

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

FORM 10-Q

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

For the quarterly period ended March 31, 2022

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: 001-37899

SCWORX CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-5412331

(I.R.S. Employer
Identification No.)

590 Madison Avenue, 21st Floor
New York, New York 10022

(Address of principal executive offices, including zip code)

(844) 472-9679

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 per share	WORX	Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months, 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

Number of shares of the registrant's common stock outstanding at May 13, 2022: 11,423,650

SCWorx Corp.
Form 10-Q

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Cautionary Statement Regarding Forward-Looking Statements

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

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

Forward-looking statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from those anticipated by such statements. These factors include, among other things, the unknown risks and uncertainties that we believe could cause actual results to differ from these forward looking statements as set forth under the heading, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all of the risks and uncertainties that could have an impact on the forward-looking statements, including without limitation, risks and uncertainties relating to our ability to:

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

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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SCWorx Corp.
Condensed Consolidated Balance Sheets

ASSETS	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Current assets:		
Cash	\$ 8,293	\$ 71,075
Accounts receivable - net	697,195	464,851
Inventory	156,600	156,600
Prepaid expenses and other assets	119,553	63,942
Total current assets	<u>981,641</u>	<u>756,468</u>
Goodwill	8,366,467	8,366,467
Total assets	<u>\$ 9,348,108</u>	<u>\$ 9,122,935</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,699,706	\$ 1,432,710
Accounts payable and accrued liabilities - related party	153,838	153,838
Shareholder advance	100,000	100,000
Deferred revenue	764,500	472,750
Equity financing	125,000	125,000
Total current liabilities	<u>2,843,044</u>	<u>2,284,298</u>
Long-term liabilities:		
Loans payable	293,972	433,567
Total long-term liabilities	<u>293,972</u>	<u>433,567</u>
Total liabilities	<u>3,137,016</u>	<u>2,717,865</u>
Commitments and contingencies	-	-
Stockholders' equity:		
Series A Convertible Preferred stock, \$0.001 par value; 900,000 shares authorized; 39,810 shares issued and outstanding	40	40
Common stock, \$0.001 par value; 45,000,000 shares authorized; 11,395,650 and 11,293,030 shares issued and outstanding, respectively	11,396	11,293
Additional paid-in capital	30,237,493	29,805,028
Subscriptions payable	600,000	600,000
Accumulated deficit	(24,637,837)	(24,011,291)
Total stockholders' equity	<u>6,211,092</u>	<u>6,405,070</u>
Total liabilities and stockholders' equity	<u>\$ 9,348,108</u>	<u>\$ 9,122,935</u>

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

SCWorx Corp.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the three months ended March 31,	
	2022	2021
Revenue	\$ 1,030,949	\$ 1,148,257
Operating expenses:		
Cost of revenues	697,636	694,938
General and administrative	1,099,454	1,201,262
Total operating expenses	1,797,090	1,896,200
Loss from operations	(766,141)	(747,943)
Other income (expense)		
Gain on forgiveness of PPP loan	139,595	-
Total other income (expense)	139,595	-
Net loss before income taxes	(626,546)	(747,943)
Provision for (benefit from) income taxes	-	-
Net loss	\$ (626,546)	\$ (747,943)
Net loss per share, basic and diluted	\$ (0.06)	\$ (0.07)
Weighted average common shares outstanding, basic and diluted	11,334,905	9,999,928

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

SCWorx Corp.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

Three Months Ended March 31, 2022	Preferred Stock		Common stock		Additional paid-in capital	Subscriptions payable	Accumulated deficit	Total
	Shares	\$	Shares	\$				
Balances, December 31, 2021	39,810	\$ 40	11,293,030	\$ 11,293	\$ 29,805,028	\$ 600,000	\$ (24,011,291)	\$ 6,405,070
Shares issued as settlement of accounts payable	-	-	83,954	84	84,916	-	-	85,000
Shares issued for vested restricted stock units	-	-	18,666	19	(19)	-	-	-
Stock based compensation	-	-	-	-	347,568	-	-	347,568
Net Loss	-	-	-	-	-	-	(626,546)	(626,546)
Ending balance, March 31, 2022	<u>39,810</u>	<u>\$ 40</u>	<u>11,395,650</u>	<u>\$ 11,396</u>	<u>\$ 30,237,493</u>	<u>\$ 600,000</u>	<u>\$ (24,637,837)</u>	<u>\$ 6,211,092</u>

