422 of the Code.

**"Outside Director"** means a Director who meets the definitions of the terms "independent director" set forth in The Nasdaq Stock Market, Inc. rules, and "non-employee director" set forth in Rule 16b-3, or any successor definitions adopted by The Nasdaq Stock Market, Inc. and Securities and Exchange Commission, respectively, and similar requirements under any other applicable laws, rules and regulations.

**"participant"** is defined in Section 4.1.

**"Parent"** means any corporation which qualifies as a "parent corporation" of the Company under Section 424(e) of the Code.

**"Performance Period"** is defined in Section 8.4(g).

**"Performance Shares"** mean any Shares issued pursuant to an Award granted under Article 9.

**"person"** means a "person" as such term is used for purposes of Section 13(d) or 14(d) of the Exchange Act.

**"Plan"** means this Sanara MedTech Inc. 2014 Omnibus Long Term Incentive Plan, as amended from time to time.

**"Plan Year"** means the calendar year.

**"Restricted Share Units"** means Shares issued by the Company pursuant to an Award granted under Article 8 that will be issued to a participant at a future time or times at no cost or at a purchase price determined by the Committee, which may be below their Fair Market Value, if continued Employment and/or other terms and conditions specified by the Committee are satisfied.

**"Restricted Shares"** means Shares which are issued by the Company pursuant to an Award granted under Article 8 to a participant at no cost or at a purchase price determined by the Committee which may be below their Fair Market Value but which are subject to forfeiture and restrictions on their sale or other transfer by the participant.

**"Retirement"** shall be defined in the Award agreements, as necessary.

**"Rule 16b-3"** is defined in Article 17.

**"Share" or "Shares"** mean one or more of the Common Shares.

**"Shareholder"** means an individual or entity that owns one or more shares of stock of the Company, including Common Shares.

**"Stock Appreciation Rights"** and "SARs" mean any right pursuant to an Award granted under Article 7.

**"Stock Option"** means a right to purchase a specified number of Shares at a specified price which is granted pursuant to Article 5; such right may be an Incentive Stock Option or a Non-Qualified Stock Option.

**"Stock Power"** means a power of attorney executed by a participant and delivered to the Company which authorizes the Company to transfer ownership of Restricted Shares, Performance Shares or Common Shares from the participant to the Company or a third party.

**"Subsidiary"** means any corporation which qualifies as a "subsidiary corporation" of the Company under Section 424(f) of the Code.

**"Vested"** means, with respect to a Common Share, when the Common Share has been awarded; with respect to a Stock Option, when the Stock Option first becomes exercisable; with respect to a Stock Appreciation Right, when the Stock Appreciation Right first becomes exercisable; with respect to Restricted Shares, when the Shares are no longer subject to forfeiture and restrictions on transferability; with respect to Restricted Share Units and Performance Shares, when the Restricted Share Units or Performance Shares are no longer subject to restrictions and forfeiture and are convertible to, or replaceable with, Shares. "Vest" and "Vesting" shall have correlative meanings.

## ARTICLE 2

### Administration

#### 2.1 Authority and Duties of the Committee.

(a) The Plan shall be administered by a Committee of at least two Directors who are appointed by the Board. Unless otherwise determined by the Board, the Compensation Committee of the Company shall serve as the Committee that will administer the Plan, and all of the members of the Committee shall be Outside Directors. Notwithstanding this requirement that the Committee consist exclusively of Outside Directors, no action or determination by the Committee or an individual then considered to be an Outside Director shall be deemed void because it is discovered that a member of the Committee or such individual fails to satisfy the requirements for being an Outside Director, except to the extent required by applicable law. In the event that the Committee shall not have been appointed by the Board, the Plan shall be administered by the Board, which shall exercise all rights, powers and authority granted to the Committee under this Plan.

(b) The Committee has the power and authority to grant Awards pursuant to the terms of this Plan to officers, employees, consultants and Outside Directors.

(c) The Committee has the sole and exclusive authority, subject to any limitations specifically set forth in this Plan, to:

- (i) select the officers, employees, consultants and Outside Directors to whom Awards are granted;
- (ii) determine the types of Awards granted and the timing of such Awards;
- (iii) determine the number of Shares to be covered by each Award granted hereunder;
- (iv) determine the other terms and conditions, not inconsistent with specific requirements of this Plan, of any Award granted hereunder; such terms and conditions include, but are not limited to, the Exercise Price, the time or times when Stock Options or Stock Appreciation Rights may be exercised (which may be based on performance objectives), any Vesting, acceleration or waiver of forfeiture restrictions, any performance criteria applicable to an Award, and any restriction or limitation regarding any Option or Stock Appreciation Right or the Common Shares relating thereto, based in each case on such factors as the Committee, in its sole discretion, shall determine;
- (v) determine whether any conditions or objectives related to Awards have been met;
- (vi) subsequently modify or waive any terms and conditions of Awards, not inconsistent with the terms of this Plan;

- (vii) adopt, alter and repeal such administrative rules, guidelines and practices governing this Plan as it deems advisable from time to time;
- (viii) promulgate such administrative forms as they from time to time deem necessary or appropriate for administration of the Plan;
- (ix) construe, interpret, administer and implement the terms and provisions of this Plan, any Award and any related agreements;
- (x) correct any defect, supply any omission and reconcile any inconsistency in or between the Plan, any Award and any related agreements;
- (xi) prescribe any legends to be affixed to certificates representing Shares or other interests granted or issued under the Plan; and
- (xii) otherwise supervise the administration of this Plan.

(d) All decisions made by the Committee pursuant to the provisions of this Plan are final and binding on all persons, including the Company, its Shareholders and participants, but may be made by their terms subject to ratification or approval by, the Board, another committee of the Board or Shareholders.

(e) The Company shall furnish the Committee and its delegates with such clerical and other assistance as is necessary for the performance of the Committee's duties under the Plan.

2.2 **Delegation of Duties.** The Committee may delegate ministerial duties to any other person or persons, and it may employ attorneys, consultants, accountants or other professional advisers for purposes relating to plan administration at the expense of the Company.

2.3 **Limitation of Liability.** Members of the Board, members of the Committee and Company employees who are their designees acting under this Plan shall be fully protected in relying in good faith upon the advice of counsel and shall incur no liability except for grossly negligent or willful misconduct in the performance of their duties hereunder.

### ARTICLE 3

#### Stock Subject to Plan

3.1 **Total Shares Limitation.** Subject to the provisions of this Article, the maximum number of Shares that may be issued pursuant to Awards granted under this Plan is 2,000,000, which may be treasury Shares or unissued Shares.

#### 3.2 **Other Limitations.**

(a) **Stock Option Limitations.** The maximum number of Shares available with respect to all Stock Options granted under this Plan is 2,000,000 Shares. The maximum number of Shares available with respect to ISOs granted under this Plan is 1,000,000 Shares.

(b) **Full-Value Limitations.** The maximum number of Shares available with respect to Full-Value Awards granted under this Plan is 2,000,000 Shares.

(c) **Participant Limitation.** The aggregate number of Shares underlying all Awards granted under this Plan to any participant in any Plan Year (including but not limited to Awards of Options and SARs), regardless of whether such Awards are thereafter canceled, forfeited or terminated, shall not exceed 100,000 Shares.

3.3 **Awards Not Exercised; Effect of Receipt of Shares.** If any outstanding Award, or portion thereof, expires, or is terminated, canceled or forfeited, the Shares that would otherwise be issuable with respect to the unexercised portion of such expired, terminated, canceled or forfeited Award shall be available for subsequent Awards under this Plan. If (i) the Exercise Price of a Stock Option is paid in Shares, (ii) Shares underlying the exercised portion of an SAR are not issued upon exercise of the SAR, (iii) Shares are withheld to satisfy an individual participant's tax obligations or (iv) Shares are repurchased by the Company on the open market with respect to Awards under this Plan, the Shares received, not issued, withheld or repurchased by the Company in connection therewith shall not be added to the maximum aggregate number of Shares which may be issued under Section 3.1.

3.4 **Dilution and Other Adjustments.** If the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, redesignation, reclassification, merger, consolidation, liquidation, split-up, reverse split, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, then the Committee may, in such manner as it deems equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) which thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards, (iii) the limitations set forth above and (iv) the purchase or Exercise Price or any performance objective with respect to any Award; *provided, however, that the number of Shares or other securities covered by any Award or to which such Award relates is always a whole number.* Notwithstanding the foregoing, unless otherwise determined by the Committee, the foregoing adjustments shall be made in conformity with: (I) Sections 422 and 424 of the Code with respect to ISOs; (II) Treasury Department Regulation Section 1.424-1 (and any successor thereto) with respect to NQSOs, applied as if the NQSOs were ISOs; and (III) Section 409A of the Code, to the extent necessary to avoid its application or avoid adverse tax consequences thereunder.

### ARTICLE 4

#### Participants; Award Agreements

4.1 **Eligibility.** Officers, all other active common law employees of the Company or any of its Affiliates, consultants and Outside Directors who are selected by the Committee in its sole discretion are eligible to participate in this Plan (individually, a "participant").

4.2 **Award Agreements.** Each Award granted under this Plan will be evidenced by minutes of a meeting, or by a unanimous written consent without a meeting, of the Committee, and by a written agreement dated as of the Date of Grant and executed by the Company and by the appropriate participant. Each Award is conditioned upon the participant's execution of a written agreement in the form prescribed by the Committee. Execution of an Award agreement shall constitute (i) the participant's irrevocable agreement to, and acceptance of, the terms and conditions of the Award set forth in such agreement and of the terms and conditions of the Plan applicable to such Award and (ii) the participant's agreement to pay to the Company when due the amount of any required tax withholding as provided in Article 16. Award agreements may differ from time to time and from participant to participant.

### ARTICLE 5

#### Stock Option Awards

5.1 **Option Grant.** Each Stock Option may be granted under this Plan as a Non-Qualified Stock Option or an Incentive Stock Option and, if a Non-Qualified Stock Option, either independently or in conjunction with the grant of an SAR.

5.2 **Terms and Conditions of Grants.** Stock Options granted under this Plan are subject to the following terms and conditions and may contain such additional terms, conditions, restrictions and contingencies with respect to exercisability and with respect to the Shares acquired upon exercise as may be provided in the relevant agreement evidencing the Stock Options, as the Committee deems desirable, so long as such terms and conditions are not inconsistent with the terms of this Plan:

(a) **Exercise Price.** Subject to Section 3.4, the Exercise Price will never be less than 100% of the Fair Market Value of the Shares on the Date of Grant. Except as otherwise provided in Section 3.4, no subsequent amendment of an outstanding Stock Option may reduce the Exercise Price to less than 100% of the Fair Market Value of the Shares on the Date of Grant.

(b) **Option Term.** Any unexercised portion of a Stock Option granted hereunder shall expire at the end of the stated term of the Stock Option. The Committee shall determine the term of each Stock Option at the time of grant, which term shall not exceed ten years from the Date of Grant. The Committee may extend the term of a Stock Option, in its discretion, but not beyond the date immediately prior to the tenth anniversary of the original Date of Grant. If a definite term is not specified by the Committee at the time of grant, then the term is deemed to be ten years. Unless provided otherwise in an agreement evidencing the Stock Option or determined by the Committee, each Stock Option shall terminate upon the participant's termination of Employment.

