

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, 2021

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 24, 2021: 10,029,433

SCWorx Corp.
Form 10-Q

TABLE OF CONTENTS

<u>PART I - FINANCIAL INFORMATION</u>	1
<u>Item 1. Financial Statements (unaudited)</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	26
<u>PART II - OTHER INFORMATION</u>	27
<u>Item 1. Legal Proceedings</u>	27
<u>Item 1A. Risk Factors</u>	29
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 3. Defaults Upon Senior Securities</u>	29
<u>Item 4. Mine Safety Disclosures</u>	29
<u>Item 5. Other Information</u>	29
<u>Item 6. Exhibits</u>	29
<u>Signatures</u>	31
<u>Exhibit Index</u>	30

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, 2020. 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;
- 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

	Page Number
Condensed consolidated balance sheets as of March 31, 2021 (unaudited) and December 31, 2020 (audited)	2
Unaudited Condensed consolidated statements of operations for the three months ended March 31, 2021 and 2020	3
Unaudited Condensed consolidated statements of changes in stockholders' equity for the three months ended March 31, 2021 and 2020	4
Unaudited Condensed consolidated statements of cash flows for the three months ended March 31, 2021 and 2020	5
Notes to unaudited condensed consolidated financial statements	6

1

SCWorx Corp.
Condensed Consolidated Balance Sheets

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash	\$ 89,119	\$ 376,425
Accounts receivable - net	1,022,186	722,156
Inventory	998,440	998,440
Prepaid expenses and other assets	125,012	87,630
Total current assets	<u>2,234,757</u>	<u>2,184,651</u>
Fixed assets - net	5,473	76,156
Goodwill	8,366,467	8,366,467
Total assets	<u>\$ 10,606,697</u>	<u>\$ 10,627,274</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,718,668	\$ 1,570,115
Accounts payable and accrued liabilities - related party	153,838	153,838
Shareholder advance	475,000	475,000
Deferred revenue	1,963,833	2,025,333
Equity financing	125,000	375,000
Total current liabilities	<u>4,436,339</u>	<u>4,599,286</u>
Long-term liabilities:		
Loans payable	433,567	293,972
Total long-term liabilities	<u>433,567</u>	<u>293,972</u>
Total liabilities	<u>4,869,906</u>	<u>4,893,258</u>
Commitments and contingencies		
Stockholders' equity:		
Series A Convertible Preferred stock, \$0.001 par value; 900,000 shares authorized; 64,872 and 84,872 shares issued and outstanding, respectively	65	85
Common stock, \$0.001 par value; 45,000,000 shares authorized; 10,029,433 and 9,895,600 shares issued and outstanding, respectively	10,030	9,896
Additional paid-in capital	26,671,462	25,920,858
Accumulated deficit	(20,944,766)	(20,196,823)
Total stockholders' equity	<u>5,736,791</u>	<u>5,734,016</u>
Total liabilities and stockholders' equity	<u>\$ 10,606,697</u>	<u>\$ 10,627,274</u>

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

2

Condensed Consolidated Statements of Operations
(Unaudited)

	For the three months ended March 31,	
	2021	2020
Revenue	\$ 1,148,257	\$ 1,123,827
Operating expenses:		
Cost of revenues	694,938	833,200
General and administrative	1,201,262	1,440,278
Total operating expenses	<u>1,896,200</u>	<u>2,273,478</u>
Loss from operations	(747,943)	(1,149,651)
Other income (expense)	-	-
Net loss before income taxes	<u>(747,943)</u>	<u>(1,149,651)</u>
Provision for (benefit from) income taxes	-	-
Net loss	<u>\$ (747,943)</u>	<u>\$ (1,149,651)</u>
Net loss per share, basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.15)</u>
Weighted average common shares outstanding, basic and diluted	<u>9,999,928</u>	<u>7,568,491</u>