Three Months Ended March 31, 2021	Preferred Stock		Common stock		Additional paid-in capital	Subscriptions payable	Accumulated deficit	Total
	Shares	\$	Shares	\$				
Balances, December 31, 2020	84,872	\$ 85	9,895,600	\$ 9,896	\$ 25,920,858	\$ -	\$ (20,196,823)	\$ 5,734,016
Conversion of Series A Convertible Preferred Stock into common stock	(20,000)	(20)	72,369	72	(52)	-	-	-
Shares issued for vested restricted stock units	-	-	8,832	9	(9)	-	-	-
Shares issued for equity financing	-	-	52,632	53	249,947	-	-	250,000
Stock based compensation	-	-	-	-	500,718	-	-	500,718
Net loss	-	-	-	-	-	-	(747,943)	(747,943)
Ending balance, March 31, 2021	<u>64,872</u>	<u>\$ 65</u>	<u>10,029,433</u>	<u>\$ 10,030</u>	<u>\$ 26,671,462</u>	<u>\$ -</u>	<u>\$ (20,944,766)</u>	<u>\$ 5,736,791</u>

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

SCWorx Corp.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended	
	March 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (626,546)	\$ (747,943)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	-	70,683
Gain on forgiveness of PPP loan	(139,595)	-
Stock-based compensation	347,568	500,718
Bad debt expense	46,875	(15,000)
Changes in operating assets and liabilities:		
Accounts receivable	(279,219)	(285,030)
Prepaid expenses and other assets	(55,611)	(37,382)
Accounts payable and accrued liabilities	351,996	148,553
Deferred revenue	291,750	(61,500)
Net cash used in operating activities	(62,782)	(426,901)
Net cash used in investing activities	-	-
Cash flows from financing activities:		
Proceeds from notes payable	-	139,595
Net cash provided by financing activities	-	139,595
Net (decrease) increase in cash	(62,782)	(287,306)
Cash, beginning of period	71,075	376,425
Cash, end of period	\$ 8,293	\$ 89,119
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Shares issued for equity financing	\$ -	\$ 250,000
Shares issued for vested restricted stock units	\$ 19	\$ 9

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

SCWorx Corp.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Description of Business

Nature of Business

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

Operations of the Business

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

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

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

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

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

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

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

Impact of the COVID-19 Pandemic

The Company's operations and business have experienced disruption due to the unprecedented conditions surrounding the COVID-19 pandemic which spread throughout the United States and the world. The New York and New Jersey area, where the Company is headquartered, was at one of the early epicenters of the coronavirus outbreak in the United States. The outbreak adversely impacted new customer acquisition. The Company has followed the recommendations of local health authorities to minimize exposure risk for its team members since the outbreak.

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

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

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

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

Note 2. Liquidity and Going Concern

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

The Company has suffered recurring losses from operations and incurred a net loss of \$626,546 for the three months ended March 31, 2022 and \$747,943 for the three months ended March 31, 2021. The accumulated deficit as of March 31, 2022 was \$24,637,837. The Company has not yet achieved profitability and expects to continue to incur cash outflows from operations. It is expected that its operating losses will continue and, as a result, the Company will eventually need to generate significant increases in product revenues to achieve profitability. These conditions indicate that there is substantial doubt about the Company’s ability to continue as a going concern within one year after the financial statement issuance date.

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

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

Note 3. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

These interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. They do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto contained in its report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 31, 2022.

The unaudited condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company’s financial position at March 31, 2022, the results of its operations and cash flows for three months ended March 31, 2022. The results of operations for three months ended March 31, 2022 are not necessarily indicative of the results to be expected for future quarters or the full year.

Cash

Cash is maintained with various financial institutions. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The Company did not have amounts in excess of the FDIC insured limit as of March 31, 2022 and December 31, 2021.

Fair Value of Financial Instruments

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

Concentration of Credit and Other Risks

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

Significant customers are those which represent more than 10% of the Company’s revenue for each period presented, or the Company’s accounts receivable balance as of each respective balance sheet date. For each significant customer, revenue as a percentage of total revenue and accounts receivable as a percentage of total net accounts receivable are as follows:

Customers	Revenue		Accounts Receivable	
	For the three months ended		March 31,	
	2022	2021	2022	2021
Customer A	13%	8%	55%	-%
Customer B	10%	9%	14%	9%
Customer C	12%	5%	3%	13%
Customer D	11%	-%	3%	-%
Customer E	-%	26%	-%	21%

Allowance for Doubtful Accounts

The Company continually monitors customer payments and maintains a reserve for estimated losses resulting from its customers’ inability to make required payments. In determining the reserve, the Company evaluates the collectability of its accounts receivable based upon a variety of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer’s ability to meet its financial obligations, the Company records a specific allowance against amounts due. For all other customers, the Company recognizes allowances for doubtful accounts based on its historical write-off experience in conjunction with the length of time the receivables are past due, customer creditworthiness, geographic risk and the current business environment. Actual future losses from uncollectible accounts may differ from the Company’s estimates. The Company’s allowance for doubtful accounts as of March 31, 2022 and December 31, 2021 was \$468,611 and \$421,736, respectively.