(c) **Vesting.** Stock Options, or portions thereof, are exercisable at such time or times and on such conditions as determined by the Committee in its discretion at or after grant. If the Committee provides that any Stock Option becomes Vested over a period of time or on conditions, in its entirety or in installments, the Committee may waive or accelerate those Vesting provisions at any time.

(d) **Method of Exercise.** Vested portions of any Stock Option may be exercised in whole or in part at any time during the option term by giving written notice of exercise to the Company specifying the number of Shares to be purchased. The notice must be given by or on behalf of a person entitled to exercise the Stock Option, accompanied by payment in full of the Exercise Price, along with the amount of any tax withholding. Subject to the approval of the Committee, the Exercise Price may be paid:

- (i) in cash in any manner satisfactory to the Committee;
- (ii) by tendering (by either actual delivery of Shares or by attestation) unrestricted Shares that are owned on the date of exercise by the person entitled to exercise the Stock Option having an aggregate Fair Market Value on the date of exercise equal to the applicable Exercise Price;
- (iii) by a combination of cash and unrestricted Shares that are owned on the date of exercise by the person entitled to exercise the Stock Option;
- (iv) by delivery of irrevocable instructions to a broker to sell Shares obtained upon exercise of the Stock Option and to deliver promptly to the Company an amount out of the proceeds of such sale equal to the Exercise Price for the Shares being purchased; and

(v) by another method permitted by law and affirmatively approved by the Committee which assures full and immediate payment or satisfaction of the Exercise Price. The Committee may withhold its approval for any method of payment for any reason, in its sole discretion, including but not limited to concerns that the proposed method of payment will result in adverse financial accounting treatment, adverse tax treatment for the Company or a participant or a violation of the Sarbanes-Oxley Act of 2002, as amended from time to time, and lawful regulations and guidance promulgated thereunder.

(e) *Issuance of Shares.* The Company will issue or cause to be issued Shares as soon as practicable after exercise of a Stock Option and receipt of full payment of the Exercise Price. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, in certificated or uncertificated form, no right to vote or receive dividends or any other rights as a Shareholder will exist with respect to the Shares, notwithstanding the exercise of the Stock Option.

(f) *Form.* Unless the grant of a Stock Option is designated at the time of grant as an ISO, it is deemed to be an NQSO. ISOs are subject to the additional terms and conditions in Article 6.

(g) *Special Limitations on Stock Option Awards.* Unless an Award agreement approved by the Committee expressly provides otherwise, Stock Options awarded under this Plan are intended to meet the requirements for exclusion from coverage under Section 409A of the Code and all Stock Option Awards shall be construed and administered accordingly.

## ARTICLE 6

### Special Rules Applicable to Incentive Stock Options

6.1 *Eligibility.* Notwithstanding any other provision of this Plan to the contrary, an ISO may only be granted to employees (including officers and Directors who are also employees) of the Company or an Affiliate which is also a Parent or Subsidiary.

6.2 *Special ISO Rules.*

(a) *Term.* No ISO may be exercisable on or after the tenth anniversary of the Date of Grant, and no ISO may be granted under this Plan on or after the tenth anniversary of the effective date of this Plan.

(b) *Ten Percent Shareholder.* If a grantee owns (at the time of the Award and after application of the rules contained in Section 424(d) of the Code) equity securities possessing more than 10% of the total combined voting power of all classes of equity securities of the Company, its Parent or any Subsidiary, the Exercise Price of the ISO will be at least 110% of the Fair Market Value of the Shares as of the Date of Grant and such ISO shall not be exercisable on or after the fifth anniversary of the Date of Grant.

(c) *Limitation on Grants.* The aggregate Fair Market Value (determined with respect to each ISO at the time of grant) of the Shares with respect to which ISOs are exercisable for the first time by an optionee during any calendar year (under this Plan or any other plan adopted by the Company or a Parent or a Subsidiary) shall not exceed \$100,000. If such aggregate Fair Market Value shall exceed \$100,000, such number of ISOs as shall have an aggregate Fair Market Value equal to the amount in excess of \$100,000 shall be treated as NQSOs.

(d) *Non-Transferability.* Notwithstanding any other provision herein to the contrary, no ISO (and, if applicable, related Stock Appreciation Right) may be transferred except by will or by the laws of descent and distribution, nor may an ISO (or related Stock Appreciation Right) be exercisable during an optionee's lifetime other than by him or her (or his or her guardian or legal representative to the extent permitted by applicable law).

(e) *Termination of Employment.* No ISO may be exercised more than three months following termination of Employment for any reason (including Retirement) other than death or Disability, nor more than one year following termination of Employment due to death or Disability (as defined in Section 422 of the Code), or such option will no longer qualify as an ISO and shall thereafter be, and receive the tax treatment applicable to, an NQSO. For this purpose, a termination of Employment is cessation of Employment such that no Employment relationship exists between the participant and the Company, a Parent or a Subsidiary.

(f) *Fair Market Value.* For purposes of any ISO granted hereunder (or, if applicable, related Stock Appreciation Right), the Fair Market Value of Shares shall be determined in the manner required by Section 422 of the Code.

6.3 *Subject to Code Amendments.* The foregoing limitations are designed to comply with the requirements of Section 422 of the Code and shall be automatically amended or modified to comply with changes to Section 422 of the Code. Any ISO which fails to meet the requirements of Section 422 of the Code is automatically treated as an NQSO appropriately granted under this Plan provided that it otherwise meets the Plan's requirements for being an NQSO.

## ARTICLE 7

### Stock Appreciation Rights

7.1 *SAR Grant and Agreement.* A Stock Appreciation Right may be granted under this Plan, either independently or in conjunction with the grant of a Stock Option.

7.2 *SARs Granted in Conjunction with Option.* Stock Appreciation Rights may be granted in conjunction with all or part of Stock Options granted under this Plan, at the same time as the grant of the Stock Options, and will be subject to the following terms and conditions:

(a) *Term.* Each Stock Appreciation Right, or applicable portion thereof, granted with respect to a given Stock Option or portion thereof terminates and is no longer exercisable upon the termination or exercise of the related Stock Option, or applicable portion thereof.

(b) *Exercisability.* A Stock Appreciation Right is exercisable only at such time or times and to the extent that the Stock Option to which it relates is Vested and exercisable in accordance with the provisions of Article 5 or otherwise as the Committee may determine.

(c) *Method of Exercise.* A Stock Appreciation Right may be exercised by the surrender of the applicable portion of the related Stock Option. Stock Options which have been so surrendered, in whole or in part, are no longer exercisable to the extent the related Stock Appreciation Rights have been exercised and are deemed to have been exercised for the purpose of the limitation set forth in Article 3 on the number of Shares to be issued under this Plan. Upon the exercise of a Stock Appreciation Right, subject to satisfaction of tax withholding requirements, the holder of the Stock Appreciation Right is entitled to receive cash or Shares equal in value to the excess of the Fair Market Value of a Share on the exercise date over the Exercise Price per Share specified in the related Stock Option, multiplied by the number of Shares in respect of which the Stock Appreciation Right is exercised. Any fractional Shares shall be paid in cash or, if the Committee determines, rounded downward to the next whole Share. At any time the Exercise Price per Share of the related Stock Option exceeds the Fair Market Value of one Share, the holder of the Stock Appreciation Right shall not be permitted to exercise such right.

7.3 *Independent SARs.* Stock Appreciation Rights may be granted without related Stock Options, and independent Stock Appreciation Rights will be subject to the following terms and conditions:

(a) *Term.* Any unexercised portion of an independent Stock Appreciation Right granted hereunder shall expire at the end of the stated term of the Stock Appreciation Right. The Committee shall determine the term of each Stock Appreciation Right at the time of grant, which term shall not exceed ten years from the Date of Grant. The Committee may extend the term of a Stock Appreciation Right, in its discretion, but not beyond the date immediately prior to the tenth anniversary of the original Date of Grant. If a definite term is not specified by the Committee at the time of grant, then the term is deemed to be ten years.

(b) *Exercisability.* A Stock Appreciation Right is exercisable, in whole or in part, at such time or times as determined by the Committee at or after the time of grant.

(c) *Method of Exercise.* A Stock Appreciation Right may be exercised in whole or in part during the term by giving written notice of exercise to the Company specifying the number of Shares in respect of which the Stock Appreciation Right is being exercised. The notice must be given by or on behalf of a person entitled to exercise the Stock Appreciation Right. Upon the exercise of a Stock Appreciation Right, subject to satisfaction of tax withholding requirements, the holder of the Stock Appreciation Right is entitled to receive cash or Shares equal in value to the excess of the Fair Market Value of a Share on the exercise date over the Fair Market Value of a Share on the Date of Grant (the "Base Value") multiplied by the number of Stock Appreciation Rights being exercised. Any fractional Shares shall be paid in cash or, if the Committee determines, rounded downward to the next whole Share. At any time the Fair Market Value of a Share on a proposed exercise date does not exceed the Base Value, the holder of the Stock Appreciation Right shall not be permitted to exercise such right.

7.4 *Other Terms and Conditions of SAR Grants.* Stock Appreciation Rights are subject to such other terms and conditions, not inconsistent with the provisions of this Plan, as are determined from time to time by the Committee.

7.5 *Special Limitations on SAR Awards.* Unless an Award agreement approved by the Committee expressly provides otherwise, Stock Appreciation Rights awarded under this Plan are intended to meet the requirements for exclusion from coverage under Section 409A of the Code and all Stock Appreciation Rights Awards shall be construed and administered accordingly.

## ARTICLE 8

### Restricted Share and Restricted Share Unit Awards

8.1 *Restricted Share Grants and Agreements.* Restricted Share Awards consist of Shares which are issued by the Company to a participant at no cost or at a purchase price determined by the Committee which may be below their Fair Market Value, but which are subject to forfeiture and restrictions on their sale or other transfer by the participant. The timing of Restricted Share Awards and the number of Shares to be issued (subject to Section 3.4) are determined by the Committee in its discretion.

8.2 *Terms and Conditions of Restricted Share Grants.* Restricted Shares granted under this Plan are subject to the following terms and conditions, which, except as otherwise provided herein, need not be the same for each participant, and may contain such additional terms, conditions, restrictions and contingencies not inconsistent with the terms of this Plan, as the Committee deems desirable:

(a) *Purchase Price.* The Committee shall determine the prices, if any, at which Restricted Shares are to be issued to a participant, which may vary from time to time and from participant to participant and which may be below the Fair Market Value of such Restricted Shares at the Date of Grant.

**(b) Restrictions.** All Restricted Shares issued under this Plan will be subject to such restrictions as the Committee may determine, which may include, without limitation, the following:

- (i) a prohibition against the sale, transfer, pledge or other encumbrance of the Restricted Shares, such prohibition to lapse at such time or times as the Committee determines (whether in installments, at the time of the death, Disability or Retirement of the holder of such shares, or otherwise, but subject to the Change in Control provisions in Article 12 and the applicable Award agreements);
- (ii) a requirement that the participant forfeit such Restricted Shares in the event of termination of the participant's Employment with the Company or its Affiliates prior to Vesting;
- (iii) the elimination of any voting rights and rights to receive dividends for such Restricted Shares prior to Vesting;
- (iv) a prohibition against Employment or retention of the participant by any competitor of the Company or its Affiliates, or against dissemination by the participant of any secret or confidential information belonging to the Company or an Affiliate;
- (v) any applicable requirements arising under the Securities Act of 1933, as amended, other securities laws, the rules and regulations of The Nasdaq Stock Market or any other stock exchange or transaction reporting system upon which such Restricted Shares are then listed or quoted and any state laws, rules and regulations, including "blue sky" laws; and
- (vi) such additional restrictions as are required to avoid adverse tax consequences under Section 409A of the Code.