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

3

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

Three months ended March 31, 2021	Preferred Stock		Common stock		Additional paid-in capital	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	53	(33)	-	-
Shares issued for vested restricted stock units	-	-	8,832	9	(9)	-	-
Stock based compensation	-	-	-	-	500,718	-	500,718
Shares issued for equity financing	-	-	52,632	72	249,928	-	250,000
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>\$ (20,944,766)</u>	<u>\$ 5,736,791</u>
Three months ended March 31, 2020	Shares	\$	Shares	\$	Additional paid-in capital	Accumulated deficit	Total
Balances, December 31, 2019	578,567	\$ 579	7,390,261	\$ 7,391	\$ 19,712,115	\$ (12,794,473)	\$ 6,925,612
Conversion of Series A Convertible Preferred Stock into common stock	(67,500)	(68)	177,633	178	(110)	-	-
Shares issued to a current and former employee	-	-	66,667	67	367,533	-	367,600
Net loss	-	-	-	-	-	(1,149,651)	(1,149,651)
Ending balance, March 31, 2020	<u>511,067</u>	<u>\$ 511</u>	<u>7,634,561</u>	<u>\$ 7,636</u>	<u>\$ 20,079,538</u>	<u>\$ (13,944,124)</u>	<u>\$ 6,143,561</u>

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

4

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

For the three months ended
March 31,

	2021	2020
Cash flows from operating activities:		
Net loss	\$ (747,943)	\$ (1,149,651)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	70,683	2,259
Amortization of intangibles	-	9,486
Stock-based compensation	500,718	367,600
Loss on settlement of accounts payable	-	-
Bad debt expense	(15,000)	-
Gain (loss) on change in fair value of warrant assets	-	-
Settlement of disputed contractual claim	-	-
Issuance of warrants in settlement of lease dispute	-	-
Common stock issued in settlement of litigation	-	-
Gain on exchange of debt for common stock	-	-
Issuance of common stock in settlement of Series A Convertible Preferred Stock contractual fee	-	-
Gain (loss) on change in fair value of convertible notes receivable	-	-
Non cash interest income	-	-
Non cash interest expense	-	-
Other income	-	-
Changes in operating assets and liabilities:		
Accounts receivable	(285,030)	193,031
Prepaid expenses and other assets	(37,382)	(349,434)
Inventory	-	-
Other assets	-	-
Accounts payable and accrued liabilities	148,553	305,848
Deferred revenue	(61,500)	334,000
Net cash used in operating activities	<u>(426,901)</u>	<u>(286,861)</u>
Cash flows from investing activities:	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from notes payable	139,595	-
Net cash provided by financing activities	<u>139,595</u>	<u>-</u>
Net (decrease) increase in cash	(287,306)	(286,861)
Cash, beginning of period	376,425	487,953
Cash, end of period	<u>\$ 89,119</u>	<u>\$ 201,092</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities:		
Shares issued for equity financing	<u>\$ 250,000</u>	<u>\$ -</u>
Shares issued for vested restricted stock units	<u>\$ 9</u>	<u>\$ -</u>
Shares issued to a current and former employee	<u>\$ -</u>	<u>\$ 67</u>

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;

6

- 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.

SCWorx, as part of the acquisition of Alliance MMA, acquired an online event ticketing platform focused on serving regional MMA ("mixed martial arts") promotions.

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 have become difficult to source due to unexpected disruptions within the supply chain, such as the COVID-19 pandemic. These products the Company has sought to source include:

- 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 has recently determined 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.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and is subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. During the year ended December 31, 2020, the Company has completed only minimal sales of COVID-19 rapid test kits and PPE. In addition, changes in market conditions and FDA processes governing the sale of COVID-19 serology tests could have the effect of rendering the COVID-19 serology tests held by the Company not saleable in the United States, which could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the Company will be able to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE and Test Kits. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

7

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.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and is subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. Since the inception of this business, the Company completed only minimal sales of COVID-19 rapid test kits and PPE. In addition, changes in market conditions and FDA processes governing the sale of COVID-19 serology tests could have the effect of rendering the COVID-19 serology tests held by the Company not saleable in the United States, which could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the Company will be able to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE and Test Kits. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

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's primary need for liquidity is to fund the working capital needs of the business and general corporate purposes. The Company has historically incurred losses and has relied on borrowings and equity capital to fund the operations and growth of the business. The Company has suffered recurring losses from operations and incurred a net loss of \$747,943 for the three months ended March 31, 2021. As of March 31, 2021, the Company had cash of \$89,119, a working capital deficit of \$2,201,582, and an accumulated deficit of \$20,944,766. The Company has not yet achieved profitability and expects to continue to incur negative operating cash flows unless and until it is able to raise sufficient capital and fully implement its business plan. The Company expects that its operating expenses will continue to increase 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 condensed consolidated financial statements issuance date.