Inventory

The inventory balance at March 31, 2022 is related to the Company's Direct-Worx, LLC subsidiary and consisted of approximately 87,000 gowns. These items are carried on the unaudited condensed consolidated balance sheet at the lower of cost or market.

During the year ended December 31, 2021, the Company recorded a write down on the fair value of its inventory of \$366,840. Inventory assets as of March 31, 2022 and December 31, 2021 consisted of the following:

	March 31, 2022	December 31, 2021
Inventory	\$ 523,440	\$ 523,440
Allowance for obsolescence	(366,840)	(366,840)
Net inventory value	<u>\$ 156,600</u>	<u>\$ 156,600</u>

Goodwill and Purchased Identified Intangible Assets

Goodwill

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

Property and Equipment

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

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

Depreciation expense for the three months ended March 31, 2022 and 2021 was zero and \$70,683, respectively.

Revenue Recognition

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

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

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

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

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

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

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

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

Data Normalization and Professional Services

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

SaaS and Maintenance

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

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

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

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

PPE Inventory sales

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

Brokered PPE sales

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

Remaining Performance Obligations

As of March 31, 2022 and December 31, 2021, the Company had \$764,500 and \$472,750, respectively, of remaining performance obligations recorded as deferred revenue. The Company expects to recognize the majority of revenue relating to the current performance obligations during the following 12 month period.

Costs to Obtain and Fulfill a Contract

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

Cost of Revenues

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

Contract Balances

Contract assets arise when the associated revenue was earned prior to the Company's unconditional right to receive a payment under a contract with a customer (unbilled revenue) and are derecognized when either it becomes a receivable or the cash is received. There were no contract assets as of March 31, 2022 and December 31, 2021.

Contract liabilities arise when customers remit contractual cash payments in advance of the Company satisfying its performance obligations under the contract and are derecognized when the revenue associated with the contract is recognized when the performance obligation is satisfied. Contract liabilities were \$764,500 and \$472,750 as of March 31, 2022 and December 31, 2021, respectively.

Income Taxes

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

Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of March 31, 2022 and December 31, 2021, the Company has evaluated available evidence and concluded that the Company may not realize all the benefits of its deferred tax assets; therefore, a valuation allowance has been established for its deferred tax assets.

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The Company continues to examine the impact that the tax changes in the CARES Act may have on its business but does not expect the impact to be material.

There was no income tax expense for three months ended March 31, 2022 and 2021.

Stock-Based Compensation

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

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

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, stock price volatility, and the pre-vesting option forfeiture rate. The Company estimates the expected life of options granted based on historical exercise patterns, which are believed to be representative of future behavior. The Company estimates the volatility of the Company’s common stock on the date of grant based on historical volatility. The assumptions used in calculating the fair value of stock-based awards represent the Company’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment. As a result, if factors change and the Company uses different assumptions, its stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience of its stock-based awards that are granted, exercised and cancelled. If the actual forfeiture rate is materially different from the estimate, stock-based compensation expense could be significantly different from what was recorded in the current period. The Company also grants performance based restricted stock awards to employees and consultants. These awards will vest if certain employee\consultant-specific or company-designated performance targets are achieved. If minimum performance thresholds are achieved, each award will convert into a designated number of the Company’s common stock. If minimum performance thresholds are not achieved, then no shares will be issued. Based upon the expected levels of achievement, stock-based compensation is recognized on a straight-line basis over the requisite service period. The expected levels of achievement are reassessed over the requisite service periods and, to the extent that the expected levels of achievement change, stock-based compensation is adjusted in the period of change and recorded on the statements of operations and the remaining unrecognized stock-based compensation is recorded over the remaining requisite service period. Refer to Note 7, Stockholders’ Equity, for additional detail.

Loss Per Share

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

Indemnification

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

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

In connection with the Class Action and derivative claims and investigations described in Note 6, Commitments and Contingencies, the Company is obligated to indemnify its officers and directors for costs incurred in defending against these claims and investigations.

Contingencies

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

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. The Company regularly evaluates estimates and assumptions related to the allowance for doubtful accounts, the estimated useful lives and recoverability of long-lived assets, stock-based compensation, goodwill, and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. Actual results could differ materially from those estimates.