The Committee may at any time waive such restrictions or accelerate the date or dates on which the restrictions will lapse.

(c) **Performance-Based Restrictions.** The Committee may, in its sole discretion, provide restrictions that lapse upon the attainment of specified performance objectives. In such case, the provisions of Sections 9.2, 9.3 and 9.4(b) will apply.

(d) **Delivery of Shares.** Restricted Shares will be certificated and registered in the name of the participant and deposited, together with a Stock Power, with the Company. Each such certificate will bear a legend in substantially the following form:

"The transferability of this certificate and the Common Shares represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the Sanara MedTech Inc. 2014 Omnibus Long Term Incentive Plan and an agreement entered into between the registered owner and the Company. A copy of this Plan and agreement are on file in the office of the Secretary of the Company."

At the end of any time period during which the Restricted Shares are subject to forfeiture and restrictions on transfer, and after the satisfaction by the participant of tax withholding requirements, such Shares will be delivered free of all restrictions (except as provided in Section 15.2) to the participant or other appropriate person and with the foregoing legend removed.

(e) **Forfeiture of Shares.** If a participant who holds Restricted Shares fails to satisfy the restrictions, Vesting requirements and other conditions relating to the Restricted Shares prior to the lapse, satisfaction or waiver of such restrictions and conditions, except as may otherwise be determined by the Committee, the participant shall forfeit the Shares and transfer them back to the Company in exchange for a refund of any consideration paid by the participant or such other amount which may be specifically set forth in the Award agreement. A participant shall execute and deliver to the Company one or more Stock Powers with respect to Restricted Shares granted to such participant.

(f) **Voting and Other Rights.** Except as otherwise provided in the applicable Restricted Share Agreement, during any period in which Restricted Shares are subject to forfeiture and restrictions on transfer, the participant holding such Restricted Shares shall have the other rights of a Shareholder with respect to such Shares, including, without limitation, the right to vote such Shares and the right to receive any dividends paid with respect to such Shares; provided that if restrictions lapse upon the attainment of specified performance objectives, then the participant will receive any dividends only to the extent performance objectives were achieved.

**8.3 Restricted Share Unit Awards and Agreements.** Restricted Share Unit Awards consist of Shares that will be issued to a participant at a future time or times at no cost or at a purchase price determined by the Committee, which may be below their Fair Market Value, subject to satisfaction of continued Employment and/or other terms and conditions specified by the Committee. The timing of Restricted Share Unit Awards and the number of Restricted Share Units to be awarded (subject to Section 3.2) are determined by the Committee in its sole discretion.

**8.4 Terms and Conditions of Restricted Share Unit Awards.** Restricted Share Unit Awards are subject to the following terms and conditions, which, except as otherwise provided herein, need not be the same for each participant, and may contain such additional terms, conditions, restrictions and contingencies not inconsistent with the terms of this Plan, as the Committee deems desirable:

(a) **Purchase Price.** The Committee shall determine the prices, if any, at which Shares are to be issued to a participant after Vesting of Restricted Share Units, which may vary from time to time and among participants and which may be below the Fair Market Value of Shares at the Date of Grant.

(b) **Restrictions.** All Restricted Share Units awarded under this Plan will be subject to such restrictions as the Committee may determine, which may include, without limitation, the following:

- (i) a prohibition against the sale, transfer, pledge or other encumbrance of the Restricted Share Unit;
- (ii) a requirement that the participant forfeit such Restricted Share Unit in the event of termination of the participant's Employment with the Company or its Affiliates prior to Vesting;
- (iii) a prohibition against Employment of the participant by, or provision of services by the participant to, any competitor of the Company or its Affiliates, or against dissemination by the participant of any secret or confidential information belonging to the Company or an Affiliate;
- (iv) any applicable requirements arising under the Securities Act of 1933, as amended, other securities laws, the rules and regulations of The Nasdaq Stock Market or any other stock exchange or transaction reporting system upon which the Common Shares are then listed or quoted and any state laws, rules and interpretations, including "blue sky" laws; and
- (v) such additional restrictions as are required to avoid adverse tax consequences under Section 409A of the Code.

The Committee may at any time waive such restrictions or accelerate the date or dates on which the restrictions will lapse.

(c) **Performance-Based Restrictions.** The Committee may, in its sole discretion, provide restrictions that lapse upon the attainment of specified performance objectives. In such case, the provisions of Sections 9.2, 9.3 and 9.4(b) will apply.

(d) **Voting and Other Rights.** A participant holding Restricted Share Units shall not be deemed to be a Shareholder solely because of such units. Such participant shall have no rights of a Shareholder with respect to such units; provided, however, that an Award agreement may provide for payment of an amount of money (or Shares with a Fair Market Value equivalent to such amount) equal to the dividends paid from time to time on the number of Common Shares that would become payable upon vesting of a Restricted Share Unit Award but if restrictions lapse upon the attainment of specified performance objectives, then such dividend equivalents shall be paid only to the extent performance objectives are achieved.

(e) **Lapse of Restrictions.** If a participant who holds Restricted Share Units satisfies the restrictions and other conditions relating to the Restricted Share Units prior to the lapse or waiver of such restrictions and conditions, after the satisfaction by the participant of tax withholding requirements the Restricted Share Units shall be converted to, or replaced with, Shares which are free of all restrictions (except as provided in Section 15.2).

(f) **Forfeiture of Restricted Share Units.** If a participant who holds Restricted Share Units fails to satisfy the restrictions, Vesting requirements and other conditions relating to the Restricted Share Units prior to the lapse, satisfaction or waiver of such restrictions and conditions, except as may otherwise be determined by the Committee, the participant shall forfeit the Restricted Share Units.

(g) **Special Limitations on Restricted Share Unit Awards.** Restricted Share Units awarded under this Plan are intended to be compliant with, or exempt from, Section 409A of the Code and all Restricted Share Unit Awards shall be construed and administered accordingly.

## ARTICLE 9

### Performance Share Awards

**9.1 Performance Share Awards and Agreements.** A Performance Share Award is a right to receive Shares in the future conditioned upon the attainment of specified performance objectives and such other conditions, restrictions and contingencies as the Committee may determine. The timing of Performance Share Awards and the number of Shares covered by each Award (subject to Section 3.2) are determined by the Committee in its discretion.

**9.2 Performance Objectives.** At the time of grant of a Performance Share Award, the Committee will specify the performance objectives which, depending on the extent to which they are met, will determine the number of Shares that will be distributed to the participant. The Committee will also specify the period or periods during which any performance objective must be met (the "Performance Period"). The Committee may designate a single goal criterion or multiple goal criteria for performance measurement purposes. Performance measurement may be based on absolute Company, business unit or divisional performance and/or on relative performance as compared with that of other publicly traded companies. The performance objectives and periods need not be the same for each participant nor for each Award.

**9.3 Adjustment of Performance Objective and Evaluations.** The Committee may modify, amend or otherwise adjust the performance objectives specified for outstanding Performance Share Awards if it determines that an adjustment would be consistent with the objectives of this Plan and taking into account the interests of the participants and the public Shareholders of the Company. The types of events which could cause an adjustment in the performance objectives include, without limitation, accounting changes which substantially affect the determination of performance objectives, changes in applicable laws or regulations which affect the performance objectives, and divisive corporate reorganizations, including spin-offs and other distributions of property or stock. The Committee may also appropriately adjust any performance evaluation under a performance objective or objectives to reflect any of the following events that may occur during the Performance Period: (1) asset gains or losses; (2) litigation, claims, judgments or settlements; (3) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (4) accruals for reorganization and restructuring programs; and (5) any extraordinary, unusual, non-recurring or non-cash items.

**9.4 Other Terms and Conditions.** Performance Share Awards may contain such other terms, conditions, restrictions and contingencies not inconsistent with the terms of this Plan as the Committee deems desirable and are subject to the following terms and conditions:

(a) **Delivery of Shares.** As soon as practicable after the applicable Performance Period has ended, and the fulfillment of time Vesting requirements, if any, and after the satisfaction by the participant of tax withholding requirements, the participant will receive a distribution of the number of Shares earned during the Performance Period, depending upon the extent to which the applicable performance objectives were achieved. Such Shares will be registered in the name of the participant and will be free of all restrictions except for any restrictions pursuant to Section 15.2.

(b) **Termination; Time Vesting.** A Performance Share Award or unearned portion thereof will terminate without the issuance of Shares on the termination date specified at the time of grant or, whether or not earned, upon the termination of Employment of the participant during the time period or periods required for Vesting as specified by the Committee. If a participant's Employment with the Company or its Affiliates terminates by reason of his or her death, Disability or Retirement, the Committee in its discretion may determine at or after the time of grant, notwithstanding any Vesting requirements under Section 9.4(a), that the participant (or the heir, legatee or legal representative of the participant's estate) will receive a distribution of Shares representing a portion of the participant's then-outstanding Performance Share Awards in an amount which is not more than the number of shares which would have been earned by the participant if 100% of the performance objectives for the current Performance Period had been achieved prorated based on the ratio of the number of months of active Employment in the Performance Period to the total number of months in the Performance Period.

(c) **Voting and Other Rights.** Awards of Performance Shares do not provide the participant with voting rights or rights to dividends prior to the participant becoming the holder of record of Shares issued pursuant to an Award; provided, however, that an Award agreement may provide for payment of an amount of money (or Shares with a Fair Market Value equivalent to such amount) equal to the dividends paid from time to time on the number of Common Shares that would become payable upon vesting of a Performance Share Award but such dividend equivalents shall be paid only to the extent performance objectives are achieved. Prior to the issuance of Shares, Performance Share Awards may not be sold, transferred, pledged, assigned or otherwise encumbered.

**9.5 Special Limitations on Performance Share Awards.** Unless an Award agreement provides otherwise, Performance Shares Awarded under this Plan are intended to meet the requirements for exclusion from coverage under Section 409A of the Code and all Performance Share Awards shall be construed and administered accordingly.

## ARTICLE 10 Common Share Awards

**10.1 Eligibility.** Notwithstanding any other provision of this Plan to the contrary, a Common Share may only be granted to an employee or Outside Director.

**10.2 Terms and Conditions of Common Share Awards.**

(a) **Purpose.** Common Shares may be granted in consideration of services rendered to the Company by employees or Outside Directors in their capacity as Directors.

(b) **Vesting.** Common Shares shall be fully-Vested.

(c) **Delivery of Shares.** The Shares will be delivered to the participant after the satisfaction by the participant of tax withholding requirements.

## ARTICLE 11 Transfers and Leaves of Absence

**11.1 Transfer of Participant.** For purposes of this Plan, the transfer of a participant among the Company and its Affiliates is deemed not to be a termination of Employment.