The Company has begun implementing various alternatives, including reducing operating expenses, seeking to secure 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, the Company's future operating prospects will be adversely affected. The condensed consolidated 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, 2020 filed with the SEC on May 19, 2021.

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, 2021, and the results of its operations and cash flows for the three months ended March 31, 2021. The results of operations for the three months ended March 31, 2021 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. There were no amounts in excess of the FDIC insured limit as of March 31, 2021 and amounts in excess of the FDIC insured limit of \$113,361 as of December 31, 2020.

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.

For the quarter ended March 31, 2021, the Company had one customer representing 26% of aggregate revenues. For the quarter ended March 30, 2020, the Company had one customer representing 21% of aggregate revenues. At March 31, 2020, the Company had two customers representing 21%, of aggregate accounts receivable and one customer representing 13% of aggregate accounts receivable. At March 31, 2020, the Company had five customers representing 22%, 16%, 12%, 11% and 11% of aggregate accounts receivable.

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, 2021 and December 31, 2020 was \$168,277 and \$183,277, respectively.

Inventory

The inventory balance at March 31, 2021 is related to the Company's Direct-Worx, LLC subsidiary and consisted of approximately 47,000 testing kits, and approximately 87,000 gowns. These items are carried on the unaudited condensed consolidated balance sheet at cost. A company affiliated with a shareholder advanced the \$475,000 in cash to the supplier of the test kits and the amount due is recorded in shareholder advance.

Inventory is valued at the lower of cost or market value. When market value is determined to be less than cost, the Company records an allowance. As of March 31, 2021 and December 31, 2020, the Company had allowances of \$0.

Business Combinations

The Company includes the results of operations of a business it acquires in its consolidated results as of the date of acquisition. The Company allocates the fair value of the purchase consideration of its acquisition to the tangible assets, liabilities and intangible assets acquired, based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. The primary items that generate goodwill include the value of the synergies between the acquired businesses and the Company. Intangible assets are amortized over their estimated useful lives. The fair value of contingent consideration (earn out) associated with acquisitions is remeasured each reporting period and adjusted accordingly. Acquisition and integration related costs are recognized separately from the business combination and are expensed as incurred.

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, 2021 and 2020 was \$70,683 and \$2,259, 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,
- 4) Professional Services: mainly related to specific customer projects to manage and/or analyze data and review for cost reduction opportunities, and
- 5) PPE: which includes items such as masks, gloves, gowns, shields, etc.

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 includes 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.

The Company has one principal 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 sales

PPE 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, 2021 and December 31, 2020, the Company had \$1,963,833 and \$2,025,333, respectively, of remaining performance obligations recorded as deferred revenue. The Company expects to recognize the majority of sales relating to the current performance obligations during 2021.

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, 2021 and December 31, 2020.

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 \$1,963,833 and \$2,025,333 as of March 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, 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 the three months ended March 31, 2021 and 2020.

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

Receipt of 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.

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 is now month-to-month.

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 two remaining leases are 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, 2021 and December 31, 2020, 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 the three months ended March 31, 2021 and 2020, the components of lease expense were as follows:

For the three months ended

	March 31,	
	2021	2020
Operating lease cost	\$ 20,714	\$ 9,425
Total lease cost	\$ 20,714	\$ 9,425

Other information related to leases was as follows:

	For the three months ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities:		
Operating cash flows for operating leases	\$ -	\$ 9,425
Weighted average remaining lease term (months) – operating leases	-	0
Weighted average discount rate– operating leases	N/A	N/A

As of March 31, 2021, 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.

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 CEO. The action is captioned Daniel Yannes, individually and on behalf of all others similarly situated, Plaintiff vs. SCWorx Corp. and Marc S. Schessel, Defendants.

On May 27, 2020, a second securities class was filed in the United States District Court for the Southern District of New York against us and our CEO. The action is captioned Caitlin Leeburn, individually and on behalf of all others similarly situated, Plaintiff v. SCWorx Corp. and Marc S. Schessel, Defendants.

On June 23, 2020, a third securities class was filed in the United States District Court for the Southern District of New York against us and our CEO. The action is captioned Jonathan Charles Leonard, individually and on behalf of all others similarly situated, Plaintiff v. SCWorx Corp. and Marc S. Schessel, Defendants.