Recently Issued Accounting Pronouncements

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

Note 4. Loans Payable

CARES funding

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

On March 17, 2021, we received \$139,595 in financing from the U.S. government's Payroll Protection Program ("PPP"). We entered into a loan agreement with Bank of America. This loan agreement was pursuant to the CARES Act. The CARES Act was established in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the CARES Act is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels. Principal and interest payments on any unforgiven portion of the PPP Funds (the "PPP Loan") will be deferred for six months and will accrue interest at a fixed annual rate of 1.0% and carry a two year maturity date. There is no prepayment penalty on the CARES Act Loan. This note was fully forgiven on March 12, 2022.

Note 5. Leases

Operating Leases

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

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

As of March 31, 2022 and December 31, 2021, assets recorded under operating leases were \$0. Operating lease right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The discount rate used to determine the commencement date present value of lease payment is the Company's incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

For three months ended March 31, 2022 and 2021, the components of lease expense were as follows:

	For the three months ended March 31,	
	2022	2021
Operating lease cost	\$ 487	\$ 20,714
Total lease cost	\$ 487	\$ 20,714

Other information related to leases was as follows:

	For the three months ended March 31,	
	2022	2021
Cash paid for amounts included in the measurement of operating lease liabilities:		
Operating cash flows for operating leases	\$ 487	\$ 20,714
Weighted average remaining lease term (months) – operating leases	-	-
Weighted average discount rate– operating leases	N/A	N/A

As of March 31, 2022, the Company has no additional operating leases, other than that noted above, and no financing leases.

Note 6. Commitments and Contingencies

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

Item 1. Legal Proceedings

Settlement of Consolidated Securities Class Action

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

As previously disclosed, on February 11, 2022, the parties entered into a Stipulation of Settlement (subject to Court approval) to settle the Consolidated Class Action. The settlement resolves all claims asserted against SCWorx and the other named defendant without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. Under the terms of this agreement, (i) the insurers for the Company and Marc Schessel (former CEO) will make a cash payment to the class plaintiffs (ii) the former CEO will transfer 100,000 shares of company common stock to the class plaintiffs, and (iii) the Company will issue \$600,000 worth of common stock to the class plaintiffs, in exchange for which all parties will be released from all claims related to the securities class action litigation. After giving effect to the share issuance by the Company, the Company believes that it will have satisfied the accrued retention liability of \$700,000. By order dated March 22, 2022, the Court granted preliminary approval of the class action settlement and scheduled the settlement fairness hearing for June 29, 2022.

Settlement of Consolidated Derivative Action

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

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

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

On February 15, 2022, the Company and the Director Defendants (Marc Schessel, Steven Wallitt, Charles Miller and Robert Christie) entered into a stipulation of settlement (subject to Court approval) with the shareholder derivative plaintiffs to settle the Consolidated Derivative Action as well as the Zarins action. Under the terms of the settlement, (i) the insurers for the Director Defendants will make a cash payment to legal counsel for the shareholder derivative Plaintiffs to cover their legal fees and (ii) the Company will adopt certain corporate governance reforms within 60 days of court approval of the settlement, in exchange for which all parties will be released from all claims related to the derivative class action litigation. The settlement resolves all claims asserted against the defendants without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. By order dated March 25, 2022, the Court granted preliminary approval of the derivative settlement and scheduled the final settlement hearing for June 29, 2022.

CorProminence d/b/a Core IR v. SCWorx **AAA Arbitration Case 01-22-0001-5709**

On April 25, 2022, the Company received a Demand for Arbitration along with a Statement of Claim filed by Core IR with the American Arbitration Association seeking damages in the amount of approximately \$190,000.00 arising out of a marketing and consulting agreement. The Company expects to file its answer, affirmative defenses and counterclaims within the next two weeks. An administrative conference is scheduled for May 16, 2022.