**11.2 Effect of Leaves of Absence.** For purposes of this Plan, the following leaves of absence are deemed not to be a termination of Employment:

(a) a leave of absence, approved in writing by the Company, for military service, sickness or any other purpose approved by the Company, if the period of such leave does not exceed 90 days;

(b) a leave of absence in excess of 90 days, approved in writing by the Company, but only if the employee's right to reemployment is guaranteed either by a statute or by contract, and provided that, in the case of any such leave of absence, the employee returns to work within 30 days after the end of such leave; and

(c) any other absence determined by the Committee in its discretion not to constitute a termination of Employment.

## ARTICLE 12 Effect of Change in Control

**12.1 Change in Control Defined.** "Change in Control" means (i) a sale of all or substantially all of the assets of the Company to any person or entity that is not a wholly owned subsidiary of the Company; (ii) a merger or consolidation to which the Company is a party if all persons who were shareholders of the Company immediately prior to the effective date of the merger or consolidation become beneficial owners (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities having less than 50% of the total combined voting power for election of directors (or comparable governing body) of the surviving corporation or other entity following the effective date of such merger or consolidation; or (iii) the approval by shareholders of the Company of any plan or proposal for the liquidation of the Company or its subsidiaries (other than into the Company).

**12.2 Acceleration of Award.** Except as otherwise provided in this Plan or an Award agreement, immediately upon the occurrence of a Change in Control:

(a) all outstanding Stock Options automatically become fully exercisable;

(b) all Restricted Share Awards automatically become fully Vested;

(c) subject to Section 409A of the Code, all Restricted Share Unit Awards automatically become fully Vested (or, if such Restricted Share Unit Awards are subject to performance-based restrictions, they shall become Vested on a pro-rated basis as described in Section 12.2(d)) and, to the extent Vested, converted to, or replaced with, Shares at the election of the holder;

(d) all participants holding Performance Share Awards become entitled to receive a partial payout in an amount which is the number of Shares which would have been earned by the participant if 100% of the performance objectives for the current Performance Period had been achieved pro-rated based on the ratio of the number of months of active Employment in the Performance Period to the total number of months in the Performance Period; and

(e) Stock Appreciation Rights automatically become fully Vested and fully exercisable.

**12.3 Treatment of Awards.** If the Committee determines that it would not trigger adverse taxation under Section 409A of the Code, upon the occurrence of a Change in Control, the Committee may, but shall not be obligated to, (A) cancel Awards for fair value, which, in the case of Stock Options and Stock Appreciation Rights, shall equal the excess, if any, of the value of the consideration to be paid in the Change in Control transaction to holders of the same number of Shares subject to such Stock Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Stock Options or Stock Appreciation Rights as of the date of the Change in Control) over the aggregate Exercise Price or Base Value (as applicable) of such Stock Options or Stock Appreciation Rights or (B) provide for the issuance of substitute Awards that will substantially preserve the otherwise applicable terms and value of any affected Awards previously granted hereunder as determined by the Committee or (C) provide that for a period of at least 15 days prior to the Change in Control, such Awards shall be exercisable, to the extent applicable, as to all Shares subject thereto and the Committee may further provide that upon the occurrence of the Change in Control, such Awards shall terminate and be of no further force and effect.

## ARTICLE 13 Transferability of Awards

**13.1 Awards Are Non-Transferable.** Except as provided in Sections 13.2 and 13.3, Awards are non- transferable and any attempts to assign, pledge, hypothecate or otherwise alienate or encumber (whether by operation of law or otherwise) any Award shall be null and void.

**13.2 Inter-Vivos Exercise of Awards.** During a participant's lifetime, Awards are exercisable only by the participant or, as permitted by applicable law and notwithstanding Section 13.1 to the contrary, the participant's guardian or other legal representative.

**13.3 Limited Transferability of Certain Awards.** Notwithstanding Section 13.1 to the contrary, Awards may be transferred by will and by the laws of descent and distribution. Moreover, the Committee, in its discretion, may allow at or after the time of grant the transferability of Awards which are Vested, provided that the permitted transfer is made (a) if the Award is an Incentive Stock Option, consistent with Section 422 of the Code; (b) to the Company (for example in the case of forfeiture of Restricted Shares), an Affiliate or a person acting as the agent of the foregoing, or as otherwise determined by the Committee to be in the interests of the Company; or (c) by a participant for no consideration to Immediate Family Members or to a bona fide trust, partnership or other entity controlled by and for the benefit of one or more Immediate Family Members. "Immediate Family Members" means the participant's spouse, children, stepchildren, parents, stepparents, siblings (including half brothers and sisters), in-laws and other individuals who have a relationship to the participant

arising because of a legal adoption. No transfer may be made to the extent that transferability would cause Form S-8 or any successor form thereto not to be available to register Shares related to an Award. The Committee in its discretion may impose additional terms and conditions upon transferability.

#### ARTICLE 14

##### Amendment and Discontinuation

**14.1 Amendment or Discontinuation of this Plan.** The Board may amend, alter, or discontinue this Plan at any time, provided that no amendment, alteration, or discontinuance may be made:

- (a) which would materially and adversely affect the rights of a participant under any Award granted prior to the date such action is adopted by the Board without the participant's written consent thereto; and
- (b) without Shareholder approval if Shareholder approval is required under applicable laws, regulations or exchange requirements (including Section 422 of the Code with respect to ISOs).

Notwithstanding the foregoing, this Plan may be amended without obtaining the affected participants' consent in order to: (i) comply with any law; (ii) preserve any intended favorable tax effects for the Company or participants; or (iii) avoid any unintended unfavorable tax effects for the Company or participants.

**14.2 Amendment of Grants.** The Committee may amend, prospectively or retroactively, the terms of any outstanding Award, provided that no such amendment may be inconsistent with the terms of this Plan (specifically including the prohibition on granting Stock Options with an Exercise Price less than 100% of the Fair Market Value of the Common Shares on the Date of Grant) or would materially and adversely affect the rights of any holder without his or her written consent.

#### ARTICLE 15

##### Share Certificates

**15.1 Delivery of Share Certificates.** The Company is not required to issue or deliver any Shares issuable with respect to Awards under this Plan prior to the fulfillment of all of the following conditions:

- (a) payment in full for the Shares and for any tax withholding;
- (b) completion of any registration or other qualification of such Shares under any federal or state laws or under the rulings or regulations of the Securities and Exchange Commission or any other regulating body which the Committee in its discretion deems necessary or advisable;
- (c) admission of such Shares to listing on The Nasdaq Stock Market or any stock exchange on which the Shares are listed;
- (d) in the event the Shares are not registered under the Securities Act of 1933, as amended, qualification as a private placement under said act;
- (e) obtaining of any approval or other clearance from any federal or state governmental agency which the Committee in its discretion determines to be necessary or advisable; and
- (f) full satisfaction of the Committee that the issuance and delivery of Shares under this Plan is in compliance with applicable federal, state or local law, rule, regulation or ordinance or any rule or regulation of any other regulating body, for which the Committee may seek approval of counsel for the Company.

Notwithstanding the foregoing, with respect to any Award that is or becomes subject to Section 409A of the Code, a payment may only be delayed where the Company or any Affiliate reasonably anticipates that the making of the payment will violate federal securities laws or other applicable law and provided that the payment is made at the earliest date at which the Company or Affiliate reasonably anticipates that the making of the payment will not cause such violation.

**15.2 Applicable Restrictions on Shares.** Shares issued with respect to Awards may be subject to such stock transfer orders and other restrictions as the Committee may determine necessary or advisable under any applicable federal or state securities law rules, regulations and other requirements, the rules, regulations and other requirements of The Nasdaq Stock Market or other stock exchange upon which the Shares are then-listed, and any other applicable federal or state law and will include any restrictive legends the Committee may deem appropriate to include.

**15.3 Book Entry.** In lieu of the issuance of stock certificates evidencing Shares, the Company or its transfer agent may use a "book entry" system in which a computerized or manual entry is made in the records of the Company or the transfer agent to evidence the issuance of such Shares. Such Company records are, absent manifest error, binding on all parties.

#### ARTICLE 16

##### Tax Withholding

**16.1 General.** The Committee shall cause the Company or its Affiliates to withhold any taxes which it determines it is required by law or required by the terms of this Plan to withhold in connection with any payments incident to this Plan. The participant or other recipient shall provide the Committee with such Stock Powers and additional information or documentation as may be necessary for the Committee to discharge its obligations under this Section.

**16.2 Method of Payment by Participant.** The Company will specify the amount of tax withholding payable by a participant in connection with the Vesting of the participant's Award. The participant shall pay such amount of tax withholding in cash or if provided in the Award Agreement by such other manner permitted in the Award agreement, which may include, subject to Committee approval:

- (i) tendering (by either actual delivery of Shares or by attestation) unrestricted Shares that are owned by the participant prior to the date of Vesting having an aggregate Fair Market Value on the date of Vesting equal to the amount of such withholding tax;
- (ii) the withholding of Shares otherwise issuable pursuant to the Award on the date of Vesting having an aggregate Fair Market Value on the date of Vesting equal to the amount of such withholding tax;
- (iii) by a combination of cash and either of the foregoing enumerated methods;
- (iv) another method approved by the Committee.

**16.3 Delivery of Withholding Proceeds.** The Company or its Affiliates shall deliver withholding proceeds to the Internal Revenue Service and/or other taxing authority.

#### ARTICLE 17

##### General Provisions

**17.1 No Implied Rights to Awards, Employment or Directorship.** No potential participant has any claim or right to be granted an Award under this Plan, and there is no obligation of uniformity of treatment of participants under this Plan. Neither this Plan nor any Award hereunder shall be construed as giving any individual any right to continued Employment with the Company or any Affiliate. The Plan does not constitute a contract of Employment or for services, and the Company and each Affiliate expressly reserve the right at any time to terminate employees or service providers free from liability, or any claim, under this Plan, except as may be specifically provided in this Plan or in an Award agreement.

**17.2 Other Compensation Plans.** Nothing contained in this Plan prevents the Board from adopting other or additional compensation arrangements, subject to Shareholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases.

**17.3 Rule 16b-3 Compliance.** The Plan is intended to comply with all applicable conditions of Rule 16b-3 under the Exchange Act, as such rule may be amended from time to time ("Rule 16b-3"). All transactions involving any participant subject to Section 16(b) of the Exchange Act shall be subject to the conditions set forth in Rule 16b-3, regardless of whether such conditions are expressly set forth in this Plan. Any provision of this Plan that is contrary to Rule 16b-3 does not apply to such participants.

**17.4 Compliance with Section 409A.** The parties intend that this Plan and Awards be, at all relevant times, in compliance with (or exempt from) Section 409A of the Code and all other applicable laws, and this Plan shall be so interpreted and administered. In addition to the general amendment rights of the Company with respect to the Plan, the Company specifically retains the unilateral right (but not the obligation) to make, prospectively or retroactively, any amendment to this Plan or any related document as it deems necessary or desirable to more fully address issues in connection with compliance with (or exemption from) Section 409A of the Code and other laws. In no event, however, shall this section or any other provisions of this Plan be construed to require the Company to provide any gross-up for the tax consequences of any provisions of, or payments under, this Plan. The Company and its Affiliates shall have no responsibility for tax or legal consequences to any Participant (or beneficiary) resulting from the terms or operation of this Plan.

**17.5 Successors.** All obligations of the Company with respect to Awards granted under this Plan are binding on any successor to the Company, whether as a result of a direct or indirect purchase, merger, consolidation or otherwise of all or substantially all of the business and/or assets of the Company.