All three lawsuits allege that our company and our CEO mislead investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits. The plaintiffs in these actions are seeking unspecified monetary damages. These three class actions were consolidated on September 18, 2020 and Daniel Yannes was designated lead plaintiff. A consolidated Amended Complaint (“CAC”) was filed on October 19, 2020. The Defendants filed a motion to dismiss the CAC on November 18, 2020, and the briefing on that motion was complete on January 8, 2021. We are still awaiting a ruling on the motion, and we intend to continue vigorously defending against this lawsuit.

On June 15, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Marc S. Schessel, Steven Wallitt (current directors), and Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned Javier Lozano, derivatively on behalf of SCWorx Corp., Plaintiff, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. This lawsuit alleges 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. The Plaintiff, on our behalf, is seeking an award of monetary damages, improvements in our disclosure and internal controls, and legal fees. The Director Defendants intend to vigorously defend against these proceedings. This derivative action is also still pending, and the plaintiff in such action has agreed to voluntarily stay the case until a ruling on a motion to dismiss, which we intend to file in the securities class action case.

On August 21, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Marc S. Schessel, Steven Wallitt (current directors), and Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned Josstyn Richter, derivatively on behalf of SCWorx Corp., Plaintiff, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. This lawsuit alleges 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. The Plaintiff, on our behalf, is seeking an award of monetary damages, improvements in our disclosure and internal controls, and legal fees. The Director Defendants intend to vigorously defend against these proceedings.

On August 27, 2020, the Lozano and Richter derivative actions were consolidated and jointly stayed until a ruling on a motion to dismiss which we filed in the securities class action case.

On September 30, 2020, a shareholder derivative action was filed in the Supreme Court State of New York, New York County against Marc S. Schessel and Steven Wallitt (current directors) and Charles Miller (a former director). The action is captioned Hemrita Zarins, derivatively on behalf of SCWorx Corp. v. Marc S. Schessel, Charles Miller, Steven Wallitt and SCWorx, Nominal Defendant. This lawsuit alleges that the Director Defendants breached their fiduciary duties to the Company, including by misleading investors in connection with the Company’s 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. The Plaintiff, on our behalf, is seeking an award of monetary damages, improvements in our disclosure and internal controls, and legal fees. On October 28, 2020, Zarins withdrew this action and refiled an action in the Chancery Court in the State of Delaware on October 29, 2020. Zarins named as Defendants Marc S. Schessel, Robert Christie (a former director), Steven Wallitt and SCWorx, Nominal Defendant. The allegations, as well as the relief sought, in the Delaware Chancery Court proceeding are substantially the same as that filed in the New York State Action. This action has been stayed pending the ruling on the motion to dismiss in the aforementioned securities class action. The Director Defendants intend to vigorously defend against these proceedings.

In addition, 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. On April 22, 2020, the Securities and Exchange Commission ordered that trading in the securities of our company be suspended because of “questions and concerns regarding the adequacy and accuracy of publicly available information in the marketplace” (the “SEC Trading Halt”). The SEC Trading Halt expired May 5, 2020, at 11:59 PM EDT. We have cooperated fully with the SEC’s investigation and will continue to do so as and when requested.

In April 2020, we received related inquiries from The Nasdaq Stock Market and the Financial Industry Regulatory Authority (FINRA). We have been fully cooperating with these agencies and providing information and documents, as requested. On May 5, 2020, the Nasdaq Stock Market informed us that it had initiated a “T12 trading halt,” which means the halt will remain in place until we have fully satisfied Nasdaq’s request for additional information. We fully cooperated with Nasdaq and responded to all of Nasdaq’s information requests as they were issued. The T12 trading halt was lifted on August 10, 2020.

Also in April 2020, we were contacted by the U.S. Attorney’s Office for the District of New Jersey, which is 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 and will continue to do so as and when requested.

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 even though the \$750,000 retention under such policy has not yet been met. The Company estimates it is currently obligated to pay approximately \$700,000 of the retention, which payments could have a material adverse effect on the Company.