Other Investigations

In addition, as previously disclosed, following the April 13, 2020 press release and related disclosures (related to COVID-19 rapid test kits), the Securities and Exchange Commission made an inquiry regarding the disclosures we made in relation to the transaction involving COVID-19 test kits. The Company is continuing to cooperate with the SEC regarding its investigation arising out of the April 13, 2020 press release and the events thereafter. The Company received a Wells notice on December 8, 2021 and an amended Wells notice on December 10, 2021. The Wells Notice states that the staff of the Securities and Exchange Commission has made a preliminary determination to recommend that the Commission file an enforcement action against the Company which would allege violations of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 (the "Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder. The Wells Notice also indicates that the staff would seek fines and disgorgement, including pre and post judgment interest in such enforcement proceeding. The Company did not make a Wells submission to the Commission in response to the Wells Notice. The Company has since been actively engaged in discussions with the Staff to settle the claims set forth in the Wells Notice. On or about April 6, 2022, the Company reached a settlement in principle with the SEC Staff (subject to approval by the SEC) in which the Company and the SEC Staff have agreed to resolve the matter through the Company's payment of a civil monetary penalty of \$125,000, payable in 4 equal installments over 12 months. In addition to final approval by the SEC, the settlement is subject to the negotiation and court approval of a consent judgment. The Company is hopeful that the agreement will be approved by the SEC, however, there is a possibility that the SEC Staff's recommendation of this agreement may not be approved by the Commission or that the court may not approve the consent judgment. In the event the SEC does not approve the Staff's recommendation, the Company will endeavor to resume settlement discussions with the SEC Staff. Upon final approval and subsequent entry of a consent judgment against the Company, the settlement will resolve the previously disclosed SEC investigation against the Company.

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

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

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

Note 7. Stockholders' Equity

Authorized Shares

The Company has 45,000,000 Common shares and 900,000 Series A convertible preferred shares authorized with a par value of \$0.001 per share.

Common Stock

Issuance of Shares for Vested Restricted Stock Units

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

Issuance of Shares Pursuant to Settlement of Accounts Payable

On March 31, 2022, the Company issued 12,196 shares of common stock in full settlement of \$10,000 of accounts payable. The shares had a fair value of \$0.82 per share.

Issuance of Shares Pursuant to Legal Settlement

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

Equity Financing

During May 2020, the Company received \$515,000 of a committed \$565,000 from the sale of 135,527 shares of common stock (at a price of \$3.80 per share) and warrants to purchase 169,409 shares of common stock, at an exercise price of \$4.00 per share. As of March 31, 2022, \$415,000 worth of the shares and warrants have been issued. The remaining \$125,000 received by the Company is included in equity financing within current liabilities on the consolidated balance sheet.

Stock Incentive Plan

The number of shares of the Company's common stock that are issuable pursuant to warrant and stock option grants with time-based vesting as of and for the three months ended March 31, 2022 were:

	Warrant Grants		Stock Option Grants		Restricted Stock Units
	Number of shares subject to warrants	Weighted-average exercise price per share	Number of shares subject to options	Weighted-average exercise price per share	Number of shares subject to restricted stock units
Balance at December 31, 2021	1,043,525	\$ 2.57	118,388	\$ 3.25	2,160,757
Granted	-	-	-	-	443,954
Exercised	-	-	-	-	(102,620)
Cancelled/Expired	-	-	-	-	-
Balance at March 31, 2022	1,043,525	\$ 2.57	118,388	\$ 3.25	2,502,091
Exercisable at March 31, 2022	1,043,525	\$ 2.57	118,388	\$ 3.25	1,802,299

The Company has classified the warrant as having Level 2 inputs, and has used the Black-Scholes option-pricing model to value the warrants.

The Company's outstanding warrants and options at March 31, 2022 are as follows:

Warrants Outstanding				Warrants Exercisable		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$1.79 - \$20.90	1,043,525	2.74	\$ 2.57	1,043,525	\$ 2.57	-

Options Outstanding				Options Exercisable		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Intrinsic Value
\$2.64 - \$28.50	118,388	2.44	\$ 3.25	118,388	\$ 3.25	-

As of March 31, 2022 and December 31, 2021, the total unrecognized expense for unvested stock options and restricted stock awards was approximately \$1.1 million and \$1.0 million, respectively, to be recognized over a twelve month to three year period from the original grant dates.

Stock-based compensation expense for three months ended March 31, 2022 and 2021 was as follows:

	For the three months ended March 31,	
	2022	2021
Stock-based compensation expense	\$ 347,568	\$ 500,718

Stock-based compensation expense categorized by the equity components for three months ended March 31, 2022 and 2021 was as follows:

	For the three months ended March 31,	
	2022	2021
Common stock	\$ 347,568	\$ 500,718
Total	\$ 347,568	\$ 500,718

Note 8. Net Loss per Share

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

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

	For the three months ended March 31,	
	2022	2021
Stock options	118,388	118,388
Warrants	1,043,525	762,920
Total common stock equivalents	1,161,913	881,308

Note 9. Related Party Transactions

At March 31, 2022 and December 31, 2021 Company had a payable due to an officer in the amount of \$153,838 for contract work performed prior to becoming an officer.