**17.6 Severability.** In the event any provision of this Plan, or the application thereof to any person or circumstances, is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, or other applications, and this Plan is to be construed and enforced as if the illegal or invalid provision had not been included.

**17.7 Governing Law.** This Plan and all Award agreements pursuant thereto are construed in accordance with and governed by the internal laws of the State of Texas. This Plan is not intended to be governed by the Employee Retirement Income Security Act of 1974 and shall be so construed and administered.

#### ARTICLE 18

##### Effective Date; Expiration

**18.1 Effective Date.** The effective date of this Plan is the date on which the Shareholders of the Company approve it at a duly held Shareholders' meeting. No Awards may be granted under this Plan after the tenth anniversary of such date, but Awards granted before such tenth anniversary may remain outstanding under this Plan until they expire according to

**RESTRICTED STOCK AGREEMENT**

This RESTRICTED STOCK AGREEMENT (this "Agreement") is entered into on \_\_\_\_\_, 202 \_\_\_\_\_ (the "Date of Grant"), between SANARA MEDTECH INC., a Texas corporation (the "Company") and \_\_\_\_\_ (the "Recipient").

WHEREAS, the Board of Directors of the Company (the "Board") has determined to grant restricted stock awards to non-employee directors of the Company under the Company's 2014 Omnibus Long Term Incentive Plan (the "Plan") upon the terms and conditions set forth herein;

NOW, THEREFORE, the Company and the Recipient agree as follows:

1. **Grant of Award.** The Company hereby grants to the Recipient, under the Plan, a Restricted Share Award (as such term is defined in the Plan) consisting of \_\_\_\_\_ shares of common stock, par value \$0.001 per share (the "Common Stock"), of the Company (the "Restricted Stock"), on the terms and conditions and subject to the restrictions set forth in this Agreement. The grant of the Restricted Stock is made in consideration of the services rendered and to be rendered by the Recipient to the Company.

The Recipient shall be issued stock certificates evidencing the Restricted Stock which shall be registered in the name of the Recipient and shall bear an appropriate legend referring to the terms, conditions, and restrictions of the Restricted Stock, substantially in the following form:

The transferability of this certificate and the common stock represented hereby are subject to the terms, conditions and restrictions (including conditions of forfeiture) contained in the Restricted Stock Agreement entered into between the registered owner and Sanara MedTech Inc., and in the 2014 Omnibus Long Term Incentive Plan of Sanara MedTech Inc. A copy of the Restricted Stock Agreement and such Plan are on file in the offices of Sanara MedTech Inc., 1200 Summit Ave, Suite 414, Fort Worth, Texas 76102.

The stock certificates evidencing the shares of Restricted Stock shall be held in custody by the Company or, if specified by the Board, with a third party custodian or trustee, until the restrictions thereon shall have lapsed, and, as a condition of this Restricted Share Award, the Recipient shall deliver a stock power, duly endorsed in blank, relating to the shares of Restricted Stock.

2. **Transfer Restrictions.** Subject to satisfaction of the vesting provisions set forth in Section 4 of this Agreement, the shares of Restricted Stock are non-transferable and may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Recipient or become subject to execution, attachment or similar process. Any attempt to assign, alienate, pledge, attach, sell or otherwise transfer or encumber any shares of Restricted Stock or the rights relating thereto until vested as provided herein shall be wholly ineffective and, if any such attempt were to be made, all unvested shares of Restricted Stock will be forfeited by the Recipient, and all of the Recipient's rights to such shares shall immediately terminate without any payment or consideration by the Company.

3. **Voting and Dividend Rights.** Recipient agrees that during the period in which any Restricted Stock is unvested and subject to the restrictions provided herein, the Recipient shall not have the right to vote, or to receive cash dividends (except as contemplated in Section 5 hereof) payable on, such unvested shares of Restricted Stock. Any dividend or distribution payable with respect to Restricted Stock that shall be paid in shares of Common Stock or other property (excluding cash), or any consideration (including cash) receivable for conversion of or in exchange for any shares of Restricted Stock, shall be subject to the same restrictions applicable to the unvested Restricted Stock (with such modifications thereof as the Board may provide in its absolute discretion), and shall be held in custody by the Company or with a third party custodian or trustee until the vesting of the corresponding Restricted Stock.

Outside Director

**4. Vesting.** Except as otherwise provided herein, and provided that from the date hereof through the applicable vesting date set forth below the Recipient remains continuously a member of the Board (or otherwise continues to provide services to the Company), the restrictions on the Restricted Stock shall lapse and the Restricted Stock shall vest in accordance with the vesting schedule below.

Vesting Date	Shares Vesting
[The one-year anniversary of the Date of Grant]	100% of Restricted Stock awarded

The foregoing vesting period notwithstanding, upon the occurrence of a Change in Control, 100% of the unvested shares of Restricted Stock shall vest as of the date of the Change in Control. "Change in Control" shall mean (i) a sale of all or substantially all of the assets of the Company to any person or entity that is not a wholly owned Subsidiary; (ii) a merger or consolidation to which the Company is party if all persons who were shareholders of the Company immediately prior to the effective date of the merger or consolidation become beneficial owners (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities having less than 50% of the total combined voting power for election of directors (or comparable governing body) of the surviving corporation or other entity following the effective date of such merger or consolidation; or (iii) the approval by shareholders of the Company of any plan or proposal for the liquidation of the Company or its Subsidiaries (other than into the Company).

Upon the Recipient's ceasing to be a member of the Company's Board (or the board of directors of a successor to the Company) or to otherwise provide services to the Company, whether as an Officer, employee, consultant, or other individual service provider, for any reason, the Recipient shall on such date immediately forfeit all rights in the shares of Restricted Stock which shall not have become vested, and the ownership of such shares shall immediately fully vest in the Company, which shall have no further obligations to the Recipient under this Agreement.

Upon the vesting as to any portion of the Restricted Stock, the Company will cause a new certificate evidencing such number of vested shares of Common Stock to be delivered to the Recipient, free of the legend regarding restrictions on transfer; provided that the Company shall not be obligated to issue any fractional share of Common Stock.

**5. Capitalization; Adjustments.** In the event of a dividend or other distribution (other than ordinary cash dividends), merger, consolidation, recapitalization, stock split, reorganization, reclassification, merger, exchange of securities of the Company, or other corporate transaction affecting the capital structure of the Company, the Board or a committee designated by the Board may in its discretion make adjustments and take actions as contemplated by Section 3.4 of the Plan.

**6. Taxes.** The Recipient shall be required to pay all income taxes (including any required withholding or estimated taxes) due as a result of the vesting of or other event relating to any Restricted Stock. The Company will not pay or in any way be responsible for the withholding or timely payment of any taxes incurred as a result of the Recipient's ownership of Common Stock awarded hereunder unless otherwise required by law. The Recipient is hereby advised to consult immediately with the Recipient's own tax advisor regarding the tax consequences of this Agreement, the method and timing for filing an election to include the Restricted Stock in income under Section 83(b) of the Code (see Section 7 below), and the tax consequences of such an election.

**7. Section 83(b) Election.** The Recipient may make an election under Internal Revenue Code Section 83(b) regarding federal income tax treatment of the Restricted Stock. Any such election must be made within 30 days after the date of grant, and the Recipient must provide the Company with a copy of an executed version and satisfactory evidence of filing with the U.S. Internal Revenue Service in accordance with the regulations promulgated under Section 83(b) of the Code. The Recipient agrees to assume full responsibility for ensuring that the election, if made, is actually and timely filed with the U.S. Internal Revenue Service and for all tax consequences resulting from the election. By execution of this Agreement, the Recipient agrees that if the Recipient makes such an election, the Recipient shall timely provide the Company with written notice of such election in accordance with the regulations promulgated under Section 83(b) of the Code.

**8. No Right to Continued Service or Future Awards.** This Agreement shall not confer upon the Recipient any right to nomination for or recommendation regarding any term of membership on the Board or any committee thereof or to any other position with the Company, whether as an Officer, employee, consultant, or other individual service provider. The grant of the Restricted Stock in this Agreement does not create any contractual right or other right to receive any Restricted Stock or other awards in the future. Future awards of compensation, if any, will be at the sole discretion of the Board.

**9. Compliance with Laws.** The issuance and transfer of shares of Common Stock shall be subject to compliance by the Company and the Recipient with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of federal and state laws and regulatory agencies have been fully complied with to the Company's satisfaction. Any determination in this regard by the Company shall be final, binding, and conclusive for all purposes. The Company shall be under no obligation to register the shares of Common Stock with the Securities and Exchange Commission or any state securities commission or to list the shares on any stock exchange to effect such compliance.

**10. Governing Law.** THIS AGREEMENT SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES. ALL DISPUTES, CONTROVERSIES OR DIFFERENCES WHICH MAY ARISE OUT OF, IN RELATION TO, OR IN CONNECTION WITH THIS AGREEMENT OR THE BREACH THEREOF SHALL BE BROUGHT AND ADJUDICATED IN THE STATE OR FEDERAL COURTS LOCATED IN TARRANT COUNTY, TEXAS. RECIPIENT HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE STATE AND FEDERAL COURTS OF THE STATE OF TEXAS.

**11. Restricted Stock Subject to the Plan.** This Agreement is subject to the Plan, the terms and provisions of which may be amended from time to time in the Company's sole discretion. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable term or provision of the Plan will prevail.

**12. Interpretation.** The interpretation of this Agreement and any dispute relating thereto shall be decided by the Board or a committee designated by the Board and shall be final, binding, and conclusive on the Recipient, the Company, and all other persons.

**13. Successors and Assigns.** The Company may assign any of its rights under this Agreement, which will be binding upon and inure to the benefit of the Company's successors and assigns.

**14. Severability.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision, and each provision of this Agreement shall be severable and enforceable to the extent permitted by law.

**15. Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile transmission, electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

**16. Specific Performance.** The parties acknowledge that remedies at law will be inadequate remedies for a breach of this Agreement and consequently agree that this Agreement shall be enforceable by specific performance. The remedy of specific performance shall be cumulative of all of the rights and remedies at law or in equity of the parties under this Agreement.

**17. Recipient's Acknowledgments.** The Recipient (i) acknowledges that a copy of the Plan has been made available by the Company for the Recipient's review and (ii) represents that the Recipient is familiar with the terms and provisions thereof, and hereby accepts this Award subject to all the terms and provisions thereof. The Recipient hereby agrees to accept as final, binding, and conclusive all decisions or interpretations of the Board or, if applicable, the Committee upon any questions arising under the Plan or this Agreement.

**18. Covenants and Agreements as Independent Agreements.** Each of the covenants and agreements that are set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of the Recipient against the Company, whether predicated on this Agreement, the Plan, or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

**19. Entire Agreement.** This Agreement (together with the Plan) supersedes any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitute the sole and only agreements between the parties with respect to said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement or the Plan and that any agreement, statement, or promise that is not contained in this Agreement or the Plan shall not be valid or binding or of any force or effect.

**20. Modification.** No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties hereto. Notwithstanding the preceding sentence, the Company may amend the Plan to the extent permitted by the Plan.

**21. Headings.** The headings used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on \_\_\_\_\_, 2023.

SANARA MEDTECH INC.