**David Klarman v. SCWorx Corp. f/k/a Alliance MMA, Inc.,
Index No. 619536/2019 (N.Y. State Sup. Ct., Suffolk County)**

On October 3, 2019, David Klarman, a former employee of Alliance, served a complaint against SCWorx seeking \$400,000.00 for a breach of his employment agreement with Alliance. Klarman claims that Alliance ceased paying him his salary in March 2018 as well as other alleged contractual benefits. SCWorx does not believe that it owes the amount demanded and intends to vigorously defend against these claims. On March 6, 2020, SCWorx filed an answer and counterclaims against Mr. Klarman. On September 18, 2020, the Court granted Klarman’s counsel’s motion to withdraw as counsel due to “irreconcilable differences.” The Court stayed the case for 45 days after service of the Court’s order. Mr. Klarman’s wife, Marie Klarman, Esq., filed a Notice of Appearance on November 6, 2020 and filed a motion on November 9, 2020 seeking various forms of relief -- in violation of the Court’s Individual Rules and the Commercial Division Rules. We opposed Klarman’s motion on December 31, 2020 and the case was marked fully submitted on January 21, 2021. By Decision and Order dated March 26, 2021, the Court granted Klarman’s motion to dismiss four (4) of fourteen (14) defenses, denied Klarman’s motion to dismiss SCWorx’s counterclaims against him; denied Klarman’s motion for summary judgment and denied Klarman’s motion to strike allegations contained in the Affirmative Defenses and Counterclaims based on his contention that such allegations were “scandalous” or prejudicial. On April 7, 2021, Klarman filed a Reply to the Counterclaims, denying the material allegations and interposed numerous affirmative defenses. The Court has issued a preliminary conference order, setting a discovery cut-off of October 2022.

At this time, we are unable to predict the duration, scope, or possible outcome of these investigations and lawsuits.

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 Pursuant to Conversion of Series A Preferred Stock

During February 2021, the Company issued 52,632 shares of common stock to a holder of its Series A Convertible Preferred Stock upon the conversion of 20,000 of such shares of Series A Convertible Preferred Stock.

Issuance of Shares for Equity Financing

On January 6, 2021, The Company issued 72,369 shares of common stock and 90,461 5 year warrants to purchase shares of common stock at \$4.00 per share pursuant to the prior receipt of \$275,000 in equity financing.

Issuance of Shares for Vested Restricted Stock Units

Between January 25, 2021 and February 8, 2021, the company issued a total of 8,832 shares of common stock to holders of fully vested restricted stock units.

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, 2021, the full amount has not been received and only \$415,000 worth of the shares and warrants have been issued. The remaining \$125,000 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, 2020 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, 2020	672,459	\$ 8.09	118,388	\$ 3.25	2,301,053
Granted	90,461	4.00	-	-	-
Exercised	-	-	-	-	(8,832)
Expired	-	-	-	-	(64,583)
Balance at March 31, 2021	762,920	\$ 7.60	118,388	\$ 3.25	2,227,638
Exercisable at March 31, 2021	762,920	\$ 7.60	118,388	\$ 3.25	2,227,638

The Company has classified the warrant as having Level 2 inputs, and has used the Black-Scholes option-pricing model to value the warrant. The fair value at the issuance dates for the above warrant was based upon the following management assumptions:

	Issuance date
Risk-free interest rate	0.49%
Expected dividend yield	-%
Expected volatility	100%
Term	5 years
Fair value of common stock	\$ 1.95

The Company's outstanding warrants and options at March 31, 2021 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
\$ 3.80 - \$141.17	762,920	3.04	\$ 7.60	762,920	\$ 7.60	-

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	3.36	\$ 3.25	118,388	\$ 3.25	-

19

As of March 31, 2021 and December 31, 2020, the total unrecognized expense for unvested stock options and restricted stock awards was approximately \$2 million and \$2.5 million, respectively, to be recognized over a one to three year period from the date of grant.

Stock-based compensation expense for the three months ended March 31, 2021 and 2020 was as follows:

	For the three months ended March 31,	
	2021	2020
Stock-based compensation expense	\$ 500,718	\$ 367,600

Stock-based compensation expense categorized by the equity components for the three months ended March 31, 2021 and 2020 was as follows:

	For the three months ended March 31,	
	2021	2020
Common stock	\$ 500,718	\$ 367,600
Total	\$ 500,718	\$ 367,600

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,	
	2021	2020
Stock options	118,388	338,595
Warrants	762,920	1,311,916
Total common stock equivalents	881,308	1,650,511

Note 9. Related Party Transactions

At March 31, 2021 and December 31, 2020 Company had amounts due to officers in the amount of \$153,838.

During April, 2020, a company affiliated with a shareholder advanced \$475,000 in cash to the supplier of test kits for their purchase. The amount due is recorded in shareholder advance.