During September 2021, the Company's former CEO and shareholder advanced \$100,000 in cash to the Company for short term capital requirements. This amount is non-interest bearing and payable upon demand and included in Shareholder advance on the Company's consolidated balance sheet as of March 31, 2022 and December 31, 2021

Note 10. Subsequent Events

We have evaluated all events that occurred after the balance sheet date through the date when our financial statements were issued to determine if they must be reported. Management has determined that other than disclosed below, there were no additional reportable subsequent events to be disclosed.

Issuance of Shares for Vested Restricted Stock Units

Between April 8, 2022 and April 27, 2022, the Company issued a total of 28,000 shares of common stock to holders of fully vested restricted stock units.

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

You should read the following discussion of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and the related notes included in Item 1, "Financial Statements" of this Form 10-Q. In addition to our historical unaudited condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs which involves risk, uncertainty and assumptions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Form 10-Q.

Corporate Information

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

Our principal executive offices are located at 590 Madison Avenue, 21st Floor, New York, New York, 10022. Our telephone number is (844) 472-9679. The Company also had a lease in Greenwich, CT which expired in March 2020 and became a month to month tenancy until it was terminated in April 2021.

In this Quarterly Report, the terms "SCWorx," the "Company," "we," "us" and "our" refer to SCWorx Corp., a Delaware corporation, unless the context requires otherwise. Unless specified otherwise, the historical financial results in this Annual Report are those of our company and our subsidiaries on a consolidated basis.

Our Business

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

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

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

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

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

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

SCWorx continues to provide transformational data-driven solutions to some of the finest, most well-respected healthcare providers in the United States. Clients are geographically dispersed throughout the country. Our focus is to assist healthcare providers with issues they have pertaining to data interoperability.

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

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

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

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

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

Impact of the COVID-19 Pandemic

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

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

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

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

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

Results of Operations – three months ended March 31, 2022

Our operating results for the three month period ended March 31, 2022 and 2021 are summarized as follows:

	Three months ended		Difference
	March 31, 2022	March 31, 2021	
Revenue	\$ 1,030,949	\$ 1,148,257	\$ (117,308)
Cost of revenues	697,636	694,938	2,698
General and administrative	1,099,454	1,201,262	(101,808)
Other income (expense)	139,595	-	139,595
Provision for income taxes	-	-	-
Net loss	<u>(626,546)</u>	<u>(747,943)</u>	<u>121,397</u>

Revenues

Revenue for the three months ended March 31, 2022 was \$1,030,949 as compared to \$1,148,257 for the three months ended March 31, 2021. This decrease was primarily due to normal fluctuations in our billing cycle. We expect near term revenues to remain relatively flat, unless and until we raise sufficient capital to fully implement our business plan.

Operating Expenses

Cost of revenues

Cost of revenues was \$697,636 for the three months ended March 31, 2022 compared to \$694,938 for the same period in 2021. The small increase was primarily the result of slight salary fluctuations.

General and administrative

General and administrative expenses decreased \$101,808 to \$1,099,454 for the three months ended March 31, 2022, as compared to \$1,201,262 in the same period of 2021. The decrease is primarily attributable to a decrease in stock-based compensation of \$153,150 partially offset by approximate increases in legal and professional fees of \$62,000, accounting fees of \$42,000 and bad debt reserve expense of \$62,000. We expect general and administrative expenses to remain relatively flat during the rest of 2022, unless we complete a capital raise, in which case we would expect expenses to grow as we ramp our sales force.

Other income

We had other income of \$139,595 during the three months ended March 31, 2022 related to the forgiveness of a PPP Loan under the CARES Act.

Net Loss

For the three months ended March 31, 2022, we incurred a net loss of \$626,546 compared to a net loss of \$747,943 for the same period in 2021.

Liquidity and Capital Resources

Going Concern

The Company has suffered recurring losses from operations and incurred a net loss of \$626,546 for the three months ended March 31, 2022 and \$747,943 for the three months ended March 31, 2021. The accumulated deficit as of March 31, 2022 was \$24,637,837. The Company has not yet achieved profitability and expects to continue to incur cash outflows from operations. It is expected that its operating losses will continue and, as a result, the Company will eventually need to generate significant increases in product revenues to achieve profitability. These conditions indicate that there is substantial doubt about the Company's ability to continue as a going concern within one year after the financial statement issuance date.

As of March 31, 2022, we had a working capital deficit of \$1,861,403 and accumulated deficit of \$24,637,837. During the three months ended March 31, 2022, we had a net loss of \$626,546 and used \$62,782 of cash in operations. We have historically incurred operating losses and negative operating cash flows, which we may continue to incur for the foreseeable future. We believe that these conditions may raise doubt about our ability to continue as a going concern. This may hinder our future ability to obtain financing or may force us to obtain financing on less favorable terms than would otherwise be available. If we are unable to raise additional capital and grow our revenues, we may not be able to sustain our business, in which case our stockholders would suffer a total loss of their investment. There can be no assurance that we will be able to continue as a going concern.