By

Michael D. McNeil  
Chief Financial Officer

RECIPIENT

Name

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Exhibit 10.1.4

**RESTRICTED STOCK AGREEMENT**

This RESTRICTED STOCK AGREEMENT (this "Agreement") is granted on March 2, 2023 (the "Date of Grant"), between SANARA MEDTECH INC., a Texas corporation (the "Company") and \_\_\_\_\_ (the "Recipient").

WHEREAS, the Board of Directors of the Company (the "Board") has determined to grant restricted stock awards to certain Company employees and consultants under the Company's 2014 Omnibus Long Term Incentive Plan (the "Plan") upon the terms and conditions set forth herein;

NOW, THEREFORE, the Company and the Recipient agree as follows:

**1. Grant of Award.** The Company hereby grants to the Recipient under the Plan a Restricted Share Award (as such terms are defined in the Plan) consisting of \_\_\_\_\_ shares of common stock, par value \$0.001 per share (the "Common Stock"), of the Company (the "Restricted Stock"), on the terms and conditions and subject to the restrictions set forth in this Agreement. The grant of the Restricted Stock is made in consideration of the services rendered and to be rendered by the Recipient to the Company.

The Recipient may be issued stock certificates evidencing the Restricted Stock which shall be registered in the name of the Recipient and shall bear an appropriate legend referring to the terms, conditions, and restrictions of the Restricted Stock, substantially in the following form:

The transferability of this certificate and the common stock represented hereby are subject to the terms, conditions and restrictions (including conditions of forfeiture) contained in the Restricted Stock Agreement entered into between the registered owner and Sanara MedTech Inc., and in the 2014 Omnibus Long Term Incentive Plan of Sanara MedTech Inc. A copy of the Agreement and such Plan are on file in the offices of Sanara MedTech Inc., 1200 Summit Ave, Suite 414, Fort Worth, Texas 76102.

The stock certificates evidencing the shares of Restricted Stock shall be held in custody by the Company or, if specified by the Board, with a third-party custodian or trustee, until the restrictions thereon shall have lapsed, and, as a condition of this Restricted Share Award, the Recipient shall deliver a stock power, duly endorsed in blank, relating to the shares of Restricted Stock.

**2. Transfer Restrictions.** Subject to satisfaction of the vesting provisions set forth in Section 4 of this Agreement, the shares of Restricted Stock are nontransferable and may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Recipient or become subject to execution, attachment or similar process. Any attempt to assign, alienate, pledge, attach, sell or otherwise transfer or encumber any shares of Restricted Stock or the rights relating thereto until vested as provided herein shall be wholly ineffective and, if any such attempt were to be made, all unvested shares of Restricted Stock will be forfeited by the Recipient, and all of the Recipient's rights to such shares shall immediately terminate without any payment or consideration by the Company.

**3. Voting and Dividend Rights.** Recipient agrees that during the period in which any Restricted Stock is unvested and subject to the restrictions provided herein, the Recipient shall not have the right to vote, or to receive cash dividends (except as contemplated in Section 5 hereof) payable on, such unvested shares of Restricted Stock. Any dividend or distribution payable with respect to Restricted Stock that shall be paid in shares of Common Stock or other property (excluding cash) or any consideration (including cash) receivable for conversion of or in exchange for any shares of Restricted Stock, shall be subject to the same restrictions applicable to the unvested Restricted Stock (with such modifications thereof as the Board may provide in its absolute discretion), and shall be held in custody by the Company or with a third party custodian or trustee until the vesting of the corresponding Restricted Stock.

**4. Vesting.** Except as otherwise provided herein, and provided that from the date hereof through the applicable vesting date set forth below the Recipient remains in continuous employment with (or continues to provide services for) the Company or a subsidiary of the Company, the restrictions on the Restricted Stock shall lapse and the Restricted Stock shall vest in accordance with the vesting schedule below.

Vesting Dates	Shares Vesting
[First Vesting Date]	[_____]
[Second Vesting Date]	[_____]
[Third Vesting Date]	[_____]

The foregoing vesting period notwithstanding, upon the occurrence of a Change in Control, 100% of the unvested shares of Restricted Stock shall vest as of the date of the Change in Control. "Change in Control" shall mean (i) a sale of all or substantially all of the assets of the Company to any person or entity that is not a wholly owned subsidiary of the Company; (ii) a merger or consolidation to which the Company is a party if all persons who were shareholders of the Company immediately prior to the effective date of the merger or consolidation become beneficial owners (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities having less than 50% of the total combined voting power for election of directors (or comparable governing body) of the surviving corporation or other entity following the effective date of such merger or consolidation; or (iii) the approval by shareholders of the Company of any plan or proposal for the liquidation of the Company or its subsidiaries (other than into the Company).

Upon termination of the Recipient's employment with the Company or any of its subsidiaries (or the successor of any such company) for any reason, the Recipient shall on such date immediately forfeit all rights in the shares of Restricted Stock which shall not have become vested, and the ownership of such shares shall immediately fully vest in the Company, which shall have no further obligations to the Recipient under this Agreement.

**5. Capitalization; Adjustments.** In the event of a dividend or other distribution (other than ordinary cash dividends), merger, consolidation, recapitalization, stock split, reorganization, reclassification, merger, exchange of securities of the Company, or other corporate transaction affecting the capital structure of the Company, the Board or a committee designated by the Board may in its discretion make adjustments and take actions as contemplated by Section 3.4 of the Plan.

**6. Tax Withholding.** The Recipient shall be required to pay to the Company the amount of any required withholding taxes due as a result of the vesting of any Restricted Stock or upon the Recipient's timely making the election described in Section 7 below. Such payment must be made prior to the delivery of any certificate representing shares of Common Stock, or the registration of such shares in the Recipient's name, as follows: (i) the Company, in its sole discretion, may withhold a number of shares to be delivered upon vesting of such Restricted Stock (or, if applicable, upon the Recipient's timely making the election described in Section 7 below), which have an aggregate Fair Market Value that equals or exceeds the required tax withholding obligations of the Company; (ii) by the delivery of cash to the Company in an amount that equals or exceeds the required tax withholding obligations of the Company; or (iii) any combination of (i) or (ii). The Company shall have no obligation to deliver a Common Stock certificate to the Recipient, or to have shares registered in the Recipient's name, until receipt from the Recipient of the amount of funds in payment of such required withholding taxes, and if unpaid by Recipient the Company may take all such other action as the Board deems necessary to satisfy such tax withholding payment obligation.

**7. Section 83(b) Election.** The Recipient may make an election under Internal Revenue Code Section 83(b) regarding federal income tax treatment of the Restricted Stock. Any such election must be made within 30 days after the date of grant, and the Recipient must provide the Company with a copy of an executed version and satisfactory evidence of filing with the U.S. Internal Revenue Service. The Recipient agrees to assume full responsibility for ensuring that the election is actually and timely filed with the U.S. Internal Revenue Service and for all tax consequences resulting from the election.

**8. No Right to Continued Service or Future Awards.** This Agreement shall not confer upon the Recipient any right to continued employment or to any position with the Company, nor limit the discretion of the Company to terminate the Recipient's employment at any time for any reason. The grant of the Restricted Stock in this Agreement does not create any contractual right or other right to receive any Restricted Share Awards or other award in the future. Future awards of compensation, if any, will be at the sole discretion of the Board.

**9. Compliance with Laws.** The issuance and transfer of shares of Common Stock shall be subject to compliance by the Company and the Recipient with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of federal and state laws and regulatory agencies have been fully complied with to the Company's satisfaction. The Company shall be under no obligation to register the shares of Common Stock with the Securities and Exchange Commission or any state securities commission or to list the shares on any stock exchange to effect such compliance.

**10. Governing Law.** THIS AGREEMENT SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES. ALL DISPUTES, CONTROVERSIES OR DIFFERENCES WHICH MAY ARISE OUT OF, IN RELATION TO, OR IN

CONNECTION WITH THIS AGREEMENT OR THE BREACH THEREOF SHALL BE BROUGHT AND ADJUDICATED IN THE STATE OR FEDERAL COURTS LOCATED IN TARRANT COUNTY, TEXAS. RECIPIENT HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE STATE AND FEDERAL COURTS OF THE STATE OF TEXAS.

11. **Restricted Stock Subject to the Plan.** This Agreement is subject to the Plan, the terms and provisions of which may be amended from time to time. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable term or provision of the Plan will prevail.

12. **Interpretation.** The interpretation of this Agreement and any dispute relating thereto shall be decided by the Board or a committee designated by the Board and shall be final and binding on the Recipient and the Company.

13. **Successors and Assigns.** The Company may assign any of its rights under this Agreement, which will be binding upon and inure to the benefit of the Company's successors and assigns.

14. **Severability.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision, and each provision of this Agreement shall be severable and enforceable to the extent permitted by law.

15. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile transmission, electronic mail in portable document format ("pdf"), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

[Remainder of Page Intentionally Left Blank;

Signature Page Follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on \_\_\_\_\_

SANARA MEDTECH INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

RECIPIENT: \_\_\_\_\_

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Exhibit 10.15

#### TRANSACTION ADVISORY SERVICES AGREEMENT

THIS TRANSACTION ADVISORY SERVICES AGREEMENT (this "Agreement") is made as of March 1, 2023 (the "Effective Date"), by and between SANARA MEDTECH INC., a Texas corporation (the "Company"), and THE CATALYST GROUP, INC., a Texas corporation ("TCG").

WHEREAS, Catalyst Rochal, LLC ("CR") is an affiliated entity of TCG, and CR owns shares of common stock in the Company; and

WHEREAS, the Company desires to retain and avail itself of the Services (as defined below) to be provided by TCG, and TCG desires to perform such Services for the Company on behalf of CR.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. **Appointment.** The Company hereby retains TCG to provide the Services for the Company in accordance with the terms of this Agreement.

2. **Services; Disclaimer of Warranties.**

(a) TCG, 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"), agrees to perform, or cause to be performed, the services of transaction advisory, business and organizational strategy, finance, marketing, operational and strategic planning, relationship access and corporate development 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 such additional services as mutually agreed upon in writing by and between TCG and the Company. All services and assistance rendered by the Covered Persons pursuant to this Section 2 shall be collectively referred to as the "Services".

(b) Notwithstanding anything in the foregoing to the contrary, the following services are specifically excluded from the definition of "Services":

- (i) accounting services rendered to the Company or TCG by an independent accounting firm or accountant who is not a Covered Person;
- (ii) legal services rendered to the Company or TCG by an independent law firm or attorney who is not a Covered Person; and
- (iii) actuarial services rendered to the Company or TCG by an independent actuarial firm or actuary who is not a Covered Person.

(c) TCG warrants that the Services will be provided in a professional manner consistent with sound business practices. Except as expressly set forth herein, the Covered Persons disclaim all warranties, conditions, or representations (express or implied, oral or written) with respect to any Services rendered by the Covered Persons hereunder or under a separate agreement or understanding (or on such person's behalf), and with respect to the quality of the performance of the foregoing. Each of the Covered Persons makes no warranty, condition or representation concerning the likelihood of profitable business and/or of any business results using the Services rendered by it (or on such Covered Person's behalf). TCG and the Company acknowledge the affiliations and interests of the owners and controlling persons of TCG with and in the Company.