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 there were no additional reportable subsequent events to be disclosed.

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 is now month-to-month.

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 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. 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, operates an online event ticketing platform focused on serving regional MMA (“mixed martial arts”) promotions.

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 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.

The sale of PPE and rapid test kits for COVID-19 represented a new business for the Company and is subject to the myriad risks associated with any new venture. The Company encountered great difficulty in attempting to secure reliable sources of supply for both COVID-19 Rapid Test Kits and PPE. The Company currently has no contracted supply of Rapid Test Kits or PPE. Since the inception of this business, the Company completed only minimal sales of COVID-19 rapid test kits and PPE. In addition, changes in market conditions and FDA processes governing the sale of COVID-19 serology tests could have the effect of rendering the COVID-19 serology tests held by the Company not saleable in the United States, which could have a material adverse effect on the Company’s financial condition and results of operations. There can be no assurance that the Company will be able to generate any significant revenue from the sale of PPE products or rapid test kits, and as of the date of this report, the Company has not generated any material revenue from the sale of PPE or rapid test kits.

The Company is no longer actively seeking to procure and sell Test Kits or PPE. Instead, the Company is focused on selling its current inventory of PPE and Test Kits. The Company may receive commissions for acting as an intermediary with respect to the sale of PPE and/or Test Kits. However, there is no assurance the Company will realize any material revenue from these activities.

Results of Operations - three months ended March 31, 2021

Our operating results for the three month periods ended March 31, 2021 and 2020 are summarized as follows:

	Three Months Ended		Difference
	March 31, 2021	March 31, 2020	
Revenue	\$ 1,148,257	\$ 1,123,827	\$ 24,430
Cost of revenues	694,938	833,200	(138,262)
General and administrative	1,201,262	1,440,278	(239,016)
Other (expense) income	-	-	-
Provision for income taxes	-	-	-
Net loss	<u>(747,943)</u>	<u>(1,149,651)</u>	<u>401,708</u>

Revenues

Revenue for the three months ended March 31, 2021 remained relatively unchanged at \$1,148,257, compared to revenue for the three months ended March 31, 2020 of \$1,123,827. 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 were \$694,938 for the three months ended March 31, 2021 compared to \$833,200 for the same period in 2020. The decrease was primarily the result of salary reductions implemented by the Company in the fourth quarter 2020 to reduce cash expenditures.

General and administrative

General and administrative expenses decreased \$239,016 to \$1,201,262 for the three months ended March 31, 2021, as compared to \$1,440,278 in the same period of

2020. This decrease was primarily due to a decrease in salaries and contractor expense of approximately \$350,000 partially offset by an increase in stock-based compensation (non-cash) of approximately \$130,000.

Net Loss

For the three months ended March 31, 2021, we incurred a net loss of \$747,943 compared to a net loss of \$1,149,651 for the same period in 2020.

Liquidity and Capital Resources

Going Concern

As of March 31, 2021, we had a working capital deficit of 2,201,582 and accumulated deficit of \$20,944,766. During the three months ended March 31, 2021, we had a net loss of \$747,943 and used \$426,901 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 raise substantial 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.

In connection with the Class Action and derivative claims and investigations described in Item 1. Legal Proceedings of this Quarterly Report on 10-Q, we are obligated to indemnify our officers and directors for costs incurred in defending against these claims and investigations. Because we currently do not have the resources to pay for these costs, our directors and officers liability insurance carrier has agreed to indemnify these persons even though the \$750,000 retention under such policy has not yet been met. The Company estimates it is currently obligated to pay approximately \$700,000 of the retention, which payments could have a material adverse effect on the Company.

Based on our current business plan, we anticipate that our operating activities will use approximately \$260,000 in cash per month over the next twelve months, or approximately \$3,120,000. Currently we have limited cash on hand, and consequently, we are unable to fully 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 are actively seeking to raise additional funds through the sale of equity and/or debt securities, and ultimately, we will need to generate substantial positive operating cash flows. We expect that our internal sources of funds will consist of cash flows from operations, but not until we begin to realize 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 second quarter of 2021 to fully implement our business plan, we expect that our operations could begin to generate significant cash flows during the first quarter 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,	
	2021	2020
Net cash used in operating activities	\$ (426,901)	\$ (286,861)
Net cash provided by investing activities	-	-
Net cash provided by financing activities	139,595	-
Change in cash	\$ (287,306)	\$ (286,861)

Operating Activities

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.