As of the date of this report, we have only limited cash on hand, and we are experiencing negative cash flows from operations. Consequently, we need to raise additional capital in the very near term to fund our operations and the implementation of our business plan.

Based on our current business plan, if we had sufficient capital resources, we anticipate that our operating activities would use approximately \$400,000 in cash per month over the next twelve months, or approximately \$4.8 million of which approximately \$350,000 per month can be paid through current revenue collections. Currently we have only limited cash on hand, and consequently, we are unable to implement our current business plan. Accordingly, we have an immediate need for additional capital to fund our operating activities.

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

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

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

Cash Flows

	Three months ended	
	March 31,	
	2022	2021
Net cash used in operating activities	\$ (62,782)	\$ (426,901)
Net cash used in investing activities	-	-
Net cash provided by financing activities	-	139,595
Change in cash	\$ (62,782)	\$ (287,306)

Operating Activities

Cash used in operating activities was approximately \$63,000 for the three months ended March 31, 2022 (about \$21,000 per month), mainly related to the net loss of approximately \$626,000, a \$279,000 increase in accounts receivable, a \$56,000 increase in prepaid expenses, and a \$140,000 gain on forgiveness of debt, partially offset by non-cash stock-based compensation of \$348,000, bad debt expense of \$47,000, an increase in accounts payable and accrued liabilities of \$352,000 and an increase in deferred revenue of \$292,000.

Cash used in operating activities was approximately \$427,000 for the three months ended March 31, 2021 (about \$142,000 per month), mainly related to the net loss of approximately \$750,000, a \$285,000 increase in accounts receivable, a \$38,000 increase in prepaid expenses, and a \$62,000 decrease in deferred revenue, partially offset by non-cash stock-based compensation of \$500,000, an increase in accounts payable and accrued liabilities of \$148,000 and depreciation expense of \$71,000.

Investing Activities

The Company did not have any investing activities during the three months ended March 31, 2022 and 2021.

Financing Activities

The Company did not have any financing activities during the three months ended March 31, 2022.

Cash provided by financing activities was \$139,595 for the three months ended March 31, 2021. This consisted of proceeds from a loan payable.

Off-Balance Sheet Arrangements

As of March 31, 2022 and December 31, 2021, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation of the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”), as defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of March 31, 2022, the end of the period covered by this Form 10-Q, as required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, based on the 2013 framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission. There are inherent limitations to the effectiveness of any system of Disclosure Controls. Accordingly, even effective Disclosure Controls can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our President and Chief Financial Officer have concluded that, due to deficiencies in the design of internal controls and lack of segregation of duties, our Disclosure Controls were not effective as of March 31, 2022, such that the Disclosure Controls did not ensure that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

During the quarter ended March 31, 2022, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Settlement of Consolidated Securities Class Action

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

As previously disclosed, on February 11, 2022, the parties entered into a Stipulation of Settlement (subject to Court approval) to settle the Consolidated Class Action. The settlement resolves all claims asserted against SCWorx and the other named defendant without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. Under the terms of this agreement, (i) the insurers for the Company and Marc Schessel (former CEO) will make a cash payment to the class plaintiffs (ii) the former CEO will transfer 100,000 shares of company common stock to the class plaintiffs, and (iii) the Company will issue \$600,000 worth of common stock to the class plaintiffs, in exchange for which all parties will be released from all claims related to the securities class action litigation. After giving effect to the share issuance by the Company, the Company believes that it will have satisfied the accrued retention liability of \$700,000. By order dated March 22, 2022, the Court granted preliminary approval of the class action settlement and scheduled the settlement fairness hearing for June 29, 2022.

Settlement of Consolidated Derivative Action

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

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

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

On February 15, 2022, the Company and the Director Defendants (Marc Schessel, Steven Wallitt, Charles Miller and Robert Christie) entered into a stipulation of settlement (subject to Court approval) with the shareholder derivative plaintiffs to settle the Consolidated Derivative Action as well as the Zarins action. Under the terms of the settlement, (i) the insurers for the Director Defendants will make a cash payment to legal counsel for the shareholder derivative Plaintiffs to cover their legal fees and (ii) the Company will adopt certain corporate governance reforms within 60 days of court approval of the settlement, in exchange for which all parties will be released from all claims related to the derivative class action litigation. The settlement resolves all claims asserted against the defendants without any admission, concession or finding of any fault, liability or wrongdoing by the Company or any defendant. By order dated March 25, 2022, the Court granted preliminary approval of the derivative settlement and scheduled the final settlement hearing for June 29, 2022.