3. **Fees and Expenses.** Within thirty (30) days of the Company's receipt of an undisputed written request by TCG, the Company shall reimburse TCG for (i) compensation actually paid by TCG 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 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 Services rendered hereunder. For the avoidance of doubt, TCG shall not be entitled to reimbursement for overhead. The Parties understand and agree that all payments and reimbursements made pursuant to this Agreement shall be expressly contingent upon prior approval by the Audit Committee of the Company's Board of Directors in accordance with the Company's Related Party Transactions Policy.

4. **Independent Contractor.** TCG and the Company agree that the Covered Persons shall perform all Services as independent contractors, and that TCG retains control over and responsibility for its own operations and employees. Nothing in this Agreement shall be deemed to constitute the parties hereto as joint venturers, partners or participants in an unincorporated business or other separate entity, nor in any manner create any employer-employee or principal-agent relationship between the Company and TCG or any of its directors, officers or employees, on the other hand (notwithstanding the fact that the Company and TCG may have in common any officers, equityholders, directors, employees or other personnel). TCG shall be solely responsible for the compensation of, and tax withholding obligations in respect of, the Covered Persons.

5. **Directors and Officers.** Nothing in this Agreement shall be construed to relieve the directors or officers of the Company from the performance of their respective duties or limit the exercise of their powers in accordance with the Company's certificate of formation, bylaws, other constituent documents, applicable law or otherwise. The activities of the Company shall at all times be subject to the control and direction of its directors, equityholders and officers, as the case may be. The Company reserves the right to make all decisions with regard to any matter upon which TCG has rendered its advice and consultation. The Company and TCG expressly acknowledge and agree that TCG is being engaged by the Company to provide the Services to the Company, for which TCG will be compensated pursuant to the terms of this Agreement. By virtue of this Agreement, TCG shall not, and shall have no authority to, control the Company or the Company's day-to-day operations by virtue of this Agreement. The Company's directors, officers and employees shall retain all responsibility for the Company and its operations as and to the extent required by the Company's certificate of formation, bylaws, other constituent documents, and applicable law.

6. **Term; Termination.** The term of this Agreement shall begin on the Effective Date and continue until the earliest to occur of the following: (i) the Company's receipt of written notice from TCG of TCG's election to terminate this Agreement, which termination date shall be at least ninety (90) days from the date of such notice, or (ii) TCG's receipt of written notice from the Company of the Company's election to terminate this Agreement, which termination date shall be at least ninety (90) days from the date of such notice. In addition, the Company shall have the right to terminate this Agreement at any time upon the occurrence of any one or more of the following events: (v) the consummation of one or more transactions that result in a change of control of the Company, including through a merger, consolidation, acquisition, business combination, sale of substantially all of the assets of the Company or similar transaction; (w) the sale, in one or more transactions, of TCG's and its affiliates' combined equity position in the Company; (x) the Company reasonably believes that any Covered Person (as defined below) has engaged in fraud, misappropriation of funds, or embezzlement related to the Company; (y) any Covered Person is convicted of a felony; or (z) any material failure by TCG to perform its obligations under this Agreement, which such material failure continues for a period of ten (10) days after the delivery of written notice to TCG of such failure.

7. **Several Liability; Indemnification.**

(a) **Several Liability.** Each party shall be severally (and not jointly) liable for any and all third-party demands, claims, causes of action, fines, penalties, damages (including without limitation consequential, incidental, punitive and other special damages), liabilities, judgments, and expenses, including without limitation reasonable attorneys' fees incurred in connection with or arising from any Services (collectively, "Damages"). Specifically, (i) TCG shall be solely responsible for any Damages resulting solely from the actions or

omissions of TCG, the Covered Persons, and TCG's agents, contractors and consultants; (ii) the Company shall be solely responsible for any Damages resulting solely from the actions or omissions of itself and its directors, officers, employees, agents, contractors and consultants; (iii) each party shall be responsible for its proportionate liability of all Damages caused in part by such party; and (iv) the parties shall each be responsible for their proportionate liability of all Damages which are not caused by the actions or omissions of any of the parties.

(b) **Indemnification.** Each party shall indemnify, defend and hold harmless the other party and such other party's directors, managers, members, shareholders, officers, employees, consultants, agents, representatives, contractors and subcontractors (collectively, the "Indemnitees" and each, individually, an "Indemnitee"), from any and all Damages incurred by an Indemnitee by reason of or in any way arising out of or related to actions or omissions of the indemnifying Party pursuant to this Agreement.

#### 8. Representations and Warranties.

(a) The Company represents and warrants to TCG that: (i) the Company has taken all action necessary to permit it to execute and deliver this Agreement and to carry out the terms hereof, (ii) this Agreement, when duly executed and delivered by the Company, will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms and (iii) the Company is not required to obtain any order, consent, approval or authorization of, or to make any declaration or filing with, any third party or governmental authority in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for such order, consent, approval, declaration or filing as which has been obtained or made.

(b) TCG represents and warrants to the Company that: (i) TCG has taken all action necessary to permit it to execute and deliver this Agreement and to carry out the terms hereof, (ii) this Agreement, when duly executed and delivered by TCG, will constitute a valid and binding obligation of TCG, enforceable against TCG in accordance with its terms and (iii) TCG is not required to obtain any order, consent, approval or authorization of, or to make any declaration or filing with, any third party or governmental authority in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for such order, consent, approval, declaration or filing as which has been obtained or made.

#### 9. Confidentiality; Material Non-Public Information.

(a) **Confidentiality.** The Company may provide, and TCG may receive and have access to, new and developing Confidential Information (as defined below) during the term of this Agreement. TCG shall not, during the term of this Agreement or thereafter, disclose directly or indirectly, to any person or entity, any Confidential Information acquired by TCG during the course of or as an incident to the Services. For purposes hereof, "Confidential Information" is non-public, confidential or proprietary information about the Company's business affairs, financial condition or performance (including any forecasts), operations, goods and services, intellectual property, legal proceedings, third party information, and other sensitive information, including the existence and terms of this Agreement, whether orally or in written, electronic or other form or media, and whether or not marked, designated or otherwise identified as "confidential." "Confidential Information" does not include information that at the time of disclosure and as established by documentary evidence is (i) in the public domain, (ii) known to the receiving party at the time of disclosure, (iii) rightfully obtained on a non-confidential basis from a third party, or (iv) independently developed without reference to or use of, in whole or in part, any of the Confidential Information. If TCG is required by law or requested by a governmental authority to disclose any Confidential Information, TCG shall give the Company prompt written notice of such request and the documents requested thereby so that the Company may seek an appropriate protective order. If in the absence of a protective order, TCG is nonetheless compelled to disclose Confidential Information, TCG may disclose such information pursuant to such law or governmental authority, provided that TCG must give the Company prior written notice of the information to be disclosed (including copies of the relevant portions of the relevant documents) as far in advance of its disclosure as is practicable, use all reasonable efforts to limit any such disclosure to the precise terms of such requirement and use all reasonable efforts to obtain an order or other reliable assurance that confidential treatment will be accorded to such information. All Confidential Information shall be the exclusive property of the Company, and TCG shall use its commercially reasonable best efforts to prevent any publication or disclosure thereof. Upon termination or expiration of this Agreement or upon the request of the Company, all documents, records, reports, writings and other similar documents containing Confidential Information, including written or electronic copies thereof, then in TCG's possession or control shall be immediately returned to the Company.

(b) **Material Non-Public Information.** TCG hereby acknowledges it is aware that the U.S. securities laws prohibit any person in possession of material non-public information ("MNPI") from purchasing or selling securities of any issuer or company that is the subject of such MNPI. TCG understands and agrees that if and to the extent any Confidential Information constitutes or may constitute (or otherwise may be deemed to be) MNPI, TCG may not purchase or sell or otherwise transact in, or advise, recommend or influence any other party to purchase or sell or transact in, the securities of any issuer or company (including without limitation the Company) if and for as long as such Confidential Information is or may be deemed to be MNPI. With respect to any Confidential Information disclosed or made available to TCG in connection with the Services, TCG shall not trade or transact in any securities of any issuer or company (including without limitation the Company) on the basis of such Confidential Information without the prior written consent of the Company.

10. **Notices.** All notices, requests, consents and other communications provided for herein shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient; or (d) on the third (3<sup>rd</sup>) day after the date mailed by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the addresses indicated below (or at such other address for a party as shall be specified in a notice given in accordance with this [Section 10](#)).

#### If to the Company:

1200 Summit Ave, Suite 414  
Fort Worth, Texas 76102  
Attention: Michael D. McNeil  
Telephone: (817) 529-2300  
E-mail: mmcneil@sanaramedtech.com

#### If to TCG:

7500 Rialto Blvd  
Building 2, Suite 220  
Austin, TX 77035  
Attention: Brad Gurasich  
Telephone: (512) 320-8600  
E-mail: bradgurasich@tcgfunds.com

#### 11. Miscellaneous.

(a) **Survival.** All obligations with respect to indemnification, liability, representations and warranties, confidentiality and MNPI, governing law and venue, and waiver of jury trial contained herein or made in writing by any party in connection herewith shall survive the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby.

(b) **Amendments.** This Agreement may be modified or amended only with the prior written consent of each of the parties hereto.

(c) **Entire Agreement.** This Agreement (i) contains the complete and entire understanding and agreement of the parties hereto with respect to the subject matter hereof and (ii) supersedes all prior and contemporaneous understandings, conditions and agreements, oral or written, express or implied, respecting the engagement of TCG in connection with the subject matter hereof.

(d) **Successors and Assigns.** Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not.

(e) **Governing Law and Venue.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF LAWS OF ANY JURISDICTION OTHER THAN THOSE OF THE STATE OF TEXAS. ANY LEGAL SUIT, ACTION, OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY MAY BE INSTITUTED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF TEXAS IN EACH CASE LOCATED IN THE CITY OF FORT WORTH AND COUNTY OF TARRANT, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION, OR PROCEEDING. SERVICE OF PROCESS, SUMMONS, NOTICE, OR OTHER DOCUMENT BY MAIL TO SUCH PARTY'S ADDRESS SET FORTH HEREIN SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY SUIT, ACTION, OR OTHER PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION, OR ANY PROCEEDING IN SUCH COURTS AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION, OR PROCEEDING BROUGHT IN SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

**(f) Waiver of Jury Trial.** EACH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (ii) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (iii) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11(f).

**(g) Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

**(h) Counterparts.** This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together shall constitute one and the same agreement.

**(i) Descriptive Headings; Interpretation.** The descriptive headings of this Agreement are inserted for convenience only and do not constitute a substantive part of this Agreement. The use of the word "including" in this Agreement shall be by way of example rather than by limitation.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the **Effective Date**.

**COMPANY:**

**SANARA MEDTECH INC.**

By: /s/ Michael McNeil

Name: Michael D. McNeil

Title: Chief Financial Officer

**TCG:**

**THE CATALYST GROUP, INC.**

By: /s/ Brad Gurasich

Name: Brad Gurasich

Title: Vice President and Principal

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Exhibit 21.1

**Subsidiaries of Sanara MedTech Inc.**

The following is a list of subsidiaries of Sanara MedTech Inc., a Texas corporation (the "Company"), as of **December 31, 2022** **December 31, 2023**, the states in which they are organized and the Company's percentage ownership of the issued and outstanding stock or other equity interests for each entity. The names of particular subsidiaries may be omitted if the unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of the end of the year covered by the annual report on Form 10-K of which this Exhibit 21.1 forms a part. (See the definition of "significant subsidiary" in Rule 1-02(w) (17 CFR 210.1-02(w)) of Regulation S-X.)