Cash used in operating activities was approximately \$287,000 for the three months ended March 31, 2020, primarily related to the net loss of \$1.1 million, a \$349,000 increase in prepaid expenses, and a \$334,000 decrease in deferred revenue, partially offset by stock-based compensation of \$367,600, an approximate \$193,000 decrease in accounts receivable, an approximate \$305,000 increase in accounts payable and accrued liabilities.

Investing Activities

We had no investing activities during the three months ended March 31, 2021 and 2020

Financing Activities

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

We had no financing activities for the three months ended March 31, 2020.

Off-Balance Sheet Arrangements

As of March 31, 2021 and December 31, 2020, 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.

25

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, 2021, 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 Interim 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, 2021, 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, 2021, 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.

26

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.

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 CEO. The action is captioned Daniel Yannes, individually and on behalf of all others similarly situated, Plaintiff vs. SCWorx Corp. and Marc S. Schessel, Defendants.

On May 27, 2020, a second securities class was filed in the United States District Court for the Southern District of New York against us and our CEO. The action is captioned Caitlin Leeburn, individually and on behalf of all others similarly situated, Plaintiff v. SCWorx Corp. and Marc S. Schessel, Defendants.

On June 23, 2020, a third securities class was filed in the United States District Court for the Southern District of New York against us and our CEO. The action is captioned Jonathan Charles Leonard, individually and on behalf of all others similarly situated, Plaintiff v. SCWorx Corp. and Marc S. Schessel, Defendants.

All three lawsuits allege that our company and our CEO misled investors in connection with our April 13, 2020 press release with respect to the sale of COVID-19 rapid test kits. The plaintiffs in these actions are seeking unspecified monetary damages. These three class actions were consolidated on September 18, 2020 and Daniel Yannes was designated lead plaintiff. A consolidated Amended Complaint (“CAC”) was filed on October 19, 2020. The Defendants filed a motion to dismiss the CAC on November 18, 2020, and the briefing on that motion was complete on January 8, 2021. We are still awaiting a ruling on the motion, and we intend to continue vigorously defending against this lawsuit.

On June 15, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Marc S. Schessel, Steven Wallitt (current directors), and Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned Javier Lozano, derivatively on behalf of SCWorx Corp., Plaintiff, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. This lawsuit alleges 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. The Plaintiff, on our behalf, is seeking an award of monetary damages, improvements in our disclosure and internal controls, and legal fees. The Director Defendants intend to vigorously defend against these proceedings. This derivative action is also still pending, and the plaintiff in such action has agreed to voluntarily stay the case until a ruling on a motion to dismiss, which we intend to file in the securities class action case.

On August 21, 2020, a shareholder derivative claim was filed in the United States District Court for the Southern District of New York against Marc S. Schessel, Steven Wallitt (current directors), and Robert Christie and Charles Miller (former directors) (“Director Defendants”). The action is captioned Josstyn Richter, derivatively on behalf of SCWorx Corp., Plaintiff, v. Marc S. Schessel, Charles K. Miller, Steven Wallitt, Defendants, and SCWorx Corp., Nominal Defendant. This lawsuit alleges 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. The Plaintiff, on our behalf, is seeking an award of monetary damages, improvements in our disclosure and internal controls, and legal fees. The Director Defendants intend to vigorously defend against these proceedings.

On August 27, 2020, the Lozano and Richter derivative actions were consolidated and jointly stayed until a ruling on a motion to dismiss which we filed in the securities class action case.

On September 30, 2020, a shareholder derivative action was filed in the Supreme Court State of New York, New York County against Marc S. Schessel and Steven Wallitt (current directors) and Charles Miller (a former director). The action is captioned Hemrita Zarins, derivatively on behalf of SCWorx Corp. v. Marc S. Schessel, Charles Miller, Steven Wallitt and SCWorx, Nominal Defendant. This lawsuit alleges that the Director Defendants breached their fiduciary duties to the Company, including by misleading investors in connection with the Company's 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. The Plaintiff, on our behalf, is seeking an award of monetary damages, improvements in our disclosure and internal controls, and legal fees. On October 28, 2020, Zarins withdrew this action and refiled an action in the Chancery Court in the State of Delaware on October 29, 2020. Zarins named as Defendants Marc S. Schessel, Robert Christie (a former director), Steven Wallitt and SCWorx, Nominal Defendant. The allegations, as well as the relief sought, in the Delaware Chancery Court proceeding are substantially the same as that filed in the New York State Action. This action has been stayed pending the ruling on the motion to dismiss in the aforementioned securities class action. The Director Defendants intend to vigorously defend against these proceedings.