CorProminence d/b/a Core IR v. SCWorx
AAA Arbitration Case 01-22-0001-5709

On April 25, 2022, the Company received a Demand for Arbitration along with a Statement of Claim filed by Core IR with the American Arbitration Association seeking damages in the amount of approximately \$190,000.00 arising out of a marketing and consulting agreement. The Company expects to file its answer, affirmative defenses and counterclaims within the next two weeks. An administrative conference is scheduled for May 16, 2022.

Other Investigations

In addition, as previously disclosed, following the April 13, 2020 press release and related disclosures (related to COVID-19 rapid test kits), the Securities and Exchange Commission made an inquiry regarding the disclosures we made in relation to the transaction involving COVID-19 test kits. The Company is continuing to cooperate with the SEC regarding its investigation arising out of the April 13, 2020 press release and the events thereafter. The Company received a Wells notice on December 8, 2021 and an amended Wells notice on December 10, 2021. The Wells Notice states that the staff of the Securities and Exchange Commission has made a preliminary determination to recommend that the Commission file an enforcement action against the Company which would allege violations of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 (the “Securities Act”), Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder. The Wells Notice also indicates that the staff would seek fines and disgorgement, including pre and post judgment interest in such enforcement proceeding. The Company did not make a Wells submission to the Commission in response to the Wells Notice. The Company has since been actively engaged in discussions with the Staff to settle the claims set forth in the Wells Notice. On or about April 6, 2022, the Company reached a settlement in principle with the SEC Staff (subject to approval by the SEC) in which the Company and the SEC Staff have agreed to resolve the matter through the Company’s payment of a civil monetary penalty of \$125,000, payable in 4 equal installments over 12 months. In addition to final approval by the SEC, the settlement is subject to the negotiation and court approval of a consent judgment. The Company is hopeful that the agreement will be approved by the SEC, however, there is a possibility that the SEC Staff’s recommendation of this agreement may not be approved by the Commission or that the court may not approve the consent judgment. In the event the SEC does not approve the Staff’s recommendation, the Company will endeavor to resume settlement discussions with the SEC Staff. Upon final approval and subsequent entry of a consent judgment against the Company, the settlement will resolve the previously disclosed SEC investigation against the Company.

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

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

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

Item 1A. Risk Factors

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

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

Since the beginning of the three month period ended March 31, 2022, we have not sold any equity securities that were not registered under the Securities Act of 1933 that were not previously reported in a current report on Form 8-K

Item 3. Default under Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.**EXHIBIT INDEX**

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

Exhibit #	Exhibit Description
3.1	Certificate of Incorporation, as amended February 1, 2019 (incorporated by reference to Exhibit 3.1 to the Company's 10-K filed with the SEC on April 1, 2019).
3.3	Amended and Restated By-laws (Incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1 (File No. 333-213166) filed with the SEC on August 16, 2016)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Section 1350 Certification of the Chief Executive Officer*
32.2	Section 1350 Certification of the Chief Financial Officer*
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).

SIGNATURES

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

Date: May 13, 2022

SCWORX CORP.

By: /s/ Timothy A. Hannibal
Timothy A. Hannibal
President and Chief Executive Officer
(Principal Executive Officer)

SIGNATURES

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

Date: May 13, 2022

SCWORX CORP.

By: /s/ Christopher J. Kohler
Christopher J. Kohler
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Timothy A. Hannibal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCWorx Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. I am 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 financing 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. 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2022

By: /s/ Timothy A. Hannibal
Timothy A. Hannibal
President and Chief Operating Officer
(Principal Executive Officer)

CERTIFICATION

I, Christopher J. Kohler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCWorx Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. I am 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 financing 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. 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2022

By: /s/ Christopher J. Kohler
Christopher J. Kohler
Chief Financial Officer
(Principal Financial Officer)

Section 1350 CERTIFICATION

In connection with this Quarterly Report of SCWorx Corp. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy A. Hannibal, President and Chief Operating Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 13, 2022

By: /s/ Timothy A. Hannibal
Timothy A. Hannibal
President and Chief Operating Officer
(Principal Executive Officer)
Timothy A. Hannibal

Section 1350 CERTIFICATION

In connection with this Quarterly Report of SCWorx Corp. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Kohler, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 13, 2022

By: /s/ Christopher J. Kohler
Christopher J. Kohler
Chief Financial Officer
(Principal Financial Officer)