Name of Subsidiary	State of Incorporation	Direct or Indirect Ownership Percentage
Cellerate, LLC	Texas	100%
Wound Care Innovations, LLC	Nevada	100%
Sanara Biologics, LLC	Texas	100%
Rochal Technologies, LLC	Texas	100%
<b>WounDerm, LLC</b>	<b>Delaware</b>	<b>100%</b> <sup>(1)</sup>
United Wound and Skin Solutions, LLC	Delaware	100%
Precision Healing, LLC	Delaware	100% <sup>(1)</sup>
<b>Pixalere Healthcare USA, LLC</b>	<b>Delaware</b>	<b>73%</b> <sup>(2)</sup>
Scendia Biologics, LLC	Delaware	100%
<b>Sanara MedTech Applied Technologies, LLC</b>	<b>Texas</b>	<b>100%</b>
<b>Sanara Collagen Peptides, LLC</b>	<b>Delaware</b>	<b>90%</b>

(1) Ownership of **WounDerm, LLC** and **Precision Healing, LLC** is held indirectly through **United Wound and Skin Solutions, LLC**, a wholly owned subsidiary of the Company.

(2) Ownership of **Pixalere Healthcare USA, LLC** is held indirectly through **United Wound and Skin Solutions, LLC**, a wholly owned subsidiary of the Company.

Exhibit 23.1

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form **S-3 (File No. 333-251652)** and **Form S-8 (File Nos. 333-236558 and 333-267103)** of our report dated **March 20, 2023** **March 25, 2024** relating to the consolidated financial statements of Sanara MedTech Inc. and its subsidiaries, which appear in this Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

/s/ Weaver and Tidwell, L.L.P.  
Austin, Texas  
March 20, 2023 25, 2024

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, **Zachary B. Fleming**, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sanara MedTech Inc. for the fiscal year ended **December 31, 2022** **December 31, 2023**;
2. Based on my knowledge, this Annual 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: **March 20, 2023** **March 25, 2024**

*/s/ Zachary B. Fleming*  
Zachary B. Fleming, Chief Executive Officer

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**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 Annual Report on Form 10-K of Sanara MedTech Inc. for the fiscal year ended **December 31, 2022**; **December 31, 2023**;
2. Based on my knowledge, this Annual 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: **March 20, 2023** **March 25, 2024**

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

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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 Annual Report on Form 10-K of Sanara MedTech Inc. (the "Company") for the period ended **December 31, 2022** **December 31, 2023** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Zachary B. Fleming, 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.

March 20, 2023 25, 2024

/s/ Zachary B. Fleming

Zachary B. Fleming, 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.

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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 Annual Report on Form 10-K of Sanara MedTech Inc. (the "Company") for the period ended **December 31, 2022** **December 31, 2023** 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.

March 20, 2023 25, 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.

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Exhibit 97.1

**SANARA MEDTECH INC.**

Compensation Recovery Policy

This Compensation Recovery Policy (this "Policy") of Sanara MedTech Inc. (the "Company") is hereby adopted as of November 13, 2023 in compliance with Rule 5608 of the Nasdaq Rules. Certain terms used herein shall have the meanings set forth in "Section 3. Definitions" below.

**Section 1. Recovery Requirement**

Subject to Section 4 of this Policy, in the event the Company is required to prepare an Accounting Restatement, then the Board and the Committee hereby direct the Company, to the fullest extent permitted by governing law, to recover from each Executive Officer the amount, if any, of Erroneously Awarded Compensation received by such Executive Officer, with such recovery occurring reasonably promptly after the Restatement Date relating to such Accounting Restatement.

The Board or the Committee may effect recovery in any manner consistent with applicable law including, but not limited to, (a) seeking reimbursement of all or part of Erroneously Awarded Compensation previously received by an Executive Officer, together with any expenses reasonably incurred as described below in connection with the recovery of such Erroneously Awarded Compensation, (b) cancelling prior grants of Incentive-Based Compensation, whether vested or unvested, restricted or deferred, or paid or unpaid, and through the forfeiture of previously vested equity awards, (c) cancelling or setting-off against planned future grants of Incentive-Based Compensation, (d) deducting all or any portion of such Erroneously Awarded Compensation from any other remuneration payable by the Company to such Executive Officer, and (e) any other method authorized by applicable law or contract. To the extent that an Executive Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Executive Officer. The applicable Executive Officer shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence. The Company's right to recovery pursuant to this Policy is not dependent on or when the Accounting Restatement is filed with the SEC.

**Section 2. Incentive-Based Compensation Subject to this Policy**

This Policy applies to all Incentive-Based Compensation received by each Executive Officer on or after the Effective Date:

- (i) if such Incentive-Based Compensation was received on and after the date such person became an Executive Officer of the Company;

(ii) if such Executive Officer served as an Executive Officer at any time during the performance period for such Incentive-Based Compensation;  
(iii) while the Company has a class of securities listed on a national securities exchange or a national securities association; and

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(iv) during the three completed fiscal years immediately preceding the date that the Company is required to prepare an Accounting Restatement (including any transition period that results from a change in the Company's fiscal year that is within or immediately following those three completed fiscal years; provided that a transition period of nine to 12 months is deemed to be a completed fiscal year).

This Policy shall apply and govern Incentive-Based Compensation received by any Executive Officer, notwithstanding any contrary or supplemental term or condition in any document, plan or agreement including, without limitation, any employment contract, indemnification agreement, equity or bonus agreement, or equity or bonus plan document.

### Section 3. Definitions:

For purposes of this Policy, the following terms have the meanings set forth below:

- **"Accounting Restatement"** means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error (i) in previously issued financial statements that is material to the previously issued financial statements (commonly referred to as a "Big R" restatement), or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (commonly referred to as a "little r" restatement).
- **"Board"** means the Board of Directors of the Company.
- **"Committee"** means the Compensation Committee of the Board.
- **"Effective Date"** means October 2, 2023.
- **"Erroneously Awarded Compensation"** means the amount of Incentive-Based Compensation received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received by the Executive Officer had it been determined based on the restated amounts in the Accounting Restatement (computed without regard to any taxes paid). For Incentive-Based Compensation based on stock price or total shareholder return ("TSR"), where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Accounting Restatement, the Company shall: (i) base the calculation of the amount on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation received was based; and (ii) retain documentation of the determination of that reasonable estimate and provide such documentation to The Nasdaq Stock Market LLC ("Nasdaq") or, if a class of securities of the Company is no longer listed on Nasdaq, such other national securities exchange or national securities association on which a class of the Company's securities is then listed for trading.
- **"Executive Officer"** means the Company's current and former executive officers, as determined by the Board or the Committee in accordance with the definition of executive officer set forth in Rule 5608(d) of the Nasdaq Rules.
- **"Financial Reporting Measures"** means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from such measures. Stock price and TSR are also Financial Reporting Measures. A Financial Reporting Measure need not be presented within the Company's financial statements or included in any of the Company's filings with the SEC.
- **"Incentive-Based Compensation"** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure (including, without limitation, any cash bonuses, performance awards, restricted stock awards or restricted stock unit awards that are granted, earned or vest based on achievement of a Financial Reporting Measure). The following do not constitute Incentive-Based Compensation for purposes of this Policy: (a) equity awards for which (1) the grant is not contingent upon achieving any Financial Reporting Measure performance goals and (2) vesting is contingent solely upon completion of a specified employment period and/or attaining one or more nonfinancial reporting measures, and (b) bonus awards that are discretionary or based on subjective goals or goals unrelated to Financial Reporting Measures.
- **"Nasdaq Rules"** means the listing rules of The Nasdaq Stock Market LLC.
- **"received"**: An Executive Officer shall be deemed to have "received" Incentive-Based Compensation in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that fiscal period.
- **"Restatement Date"** means the earlier to occur of (i) the date the Board or the Committee (or an officer or officers of the Company authorized to take such action if Board action is not required) concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement and (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.
- **"SEC"** means the U.S. Securities and Exchange Commission.

### Section 4. Exceptions to Recovery

Notwithstanding the foregoing, the Company is not required to recover Erroneously Awarded Compensation to the extent that the Committee or, in the absence of such Committee, a majority of the independent directors serving on the Board has made a determination that recovery would be impracticable and that:

- (i) after the Company has made a reasonable attempt to recover such Erroneously Awarded Compensation (which has been documented and such documentation has been provided to Nasdaq), the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered;
- (ii) recovery would violate one or more laws of the home country that were adopted prior to November 28, 2022 (which determination shall be made after the Company obtains an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in a such a violation, and a copy of such opinion is provided to Nasdaq);
- (iii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company and its subsidiaries, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder; or
- (iv) any other exception permitted under Rule 5608(b)(1)(iv) of the Nasdaq Rules.

**Section 5. No Right to Indemnification or Insurance**

The Company shall not indemnify any Executive Officer against the loss of Erroneously Awarded Compensation or losses arising from any claims relating to the Company's enforcement of this Policy. In addition, the Company shall not pay, or reimburse any Executive Officer for, any premiums for a third-party insurance policy purchased by the Executive Officer or any other party that would fund any of the Executive Officer's potential recovery obligations under this Policy.

**Section 6. Plan Documents and Award Agreements**

The Board further directs the Company to include clawback language in each of the Company's incentive compensation plans and any award agreements such that each individual who receives Incentive-Based Compensation under those plans understands and agrees that all or any portion of such Incentive-Based Compensation may be subject to recovery by the Company, and such individual may be required to repay all or any portion of such Incentive-Based Compensation, if (i) recovery of such Incentive-Based Compensation is required by this Policy, (ii) such Incentive-Based Compensation is determined to be based on materially inaccurate financial and/or performance information (which includes, but is not limited to, statements of earnings, revenues or gains), or (iii) repayment of such Incentive-Based Compensation is required by applicable federal or state securities laws.

**Section 7. Interpretation and Amendment of this Policy**

The Board or the Committee, in its discretion, shall have the sole authority to interpret and make any determinations regarding this Policy. Any interpretation, determination, or other action made or taken by the Committee (or, if applicable, the Board) shall be final, binding, and conclusive on all interested parties. The determination of the Committee (or, if applicable, the Board) need not be uniform with respect to one or more officers of the Company. The Board or the Committee may amend this Policy from time to time in its discretion and shall amend the Policy to comply with any rules or standards adopted by Nasdaq or any national securities exchange on which the Company's securities are then listed.

**Section 8. Filing Requirement**

The Company shall file this Policy as an exhibit to its Annual Report on Form 10-K and make such other disclosures with respect to this Policy in accordance with the requirements of the federal securities laws, including the disclosure required by applicable SEC rules and regulations.

**Section 9. Other Recoupment Rights**

The Company intends that this Policy will be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other remedies available to the Company under applicable law. Without by implication limiting the foregoing, following a restatement of the Company's financial statements, the Company also shall be entitled to recover any compensation received by the Chief Executive Officer and Chief Financial Officer that is required to be recovered by Section 304 of the Sarbanes-Oxley Act of 2002.

**Section 10. Successors**

This Policy shall be binding and enforceable against all Executive Officers and their respective beneficiaries, heirs, executors, administrators or other legal representatives.

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