In addition, 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. On April 22, 2020, the Securities and Exchange Commission ordered that trading in the securities of our company be suspended because of "questions and concerns regarding the adequacy and accuracy of publicly available information in the marketplace" (the "SEC Trading Halt"). The SEC Trading Halt expired May 5, 2020, at 11:59 PM EDT. We are fully cooperating with the SEC's investigation and are providing documents and other requested information.

In April 2020, we received related inquiries from The Nasdaq Stock Market and the Financial Industry Regulatory Authority (FINRA). We have been fully cooperating with these agencies and providing information and documents, as requested. On May 5, 2020, the Nasdaq Stock Market informed us that it had initiated a "T12 trading halt," which means the halt will remain in place until we have fully satisfied Nasdaq's request for additional information. We fully cooperated with Nasdaq and responded to all of Nasdaq's information requests as they were issued. The T12 trading halt was lifted on August 10, 2020.

Also in April 2020, we were contacted by the U.S. Attorney's Office for the District of New Jersey, which is 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 are fully cooperating 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 even though the \$750,000 retention under such policy has not yet been met. The Company estimates it is currently obligated to pay approximately \$700,000 of the retention, which payments could have a material adverse effect on the Company.

**David Klarman v. SCWorx Corp. f/k/a Alliance MMA, Inc.,
Index No. 619536/2019 (N.Y. State Sup. Ct., Suffolk County)**

On October 3, 2019, David Klarman, a former employee of Alliance, served a complaint against SCWorx seeking \$400,000.00 for a breach of his employment agreement with Alliance. Klarman claims that Alliance ceased paying him his salary in March 2018 as well as other alleged contractual benefits. SCWorx does not believe that it owes the amount demanded and intends to vigorously defend against these claims. On March 6, 2020, SCWorx filed an answer and counterclaims against Mr. Klarman. On September 18, 2020, the Court granted Klarman's counsel's motion to withdraw as counsel due to "irreconcilable differences." The Court stayed the case for 45 days after service of the Court's order. Mr. Klarman's wife, Marie Klarman, Esq., filed a Notice of Appearance on November 6, 2020 and filed a motion on November 9, 2020 seeking various forms of relief -- in violation of the Court's Individual Rules and the Commercial Division Rules. We opposed Klarman's motion on December 31, 2020 and the case was marked fully submitted on January 21, 2021. By Decision and Order dated March 26, 2021, the Court granted Klarman's motion to dismiss four (4) of fourteen (14) defenses, denied Klarman's motion to dismiss SCWorx's counterclaims against him; denied Klarman's motion for summary judgment and denied Klarman's motion to strike allegations contained in the Affirmative Defenses and Counterclaims based on his contention that such allegations were "scandalous" or prejudicial. On April 7, 2021, Klarman filed a Reply to the Counterclaims, denying the material allegations and interposed numerous affirmative defenses. The Court has issued a preliminary conference order, setting a discovery cut-off of October 2022.

At this time, we are unable to predict the duration, scope, or possible outcome of these investigations and lawsuits.

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, 2021 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)
10.1	USA Procurement Purchase agreement dated May 26, 2020 (incorporated by reference to Exhibit 10.4 to the Company's 10-K filed with the SEC on May 19, 2021)
10.2	USA Procurement Settlement Agreement dated March 12, 2021 (incorporated by reference to Exhibit 10.5 to the Company's 10-K filed with the SEC on May 19, 2021)
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 SCH	XBRL Taxonomy Extension Schema Document
101 CAL	XBRL Taxonomy Calculation Linkbase Document
101 LAB	XBRL Taxonomy Labels Linkbase Document
101 PRE	XBRL Taxonomy Presentation Linkbase Document
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document

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 24, 2021

SCWORX CORP.

By: /s/ Timothy A. Hannibal
 Timothy A. Hannibal
 President
 (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 24, 2021

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 financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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 24, 2021

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 financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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 24, 2021

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, 2021, 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 24, 2021

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, 2021, 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 24, 2021

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